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# Push and pull factors on aircraft lease rates 2026


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Strategic and Market Analysis

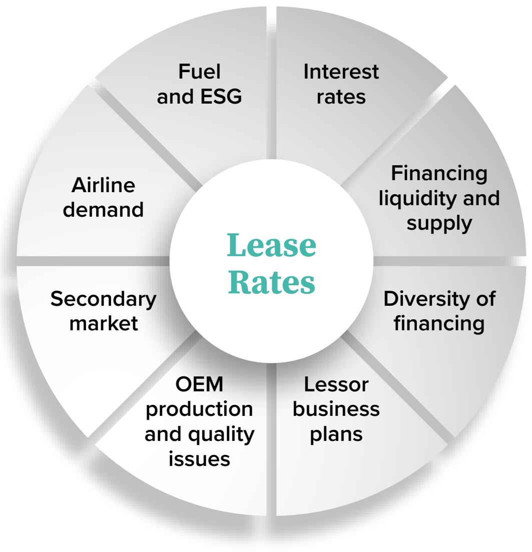
# Introduction

In our annual update of push and pull factors on lease rates, we once again look at the same eight significant factors that we believe drive aircraft lease rates.

We retain our circle methodology as many of the factors interact and influence each other. At any given time, their relative importance can be larger than at other times, indeed we have seen this occur since the initial publication in 2024.

As before, we have colour coded the factors on a traffic light system ranging from dark green *(very positive upward impact on lease rates)* down to red *(negative impact on lease rates).* Please note that these colours do not represent a change versus last time, rather the current market conditions.

We conclude that the rental market is in a strong environment, with narrowbodies stable, and widebodies increasing.




**Traffic Light System**
- Strong Positive Impact
- Positive Impact
- Neutral Impact
- Negative Impact

# Lessor bond spreads continue to tighten

The impact of interest rates on aircraft rental rates can often be simplified or overemphasised. This was a key reason why we initially decided to launch this analysis. While an important factor, it is one of many and has both direct and indirect relationships with rental rates.

For new deliveries, typically a base rate is agreed with the airline but adjusts with interest rate movements between signing the lease and delivery of the aircraft. This is how interest rates directly impact lease rates. The second way is through funding costs. Increased funding costs lead to the passing on of the higher cost to airlines to maintain minimum profitability targets which is reflected in the base rent.

It is interesting to note in the accompanying chart that when we first conducted this analysis in January 2024, the Effective Funds Rate (EFFR) was at its peak of the cycle with a significant spread over the 10-year swap. Since then, we have had multiple interest rate cuts, yet the 10-year swap remains at the same point, despite some volatility.

Most lessors tend to try and match their funding cost to the lease term and as such a 10-year rate is a more relevant benchmark than the EFFR.

When looking ahead to 2026, the policies of incoming Fed chairman Kevin Warsh ("Warshonomics") require close attention. While previously an inflation hawk, he has become dovish and wants to see regime change at the Fed.

Statutorily, the Fed follows a dual mandate balancing low inflation with a healthy jobs market. Unemployment is increasing, up 0.5% since the start of 2025 while inflation is also trending in the wrong direction, sitting above the Feds target level. While both of these point to minimal cuts, Warsh has been vocal in moving away from a data-dependent approach and into what the FT calls "conviction economics", which may point to increased cuts.

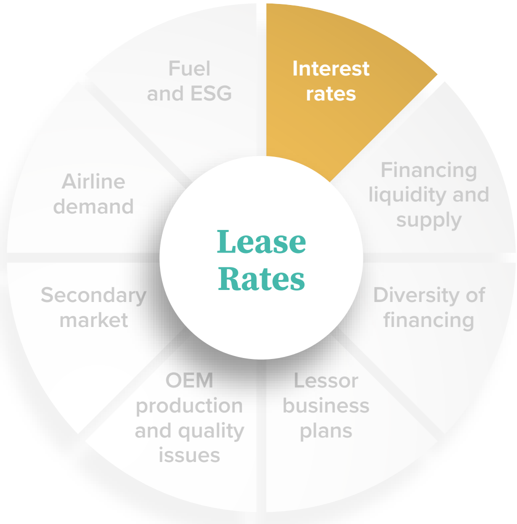
The Bloomberg consensus weighted average for inflation shows stickiness across 2026, with a slight drop-off in 2027 but still above target. Despite this, the consensus for interest rates points to a half a percent reduction in 2026, but stability in 2027.

The ten IG-rated lessors had $13.9bn of bond issuances as at year-end 2025. Bond refinancing requirement for 2026 is slightly higher at c.$14.4bn, of which by the middle of February $3.8bn had already been issued. Coupons and spreads are tightening. In 2023, the average coupon was just under 6%, falling below 5% in 2025, for the few issued so far in 2026 it has dropped to 4.5%. Similarly, the spread versus treasuries has reduced from 182bps to c.90bps in 2026, on a weighted basis.

We expect this momentum to continue as many lessors will look to de-risk any volatility relating to the US Midterm elections by funding their needs in the 1st half.

So, while all-in funding costs improved in 2025, they remain higher than the low-cost funding that lessors enjoyed in previous years. For some, these increased costs are leading to potential returns on invested capital that may fall below thresholds. For private owners who can reallocate capital, it could lead to further M&A activity.

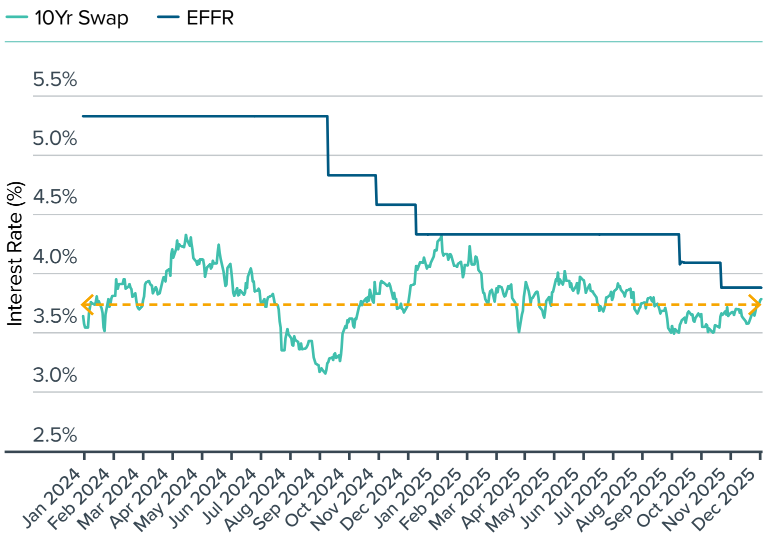
Therefore, we have decided to move this segment from light green to orange as its impact on lease rates becomes more neutral.




*New fed chair may be more aggressive in cutting rates*

*10Y Swap in similar position to two years ago*

**Figure 1: Interest Rates**




**Source:** Bloomberg

# Financing options improving, with increased liquidity

Similar to 2024, in 2025 we saw some moderate growth in money supply. Central banks relaxed some tightening in 2025 as inflation reduced in many nations which contributed to renewed money supply growth. Exchange rate movements, particularly around a weaker US dollar, boosted the dollar value of global money while liquidity remained high, with supply outpacing global GDP growth.

