



# Perfect planning

The commercial aviation industry was brought to its knees during COVID-19, but one sector remained steady throughout and is now wiser, more profitable and in-demand: aircraft leasing. **Michael Doran** spoke with leading players as to how they achieved this

It's hard to think of any part of aviation that has emerged from the coronavirus pandemic stronger, more in demand or more attractive than aircraft leasing. While airlines faltered with their grounded aircraft, lessors kept ploughing on, financing new aircraft and keeping investors on their side.

Prior to COVID-19, around 55% of the global commercial fleet was financed by lessors, but that has grown to about 66% and looks likely to climb even higher in coming years. Lessors have demonstrated resilience by managing their way through the crisis and simultaneously keeping many customers in business.

The sector has an extremely bright future, given its large order books for new aircraft, large fleets of current-generation planes, diversified portfolios and access to investment-grade finance. *Air International* wanted to examine how this strong position came about and, given continuing uncertainty, why the future is so rosy.

## **Avolon**

International leasing company Avolon owns and manages a fleet of 578 aircraft, with commitments for another 297 in hand. Its portfolio is operated by 149 customers in 65 countries, giving the lessor an excellent perspective on how the aircraft leasing market is performing. In June 2023, Avolon published its World Fleet Forecast – Return to Growth, which claimed the global aviation fleet will almost double over the next

**LEFT:**  
*The Airbus A330neo is proving popular across the sector with a series of dry leasing announcements revealed at the 2023 Paris Air Show*  
Airbus



20 years, totalling nearly 47,000 aircraft by 2042. Perhaps the most relevant part of the report for this story is that more than \$4 trillion will have to be found to finance the 44,300 new passenger aircraft to be delivered in the next two decades.

The report was co-authored by Avolon's chief risk officer Jim Morrison, who, in an interview with *Air International*, explained that around \$130 billion in new aircraft deliveries will need to be financed each year: "Ultimately, that's a large amount of capital, and aviation is going to need to be able to draw that from different sources, whether private funding sources or public markets. There are airlines worldwide who are relying more and more on lessors to provide that capital."

In general, airlines emerged from the pandemic with weaker balance sheets and burdened by debt. While profitability has returned, it will take time for those accounts to recover fully. This comes at a time when demand for new, fuel-efficient aircraft is at an all-time high, with OEM production slots filled years in advance.

Morrison said that airlines are coming to lessors both for the availability of

aircraft – whether that's from used aircraft or their slots for new aircraft – as well as for the financing that comes associated with those aircraft: "We're seeing demand from our airline lessees to extend aircraft we have on lease or take used aircraft that we may have available to re-market. It also means new technology aircraft slots we have booked with Airbus and Boeing are in strong demand, so it's a favourable market environment for a lessor such as Avalon."

While no one in aviation escaped the pandemic unscathed, it seems the leasing market has done better than most by emerging stronger and more resilient. During COVID-19, lessors financed around 66% of aircraft deliveries compared to around 50% pre-pandemic and provided substantial relief to airline lessees to help them survive when revenues dried up, while keeping up with their financial obligations. Morrison noted: "Before the pandemic, there were eight investment grade lessors, and now there are still eight investment grade lessors. On average, the rated airlines were downgraded by two or three notches, which indicates the resilience of

our business and the strong investment opportunities we offer."

There have been some high-profile issues recently where local courts in India and Vietnam have blocked aircraft repossession from operators in financial distress. As Avalon operates in 65 countries and must be aware of all the risks it faces, it strongly supports the Cape Town Convention and the Aviation Working Group (AWG) that monitors compliance. Morrison said that understanding and managing jurisdictional risk is core to Avolon's risk management approach. It works collaboratively through organisations like the AWG to advance the opportunities the convention brings to local economies: "By adopting the Cape Town convention, governments ensure their airlines have access to the lowest cost of capital, so we're strong promoters of that. The ongoing issues in India are leading to a momentum towards the Indian parliament fully adopting the Cape Town Convention, of which we are fully supportive."

