

A320 family values & aftermarket activity

The availability of A320 family aircraft has dried up, and values and lease rates have strengthened as a consequence. Values and lease rates are analysed.

The large number of A319s, A320s and A321s built, and their popularity with lessors, mean that they are often offered for lease or sale. Recent US airline bankruptcies have made additional aircraft available. But they remain much in demand and, in today's strong market, lease rates and trading values continue to firm. Values for the newest, smaller A318 remain relatively strong as sales grow.

The A320 family is one of the most successful commercial jet programmes. Its 918 orders in 2005 exceeded the previous annual sales record for any jet airliner family. The next industry downturn may affect delivery of A320 family aircraft ordered in 2005, but it is still more popular now than any other type.

Although the 11 initial-model A320-100s had CFM56-5A1 engines, from the outset the A320-200 (1988), the A321 (1994) and A319 (1996) were offered with either the CFM56 or V.2500.

At first airlines found the -A1, the initial V.2500 variant, less reliable than the CFM56-5A, but John Leech, Orix Aviation Systems' head of marketing, says that things have changed. IAE V.2500-A1 engines now have mean times between removals (MTBRs) of 12,000-14,000 flight hours (FH), while Mexicana even achieved 17,000FH with one of its -A1s.

Sales of CFM56-powered A320s exceeded those of aircraft powered by the V.2500. IAE improved the reliability of its engines, and the A320 market split evenly with the introduction of the CFM56-5B/P series and V.2500-A5 series. Slightly more operators use IAE engines, while slightly more aircraft are powered by CFM engines. While Leech says that there remains a small lease rate premium for CFM56-5A versus V.2500 power on the oldest A320-200s, Bryson Monteleone, managing director of global sales and marketing for Morten Beyer & Agnew (MBA), says that there is "no measurable difference" in lease rates between aircraft with CFM56-5B or V.2500-A5 power.

The market for A320-family aircraft is always active. "Aircraft are constantly being leased and placed," says Doug Kelly, vice president of asset valuation for Avitas. Airclaims currently lists 27 A319s, 18 A320s and four A321s in storage, but

it is clear that many are undergoing maintenance checks and repainting before shortly going to new lessees.

The failure of Independence Air and Flyi, and the Chapter 11 bankruptcy of Northwest Airlines, have put at least 22 A319s on the market. CIT Aerospace has placed its four ex-Independence Air aircraft with the new Mexican low-cost carrier Volaris, however, and ILFC is believed to have secured new lessees, including Turkey's Izmir Airlines, for at least some of the eight ex-Flyi A319s that it has parked at Lake Charles, Louisiana. However, the rejection by Northwest of leases on 10 A319s and three A320s close to heavy checks, and now parked at Marana, Arizona, has created a surplus.

These surplus aircraft and 25 A320s advertised in January, prompt Kelly to suggest that "some softness may still exist in the A320-family leasing market". Yet the number available is a reflection of the number built, and A320s and A319s undoubtedly continue to find operators.

Monteleone says that, since 2005, leasing prospects for the A320 family have improved. As industry demand for capacity increases and airlines worldwide bolster or launch operations with A320-family aircraft, lease rates on the oldest A320-200s have strengthened by at least \$30,000 a month. New or recent-build A320s are achieving lease rates close to those of comparable 737-800s, which did not suffer as much in the downturn.

Early production A320s

"An average airline credit should be able to negotiate a rental of \$155,000-\$179,000 for a five-year lease on a half-life, 1989, IAE-powered A320-200," says Leech, whose company Orix owns several older V.2500-A1-powered aircraft.

"The current market value (CMV) of a 1988 A320-200 powered by a CFM56-5A is \$13.5 million," comments Owen Geach of Bureau Veritas, "but a 1988 V.2500-A1-powered aircraft may sell for \$2 million less. The CMV of a 1989, CFM-powered A320 is \$14.5 million and for a 1990 aircraft it is \$15.1 million."

Geach continues that the CFM-powered 1989 A320 should attract a monthly lease rate of \$150,000-

\$169,000, and a 1988 aircraft \$143,000-\$160,000. Northwest Airlines recently renegotiated its lease rates on 1992 and 1993 A320s to \$165,000, but these were probably aircraft nearing heavy checks.

Meanwhile, lease rates for the oldest A320-200s still appear to be rising. A rental of \$200,000 is being sought for a 1989, CFM-powered A320 available from summer 2006, according to one lessor. "Even CMVs for 1987-88 A320-100s are holding up surprisingly well at about \$8.3 million today," says Geach.

Mid production A320s

The A320's production mid-point was in 1996 and 1997. No rental premium is evident for a CFM56-powered A320 compared with a V.2500-powered aircraft of this age. A 1996, half-life A320 on a five-year lease to an average credit will now attract a monthly rental of \$225,000-\$249,000, a 1997 A320 a rental of \$235,000-\$260,000 and a 1998 aircraft a rental of \$245,000-\$270,000.