The funding requirement for 2026 is forecast to increase, driven by ramp-ups in production at both Airbus and Boeing. We expect that for new deliveries alone there will be a requirement for $110-$120bn of funding.

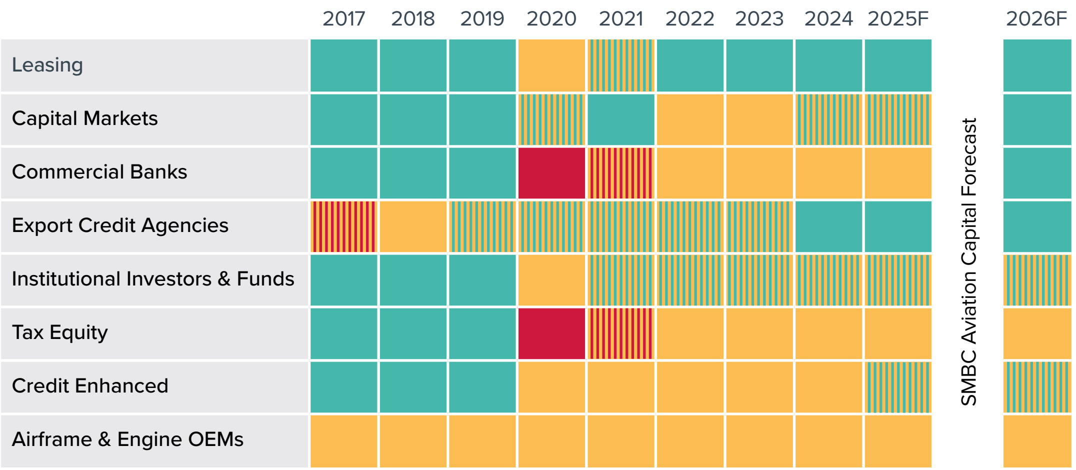
Boeing provides a useful heat map of the health of financing options called the CAFMO, we have layered on our forecast to this and see a strong financing environment for 2026, particularly the capital markets and commercial banks.

2025 was a strong year for the ABS market, and 2026 is expected to surge past the 2019 peak, sources differ but it is possible we will see $15bn of issuance in 2026. The equity note should make its long awaited return in 2026 – an important disposal option for lessors. In 2025, we did see renewed interest in trading of existing e-notes, the buyers including Private Equity and lessors, this should pave the way for an e-note sale at the outset.


*Financing options are diverse and improving*

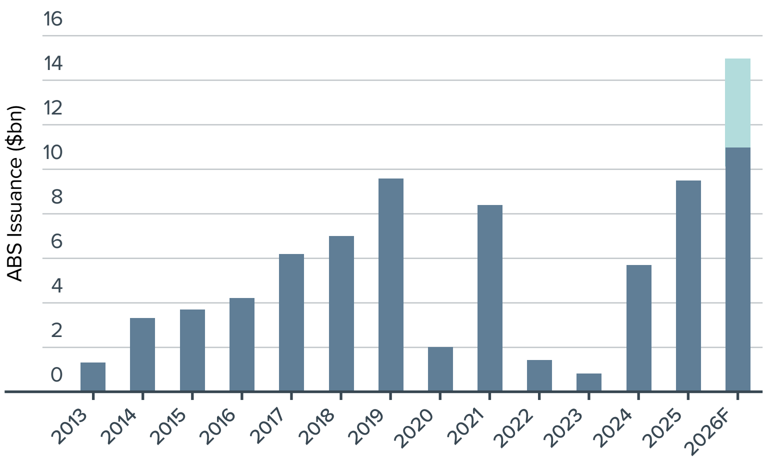
*ABS issuances to hit record levels*

## Figure 2: Boeing Commercial Aircraft Finance Market Outlook (CAFMO) and SMBC Aviation Capital forecast




**Source:** Boeing Commercial Aircraft Finance Market Outlook & SMBC Aviation Capital Analysis

## Figure 3: Aviation ABS Market




**Source:** Deutsche Bank, KBRA, internal analysis

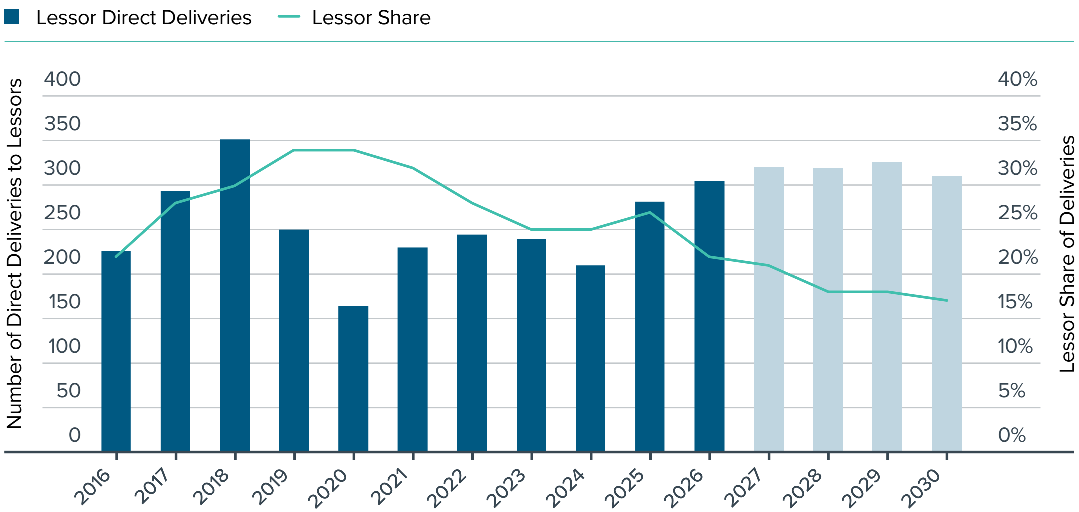
# Fewer lessors with backlogs leading to increased pricing control

Fundamentally, the balance of supply and demand determines lease rates and the supply of new aircraft from lessors is becoming increasingly concentrated. Lessors generally account for a quarter of all new deliveries (not including SLB) but looking out to the end of the decade, we see that gradually declining to around 15%. With the OEMs sold out post 2031, any capacity required before then will have to come via the lessor channel.

While the share of units is declining, more importantly the number of lessors with slots is also declining. Looking back a decade, around 25 lessors had speculative positions, by the end of this decade this will be closer to ten. And within these lessors there is a significant difference in scale. For example, in 2028, where lessors are currently placing aircraft, 60% of slots are held by just three lessors. For an airline requiring deliveries of scale, only a few, more rational lessors can deliver.


