

Value and lease rate trends: E195-E2 – facing big competition

Geoff Hearn

29/08/2024

The Embraer 195 is the largest member of the original Embraer E-Jet family.

The Brazilian manufacturer launched the second generation of E-jets at the 2013 Paris air show, designating the new models as E2 variants.

The main changes for E2 models are the switch to Pratt & Whitney (PW1900G) geared turbofan (GTF) engines and the redesign of the wings. Embraer says claims that fuel and maintenance costs of the latest generation of aircraft offer double-digit savings over their respective predecessors.

The new family was intended to include three models, but only the E195 variant has met with much success. The second generation of the mid-size E190 has a disappointing sales record compared with the original version, although the recent order by Virgin Australia has given a timely boost to the variant. Development of the smaller E175 variant is on hold, having so far failed to replace the original version, which continues to sell in substantial numbers.

Also worth noting is that the E2 family is suffering issues with its GTF engines, which have also been causing problems for several Airbus models.

Ongoing development

As previously reported by Airfinance Global, development of the E195 continues.

The manufacturer says fuel burn is 2.5% lower than originally specified. This improvement combined with the recently certified increased maximum take-off weight of 62,500kg has increased the E195's range to 3,000 nautical miles. The manufacturer has also introduced improvements to the troublesome GTF engines. Upgraded take-off systems have enabled enhanced operations at difficult airports such as London City and Florence. Adjustments to cabin configurations have allowed an extra row of four seats to be added to most seating layouts, although the maximum capacity remains 146.

Competition

The most direct competition to the E195-E2 comes from the Airbus A220, which originated as the Bombardier CSeries family. The stretching of the E2 version of the E195 compared with its predecessor means its seating capacity is between that of the A220-100 and -300 variants. The adopted Airbus models provide strong competition as shown by Air Baltic's August order for 10 additional aircraft. At the end of July the European manufacturer had already accumulated more than 900 orders from around 30 customers for the two A220 variants.

Sales and deliveries

Orders for the E2 generation have not kept pace with those of the A220.

According to *Airfinance Global* Aircraft Intelligence, total sales of the E195-E2 stood at 292 by the end of July, of which over 100 have been delivered. Sales over the past few years have been steady but not spectacular, with 56 orders in 2022 and 45 in 2023. While Embraer was impacted by the industry-wide supply-chain issues, deliveries across the E2 family had been increasing steadily, with E195 output more than doubling in 2023 from the preceding year.

Annual E195-E2 orders and deliveries

Year	Orders	Deliveries
2024 to end July	10	15
2023	45	38
2022	56	17
2021	30	20
2020	None	6
Pre 2020	178	25

Source: Airfinance Global Aircraft Intelligence 30 July 2024. Includes subsequently cancelled/modified orders

Recent market activity

The most recent order for the E195 is from Mexicana de Aviacion, Mexico's state-owned carrier, which will take 10 E195s (as well as 10 E190s). Deliveries are scheduled to begin in the second quarter of 2025. Mexicana will configure the E195 with 132 seats.

On the delivery side LOT Polish Airlines has received its first E195-E2, which arrived in Warsaw at the end of July. The aircraft is in a 136-seat single-class layout and is the first of three of the type acquired in a lease deal with Azorra Aviation, with the other two expected before the end of October.

Financing

The Brazilian Development Bank (BNDES) has traditionally played a strong role in supporting Embraer's products and this support continues. As reported by Airfinance Global the institution recently financed 10 E195-E2 jets for Azul Linhas Aereas for BRL1.9 billion (\$332 million). Although BNDES continues to play a significant role, financing options for the Embraer products have diversified, with Avolon amongst the leasing companies involved in the E195-E2 via sale and leaseback deals.

Prospects and threats

The E195-E2 has been the best performer of Embraer's new family but its progress has been steady rather than spectacular. Greater acceptance in the US market would significantly boost the chances of the aircraft matching the more impressive results of the first generation E175. Embraer also needs to counter the challenge from the A220 models, particularly when operators start to replace first-generation E-Jets. However, if Embraer's recent market forecast is anywhere near accurate, there is a lot of potential. In its recent market outlook the Brazilian manufacturer forecasts that 8,470 sub-150-seat jets will be required over the next 20 years.

An appraiser's view

Gueric Dechavanne, managing partner, Collateral Verifications (CV)

Current market values are seeing improvements of about 5% over the last 12 months as demand continues to pick up for the E195-E2 from both operators and lessors. Monthly lease rates have also continued to increase over the last 12 months, by about 10%.

The market demand has been slow to pick up for the type even though this is one of the few aircraft that is available in the near term to meet the demand for capacity. The fleet is still concentrated amongst a small number of operators but that should change in the coming years as Embraer continues to gain traction from the market. The E195 will remain the most popular variant, as it offers operators more flexibility and a lower cost per seat mile than its smaller sibling. The engine issues on the PW1900G continue to be a problem for many operators. CV believe that all of the aircraft stored are due to these issues. It is our understanding that it will take Pratt & Whitney 12-18 months to resolve the problems for the overall GTF fleet. Based on the smaller E195-E2 fleet, this should mean that the stored aircraft go back into service sooner than this timeframe, perhaps as early as 2025.

Values and lease rates should continue to improve in the near to mid-term as aircraft continue to deliver and the orderbook grows. With few other aircraft types that can fill this market segment, the expectation is that the E195-E2 will come into its own and more operators will take advantage of its availability. Market demand should remain strong as operators move to replace their aging CRJs or E190s over the next decade. The potential launch of the A220-500 or A221 may impact demand and values once the aircraft enters service and is at mature production rates but this is not going to happen in the near future. The E195-E2 is already proving to be more successful than its predecessor with almost 300 aircraft ordered and 16 operators. We expect this trend to continue.

CV view of E195-E2 values and lease rates

Build year	2020	2022	2024 (new)
Current market value (\$m)	23	26.2	38.6*
Lease rate (\$'000s/month)	235	255	275

**Values reflect half-time maintenance condition except for new aircraft*

Thank you for printing this article from Airfinance Global, your essential intelligence resource for aviation finance. If you have been given this article by a subscriber, you can contact us through email at accountmanager@airfinanceglobal.com or call us on +44 (0)20 7779 8015 to discuss our subscription options.