

ERJ-135/-145 aftermarket & values

The ERJ-135/-140/-145 fleet is now mature, and first-tier operators have begun to phase the aircraft out of service. The used market for ERJ-145 family aircraft has begun to become active in recent years. Probable large fleet reductions by American Eagle or ExpressJet will saturate the market.

The Embraer ERJ-145 was the first aircraft in a family of 37-50-seat regional jets. The ERJ-145 accounts for most of the fleet, while its smaller derivatives, the ERJ-135 and ERJ-140, are niche aircraft, developed almost solely to bypass the scope-clause restrictions imposed on the major US operators.

The definitive Embraer ERJ-145 was launched in 1992. In September 1996 Continental Express ordered 25 aircraft plus 175 options. A total of 275 aircraft (245 ERJ-145s and 30 ERJ-135s) were delivered to Continental Express, which later became ExpressJet.

Despite the order from Continental Express and later commitments from American Eagle, most of the US market had already been captured by Bombardier's CRJ.

Embraer won orders from Chautauqua Airlines, Mesa Airlines and Trans States Airlines. Limited opportunities in the US spurred Embraer on to other markets. Nearly all the major European airlines that ordered 50-seat regional jets from 1997 onwards selected the ERJ-145. These included Alitalia, British Midland, British Regional Airlines, Brymon, Crossair, LOT Polish Airlines, Luxair and PGA - Portugalia.

Despite the emphasis on markets outside the US, Embraer also launched two derivatives dedicated to circumventing the scope clause restrictions faced by its two major customers, American Eagle and Continental Express. The 37-seat ERJ-135 was launched in 1997, and the 44-seat ERJ-140 in 1999.

The ERJ-135 had some limited success in developing a market for 30-seat jets and a total of 122 were built (excluding Legacy business jet derivatives) compared with 687 ERJ-145s. The Embraer ERJ-140 was less successful with only 74 built, all for operation either with or on behalf of American Eagle.

ERJ-145

Of the 687 ERJ-145s delivered from the Embraer production line (excluding two undelivered prototypes), 594 or 86% remain with their original operators. These same operators have added another 45 aircraft, or 7% of the total, from the used market. Trading of the remaining 7% has been fairly consistent over the past 10 years, with a fairly limited supply of aircraft balanced by equally limited demand.

The ERJ-145 has been fortunate in that none of the big US fleets, which account for over 70% of the total fleet, have come on to market. The biggest threat to this stability was the prospect of a large proportion of ExpressJet's fleet (the world's largest ERJ-145 operator with 244 aircraft or 35% of the total) coming available. In December 2005 Continental announced that it would be withdrawing 69 of the ERJ-145s flown by ExpressJet under its capacity purchase agreement with ExpressJet. ExpressJet, which leases all its aircraft from Continental, chose to retain the aircraft and find them new applications. ExpressJet began its own scheduled operation, ExpressJet Airlines, and dedicated part of its fleet to developing a charter business. It also agreed to fly 10 aircraft for Delta Air Lines.

In June 2008 Continental and ExpressJet reached agreement on a new seven-year capacity purchase agreement. This resulted in the return of 39 of the 69 ERJ-145s to Continental's operations, as well as the withdrawal of the 30-strong ERJ-135 fleet. In return, ExpressJet accepted a reduction in the block-hour rates that it charged Continental. The rentals on the balance of 30 ERJ-145s that were operated at ExpressJet's own risk were reduced and they were all dedicated to charter operations.

All independent scheduled flying and the operations for Delta ceased in September 2008.

The second largest fleet belongs to American Eagle. In May 2008 the airline announced plans to withdraw 35-40 unspecified regional jets, as well as its Saab 340 fleet. In July 2008 the airline wrote down the value of its ERJ-135 fleet, and it appears safe to assume that the 39 ERJ-135s will be disposed of and that the ERJ-145 fleet is relatively secure.

Chautauqua Airlines operates the third largest fleet of 62 aircraft, all of which are in active service.

The fourth largest operator Trans States began a gradual reduction of its fleet during 2008. Five aircraft have been returned to lessor GECAS and placed with Aerolitoral, while at least three more are being returned to ECC Leasing.

Mesa Airlines, the smallest of the US fleet operators, has not been so fortunate. In March 2008 Delta Air Lines terminated its contract with the Mesa subsidiary Freedom Airlines for the operation of 34 ERJ-145s, claiming that the operator was not meeting specified completion rates. In May 2008, Mesa won a preliminary injunction preventing Delta from terminating the contract and the aircraft are currently in operation pending Delta's appeal. Prior to winning its successful injunction, Mesa stated publicly that the loss of Delta's business would force it into Chapter 11 bankruptcy protection.

The biggest players in the ERJ-145 market are ECC Leasing and GECAS. ECC Leasing is a 100%-owned subsidiary of Embraer, dedicated to managing the manufacturer's portfolio of used aircraft. These are typically early deliveries financed by BNDES, the National Development Bank of Brazil, or aircraft that have been taken back by Embraer in trade against new aircraft.

GECAS acquired a large ERJ-145 portfolio by buying aircraft with leases attached. Since the original leases are coming to an end, it is becoming increasingly involved in the used market.