*Increased concentration of lessor order books – a positive for lease rates*

**Figure 4: Lessor Deliveries of 737 and A320 Families**




**Source:** Cirium Fleets Analyzer & SMBC Aviation Capital analysis

# Fewer lessors with backlogs leading to increased pricing control (continued)

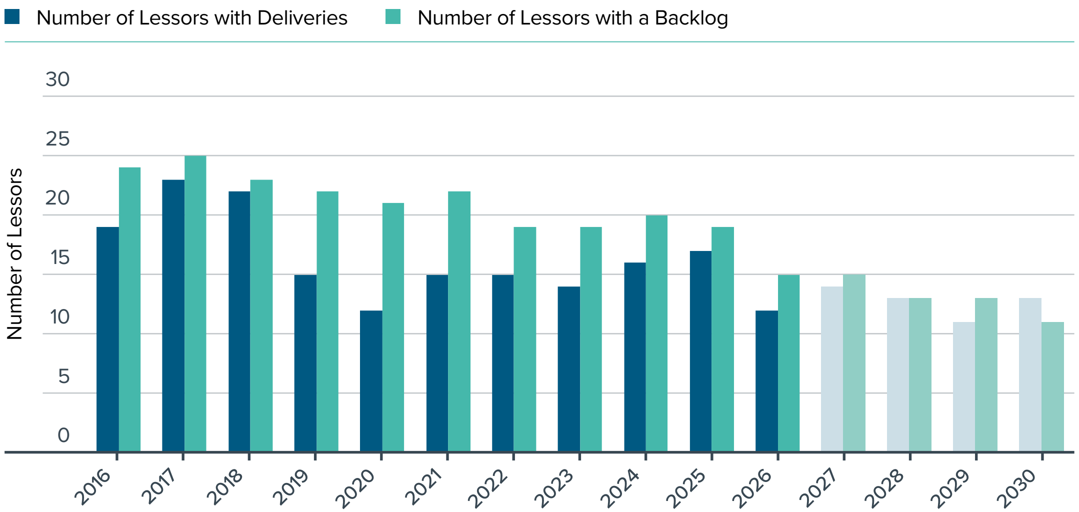
The SLB market remains very competitive, it has a low barrier to entry compared to direct orders or portfolio trading and there remains an abundance of capital in the space. While the number of new aircraft SLBs remained stable in 2025, we saw a significant drop off in used aircraft transacting. Previously 30-40% of SLBs occurred post-delivery, in 2025 this dropped to 15%.

The relative tightness of the primary market has created a challenge for business that are looking to grow. Therefore,  it is not overly surprising that sales of aircraft with lease attached have significantly ramped up, with 750 units transacting in 2025, which is over double what occurred in 2021.

The average age continues to decline hitting a low of just over 11 in 2025. The airline channel for lessor sales remained robust as airlines continue to bring aircraft back on balance sheet by buying out the remainder of the lease.

Looking ahead through 2026, we see a strong demand for transactions driven by what continues to be a large influx in capital, both to existing and start-up platforms. Concurrently, supply is also increasing, which should see larger portfolios trading and overall higher numbers than 2025.

## Figure 5: Lessor with Delivery Positions




**Source:** Cirium Fleets Analyzer & SMBC Aviation Capital analysis


*Increased concentration of lessor order books – a positive for lease rates*

# Escalation increasing due to rising labour costs leading to higher purchase prices

Deliveries of new aircraft hit the highest level since pre-Covid, driven by a strong improvement by Boeing. To highlight Boeings recovery, it is noteworthy that the MAX 8 matched the A321neo as the most delivered aircraft in 2025, although the neo dominated on a family level. Airbus once again led deliveries and reached their revised target despite a quality escape on some skin panels on the A320neo family.

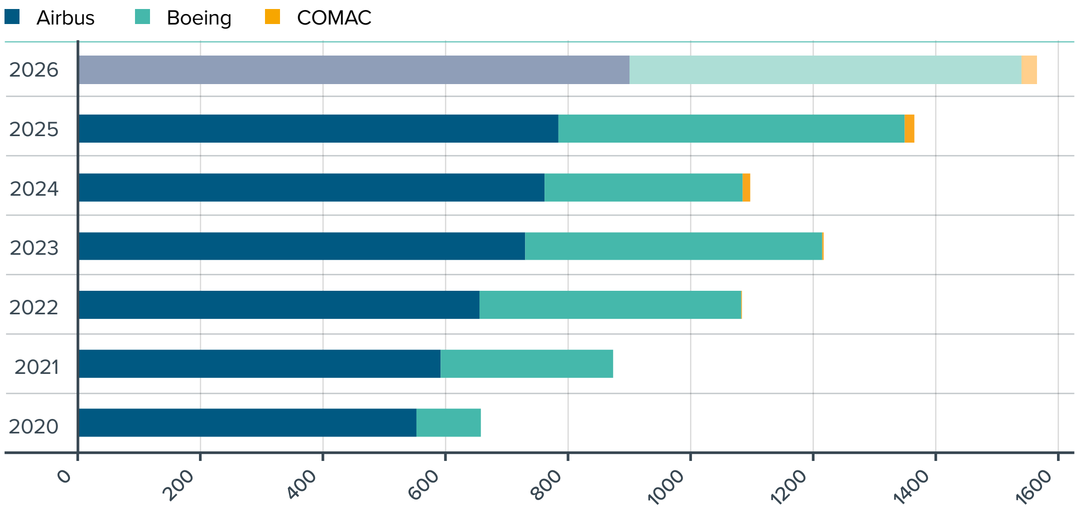
Unlike single-aisles, deliveries of twin-aisles remain constrained. While they did exceed 200 last year, they still have not recovered to even 2012 levels. Looking ahead, we expect both OEMs to increase output by 12-15%, delivering over 1,500 aircraft in 2026 across all programs.

Tempering production ramp-ups are inefficiencies in the supply chain. Engine supply should improve in 2026, with CFM for example targeting a 15% increase in LEAP deliveries. That said they are still below the rates that airbus and Boeing would like.  Other areas such as seats and interiors deliveries will remain challenging. Stepping away from Airbus and Boeing stated production targets, an RBC supplier survey indicates that that their ramp-up assumptions lag the OEMs. For example, they see Boeing producing 55 737s a month in 2028, short of Boeings goal of 63/mo.


*Good recovery in deliveries, further ramp-up ahead*

*Escalation driving up purchase prices and lease rates*

## Figure 6: Commercial Aircraft Deliveries

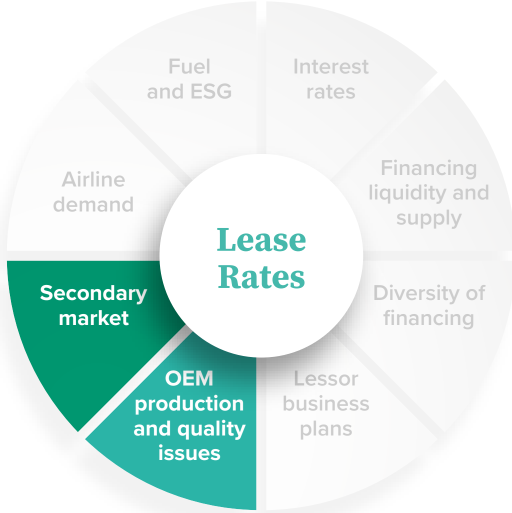



**Source:** Cirium Fleets Analyzer & SMBC Aviation Capital analysis

# Escalation increasing due to rising labour costs leading to higher purchase prices (continued)

In this edition, we want to focus on escalation as it has a real, direct impact on lease rates. As a buyer of aircraft direct from the OEMs, we are seeing higher escalation rates. The majority of OEM escalation is derived from labour costs. If we look at an index from the US bureau of labour statistics showing wages and salaries for private industry workers in the aircraft manufacturing industry, a sharp rise can be seen in the data for 2025. As escalation is typically set around one year prior to delivery this will have a direct impact on the pricing of aircraft delivering in 2026 and contracts have mechanisms to adjust the lease rate for escalation.

