

LONG LIVE LEASING



Lessors may be making hay but what does the future hold for independent regionals? **Stan Abbott** reports

Once upon a time airlines owned their own fleets... however, the arrival of low-cost carriers has helped boost leasing as an alternative to outright ownership.

Now, thanks to relatively modest capital outlays, the leasing boom that fuelled global low-cost growth is becoming the increasingly prevalent ownership model for more 'traditional' carriers too.

That in turn means regional airlines are finding themselves working with lessors in creative ways to overcome

supply constraints that could dampen opportunistic growth and hinder their ability to respond flexibly to market opportunities.

While the industry's contraction during the Covid-19 pandemic saw big names disappear from the leasing scene – GECAS and Nordic Aviation Capital immediately come to mind – the sector has regrouped and arguably re-emerged stronger, and seemingly more global than ever.

Significantly, leasing companies can increasingly offer a broad range of aircraft types, including a mix of jets and turboprops.

TrueNoord is a specialist lessor, with an owned and committed fleet of 120 aircraft in the 50 to 150-seat class. Angus von Schoenberg, industry officer at TrueNoord, says the standout market for regional aviation continues to be Asia, thanks to strong growth alongside inadequacies in surface transport in many markets.

Strong markets

"South-east Asia is the strongest turboprop market in the world, especially for ATR, and India has grown substantially over recent years,



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▼ Angus von Schoenberg
industry officer, TrueNoord



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bolstered by the Modi government's state-supported regional connectivity scheme," says von Schoenberg. "The competitive nature of the region means that low operating cost turboprops have been favoured over regional jets."

Tim Bacchus boasts more than 30 years as an aviation market analyst before recently joining Avation plc as investor relations director. Avation is a global lessor with a fleet of more than 30 aircraft, with a speculative order book of ATR 72s but also including A220s and ranging up to the Airbus A330.

"The market remains strong and we continue to see lease rates generally improving or, at worst, stable," he says. "We are also seeing market values continuing to increase and how long that will last remains the most important question. When will the OEMs be able to deliver aircraft on time and at the contracted production rate? Only then will we see some reduction in the market values of older aircraft."

Although delivery rates picked up in 2025, new wide-body delivery slots remain unavailable until late this decade, and those of narrow-bodies are well into the 2030s, so leasing companies can expect to make hay for some years yet.

1: TrueNoord is a specialist lessor, with aircraft in the 50 to 150-seat class
2: ATR turboprops are popular in the APAC market

In the regional segment it is not just delayed deliveries that are driving lease extensions. TrueNoord's von Schoenberg explains: "In the case of regional jet fleets, many Embraer E1s have not reached anywhere close to their normal replacement cycle – the E1 remains a state-of-the-art 21st-century aircraft.

"The newer E2 is not a replacement in the same way as the 737Max or A320neo is a replacement for older aircraft that are much closer to their natural retirement age. For E1s, many of the large operators are simply extending leases on 10-to-15-year-old aircraft, and in some cases investing in interior upgrades. Both BA CityFlyer and Air France Hop are doing exactly that, with the added advantage that the aircraft are powered by mature and reliable CF34-10s, for which supply chain constraints are less critical than for the GTF [geared turbofan]."

Indeed, as Tim Bacchus explains, new engine technology, including the wider use of new materials, has hit reliability while this technology beds in. "It has

“THE MARKET REMAINS STRONG AND WE CONTINUE TO SEE LEASE RATES GENERALLY IMPROVING”

- 1: Hop! is extending leases on its aircraft
- 2: Titan was able to plug a gap for Isles of Scilly Skybus



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90%

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caused issues with Pratt and Whitney and CFM.” Indeed, the resultant failure of new-generation engines to reliably “stay on the wing” has hit some carriers hard, leading to unscheduled groundings and cancellations.

Leasing buffet

While Avation does have one Pratt and Whitney Canada PW127 turboprop engine on lease, there are major players, such as AerCap and Florida-based Willis Lease Finance. The latter’s portfolio resembles a smorgasbord, with engine types from all major manufacturers, a range of lease terms, pioneering cooperative engine pools, engine financing, sale leasebacks, forward purchases, finance leases and engine management. The company’s North American CFM56-7B Engine Sharing Pool provides services for more than 600 aircraft and can claim to be the market leader.

Overall, suggests Bacchus, “the demand for aeroplanes still remains well above supply. The Asian market is extremely strong but it’s strong in most places.”

A slightly unexpected exception is the US low-cost sector, with carriers such as JetBlue – currently replacing its E190 fleet with Airbus A220s – and Frontier faring less well than expected, while the legacy carriers enjoy a boom, as, post-Covid, consumers seem more ready to splash out on “extras”.

