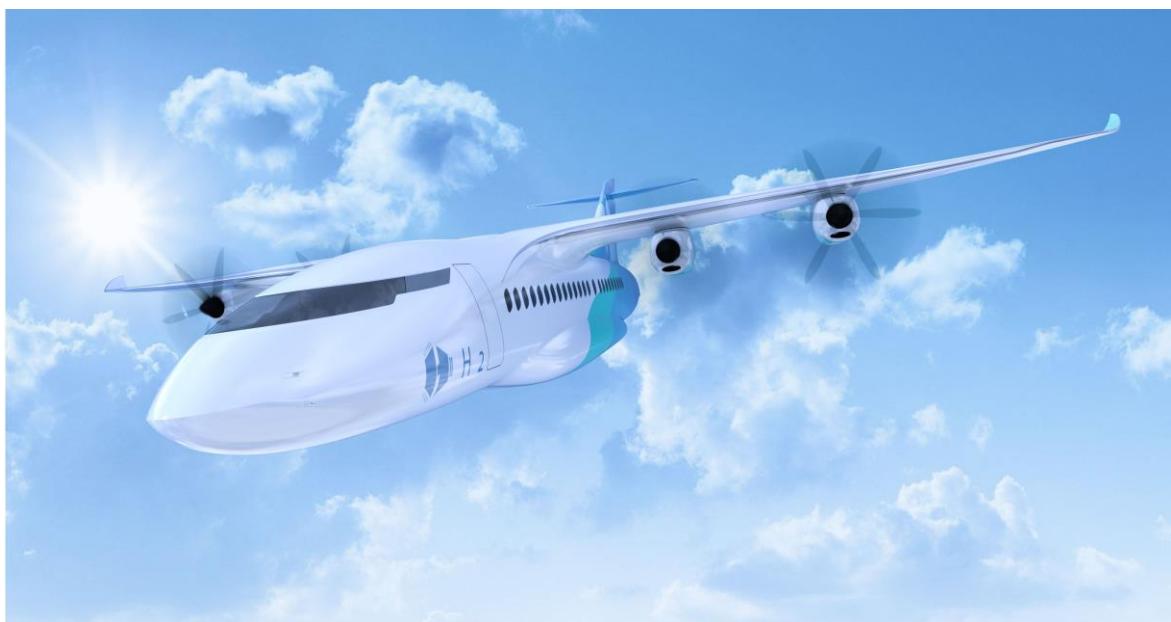


2021 in Review & What to Expect in 2022

ALTEA's perspective on the regional aviation market

Regional Aviation New Aircraft

With airline balance sheets decimated across the board, fewer than normal committed to new aircraft during 2021, but green shoots became evident later in the year.



> **Turboprops to watch**

While ATR delivered less than a dozen aircraft in 2020, access to quick delivery positions meant that new placements rose to some 30 units in 2021. Based on recent demand and orders, ATR believes this will increase substantially in 2022. ALTEA sees that the increasing need for a reduced carbon footprint will be a prime driver for strong ATR turboprop demand until alternative propulsion systems become commercially available.

With the Dash 8 -400 now mothballed, ATR is currently the only game in town. However, customers don't like monopolies. We saw this in the 1990s when the CRJ100/200 was the only option. It was not until the E-145 came to market that sales of both types took off, so an ATR monopoly may not be in its own best interests. Embraer may once again ride to the rescue in 2022 if its new turboprop offering is launched. With rear fuselage mounted engines, Embraer believes this also future proofs its new aircraft for alternative propulsion systems.

> **Regional Jets**

Outside the confines of the ongoing pandemic, the increased pressure towards carbon neutrality is also impacting the sales of new generation large regional jets or the small narrowbodies that are increasingly referred to as "Crossover jets". Both Airbus and Embraer products offer fuel burn savings of up to 20% over current generation aircraft. As it is highly unlikely that there will be a hybrid electric or hydrogen powered

alternative in this 120-150 seat category any time soon, these aircraft represent a major step towards lower emissions. At least for now, the Airbus A220 is leading the field both historically and with new commitments during 2021, but Embraer potentially holds some useful cards. The A220 is undeniably positioned as a narrowbody aircraft and will thus never operate in any lower cost regional airline subsidiary. The Embraer E2 can potentially slot into existing regional airlines to operate for majors at lower cost.

Pre-Owned Aircraft

COVID-19 continued to be the prime driver for commercial airline fortunes in 2021. However, some types fared better than others as did certain geographical areas.

> Measuring availability

Until early 2021, ALTEA had been tracking the evolution of the number of in-service and stored aircraft and indeed many still draw conclusions from this metric. However, this ignores the utilisation levels of those aircraft that are in operation. As the year progressed ALTEA noted an operational strategy shift towards low utilisation of more aircraft in order to ensure continuing airworthiness instead of widespread mothballing. This was particularly noticeable for regional and single aisle narrowbody aircraft. This meant that more in service aircraft did not necessarily signal a real recovery.

> Values and capacity absorption

On a more positive note, 2021 also saw many appraisers and commentators continuing to project substantial value declines for used aircraft in some cases exceeding 30%. However, in reality this proved theoretical as very few actual sales occurred as lessors and owners proved unwilling to accept such impairments preferring instead to either store or lease excess aircraft for short periods often on power-by-the-hour agreements. ALTEA believes that as traffic recovers in 2022 and beyond, values will recover and only then will significant trading occur. For certain types this was already occurring towards the year end. The US domestic market, by far the largest home for regional jets, has recovered to 2019 levels so that 70 seat regional jets are once again in a stronger place.

For larger Embraer regional jets in particular, Europe and to some extent Asia are absorbing aircraft in a “right-sizing” trend to operate reduced demand services previously served by larger Airbus and Boeing single aisle jets while maintaining reasonable frequency.

For turboprops, the first half of the year saw continued excess supply of used ATR72s. However, by the year end almost all airworthy units had been absorbed with only those requiring substantial maintenance inputs still available. Much of the excess Dash 8-400 capacity caused by the pandemic and the collapse of Flybe has also been absorbed and often outside traditional airlines in both “Fly-in Fly-out” operations, or fire-fighting roles.

Barring a longer Omicron induced travel demand hiatus, ALTEA continues to see regional aircraft leading a recovery.

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