While leasing brings the money and the aircraft, it also gives significant flexibility to an airline when compared to outright

## Lessors and OEMs

As the owners of more than half of the global commercial aircraft fleet, the lessor community is an essential customer for Airbus and Boeing. Apart from ordering aircraft in their own right, lessors are also involved in sale and leaseback and other financing transactions with airline customers.

At the end of June, Airbus and Boeing reported total unfilled orders of 13,546 aircraft, with around 14% or 1,951 aircraft booked from lessors. Unsurprisingly, the order books are dominated by single-aisle narrowbodies, such as the 737 and A320 family aircraft. Airbus had a total backlog of 7,967 aircraft, comprising 7,275 A220, A320 and A321 single-aisle aircraft, 208 A330s and 484 A350s. Of those unfilled orders, lessors account for 1,330 or 17% of the total, including 1,275 narrowbodies, 44 A330s and 11 A350s. There are seven lessors with more than 100 aircraft in the Airbus backlog, although that list is dominated by Air Lease Corporation, which has 250 unfilled orders. The others are Avolon (167 on order), CALC (120), BOC Aviation (115), SMBC Aviation Capital (106), AerCap (101) and NAS Aviation Services (101).

Meanwhile, Boeing has reported total unfilled orders of 5,579 aircraft, comprising 4,379 737s, 112 767s, 439 777s and 649 787s. The report lists 630 aircraft ordered by lessors, with only AerCap and Air Lease Corporation breaking the 100 aircraft on order mark. Again, the bulk of the unfilled orders is for single-aisle aircraft, with 737s making up 95% of the lessor orders. The lessors listed are AerCap (137), Air Lease Corporation (106), Avolon (73), BOC Aviation (73) and SMBC Aviation Capital (56).

These numbers are what Airbus and Boeing identified as coming from lessors and were unfilled at the end of June 2023. Both OEMs report many orders for 'unidentified customers', and with orders stretching out years in advance, who pays for them can and does change.

### TOP LEFT:

Avolon signed an MoU for 20 Airbus A330neos in June Airbus

### TOP RIGHT:

New technology aircraft like the Airbus A321XLR are in high demand Airbus



ownership, mainly when the aircraft is no longer required. Airlines can fine-tune their capacity up or down, hand an airliner back at the end of the lease and access a global trading platform if the aircraft becomes surplus to their fleet profile.

Re-marketing aircraft is an important revenue earner, but having access to new aircraft is vital to a lessor, so Avalon currently has orders for nearly 300 aircraft. Pinning precise numbers in this dynamic environment is difficult, but at the end of June order reports from Airbus and Boeing paint part of the picture. Airbus reported that Avolon had unfilled orders for 167 aircraft, comprising 129 A320neos, 34 A321neos and four A330neos. However, during the Paris Air Show in June, Airbus announced that Avolon had signed a memorandum of understanding for 20 A330-900s, which will no doubt show up in the reports in due course.

The comparable unfilled order report with Boeing showed that Avolon had 71 737 MAX and two 787-9 Dreamliners in the pipeline. Whatever the exact number, these slots are a valuable commodity when OEMs are struggling to lift

production rates and aircraft are in short supply. As Morrison observed: "Ultimately, if the manufacturers aren't able to deliver the new technology aircraft as fast as the market would demand, then aircraft currently in service will have their life extended. But the fastest way for aviation to bring carbon emissions down is with new aircraft, and we think our order book of nearly 300 aircraft means Avalon will play a key role in fleet renewal."

## TrueNoord

With a focus on 50-150 seat aircraft, Netherlands-based TrueNoord specialises in the regional market, covering turboprops and jets. It is a full-service company that provides clients with leasing and lease management services from its Amsterdam headquarters and offices in London, Dublin and Singapore. While TrueNoord specialises in a particular market niche, its portfolio contains a diverse fleet of 69 aircraft, comprising ten commercial types including variants from ATR, Airbus, Embraer, MHIRJ and De Havilland.

