

CRJ 700s face pricing pressure

Value briefing is a new resource for *Low Cost & Regional Airline Business* readers. **Oliver Stuart-Menteth**, managing director at Fintech Aviation Services, examines the stateside popularity of the CRJ 700 amidst dwindling usage across Europe and Asia

The Bombardier CRJ 700 was introduced into North American fleets back in 2001, as a result of the gradual but progressive relaxation of the scope clauses which dominate relations between airlines and pilots. To this day, the aircraft remains extremely popular in the US, but less so in Europe and Asia where operators use capacity rather than frequency to grow market share.

As of 30 June 2014, Bombardier officially had 14 aircraft on backlog, with deliveries to Felix Airways (Yemen) and the Chinese government still posted as outstanding. However, given that Felix Airways' current fleet of CRJ 700s are for sale, they seem unlikely to take delivery of any further aircraft. The last batch of large-scale deliveries – to American Airlines feeder carrier, Envoy – was completed in 2011. During the past four years, the majority of deliveries have been the VIP-configured CRJ 870 variant.



Lufthansa is disposing of its CityLine CRJ 700 fleet [photo: Bombardier]

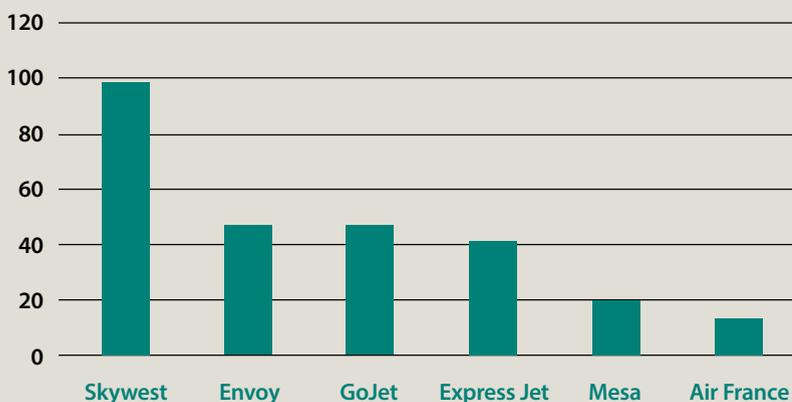
A total of 333 CRJ 700 aircraft have been built, with 48% of the existing fleet delivered between 2003 and 2005. This would normally pose a problem for similar illiquid and geographically concentrated

types. The expiration of a 10-year operating or finance lease often tends to indicate the phase-out from a fleet, with a subsequent uptick in availability. However, paradoxically, the very fact the majority of the fleet is with North American operators ensures availability will most likely remain low for at least the next 5-10 years.

Historically North American legacy carriers have retained aircraft throughout their economic life, therefore it is likely that those established CRJ 700 fleets will continue in operation, meaning any future turnover will come as a result of mergers and acquisitions. This has been demonstrated by the planned transfer of Envoy's fleet by American Airlines to another, as yet unnamed, regional carrier.

Further large fleet replacement orders from North American carriers are not anticipated. However it is likely that used aircraft in Europe will be progressively acquired by both US regional carriers and Russian CRJ 200 operators wishing to upgauge.

CRJ 700 Principal Operators



This graphic illustrates the largest operators of the CRJ 700 series aircraft

Lufthansa's ongoing disposal of its entire Cityline CRJ 700 fleet represents the first real test of the market to absorb a significant number of aircraft. Currently, demand is proving strongest from part suppliers, with four aircraft sold for spares so far. However, market values are believed to have bottomed out, with interest

from operators now rising values are expected to surpass offers received from part suppliers.

However, the relatively high costs associated with transitioning aircraft from EASA to FAA specifications, as well as individual customer setups, will continue to apply downwards pricing pressure. In addition

while fuel prices remain relatively high, airlines will instead consider competitive turboprop aircraft – a factor that will further dampen future sales expectations. Lease rates remain under pressure as lessees struggle to substantiate a doubling of CRJ 200 rates in return for a 40% increase in seating capacity. ■

Current and future market values, in accordance with those definitions of ISTAT

AIRCRAFT TYPE	CRJ 700
SERIES	ER
ENGINE TYPE	CF34-8C5B1

DOM	LEASE RATES*	CMV (USD million)	BV (USD million)	FUTURE BASE VALUES (USD million)				
				2016	2018	2020	2022	2024
	000 (\$)	2014	2014	2016	2018	2020	2022	2024
2013	180-190	21.3	22.24	19.52	16.97	14.61	12.17	9.79
2011	165-185	18.4	19.52	16.97	14.61	12.17	9.79	7.72
2009	150-170	15.8	16.97	14.61	12.17	9.79	7.72	6.23
2007	135-155	13.4	14.61	12.17	9.79	7.72	6.23	4.91
2005	120-140	11.1	12.17	9.79	7.72	6.23	4.91	3.74
2003	105-125	9.2	9.79	7.72	6.23	4.91	3.74	2.73
2001	95-110	7.4	7.72	6.23	4.91	3.74	2.73	1.88

Note – Future Values are inflated at 2.5% per annum and depict an aircraft in half time/half life maintenance condition. Current Market Values (CMV) and Future Base Values (FBV) are provided in accordance with those definitions published by International Society of Aircraft Trading (ISTAT). *Lease rates are quoted per month and are for a five-year term
Data Sources: Fintech Aviation Services and Aero Transport Data Base.



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