ANALYSIS: HOW WILL THE A380 SIZE UP ON THE SECONDARY MARKET?

News / Airlines, Manufacturer

When the Airbus A380 began flying passengers in 2007, the manufacturer hailed the double-deck transport as a game-changer. It still does, citing the emergence of space-constrained hubs as the key factor that will force airlines to seek out the largest-capacity aircraft on the market. However, total sales of just over 300 superjumbos – around half of them to Emirates – have failed to bear this out. Despite plaudits from customers and travellers alike, perhaps the best that can be said of the A380 is that it is outselling the passenger version of its even less popular ultra-large rival, the Boeing 747-8.

An 11th-hour deal for three aircraft from a new airline customer – thought to be Japan's ANA – saved Airbus from the humiliation of ending another year with zero new A380 orders. But with 27 deliveries during 2015, the already modest backlog shrank further. The first used A380s will begin arriving on the market before the end of the decade. Some believe this could hit the superjumbo's flagging prospects even more; others that it could provide a boost to its image by broadening its appeal to charter and tertiary carriers who could not dream of operating a new A380.

Mark Lapidus takes the latter view. The chief executive of Dublin-based Amedeo is the A380's

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biggest fan in the leasing world, and placed an order for 20 examples at the 2014 Singapore air show. Amedeo is focusing much of its sales effort on the used market, where Lapidus is convinced the type will prove popular once the first examples are offloaded by early adopters.Singapore Airlines and Emirates took their first A380s in 2008 and 2009, respectively. "We have as many campaigns in the secondary market as we do for new aircraft," says Lapidus.

Amedeo is "working closely with Airbus" to remarket the first A380s, which will begin leaving fleets in 2018. Prospects include "blue chip" and "secondary" airlines. Lapidus believes airlines operating small widebody fleets with "multiple frequencies" and a mainly economy-class offering will be the likeliest customers for second-hand A380s. However, he maintains that larger flag carriers will be interested in trialling A380s as a "lower-risk" alternative to investing in new examples. Even Airbus acknowledges that convincing airlines to invest in such a big-ticket item as a new A380 is a challenge.

Working in Toulouse's favour, perhaps, is that the flow of the 500- to 600-seaters onto the secondary market will be extremely slow – only 41 were delivered between 2007 and 2010 (*see table*). However, Lapidus believes that this limited supply will give prospective airline customers plenty of time to weigh up the value proposition of the quadjet without any need for distress selling. "The fact that you can pick up a 10- or 12-year-old A380 at half the price of a new one" makes the type an attractive proposition to many carriers, he says.

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Others are not so convinced. "It's challenging to think of potential operators who could profitably take an aircraft of this capacity and range," says Rob Morris, head of consultancy at Flightglobal's Ascend business. If operators of second-hand 747-400s are taken as a guide, "it isn't really a who's who of network airlines", he notes, listing the likes of Atlas Air, Conviasa, Corsair,Iraqi Airways, Kabo Air, MaxAir, Orient Thai Airlines and Wamos Air, as well as Royal Air Maroc and Saudia. "The majority of these have only one or two aircraft each," he adds.

A more effective remarketing route might be to place A380s with existing operators of the superjumbo, Morris suggests, but here one of the main stumbling blocks is the cost of reconfiguring highly bespoke cabins. However, Lapidus maintains that refitting 10- to 15-year-old A380s to a new customer's requirements is not that much of a hurdle and refurbishments need only cost "$10-15 million, $20 million tops". Usually only the upper deck, where most premium seating is, will need extensive work, he says.

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On 18 January, IAG chief executive Willie Walsh surprised many when he revealed at a conference in Dublin that the group's biggest subsidiary,British Airways, was looking at acquiring "five or six" second-hand A380s to add to its fleet of 12 new superjumbos, the final two of which are set for delivery this year. At the same time, Walsh confirms that BA is not interested in converting its nine options with Airbus into firm orders as the aircraft being offered are "too expensive". Walsh also says IAG could also be interested in adding A380s to the fleet of its Spanish flag-carrier subsidiary Iberia, which operates A340s on its long-haul routes.

The IAG boss happily acknowledges that the A380 is a "fantastic" aircraft and popular with passengers. He says putting two A380s onto BA's London Heathrow-Los Angeles route has allowed the airline to replace three 747-400s and free up a valuable slot at an over-capacity Heathrow. So why doesIAG not want more? The A380 is an "inflexible" airliner, Walsh maintains. It works on longer-haul routes where frequencies are not crucial (hence BA's swapping three Los Angeles flights with two), he says, and where the carrier can fill what is an expensive aircraft to operate, even with cheaper fuel prices. That goes some way to explaining perhaps why IAG is tempted by cheaper superjumbos but not by any more A380s fresh off the production line.