Although many regional operators managed to keep their aircraft in the

*“It’s a favourable market environment for a lessor such as Avolon”*

Jim Morrison,  
Chief Risk Officer, Avolon



air for most of the pandemic, it was still a difficult time for all lessors, who often had to work individually with clients to find a way through the crisis. Now that the recovery is in full swing, it is time to reflect on how the leasing sector survived COVID-19 and what sort of health it is today.

Anne-Bart Tieleman, CEO of TrueNoord, believes that while COVID-19’s impact on aviation may have been transient, some of its effects are here to stay and that’s a good thing for the leasing sector. Speaking to *Air International*, he explained that the sector has proven its resilience and ability to manage a crisis, making it attractive to a wider pool of investors: “Leasing companies have proven that this is a robust business, and that’s important for not only equity investors but also for debt providers and the debt capital market investors to see that this is an industry that delivers and can actually survive. I think that will affect the leasing industry going forward.”

Tieleman also believes that it is becoming cheaper for some airlines to secure an aircraft via a lessor than by financing it themselves, as the lower risk profile facilitates lessors to finance these aircraft more cheaply. The nature of leasing various aircraft types to a pool of different operators diversifies the risk for investors compared to funding an aircraft to an airline. Before the pandemic, just over half of the global fleet was owned by lessors, and that was considered to be the sweet spot in the mix between owned or leased aircraft. Having weathered the

storm so well, Tieleman believes that may well change in the post-COVID era: “It has only strengthened the leasing business case, and I think we should not be surprised to see leasing companies own up to two-thirds of the global fleet in the future. I think we will only build on the 50% going forward, and the leasing industry will become bigger.”

The shift to using new-generation narrowbodies on longer-range routes is also trickling into the regional market, where airlines want to add more frequencies with full planes on medium-haul flights. This is particularly true in the above 100-seat market, where the Embraer family of jets and the Airbus A220 are gaining more traction, which is where TrueNoord is most active.

The opportunity is there to use these lower-capacity aircraft but offer higher frequencies, thereby managing yield and operating costs by virtue of using the more fuel-efficient new-generation jets. The extended range of the Embraer E2s and the Airbus A220s pushes them into routes previously flown by A320 or 737 types, which Tieleman says is a game-changer: “Instead of flying one or two-hour cycles, these aircraft can deliver four or five-hour cycles, which changes the business an airline can offer with that asset. I think airlines are starting to see that you can still fly the one- or two-hour cycles, but the aircraft gives a lot of flexibility.”

TrueNoord sticks very much to the 50-150 seats class of aircraft for clear strategic reasons. Tieleman said it’s a niche market because the bigger



**BELOW:**  
Air Lease Corporation has agreed leases of six Airbus A220s with Croatia Airlines Airbus

**BOTTOM:**  
Air Lease Corporation has a fleet of more than 520 aircraft, including the Boeing 737 MAX 8 Boeing



lessors need to focus on the significant transactions and view this class of aircraft as non-core assets: "There is also an operational side, as there are airlines that only operate these smaller aircraft because that's the markets they are in, and a 737 or A320 is not what they need or can operate for the runways or regions where they operate. It's that combination of factors that creates the market niche that we serve."

OEMs are still raising supply chain issues as they clamber to fill a bucketful of orders, unsettling the balance between supply and demand for new aircraft. With inflation and capital

costs rising, lease rates will inevitably start to climb. Tieleman observed that manufacturers cannot deliver what they would like to deliver or what the market demands, which affects aircraft lease rates. A flow-on effect is that some airlines have placed orders well before they usually do: "You already see airlines starting to secure aircraft on the longer term right now, rather than thinking they will take care of that next year or the year after. They see what is happening and will secure aircraft for the next six or eight years, because then they know they will have the assets when they need them."