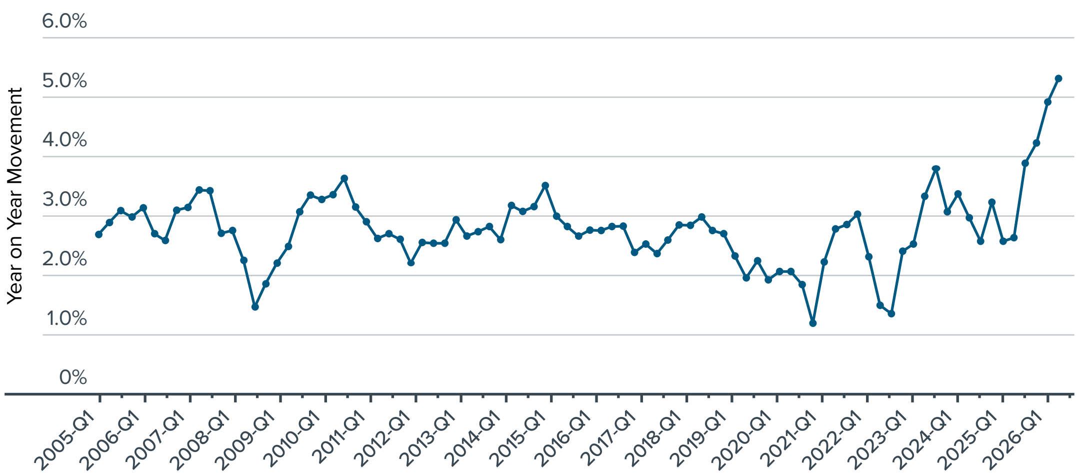
We have moved OEM production issues to light green, reflecting the improvement in production quantity, but also the flow of escalation into higher lease rates.




*Good recovery in deliveries, further ramp-up ahead*

*Escalation driving up purchase prices and lease rates*

**Figure 7: Wages and Saleries – Aircraft Manufacturing Industry**




**Source:** US Bureau of Labor Statistics, SMBC Aviation Capital Analysis

# Secondary market metrics point to further tightness

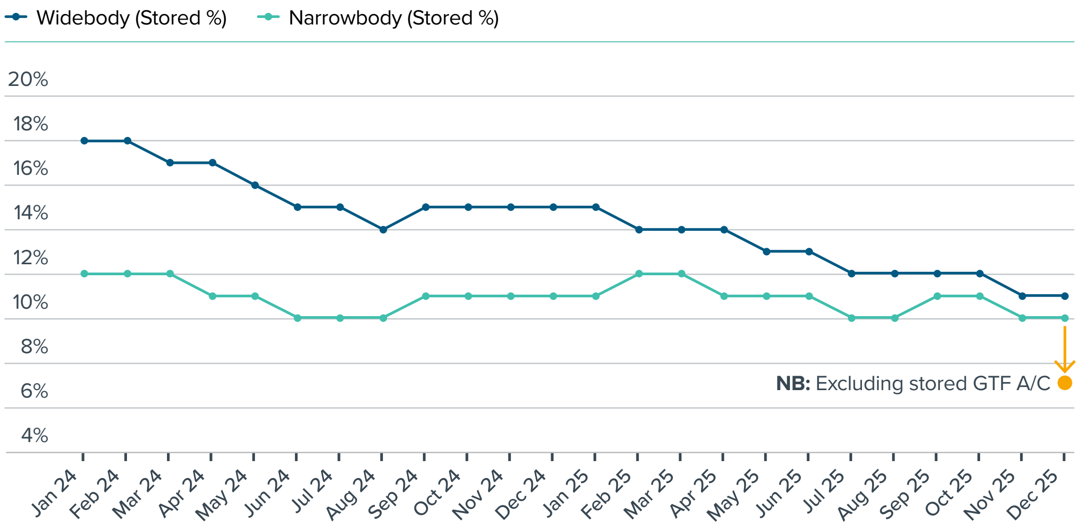
In the secondary market, three of the key metrics we track are storage rates, retirement rates and extension rates.

In an edition of *Plane Insights,* we commented that the floor for storage rates is around 5-7% and excluding aircraft grounded for the powder-metal issue, we have reached that floor for narrowbodies. Widebodies are rapidly catching up with a 7 percentage point drop across 2025. As we mentioned in a prior section, deliveries remain low while the 777X is further delayed and long-haul routes continue to reopen and expand. This has led to a situation where operators are reactivating stored aircraft to provide capacity.

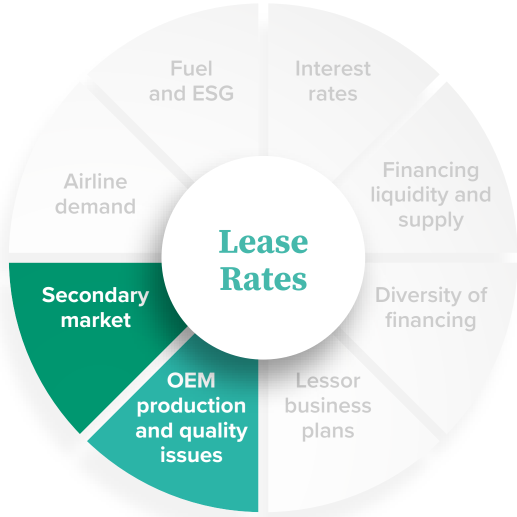
Retirements are running below trend, only 1.3% of the fleet was retired in 2025. Across history, the average retirement age of passenger jet aircraft is 24, last year the average was 24.6. This is distorted by the premature retirement of PW powered A220s and A320s along with some young A380s. Ignoring these, the average increases reflecting the supply imbalance which led to airlines retaining aircraft in service for longer.

Extensions on narrowbodies remain elevated, but down from the peak of 2024-2025 and we have seen terms shorten somewhat but still being agreed two-years out. On the widebody side, extensions are running at a very high rate and are being locked in further in advance.

### Figure 8: Aircraft Storage Rates




**Source:** Cirium Fleets Analyzer, SMBC Aviation Capital analysis




*Lease rates robust for used aircraft*

*Storage and retirements declined in 2025*

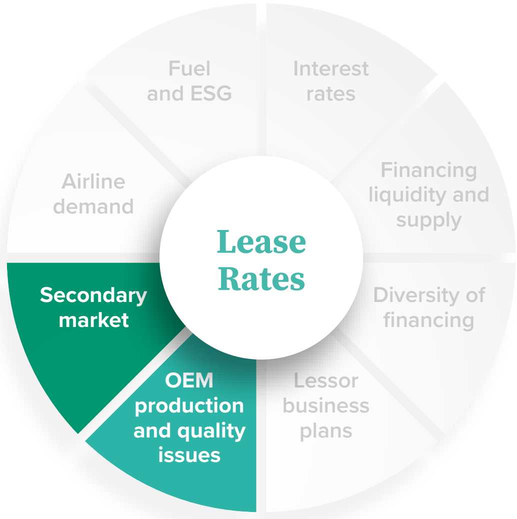
# Secondary market metrics point to further tightness (continued)

Looking at the 777-300ER for example, with a fleet average age of 12.5 years, it is aligning with the re-lease extension decision point. Here we are seeing very significant levels of extensions along with cabin refreshes. Airlines such as Air France, Emirates, KLM and ANA have instigated refurbishment plans, with a focus on increasing premium economy seating.

