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Jet leasing takes off

Lower barriers to entry into the private jet market mean opportunities for lessors are opening up in the aviation industry. **Jo Tacon** reports from the Farnborough Air Show

Private jet financing set for further growth

THE biennial Farnborough Air Show is the largest event in the aerospace industry's calendar, attracting attendees from all parts of the aviation world, and showcasing the latest and best in hardware and technology in civil, corporate and military aircraft. The show also attracted a significant delegation from the leasing sphere – some of them already soaring, and some of them hoping to earn their wings in this complex but lucrative market.

Go-ahead

Key Equipment Finance (KEF) is in the latter camp, having received the go-ahead from its parent bank in the US – a major player in North American aviation finance with a business worth over $500m annually – to source and complete deals in this area.

According to Alun Richards, European managing director of KEF: "We got the green light in October 2005, and had finished off our first deal by the last working day in December, which made for a frantically busy, but ultimately satisfying, end to the year for us.

"We have now done our first few deals in this market, and can say we are very pleased with KEF's progress. Our game plan was to enter the aviation leasing market in a measured way through a syndication programme, acting as a third party financier in jet leasing transactions.

"We are happy with this approach at present, but have not ruled out the possibility of setting up a Key-branded aviation finance business in Europe at some point in the future, leveraging off the recognition and market reputation of Key's North American jet financing business," Richards says.

Documentation

Richards notes that while many finance companies "talk the talk" when it comes to entry into the world of leasing aircraft, far fewer are prepared to "walk the walk" and tackle the invariably complicated documentation necessary to every deal, with over 50 separate pieces of paperwork needing to be signed off even in the most vanilla of transactions. KEF in Europe, he says, is lucky to benefit from its parent's experience of dealing with the paperwork mountain in North America, although Europe – with its patchwork of different aviation authorities and air traffic regulations – presents its own challenges.

However, the international aviation community has taken steps to reduce the burden of regulation that complicates international aircraft financing. Dan Hickey, head of asset management for RBS's Corporate Jet Capital division, says: "The Cape Town Convention [an international effort to harmonise rules governing aviation globally, signed in 2001] should start to have an effect of protecting financing companies' interest across borders in the coming years; however, well-documented deals with appropriately strong structures will always be important in the international financing business."

Aerospace contracts

RBS Aerospace & Defence team, based in London, takes care of all corporate jet and military aerospace contracts internationally. (There is also an office in Chicago of some 10 staff who are responsible for the North American market.) Hickey is a member of a team of 10 within RBS's Structured Asset Finance group, who work closely with their colleagues in other parts of RBS, to offer international debt or lease financing. Typically a deal will be anything from 5-8 years, with deal sizes ranging from around $10m up to "whatever is appropriate given the asset size and class". RBS's other leasing arm, Lombard, deals with UK transactions below this level.

Who are the customers driving the growth of jet leasing? Hickey believes that there is a sea change in opinion currently taking place in Europe, as people start to see corporate jet travel – especially for highly-placed business executives – as a more justifiable expense, and, indeed, more of an efficient means of getting around. He points out: "while the US still accounts for some 70 per cent of the global corporate jet business, this is down from 75 per cent a few years ago, and this can be at least partially explained by growing acceptance of corporate jet travel for CEOs."

Richards of KEF concurs, explaining that the customer base for aviation finance falls into three broad categories: operators, such as "air taxi"

(l-r) Philip Venner KEF European Legal Director, Neil Sims KEF Structured Finance Director, Rory McQueen Director, Sales Finance Bombardier, Bruce Nelson KEF Regional Director UK, Alun Richards KEF European Managing Director services or charter companies; corporations, who lease jets for their senior executives; and wealthy individuals, who Richards cites as a "growing marketplace".

Types of jet

One hugely significant development in the growth of aviation leasing, Richards believes, is the expansion of the types of jet available to lessees – from the most luxurious of long-range craft, such as the Bombardier Global Express XRS seen at Farnborough, right down to the newly-launched ultra-light Eclipse 500 jet, which costs a mere $1.3m and is relatively fuel-efficient, as is the experimental HondaJet. "The advent of the ultra-light jet will grow the jet leasing market further," Richards predicts, "as barriers to entry are lowered even further. A few years ago, you had to be a high net-worth individual to consider using a private jet – now, weekends away in Italy with travel by private jet are advertised in the Sunday supplements, showing how, for increasing numbers of people, the thought of hiring or leasing a private aircraft is no longer an unaffordable flight of fancy." Hickey agrees that the very light jet sector will continue its growth, and will take away market share from the turboprops.