## What is the Cape Town Convention?

Recent events in Russia, India and Vietnam have shown that recovering leased aircraft from a defaulting operator is not always straightforward. That's why ICAO jointly developed the 2001 Convention on International Interests in Mobile Equipment on Matters Specific to Aircraft Equipment.

Generally referred to as the Cape Town Convention, this is a global treaty designed to reduce a lessor's risk by allowing them to register their interests internationally and guarantee their claim against other parties when an operator defaults or becomes insolvent. In straightforward terms, it means that, in default, it allows a lessor to lawfully request an aircraft be removed from the host country's aircraft register, placed on an international register, and recovered. The aim is to remove uncertainty around a lessor's rights when challenged in local courts, which may have differing laws on how assets are treated in insolvency situations. However, as with many international treaties, not every country has signed up and that's where things can become messy.

The Aviation Working Group (AWG) is a UK entity that monitors financing laws for OEMs and lessors. In April, it placed Vietnam on its watchlist after a local court blocked the repossession of four aircraft. The lease was under the jurisdiction of UK courts, which granted the appropriate orders and Vietnam's aviation regulator agreed to de-register the planes. However, after one of the airline's shareholders challenged the order, a court in Hanoi quashed the action.

In India, various lessors followed the process to recover more than 40 aircraft after airline Go First fell into financial difficulty. Still, a local bankruptcy court froze the assets, with the lessors now appealing that decision.

The Cape Town Convention aims to reduce creditors' risks and allows airlines and operators to access cheaper finance, often with the assistance of export agency credit. For example, ICAO said that airlines of states that adopt the convention may receive a 10% discount on export credit premiums. The bottom line is that countries which do not adopt and follow the protocol will see their airlines face higher leasing costs due to the increased uncertainty and risk, hampering access to new-generation aircraft and engines.



## Air Lease Corporation

Another standout in aircraft leasing is Air Lease Corporation (ALC), with more than 520 owned and managed aircraft valued at around \$29 billion in use with 118 airlines in 63 countries. Its portfolio is split evenly between Airbus and Boeing, supplemented with Embraer aircraft, and has an average weighted age of 4.5 years. At the end of March, the fleet was split into 74% single-aisles and 26% twin-aisles, with 40% placed in Asia/China, 33% in Europe and 9% in the Middle East and Africa.

In its Investor Presentation in March 31, 2023, ALC said it had 376 aircraft on order and had placed 93% of its order book through 2024 on long-term leases. One of its key operating strategies is to place aircraft with operators 18-36 months ahead of delivery, and it had \$30.5 billion in committed rentals. This includes \$16.3 billion from the existing fleet and \$14.2 billion in minimum future rental payments from aircraft delivered from 2023 through 2028. In 2022, ALC earned total revenue of \$2.3 billion and \$618 million in the first quarter of this year, with 96% of its revenue coming from long-term lease agreements.

A good example of the strategy came in January when ALC announced long-term lease placements for six Airbus A220s with Croatia Airlines, including four A220-300s and two A220-100s. The aircraft are scheduled to be delivered from next year to 2025 and come out of ALC's Airbus order book. Having these aircraft ordered well in advance means that ALC has a lot of flexibility, such as delivering two new A220-300s to Cyprus Airways almost immediately. In June, the lessor announced a long-term lease deal with new customer Cyprus Airways and, according to Airbus, the two A220s were delivered in the same month. In the second quarter, ALC delivered 19 new aircraft from its order book, with just two 737-9s and one 787-9 coming from Boeing, while the Airbus deliveries included three A220s, two A320neos, seven A321neos, two A330s and two A350s. The lessor entered into approximately \$900 million of financial transactions in the quarter and sold eight aircraft, with sales of approximately \$600 million. ALC typically retains an owned aircraft for the first third of its useful life and, in the first quarter of 2023, had an aircraft utilisation rate of 99.9%. **AI**

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Anne-Bart Tieleman,  
CEO of Truenoord