Lessor availability is difficult to track as lessor re-leases or extensions will generally not be made public. As a proxy, one method is to look at stored aircraft at lessors where there is no future event identified in the Cirium database. Using this method, we see a peak in early 2022 at almost 700 single and twin-aisle being available, this has significantly tightened and is at the lowest rate in six years at c.150.

This increasingly tight market is reflected in appraiser lease rates. According to Cirium Ascend, on a constant age basis lease rates for 737-800s and A320ceos are up 60-75% since 2021. New technology aircraft such as the 737 MAX 8 and A320neo are up 27-35% having not suffered as much a decline during Covid-19.

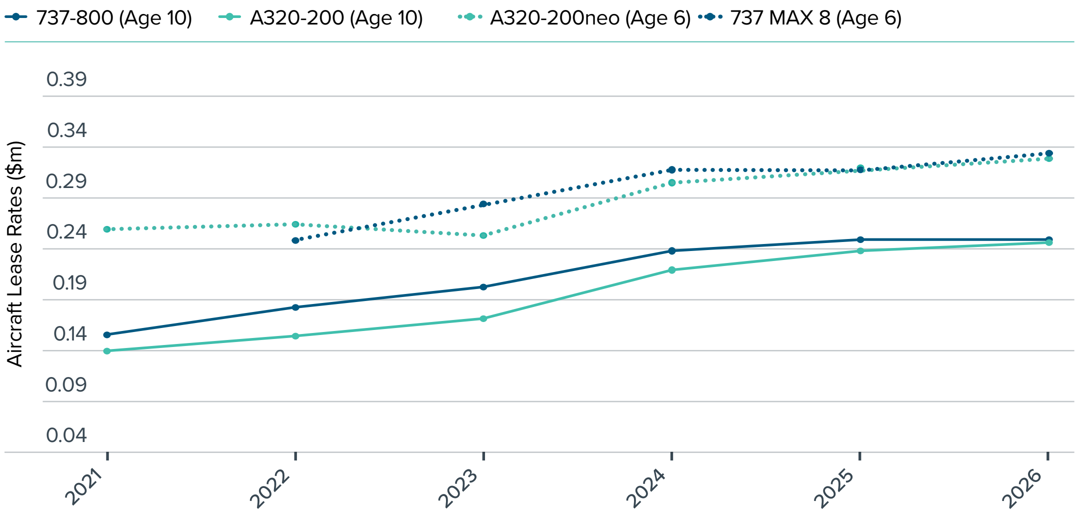
Therefore, we consider the secondary market to remain dark green due to the sustained elevated lease rates.




*Lease rates robust for used aircraft*

*Storage and retirements declined in 2025*

**Figure 9: Constant Age Market Lease Rates**




**Source:** Cirium

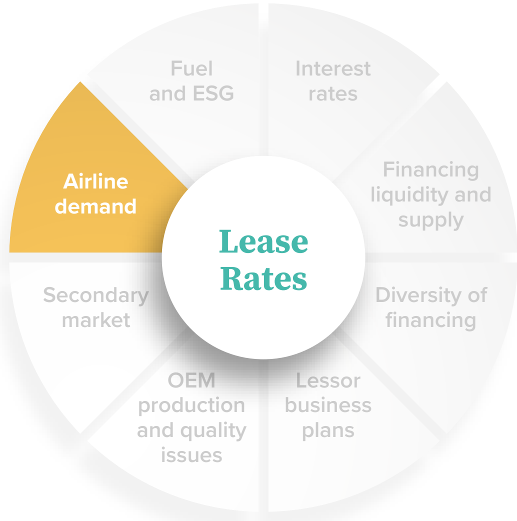
# Record profits for airlines, while traffic growth moderated

To highlight the size and global impact of the airline industry, if airline revenues were a country (as measured by Gross Domestic Product) they would be the 21st biggest country in the world. Unfortunately, airline costs would be the 23rd biggest in the world, with Switzerland stuck in the middle.

This leads to a net profit of just under $40bn in 2025, which corresponds to a 3.9% margin. If we apportion the profit and traffic by region, we see that four of the five largest regions generate a share of profit above their market. For the APAC region, while they have the largest traffic share, their ability to generate profit trails behind these four other nations considerably.

Yields may be softening but airlines are countering this by maintaining very high load factors and maximising utilization. An increased focus on ancillary services by both LCCs and network carriers is also helping to boost revenues.

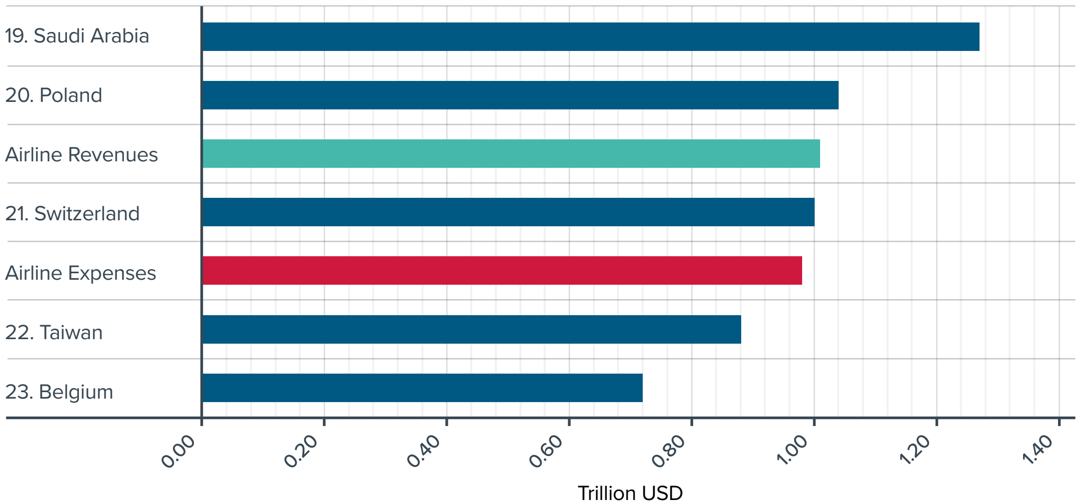
Fuel costs are covered in its own section, but non-fuel costs have increased for airlines by c.4% in 2025. Labour rates have increased while maintenance costs continue to bite. This is on two fronts, firstly continued escalation of engine parts for new technology engines, while the aging of the global fleet leads to increased non-routine maintenance.




*Record profits in 2025, similar forecast in 2026*

*Overcapacity from ULCCs in the US*

**Figure 10: Nation GDP and Airline Financials**




**Source:** IATA, IMF

# Airline demand in 2024 was very robust, but profitability slipped (continued)

For those non-US airlines, the depreciation of the USD (exceptions remain such as some Sian currencies) is beneficial from a cost perspective as up to two-thirds of airline costs including fuel, rent and maintenance are all denominated in USD. IATA estimate that USD depreciation in 2025 likely added $2bn USD to airline profits.