However, as TrueNoord’s von Schoenberg points out: “Worldwide regional airlines have increasingly become integral parts of major network carriers – their dominant role has become feeding the hubs of such airlines from secondary and tertiary cities. This is not new in North America, the world’s largest regional aircraft market, where carriers such as SkyWest

and Republic exclusively operate for US majors under long-term capacity purchase agreements.”

The market in Europe remains strong, despite recent well-publicised failures in the UK, with aircraft being returned to the lessors. “The market is strong enough that it is easy to re-lease those aircraft relatively quickly if an operator is in trouble,” says Avation’s Bacchus. “Where they go is global – it would not be surprising to see turboprops come out of Europe and go to Asia or Africa.”

Airlines will always fail, and dealing with that is part of the leasing company business model. However, with a strong market, the industry is seeing higher returns on re-leasing. Whereas a 12-year-old aircraft coming off lease might have been extended with the same customer around 30-40% of the time previously, now, says Bacchus, up to 90% of leases are being extended and this is a good deal for both the customer and the lessor. In that rosy context, Avation has firm orders placed for ATRs and is looking to expand its fleet by about 25%.

In a market in which leasing, rather than ownership, is steadily becoming the default (Ryanair and Southwest being notable exceptions), some suggest that market entry for new carriers should be easier. The other side is that lessors can afford to be more choosy and mitigate risk by seeking higher up-front payments.

“THE MARKET IS STRONG ENOUGH THAT IT IS EASY TO RE-LEASE AIRCRAFT RELATIVELY QUICKLY IF AN OPERATOR IS IN TROUBLE”

Cityhopper

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1: An Embraer E190 belonging to Titan
 2: KLM's Cityhopper is its in-house regional partner

“INDEPENDENT REGIONAL AIRLINES NEED A UNIQUE FACTOR TO SUCCEED”

New models

Regional carriers are still able to exploit leasing as a quicker way to respond to new market opportunities, but there are other models. UK-based Air Charter Service (ACS) Leasing, for example, offers a range of different leasing models to customers needing to ensure continuity, including shorter-term dry leases, wet leasing and hybrids under which the airline dry leases its aircraft to another operator, which then crews, maintains and insures it and wet leases it back to the customer.

Of flexible wet lease operators, UK-based Titan is among European leaders and was able to plug a short-term gap when Isles of Scilly Skybus won the contract (since unexpectedly cancelled from later this year) to take over the PSO Newquay-Gatwick service from Eastern Airways – albeit with an oversized Embraer E190 and briefly even an A320 until the current use of a Dash 8-400 wet-leased from Universal.

In an increasingly difficult market for independent regional carriers, it's worth reflecting that Irish airline CityJet was one of Europe's early adopters of the model under which a regional operates shorter sectors exclusively for legacy carriers.

In 2018, CityJet ditched its own scheduled services and jettisoned its marketing, reservations and other commercial functions to focus exclusively on operating regional services for SAS, Brussels Airlines, Air France and KLM – a function that it continues to perform exclusively for SAS eight years later.

Cathal O'Connell, who was chief commercial officer at the time and is now an independent consultant, says that while franchise arrangements with larger carriers once seduced smaller regionals, wet leasing to legacy carriers removes almost all risk and enables the airline overhead to be reduced significantly.

“Independent regional airlines really need some unique factor to be successful,” he says – serving a group of islands, for example, like Binter in the Canaries. Going down the wet lease route leaves the airline free to focus on delivering the best possible product for the client airline.

Emerald Airlines operates a wholly leased fleet and combines operating Aer Lingus Regional under franchise, alongside wet lease support for other operators. Braathens complements CityJet at SAS, Air Dolomiti operates services for Lufthansa and German

Airways and Eastern Airways operated for KLM, until the latter's contract was terminated. Air Baltic is actively seeking more wet lease business.

Crystal clear

TrueNoord expects to see continued growth at the plus-100 seats end of the capacity spectrum, as more next generation E2 and A220 crossover jets arrive.

“By contrast, we forecast continued gradual contraction in the up to sub-70 seat segment, as the remaining 50-seat jets and many smaller turboprops are retired,” says von Schoenberg.

“However, in North America, scope clauses mean that regional aircraft capacity is prohibited from expanding beyond 76 seats. Over 80% of these aircraft are already in North America, so continued replacement demand there benefits the E175 and orders for that aircraft continue to be strong.”

He adds the proviso that the sub-50-seat turboprop market may be revived by new hybrid or battery-electric aircraft, if they offer lower operating costs.

However, O'Connell sees a trend for legacy carriers moving their regional traffic in-house. Lufthansa has placed a large Airbus A220 order for Lufthansa City, while KLM-Air France seems focused on maximising the use of its in-house regional partners, KLM Cityhopper and Air France Hop.

If this phenomenon morphs into a clear direction of travel, it could close the storybook for independent regionals. ●