Vendor finance programmes on offer vary from manufacturer to manufacturer – for example, Gulfstream does not offer its customers financing schemes beyond the opportunity to stagger payments, while Bombardier has an aircraft finance division and a fractional ownership scheme, Flexjet, where adherents are charged a monthly fee and gain in return access to a range of jets. Gulfstream corporate communications director Robert Baugniet says: "Gulfstream

Military: not to everyones tastes

designs, tests, manufactures, sells and services jets – but we're not a bank, and do not offer leasing or fractional ownership. If customers require a particular form of finance, we are happy to put them in touch with one of Gulfstream's wide range of finance partners, as we feel appropriate."

Despite the well-publicised difficulties facing Airbus, makers of the A380, the largest passenger aeroplane in the world, the mood at Farnborough was generally upbeat. The mood for those in the business of aviation finance was similarly positive, with everyone *Leasing Life* spoke to reporting strong growth with more of the same predicted for the future. The rising price of fuel and possibility of future terrorist attacks on aircraft were mentioned as potential clouds on the horizon, as were concerns over the finance industry's ability to run thorough credit checks on customers from Eastern Europe and Russia, regions which have recently seen impressive growth in use of air travel. Hickey comments: "More and more finance companies are joining this market – but the question is whether they'll stay in the business, as in the past we have seen many firms enter the aviation arena on an upward cycle, only to retreat when the cycle changes direction." However, it seems that for lessors prepared to stay in for the long haul, the sky's the limit.

PROFILE OF AN INTERNATIONAL AVIATION LESSOR: SG EQUIPMENT FINANCE

Philippe Foulon, head of cross-selling and syndications at SG Equipment Finance, talks to Jo Tacon about a business that's flying high above Europe

Companies in European aviation finance come and go, but some names have been around seemingly forever; GE is one, and SG Equipment Finance (SGEF), the finance arm of French banking giant Société Générale, is another. With capacity in the financing of business aviation in all 18 of the countries in which SGEF operates, it is a truly Europe-wide concern, with "centres of competence" in Germany (the major office for aerospace, with half a dozen staff), Switzerland, and Norway. "We're based in these particular countries for historical reasons more than anything, but the benefits of being part of an international firm mean that we are fully flexible in terms of geographic location, with experts in each particular country's taxation laws and regulations on hand to assist with putting deals together that make the best possible sense, financially speaking," notes Philippe Foulon, head of cross-selling and syndications at SGEF. With almost 19 years in the sector, SGEF has built up "a deep well of experience", Foulon says proudly.

SGEF's coverage has an additional advantage for its aviation teams, in that for countries where the market is small or under-developed, they can deal directly with local operators, while enjoying the security of backing from a major bank. Foulon reports a "definite increase in demand" for his team's services, "especially in countries such as Poland, where the road infrastructure is largely underscaled, and flying point-to-point is the only practical way for corporations to move their executives around". As seems to be the trend for every kind of leasing these days, Foulon says that central and Eastern Europe is "a huge growth area for us".

In terms of assets financed, SGEF will look at anything from turboprops to corporate jets to helicopters, new or used, for private use. "Our aim is to cover all needs across the board," Foulon says, be it through leasing structures, loans, hire-purchase, flexible finance, or special purpose vehicles set up by corporate entities to match their individual needs – often, in order to keep the costs of running and fuelling a jet off their balance sheet. Recent trends Foulon has noted are for higher volumes of transactions on smaller aircraft.

Foulon believes that it makes much better sense for third-party financiers to fund the purchase or arrange the lease of aircraft than it does for manufacturers to set up their own captives, as "finance arms are very capital-intensive, and the irregular nature of the relatively low-volume, high-value transactions in aviation finance makes it hard for manufacturers to sustain the level of business needed to make a captive worthwhile". For this reason, it is important for manufacturers to stay neutral towards the companies that do provide financial services for their clients and vice versa, in order for customers to feel sure that they are getting the best possible deal, and to give funders the flexibility to construct the deal that best suits the customer's needs.

The aviation business within SGEF has a new business volume of "several hundred million Euros per year", says Foulon, declining to be drawn on exact figures; the teams work on "between 50-100" deals annually, with lease lengths between five to 12 years. With greater deal volumes on the horizon and few clouds, terrorism and fuel costs the only ones mentioned, it seems the only way is up for SGEF's aviation business.