One significant area for recovery that we are monitoring is China / India / Japan. These three countries represent over a third of the global population but links from China to both nations are negligible at the moment. Firstly on China – India, in 2019 there were around one million passengers per annum, before the air corridor closed for five years during and post-Covid. In October of last year we finally saw some reopening with connections from Guangzhou to Delhi and Kolkata. Further growth represents a huge opportunity to boost Asia's intra-regional connectivity.

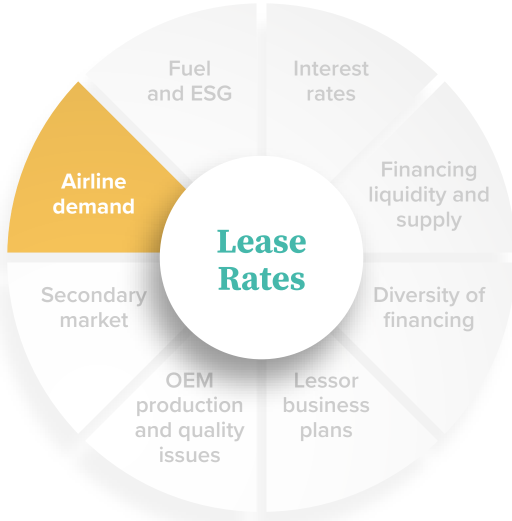
Meanwhile the Japan-China corridor had 330 bidirectional daily flights per day until diplomatic relations between the two nations prompted Chinese carries to slash Japanese capacity. The pulldown was triggered by China's foreign ministry issuing a travel warning for Japan. Air China and China Eastern have been particularly aggressive, reducing frequencies from Beijing and Shanghai.

On Japan's side, only JAL has signalled a reduction, while ANA have no changes to schedules as of yet. This means that Chinese carriers have significant capacity that needs reallocation, but we hope that relations will improve and frequencies will return.

In the US, the low-cost structure has come under pressure, particularly the ULCCs. While premium travel is growing, there remains a market for LCCs. However, overcapacity is an issue, since 2019 the network carriers grew AKSs by 8%, LCCs by 7% but ULCCs grew at 26%. The restructuring of Spirit has seen significant capacity pull back, so has the recent news that Frontier are terminating 24 leases and deferring 69 future deliveries from Airbus.

The number of new airlines in 2025 was the lowest since 1999, with only 28 start-ups throughout the year. While not a case of market saturation, the barriers to entry include a difficulty in accessing aircraft in a supply constrained environment along with policy and geopolitical issues. There was a rare equilibrium with 28 airlines ceasing operations in 2025 also.

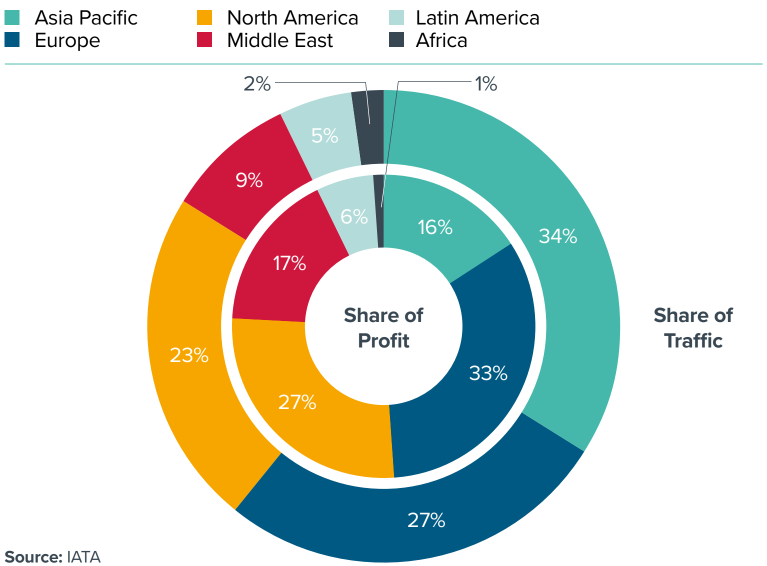
We retain a neutral outlook for 2026 based on strong fundamentals but with some pockets of weakness.




*Record profits in 2025, similar forecast in 2026*

*Overcapacity from ULCCs in the US*

**Figure 11: Traffic and Profit by Region**

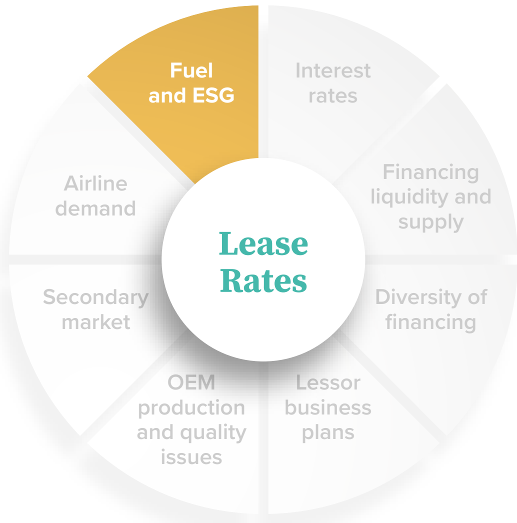



**Source:** IATA

# Further declines expected for oil prices, not so for SAF

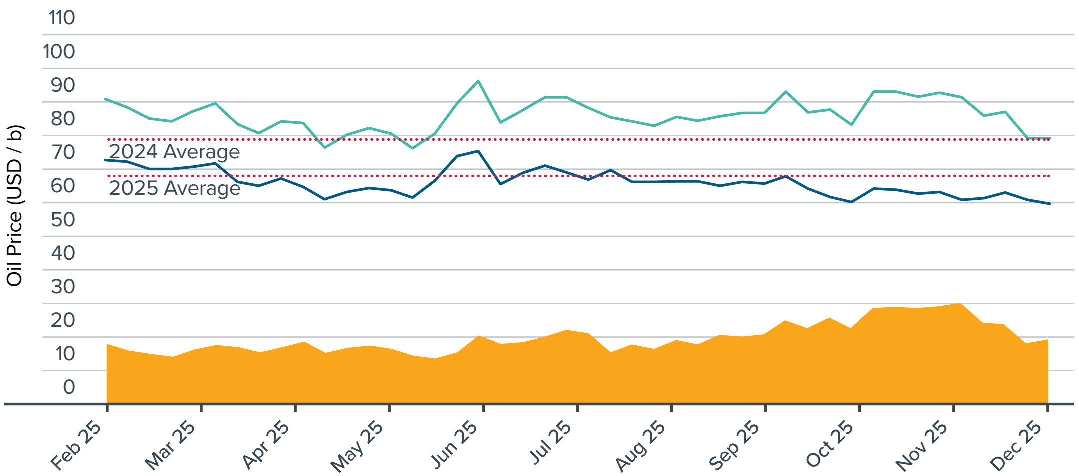
2025 was another positive year in oil prices for airlines, falling another $10 per barrel on average versus the prior year. There is a consensus of forecasters for further declines in 2026, the EIA assume $58/b, Goldman Sachs are at $56/b while S&P Global are the most bearish at $52/b. One item on watch is the crack spread (cost of refining into jet fuel) which spiked above average towards the end of 2025, ideally this would remain sub-$20/b.

