



Lessons in leasing

Independent operating lessors are making their presence felt in the regional aircraft finance and leasing market. Peter Crutchfield, managing director of Airstream, reviews recent developments

The world of regional aircraft financing and leasing has changed considerably over the last 25 years, since Airstream first launched as a company.

A large number of manufacturers used to chase orders from, mainly, small independent undercapitalised operators throughout the European region, most of whom had very little access to external financing. As a result, the manufacturers and/or their shareholders were forced to provide financial support to their customers in order to secure sales and maintain the levels of production that they had committed to.

One of the first projects that Airstream became involved with was to advise the UK Government on the disposal of over 100 Shorts 360 and 330 aircraft where the sales financings were effectively guaranteed by the state. Later, we became involved in the management of a portfolio of over 150 British Aerospace manufactured aircraft where the underlying financings were all guaranteed by the manufacturer. The sector was therefore characterised by an

oversupply of aircraft and an undersupply of external financing.

In the late 1990s Airstream was retained by Embraer to advise on the sales financing of the newly launched ERJ145 regional jet. By then the landscape had changed considerably with many of the manufacturers, exiting or in the process of exiting the sector. The governments of the manufacturers that remained became increasingly involved in the sales financing process, and a dispute developed between manufacturers over the extent of support available.

The dispute was eventually resolved, and a framework for the support provided by the Export Credit Agencies (ECAs) was established which largely remains in place today. At that time, there was very little interest from independent lessors in the regional sector, both for new and used aircraft. There was, however, significantly greater availability of bank debt to regional airlines then, encouraged by airline consolidation and the increasing involvement of the major airlines in the sector. So how has the market for financing regional aircraft

changed, and what options do today's operators have?

First, it is important to make the distinction between new and used aircraft. For new aircraft, ECA supported financing is now a key component of the financing mix. For those operators whose access to ECA support is not restricted by their geographical location, this still remains the most favoured source of financing.

The principle alternative to ECA financing for new aircraft is now provided by independent operating lessors. Their involvement is a relatively recent phenomenon but one which is becoming increasingly important. For many years, the lessors focused their attention on the narrow bodied jet sector. However, with lessor involvement in the A320 and Boeing 737NG now reaching a level of saturation, it was an obvious progression that lessors would look to the regional sector. GECAS, NAC, ALC and others have made substantial investments in new aircraft in the sector, and it looks like that this will continue. What the manufacturers need to consider is how much of their production they are willing to commit to the lessors, often a dilemma, as by selling aircraft to lessors, they are effectively creating both a retail and wholesale market for their products.

For used aircraft, we have seen an influx of new lessors acquiring regional aircraft. This is a market that Airstream has been very active in in recent years, arranging sale and leaseback transactions for over 50 regional aircraft. This source of financing has become important for regional airlines worldwide. More and more ATR, Bombardier and Embraer aircraft are now owned by lessors and this trend will continue. Operating leasing has largely replaced traditional bank debt which is now very difficult to secure for used regional aircraft.

So what for the future? We see the operating lease playing an increasingly important role in the sector in the future, particularly for the established types. The new types entering the market will, however, need to rely on manufacturer and ECA supported financing to establish themselves in the market.

So long as the new types entering the market do not cause too much oversupply, the fundamentals of the sector, both for new and used aircraft, should remain sound as the credit quality of airlines improves and the supply of aircraft is in equilibrium with demand. ■