Apart from these two organisations, two UK companies, Airstream International and Skyways Aviation, have been involved in the majority of the remaining ERJ-135 and ERJ-145 transactions. The largest single fleet of aircraft to become available was Flybe's. It acquired a fleet of 28 with its acquisition of BA Connect from British Airways in March 2007. Of these, 16 aircraft were owned and 12 were leased. Nine were leased from RBS and three from ECC Leasing. A deal was struck with Universal Asset Management of the USA to acquire the 16 owned aircraft under a sale and leaseback structure. Aircraft Solutions is the company that has been set up to manage these 16 aircraft.

Aircraft Solutions and its marketing agent Airstream have sold four aircraft to



Dniproavia of the Ukraine. They have leased four to the start-up airline Athens Airways of Greece, and one aircraft each to Andalus Lineas Aereas of Spain and bmi Regional of the UK. Similarly, RBS has so far placed five of its nine aircraft with Dniproavia, while ECC Leasing has leased two of its three, also to Dniproavia. This leaves a total of 11 Flybe aircraft to be placed. The airline has announced plans to retire its last ERJ-145 in October 2009.

ERJ-145 owners are fortunate that three operators have taken most of the used aircraft that have come on to the market. Aerolitoral of Mexico, operating as Aeromexico Connect, took delivery of five aircraft direct from the factory, but it has now built its fleet up to 33 by taking aircraft from the used market. It has leased aircraft from a wide variety of sources, including Chautauqua Airlines, ECC Leasing, GECAS, RBS and Swiss.

Dniproavia has acquired 11 former Flybe aircraft, four from Aircraft Solutions, two from ECC Leasing and five from RBS. On a smaller scale bmi Regional has steadily expanded its fleet to the current total of 14, plus four ERJ-135s.

As a result of the fairly even balance between supply and demand for the type, pricing and lease rates have been reasonably steady. There has been a slow decline over the years but nothing particularly dramatic. Most recent sales activity has been for early generation EU/EP variants, and has seen pricing of \$9-10 million. Lease rates have recently dipped below the \$100,000 level for the first time.

How long this situation will continue depends on whether demand continues to

match supply. Certainly more aircraft are likely to come on to the market in the near future. There are the 11 remaining Flybe aircraft that will become available during 2009. In December 2008 Alitalia announced that it is selling its entire fleet of 14 ERJ-145s, while the continued operation of the 34-strong fleet at Mesa is still subject to the legal appeal from Delta Air Lines.

ERJ-135

Nearly all airline sales were to existing ERJ-145 operators, although the type also found a niche as a corporate/government shuttle. Of the 122 ERJ-135s delivered, 116 remain with their original operators. The three largest customers were all in the US. These are American Eagle (40), Continental Express/ExpressJet (30) and Chautauqua Airlines (15). There are also small European fleets.

Trading of the ERJ-135 has clearly been quite limited, but five transactions took place in 2008. In January bmi Regional added to its fleet by purchasing a single aircraft originally delivered to failed operator JetMagic. In June, Chautauqua Airlines sold two aircraft to Aircraft Leasing Services of Kenya. Two aircraft returned to ECC Leasing by Chautauqua Airlines in July were subsequently sold on to the Brazilian Air Force.

Despite the apparent rise in activity, the outlook for the type seems doubtful following decisions by all three of the large US operators to phase it out. The largest fleet belongs to American Eagle, which in May 2008 announced plans to withdraw 35-40 unspecified regional jets.

The biggest threat to the ERJ-145's market stability is a retirement of some of ExpressJet's fleet. The airline is the single-largest operator of ERJ-145s, with 244 aircraft.

In July 2008 the airline wrote down the book value of its ERJ-135 fleet, and it appears reasonable to assume that it will dispose of the 39 ERJ-135s. The June 2008 agreement between the second largest operator ExpressJet and Continental has allowed the return of 39 ERJ-145s to Continental's service, but the entire fleet of 30 ERJ-135s is being withdrawn.

Disposals from the third US fleet operator, Chautauqua Airlines, have been more active. An amended contract with Delta Air Lines is phasing out the operation of 15 ERJ-135s from September 2008 at a rate of two aircraft per month.

Compared with the more active ERJ-145 market, it is difficult to establish market pricing and lease rates for the ERJ-135. The few transactions that have taken place have mainly been sales to non-airline operators. Recent pricing for outright sales has been quoted as high as \$10 million. With the prospect of the number of stored aircraft outnumbering the active fleet by 2:1, however, pricing at such levels is unlikely to be seen again.

ERJ-140

The third and final ERJ-145 family variant was the ERJ-140, which was developed specifically to circumvent the scope clause restrictions at American Eagle. Only two customers took delivery of this variant: American Eagle (59) and Chautauqua Airlines (15), which has operated the aircraft under contract to American since they were delivered.

Although American has announced that it will be retiring 35-40 regional jets in May 2009, these will almost certainly be ERJ-135s so the future of the ERJ-140s appears secure for now. In October 2008 Chautauqua Airlines agreed a new ERJ-140 contract with American that will see the fleet reduced to 13 from June 2009. The two remaining aircraft will continue to be paid for by American as spare aircraft.

Clearly pricing and lease rates for this variant are academic given the limited market. **AC**

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