The fall is driven by a wave of supply outpacing demand, but geopolitical risks around Venezuela, Iran and Russia will drive volatility. OPEC+ are not expected to cut production across the year, but may increase supply below target rates. Production in South America, particularly Brazil and Guyana continues to ramp up so a pull back in supply will have to come from the non-OPEC countries who typically have a higher breakeven price.

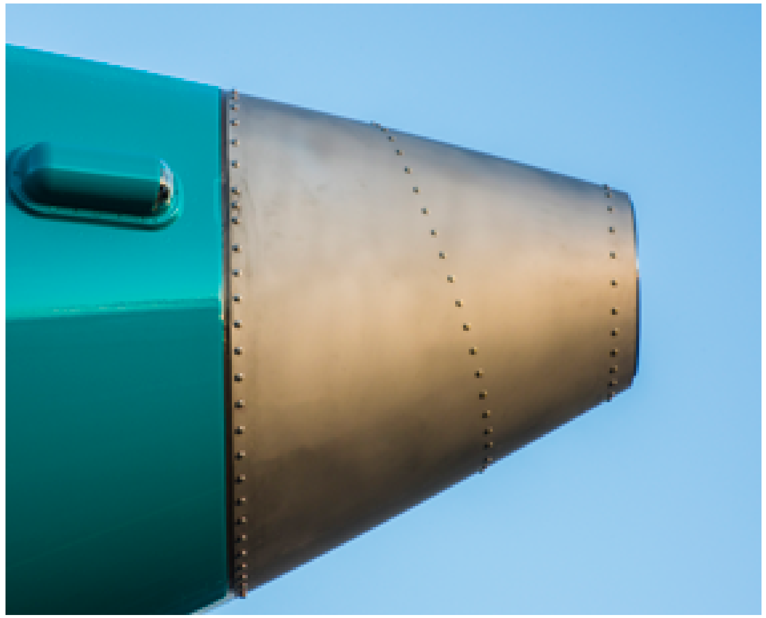



*Despite volatility, consensus points to a further reduction in oil prices*

## Figure 12: Oil Price




**Source:** Bloomberg. Brent price is BFO Brent, Jet fuel price is Jet Fuel 54. As-at January 2026.



# Further declines expected for oil prices, not so for SAF (continued)

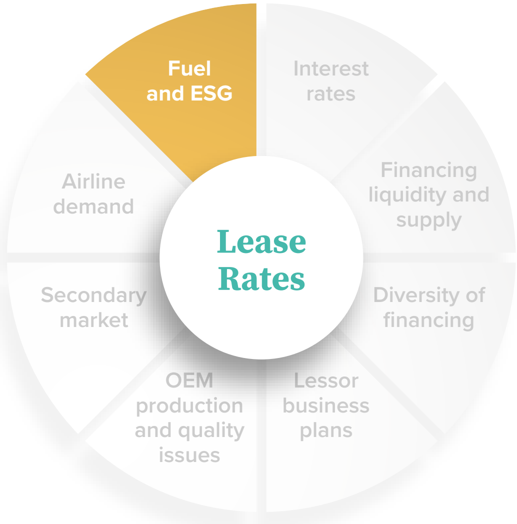
With the brent price forecast to decline, airlines that hedge should have a secondary benefit with the expiration of more expensive hedges. However, not all airlines will feel the benefit equally. Firstly, as oil is predominately priced in USD the FX rate is important, while the USD has broadly declined in value, certain currencies remain depressed such as the JPY. Secondly, different regions have different refining costs. Europe for example has increased imports as its production declines while many refineries are closing or need considerable overhaul, driven by strict environmental regulations, leading to elevated refining costs.

Overall, IATA expects a decline in the share of operating costs from 26.8% to 25.7% in 2026, but still a cost of over $250 billion for the year.

While oil demand may peak in the early 2030s aviation fuel is a notable expectation as a steady increase in demand is expected through 2050 and beyond. Refineries have historically optimised for diesel and gasoline refinement, but this new landscape will require significant adjustments.

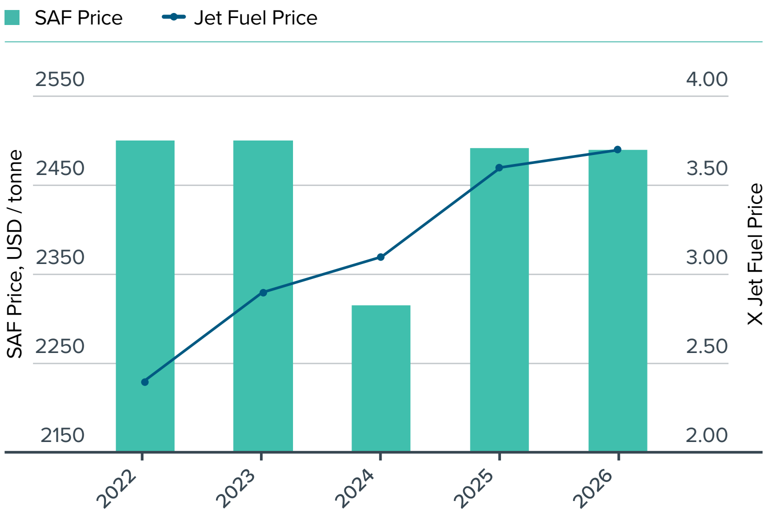
While operating new technology aircraft is key for reducing fuel burn, the increased use of Sustainable Aviation Fuels (SAF) is still key to reducing emissions over the longer term. Supply of SAF continues to underwhelm with targets continuously falling short, supply did double in 2025 but still only represented 0.6% of jet fuel consumption, 0.8% is forecast for 2026.

As seen in the chart, SAF pricing remains sticky, but the decline in oil prices has led to the jet fuel multiple increasing. Five years ago it was 2.5 times the price of jet fuel, now it is 3.5 times, becoming increasingly unsustainable for a low margin industry.




*Despite volatility, consensus points to a further reduction in oil prices*

**Figure 13: SAF Price & Multiple**




**Source:** IATA, IMF

# Summary: Push and pull factors on lease rates point to sustained higher rates


- Fuel outlook declining
- Oversupply expected to continue
- SAF remains too expensive

- Profits are good, but traffic moderating
- Some pockets of softening
- LCC model not obsolete

- Supply is very tight, retirements being deferred
- Widebody market seeing strong recovery
- Lease rates elevated

- Highest deliveries since pre-Covid
- Escalation driven by wage increases
- Supply chain issues will take time to resolve

