

Mid-life asset recovery

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Lease rate factors for mid-life assets are on the rise as supply chain issues and manufacturer delays persist, causing a ripple effect across the aircraft leasing sector.

“We’re certainly seeing an uptick in lease rates which is positive,” **Aero Capital Solutions (ACS)** chief executive officer **Jason Barany** tells Airfinance Journal in an interview.

“What is happening in the new aircraft space, where there is more demand than there is capacity to fill that demand, that is helping the mid-life space.

“Whether it’s extensions or aircraft placements, lease rates have rebounded nicely for mid-life equipment. Looking to the start of 2023, most mid-life equipment will have mostly if not fully recovered to pre-pandemic levels and we’re fairly bullish about where lease rates are headed,” **Barany** continues.

Airlines wanting to bring in additional capacity for the recovery are constrained by how quickly aircraft can be delivered, according to him.

“We see a vacuum that could be filled by mid-life aircraft, either through extensions or acting as a bridge for new deliveries that are capacity constrained at the moment.”

Cargo conversion demand

Barany says the company continues to find good homes for aircraft that are being placed ahead of conversion, enabling it to maintain a diversified portfolio on the freighter side.

He notes that the market needs to reconcile what is replacement capacity versus growth capacity, and separate express freight growth opportunities, which are still in the early phase of development, from the bulk freight market.

“The 737-800 is the natural replacement for the 737-400 and there are a lot of 737-400s starting to retire. Similarly, the A321 is the replacement for the 757.

“Even if there isn’t growth demand in the market, there is a lot of replacement demand.”

ACS launched its Airbus A321 freighter conversion programme in October, as a complement to its current 40-aircraft Boeing 737-800SF passenger-to-freighter programme.

The first four A321s of the joint programme have already been initiated between **ACS** and Smartlynx Airlines, where **ACS** acts as a lessor and financier, while Smartlynx operates the aircraft after conversion.

Air Transport Services Group’s (ATSG) chief executive officer, Richard Corrado, said that the A321 feedstock market was very tight for a period of time before opening up in 2021.

“When it opened up, we bought a bunch of them, mostly from leasing companies which is unusual,” Corrado said during a Goldman Sachs conference in December.

The leasing arm of ATSG - Cargo Aircraft Management (CAM) - purchased its first A321 passenger aircraft for freighter conversion in July 2021 and has since acquired six more aircraft of the type, according to Airfinance Journal’s Fleet Tracker.

ASL Aviation’s chief financial officer, Mark O’Kelly, says the 737-800 market has gone through a steady conversion growth phase over the last year or so, improving asset value and marketability.

“It’s become a very popular asset over the last couple of years,” O’Kelly says.

The company is looking to grow its leasing platform as it diversifies its business, according to O’Kelly.

“Our plan over the next four years is to replace a lot of our leased aircraft with owned aircraft. A lot of our 737-400s that are coming off lease, we intend to replace them with 737-800s that we will acquire.

“Currently we own 35% of the fleet we operate and we’re looking to grow the portion of our owned fleet to around 50% where it was around five or six years ago.

“The rationale behind that is that we can retain flexibility on our aircraft, and it gives us the ability to move our fleet around different jurisdictions as needed,” O’Kelly continues.