

V2500 aftermarket & values

The low availability of V2500s has pushed up market values and lease rates to almost twice the levels the market was commanding four to five years ago.

As with all aircraft and engine types, the supply of V2500s is limited. The availability of V2500s is made even more tight by there being a limited number of lessors with large numbers of V2500s in their portfolios. Rolls-Royce Partners Finance has one of the largest portfolios.

A large number of lease contracts on the V2500 are related to sale and leaseback contracts on the engine. Besides these long-term lease contracts, there is a limited supply of engines available for short- and medium-term leases, so lease rates are high. International Aero Engines (IAE) includes the option of spare engine support with the selection of the engine at the original aircraft order.

Current market values as a percentage of fair market values are at some of their highest levels. Abdol Moabery, chief executive officer at GA Telesis comments that used and half-time engines are being traded for 70-85% of the manufacturer's list price.

The list price of engines varies with thrust rating. The -A5 series is the only one being manufactured. "The mid-thrust V2527-A5, the most popular variant, has

a list price of about \$9 million," says Andrew Pearce, director at MacQuarie Aviation Capital. "Minus the quick engine change (QEC) kit of accessories, the engine's list price is \$7.5-8.0 million. Short-term lease rates for engines are \$100,000-125,000 per month, which are a lease rate factor of 1.1-1.4% per month."

Moabery agrees, and puts the half-time values of engines at \$6.5-8.0 million, depending on their thrust rating. "Long-term lease rates have been higher than \$90,000 per month for more than two years now, and short-term lease rates have been up to as much as \$140,000 per month in recent years. This compares with lease rates of \$60,000-70,000 per month that were being realised in 2003 and 2004. Values were also lower in this period," says Moabery. "The problem is that IAE has little interest in selling spare engines, so other lessors have to acquire engines from the used market. We have only been able to acquire a fraction of the engines we would hope to have added to our portfolio."

Daily lease rates for engines are \$3,000-5,000, depending on thrust

rating, but any engines which become available are soon leased.

"One issue with the -A5 series is the SelectOne build improvement programme," continues Moabery. "IAE claims this will deliver up to 20% more time on-wing. The modification has recently been certified, and engines manufactured from now on will have the SelectOne kit as standard. There will also be a retrofit kit for existing engines so they can have the same benefits of longer removal intervals and lower fuel burn. This claim of a 20% longer interval is a bold statement, and means engines could remain on-wing for up to one year longer than they currently achieve. It remains to be seen if this actually happens, but if it does it will reduce the demand for engines on short-term leases to provide coverage while engines are in the shop."

While values and lease rates are high, some lessors expect this may be a peak, and as many airlines have requirements for improved liquidity, more engines will become available for sale and leaseback transactions. This will be triggered by the availability of commercial debt reducing.

While values remain strong, there is also the issue of what engines will be developed in the future to replace those in the same thrust class as the V2500. Pratt & Whitney's GTF is a possible V2500 replacement contender, which raises the question of what will happen to the IAE partnership.

There are also the less popular -A1 engines on about 135 of the earliest built A320s, and the -D5 powering about 115 MD-90s. Moabery expects the values of these engines to suffer, since Indian Airlines is expected to retire its A320s, while China Eastern and Saudia will retire its MD-90s. The early A320s and MD-90s are generally regarded as 'black sheep' aircraft, partly because of their engines. While it will be hard to trade or lease these engines as they come available, they can be torn down for parts. Moabery points out that a lot of parts in these two engines can be used in the -A5, including life limited parts (LLPs). One drawback, however, is that SelectOne engines cannot use parts from -D5 engines, which will have a negative impact on the value and marketability of -D5 engines. **AC**

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The values and lease rates of V2500s are generally high due to their low availability. Short-term lease rates have reached levels as high as \$140,000 per month.

