

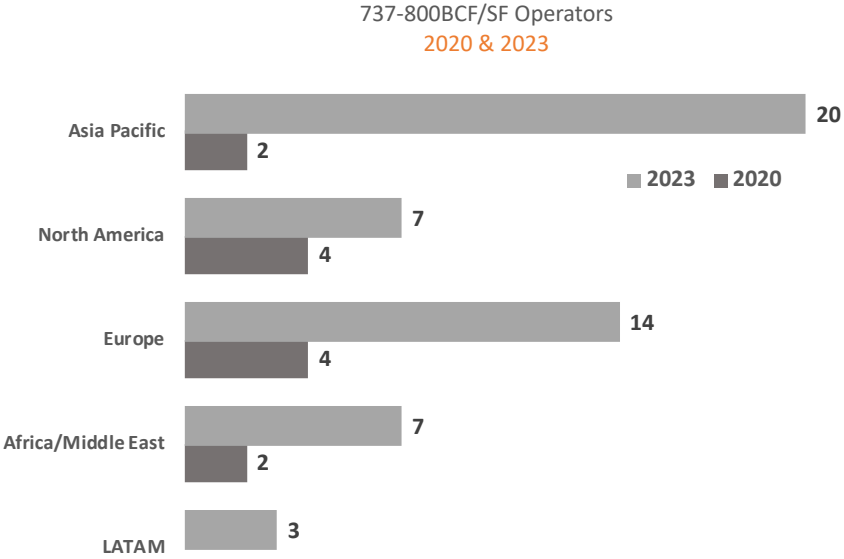
Narrowbody Freighter Conversion Investments

Notable successes with challenges ahead

Narrowbody passenger-to-freighter conversions, particularly the Boeing 737-800, have increased at an unprecedented pace over the past three years with multiple production lines and many new operators. Remarkably this was achieved during a time of both global upheaval and newfound markets and opportunities. The key questions are, has market demand been sufficient to absorb a rapid increase in supply and what does the future hold for this market?

In April of 2020 there were twelve 737-800BCF/SF operators with a total fleet of thirty aircraft. By April 2023, the number of operators had more than quadrupled to fifty-one with 147 converted aircraft added to the global fleet. This rapid expansion was unprecedented and the result of a confluence of events, namely:

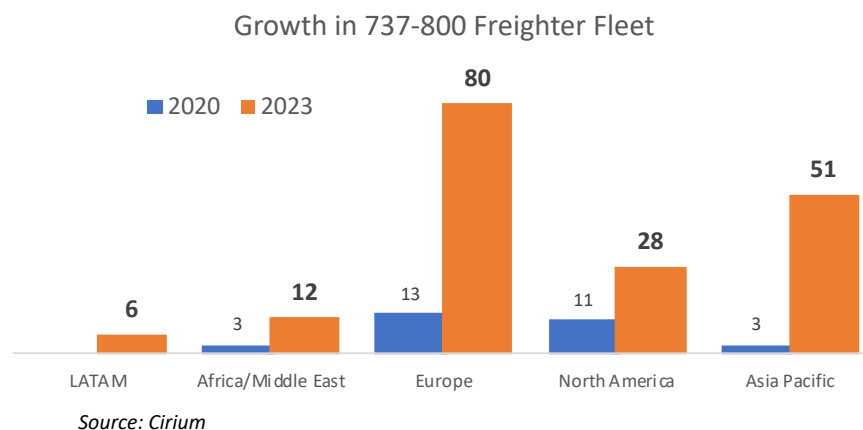
- Pandemic driven loss of passenger demand resulting in return or repossession of 737-800s;
- An increase in narrowbody freighter demand increased due to the loss of pandemic related pax belly space;
- E-commerce demand surged dramatically as consumers shifted to on-line buying;
- Global supply chain disruptions/delays increased air freight demand;
- The perceived need for narrowbody freighters coupled with a lack of follow-on pax leases for idle aircraft resulted in lessor decisions to invest in freighter conversions, often on a speculative basis;
- This resulted in a need to place these converted aircraft which pushed lessors to accept newly formed operators and weaker lessees in a number of challenging jurisdictions;



Source: Cirium

This extraordinary fleet growth produced some unexpected results:

- The European 737-800 freighter fleet grew by six-fold with 67 additional aircraft. However, this was not unexpected given its established base, propensity for narrowbody freighters and strong e-commerce market;
- The Asia/Pacific fleet growth was remarkable, growing from three aircraft to 51 in three years; along with six new 737-800 freighter operators in the region that are start-ups;
- Together Europe and Asia/Pacific accounted for 78% of the fleet growth;
- Fifteen aircraft went to seven start-up operators;
- Eleven of the new lessees operate five aircraft or less;
- Twenty-two new freighter lessors entered the space.



So where does the market go from here? Passenger demand has returned and with it pax belly capacity. The e-commerce market has returned to a more rational growth rate with freighters being parked or returned to lessors and growth plans being re-evaluated. Supply chain problems still exist but are receding in severity. Air freight demand has cooled and likely will remain depressed for a year or more. Finally, a global recession is possibly on the horizon.

Nevertheless, in the face of this softening market, freighter conversions continue increasing. The table to the right displays the large number of unplaced freighter conversion orders made by lessors. The number of delivered 737-800BCFs so far this year plus the committed 2023 aircraft combined is higher than any of the pandemic surge years, begging the question of where the 34 additional aircraft will be placed.

It should be noted that Boeing has stated that they have an additional 135 737-800BCF slots sold, far in excess of the numbers stated here. Similarly, the other 737-800 and A321 conversion houses will likely state that the numbers in this table are low and that they have backlogs stretching into 2024 and 2025. These conversion houses have also increased their production capacity to meet the perceived near-term demand.

Lessor conversion orders			
	2023	2024	
737-800BCF/SF			
Placed	28	2	
Available*	34		
A321-200			
Placed	9	5	
Available*	15	6	
<i>*Based on publicly available data; actual number could be less</i>			

Despite the early success for the 737-800 freighter in expanding the fleet size and number of operators, a significant supply/demand imbalance has developed and is likely to continue for the foreseeable future unless there are slot cancellations, and/or the market growth is much higher than predicted. In the long run the 737-800 freighter will be very successful with hundreds of conversions. However, the short-term promises to be a difficult market, especially for owners of unplaced aircraft.

In short, supply in terms of available feedstock aircraft, does not necessarily create market demand. *Caveat Investor*

Fortune Aviation Services has been providing guidance to investors in the freighter market for more than 25 years. The company has been successful in identifying profitable investments for its clients through economic analysis and thoughtful market forecasts. If you would like to “look before you leap” on a freighter investment, please let us know.

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