Airbus and rival powerplant manufacturers Engine Alliance and Rolls-Royce are prepared to support airlines buying "as few as four or five" second-hand A380s with performance guarantees and a global MRO network, says Lapidus. This sort of commitment is likely to be crucial to any airline considering leasing second-hand examples of an aircraft as complex as an A380, with a small worldwide fleet. "Airbus have had a sea change in philosophy," he says. "They realise that a secondary market is essential to selling new planes."

Morris agrees that the manufacturers will have thought this through. "While the cost of reconfiguration will be a potential barrier to transitioning an aircraft such as the A380 between operators, it is an issue Airbus will always have been aware of and thus they will be taking steps to minimise the cost and simplify the whole process," he says. "Maintenance cost will be another key issue and here engine support programmes will need to be portable between operators to enable easier transition."

No one should expect a glut of used A380s arriving on the market. Flightglobal's Fleets Analyzer database shows only a handful of lease returns are scheduled through to 2020, including the first five Singapore Airlines examples leased from Dr Peters Group. These are likely to be replaced by the five new aircraft still in backlog with the flag carrier, says Morris. A few Emirates aircraft, leased from Doric, are scheduled to begin their lease returns in 2019. Additionally, he notes, Malaysia Airlines has indicated that its A380s are surplus, and these could be offered for sale or lease in the near future.

Could even such a small flow of second-hand aircraft persuade airlines that might have been considering a new A380 to opt for a used one instead, or force Airbus to compete with itself by discounting production aircraft? Morris thinks it could have some effect. "The A380 backlog is around 140 aircraft, with Emirates accounting for around half of that. At current production rates, Airbus appear to have a few open slots in late 2016 and 2017, with significant slots after that," he says. "So the lease returns will be arriving in the market at the same time as these open slots."

However, while Morris believes this may have some impact on Toulouse's pricing potential on new aircraft, he does not think it will have a marked effect on A380 orders, with Airbus securing a negligible number since the last flurry of commitments for the superjumbo at the November 2013 Dubai air show. "I suggest that it is the overall lack of apparent demand per se that will have a greater impact, with Airbus probably needing to offer discounts to incentivise potential new

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customers into the aircraft," he says.

The experience of other large widebodies on the secondary market perhaps provides some pointers as to the fate of used A380s. With even the top-selling 747-400 struggling to find a market beyond third-tier airlines, other types have fared even less well, notes Morris. The four-engined A340 became almost obsolete when the fuel price rocketed and against competition from the 777. But even the 777-200ER is facing problems as second-hand examples arrive on the market having to compete with new 787s and 777-300ERs and A350s, he says.

"I guess the rule of thumb here is that the larger the aircraft, the smaller the customer base is likely to be, and thus the more difficult liquidity proves in the secondary market," says Morris. "As the A380 is the largest of all, it will potentially face the largest of challenges." But the A380 is not the only one exposed in this way. "To add balance, let's also be clear that the 777-300ER is likely to face a similar challenge in the next few years as it also starts to see significant lease returns and also significant new production availability from Boeing," he says.

Traditionally, the biggest secondary market for large widebodies – dating back to the original 747s and McDonnell Douglas MD-11s – has been freight conversions, notes Morris's colleague Richard Evans, senior consultant at Ascend. However, with Airbus having given up on its own A380 freighter variant many years ago, the prospect of the world's largest airliner enjoying a second life as a cargo transport appears a pipe dream. "That market is currently dead," says Evans. "Nobody seriously expects an A380 P2F [passenger to freighter] programme."

Another worrying trend for anyone looking to remarket the A380 – or any other widebody for that matter – is that, despite the growth in the long-haul fleet, numbers of widebody transactions on the secondary market appear to be shrinking, suggests Evans. "Most airlines seem to be acquiring an ever-higher proportion of their fleets as new aircraft. The larger the aircraft, the fewer the number of transitions to new operators, with the 767 the most successful and the A330, A340 and 777 less so," he says. "How the 777-300ER fares will be a big test before the A380 hits the market."

Almost a decade after its introduction, Airbus remains firmly behind its most ambitious programme, with sales chief John Leahy earlier this month promising more A380 customers in 2016. However, unlike in previous years, he is cautious not to speculate about numbers, joking that an earlier prediction of around 25 orders in 2015 had "cost me a lot of bonus". Toulouse also is still not ruling out a re-engined, or even stretch, version of the superjumbo, although this might appear a dangerous gamble when it already faces a challenge to maintain output levels into the next decade.

Amedeo, which is set to start taking deliveries of its first A380s next year – although it has not yet specified an engine choice – devotes much of its website to praising the aircraft's economics, suggesting that in a 590-seat configuration, the A380 offers unbeatable seat-mile costs. Lapidus believes that "the trend towards larger-gauge aircraft" will continue and that this does not only apply to those ordering new aircraft. "There is no logical reason there shouldn't be a secondary A380 market," he says.

Airbus will be hoping that is true. The prospect of several of its flagship airliners languishing in desert storage early in the next decade is an image that must fill Leahy and his colleagues with horror.

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