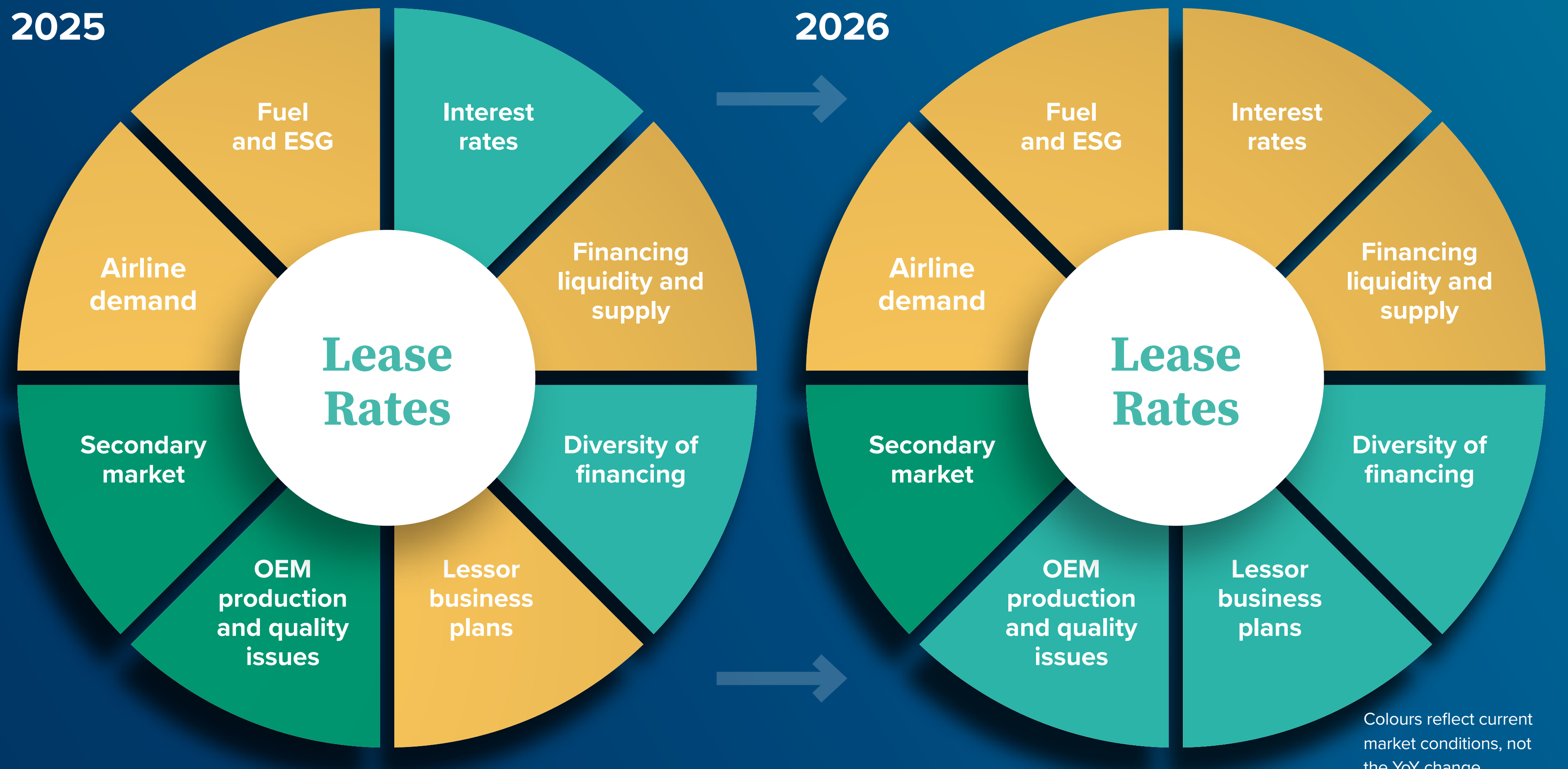
- Rates declining, but 10Y swap same as two-years ago
- Next Fed governor will be more aggressive

- Good access to various financing options
- Return of ABS E note?
- Dollar declining & Yen remains weak

- Declining number of lessors have slots going forward
- Few lessors can offer deals of scale

**Traffic Light System** Strong Positive Impact | Positive Impact | Neutral Impact | Negative Impact

# Summary: Push and pull factors on lease rates point to sustained higher rates




Colours reflect current market conditions, not the YoY change

**Traffic Light System** ● Strong Positive Impact ● Positive Impact ● Neutral Impact ● Negative Impact

# Glossary

**Asset Back Security (ABS)**
Asset Backed Security uses a Special Purpose Vehicle (SPV) to purchase aircraft, typically sourced from the books of an existing lessor with the SPV holding the rights to lease payments to airlines. The SPV finances the purchase of the aircraft through the issuance of tranched Notes to investors.

**Current Market Lease Rate (CMLR)**
This relates to an operating lease rate, this is specifically a “net dry operating lease” rate. The lease of an aircraft whereby the lessor takes all of the risks and rewards of ownership, and the lessee takes all of the risks and rewards of operation.

**ESG**
Environmental Social and Governance is a framework that is used to determine how sustainable an organisation or company is

**IATA**
The International Air Transport Association is the trade association for the world’s airlines representing some 320 airlines or 83% of total air traffic

**Narrowbody**
Aircraft also knows as a single aisle aircraft, allowing up to 6 abreast seating in a cabin less than 4m with a single aisle (passage between rows of seats)

**Operating Lease**
From a financial reporting perspective, a lease that has the characteristics of a usage agreement and also meets certain criteria established by the FASB. Such a lease is not required to be shown on the balance sheet of the lessee. The term also is used to refer to leases in which the lessor has taken a significant residual position in the lease pricing and- therefore- must salvage the equipment for a certain value at the end of the lease term in order to earn its rate of return.

**Original Equipment Manufacturer (OEM)**
Companies involved with the design, manufacture and assembly of aircraft e.g. Boeing, Airbus, CFM, P&W and Honeywell.

**Sale-Lease Back (SLB)**
A transaction that involves the sale of equipment to a leasing company and a subsequent lease of the same equipment back to the original owner who continues to use the equipment.

**Secondary Market**
The market for previously owned aircraft, where transactions include the sale, lease, or extension of aircraft leases after their initial delivery

**Widebody**
Aircraft also knows as a twin aisle aircraft, allowing at least 7 abreast seating in a cabin more than 5m with a two aisles (passage between rows of seats)

# About the authors

### Shane Matthews

Shane is Head of the Strategic and Market Analysis Team leading a team of six analysts who have responsibility for SMBC Aviation Capital's proprietary models, databases and market analysis. He joined the company in 2005 as a credit risk analyst covering customers in Asia Pacific. Shane spent 10 years as an equity analyst covering airlines with NCB Stockbrokers and HSBC Securities in Singapore. He holds a Bachelor of Commerce Degree and a Masters in Business Studies in Banking and Finance from University College Dublin.

### Darren Naughton

Darren joined SMBC Aviation Capital in 2004 as a Residual Value Risk Analyst before joining the credit risk team covering airlines in Europe and North Africa. In 2014 he joined the Strategic and Market Analysis team with responsibility for industry analysis, forecasting and portfolio risk management. Prior to joining SMBC Aviation Capital, Darren worked in the semiconductor industry and has an Engineering Degree and an MBA from Trinity College Dublin.

### David Griffin

David is SVP Strategic and Market Analysis. He initially joined SMBC Aviation Capital in 2021 as a member of the Commercial Analysis team, with responsibility for assessment and evaluation of company transactions. In 2023 he joined the SMA team where he covers market and asset analysis along with broader industry research. Prior to joining SMBC Aviation Capital, David was a Valuation Consultant with Cirium Ascend. David holds a Bachelor's Degree in Aeronautical Engineering and a Master's in Business Management, both from the University of Limerick. He is also an ISTAT Certified Appraiser.

## Queries

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