The CMV of a 1997 A320 is \$24.9 million, so the value loss for aircraft in that age band is \$1.3 million for each preceding year of build. Both the top and bottom values in the monthly rental ranges for A320s built in the mid-production period are falling by \$10,000 for each year of age. Monthly rental values are falling by only \$5,000-\$7,000 per year of age for much older A320s, but by nearly \$20,000 for newer ones.

Today a brand-new A320 entering a five-year lease should have a rental in the \$357,000-\$395,000 range. Aer Lingus was recently quoted a \$375,000 rate, according to one executive. "However, a 2005 aircraft would now lease for \$340,000-\$378,000," says Geach.

"The actual price paid for new aircraft cannot be taken in isolation," says Leech. "Customers and appraisers, must take into account not only the manufacturer's net pricing, but also the after-sales support on offer, the airframe and engine warranties available, the residual value and/or first-loss deficiency guarantees that the maker is willing to provide, and the relationship between the manufacturer and the customer."

As a result, while Airbus is known to have priced new A320s at \$36 million net, and Leech says it is still cutting deals for \$38-\$40 million, CMVs for new A320s delivered under smaller orders, or for sale/leasebacks of new aircraft are now in about \$44 million. This is close to (and in some cases even higher than) Boeing's net prices for 737-800s. A 2005 A320 now has a CMV of \$42.3 million.

"Although the -A5 is now IAE's standard V.2500 engine variant, the V.2500-A1 was available for new A320s until 2003. A 2003 A320 powered by -A1 engines now has a CMV of \$33.8

million," says Geach. "An A320 built in either year and powered by the later V.2500-A5 should be more expensive."

A319s

The oldest A319 is eight years younger than the oldest A320-200. Monteleone says that A319s' youth and continuing attractiveness to operators mean that they were retained by airlines throughout the downturn, and fell less in value than A320s. A319 values mirrored those of 737-700s too. "Today, a five-year lease of a 1996, half-life A319 to an average credit should attract a monthly rate of \$204,000-\$219,000," says Geach. The A319's mid-production point is 2000-2002: a 2000 A319 should attract a rental of \$231,000-\$253,000; a 2001 aircraft \$240,000-\$260,000; and a 2002 A319 \$252,000-\$276,000. A 2005 A319 will achieve a lease rate of \$290,000-\$325,000 and a 2006 A319 a little more.

The CMV for a new A319 delivered now is \$38 million, for a late-2005 model \$37.3 million, and for an early-2005 one below \$37 million. However, net prices of \$33-\$34 million have recently been realised. Today, the CMV for a mid-production 2002 A319 is \$29.5 million, for a 2001 aircraft \$27.6 million and for a 2000 A319 \$25.8 million. The CMV of

aircraft built in the downturn falls by nearly \$2 million for each additional year of age. The CMVs of the oldest A319s, built early in 1994, will be \$16 million.

A321s

The A321 was first delivered in 1994. For a year only the shorter-range A321-100 was built, but Airbus then offered an A321-200 version whose maximum gross take-off weight (MTOW) could be upgraded to provide additional range or payload if necessary. While both the A321-100 and the A321-200 feature the same 2,200nm basic range with typical payload, the A321-200's fuel capacity can be upgraded to operate 3,000nm sectors. Airbus still offers both variants, but the A321-200 has become more popular.

"In today's market a 2005 A321-100 should realise a lease rate of \$361,000-\$387,000, and a 2005 A321-200 \$369,000-\$409,000," says Geach. Some net prices may be lower, particularly for lessors or carriers buying in volume, but the CMV of a new A321-200 is near its theoretical book value of \$48 million. The same goes for a new A321-100, whose book value is \$47 million. Since A321 deliveries began in 1994, the mid-production point is currently 2000. An A321-100 delivered in 2000 will lease for

\$281,000-\$306,000 and an A321-200 for \$293,000-\$330,000. A 1997, early-production A321-200 will lease for \$260,000-\$300,000, while a A321-100 from 1994, the first year of build, has a CMV of \$22.5 million and will lease for \$220,000-\$245,000.

A318s

Airbus's newest A320-family variant, the A318, has been dismissed as a niche type with limited market appeal, but sales have been galvanised by the A318 Elite corporate jet, 10 of which were sold immediately after launch. The 26 already in service are being joined by 22 in 2006, and 18 in 2007. The first was delivered in 2003. The orderbook totals almost 100, but Air Cairo's order for six has become an order for four A320s. ILFC's order may also be changed to A320s or A319s.

"A318 CMVs and lease rates remain theoretical, as there have been no trading transactions and leases, but for an aircraft delivered now the CMV would be \$32.2 million," says Geach. "A 2005 A318 has a CMV of \$30.6 million and a lease rate of \$214,000-\$238,000. A 2004 A318's CMV will be \$27.9 million and its lease \$206,000-\$226,000. A 2003, first-year-build A319's CMV will be \$25.75 million and its rental \$195,000-\$214,000." **AC**

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