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Regional aircraft leasing is a declining business, in contrast to leasing of mainline jets. Regional aircraft leasing was expanded by manufacturers in an effort to manage portfolios of aircraft. These have now diminished, with limited further growth in regional aircraft leasing.

Regional aircraft lessors survey

This survey of regional aircraft lessors highlights how regional aircraft leasing is a declining business largely the preserve of the manufacturers and that it is a declining business, with only GECAS, among the principal lessors, in the business by desire.

Principal lessors

The top three regional aircraft lessors (*see table, this page*) are BAE Asset Management, Saab Aircraft Leasing and ATR Asset Management. These companies were all formed to manage portfolios of aircraft to which their parent manufacturing companies had exposure.

Fokker, was only saved this fate by its bankruptcy, although its legacy continues in the form of debis AirFinance and Pembroke, which are ranked as the fifth and sixth largest lessors. Fourth position is held by GECAS through a combination of large scale orders for new generation regional jets (RJs) and its management of the Airplanes Pass Through Trust portfolio (Airplanes portfolio).

GPA Group made the only serious attempt to offer operating leases with the pre-regional jet generation. It developed two joint ventures with ATR and Fokker. GPA Jetprop subsidiary also had a large portfolio of Dash 8 aircraft. The GPA background is recounted here, since these aircraft continue to form an important component of the portfolios of debis AirFinance, GECAS and Magellan.

GPA Fokker 100 was launched in 1986 as a joint venture between GPA (50%), Mitsubishi (25%) and Fokker (25%). An order was placed for 40 Fokker 100s and 60 options, but revised to 19 GPA Fokker 100 and 29 for GPA Fokker Ltd. GPA had a 75% share in this latter company, with Fokker holding the balance. The GPA Group ran into financial difficulties in the early 1990s and so only 31 aircraft were delivered. The Fokker fleet was subsequently dispersed, with 16 in the GECAS managed Airplanes portfolio and five in the debis managed Aerco portfolio.

GPA-ATR was the joint venture for turboprops between GPA (50%), ATR (25%), Credit Agricole Indosuez (12.5%) and San Paolo-IMI (12.5%). The

company was launched in 1987 with an order for 30 ATR42s and five ATR72s. GPA Jetprop separately ordered 23 ATR42s and 15 ATR72s for an overall GPA total of 73 firm orders.

Again GPA's financial troubles meant that only 26 were delivered and the 20 GPA-ATR aircraft remained with GPA, subsequently to become Aerfi. In 2000 debis AirFinance acquired the Aerfi Group, including the 50% holding in GPA-ATR, although these 20 ATR aircraft are now managed by independent asset manager Magellan Air.

The former GPA Jetprop portfolio of Dash 8s is split between the Airplanes portfolio controlled by GECAS, with 16 aircraft, and the Aerfi portfolio, now debis, with six.

ATR Asset Management was set up in 1998 to manage the 200 or so aircraft in which ATR had a financial interest, of which about half were under active management. Compared with the portfolios BAE and Saab Aircraft Leasing inherited from their parent companies, it is clear that ATR was not so involved in direct leasing to customers as its competitors were.

ATR Asset Management has since become a tool to support the continued production of the ATR family. It provides support in two principal ways. First, many recent transactions have involved leases straight from the factory, for example, Air Nostrum and Khalifa Airways. Second, it provides a natural outlet for aircraft taken in trade against new production aircraft.

The majority of the ATR Asset Management portfolio consists of older ATR42s, but there are a smaller number of ATR42-500s and ATR72s. ATR has taken back young aircraft from operators that had been given very flexible or short-term leases. Examples include Continental Express, which returned its eight ATR42-500s after only four years,

REGIONAL AIRCRAFT LESSORS' PORTFOLIOS

Organisation	Number	Aircraft types
BAE Asset Management	455	Jetstream 31, 32 and 41, ATP and 146/RJ
Saab Aircraft Leasing	293	Saab 340, Saab 2000
ATR Asset Management	200	ATR 42 & ATR 72
GECAS	144	ATR 42, CRJ200/700/900, DHC8-100/300, ERJ 170, Fairchild Metro III and Fokker 100
debis AirFinance	93	ATR 42, ATR 72, DHC8-100, Fokker 50, 70 & 100
Pembroke	81	ERJ-145, Fokker 50, 70 & 100

GPA-ATR included in debis total.

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REGIONAL AIRCRAFT LESSORS ANNUAL TRANSACTIONS

	New	Used	ATR 42	ATR 72
1998	21	40	36	4
1999	30	52	34	12
2000	24	48	44	4
2001	25	23	20	3
2002	16	53	45	8
5 year total	116	216	191	25

and Mount Cook/Air New Zealand, which leased seven ATR72-210s from the manufacturer and then four years later exchanged them for new production ATR72-500s.

During 2002 ATR completed 53 used aircraft transactions, to 24 separate operators, making ATR by far the most active asset management company. The increasing importance of the used business activity relative to the placement of new production aircraft is highlighted (see table, this page).

This includes sales as well as leases, but does not include lease extensions, which makes this performance even more impressive. This table also clearly shows that the ATR42 is driving this activity. On average, since 1998, ATR has concluded 38 ATR42 transactions per year compared to only five for the ATR72.

BAE Systems Asset Management is the world's largest regional aircraft lessor, and in terms of the number of aircraft in its portfolio, is the world's third largest regional aircraft lessor behind GECAS and ILFC.

The original BAE Asset Management company was set up in 1993 to manage the company's 146/RJ business. JSX Capital Corporation was the equivalent organisation for the Jetstreams and ATP. The two organisations were merged under a single Asset Management company in 1996. At the time of this merger the combined portfolio comprised 110 BAE 146/RJs, 138 Jetstream 31s, 151 Jetstream 32s, 54 Jetstream 41s, 49 ATPs, five HS748s, eight Brasilias and 28 Metros.

In 1998 BAE Systems insured the bulk of its portfolio through the Financial Risk Insurance Programme (FRIP). For a one-time charge of £38 million and first loss obligation of 10%, BAE effectively capped the risk on its regional aircraft business. Having reduced its liabilities, in 2001 it moved to free the capital tied up in the portfolio with a securitisation programme, Systems 2001. The reduction in the size of the portfolio over this five year period is highlighted by the number

of aircraft included in this securitisation: 101 146/RJs; 40 ATPs; 32 Jetstream 41s; 143 Jetstream 32s; and 22 Jetstream 31s. A further 117 aircraft, comprising 73 146/RJs, two ATPs and 42 Jetstream 41s, are the subject of residual value guarantees from BAE Systems. The biggest change in the portfolio is clearly the decline in the number of Jetstream 31s, because they have reached the end of their head leases.

The FRIP and Systems 2001 did not mean the end of Asset Management, since BAE continues to manage the portfolio. Responsibility for the 146/RJ rests with the Hatfield, UK office. Washington, USA manages the Jetstream 31, 32 and Jetstream 41.

Jetstream activity is centred largely on the Jetstream 32, with the Jetstream 41s still in service with their original operators.

In 2002 BAE obtained lease extensions on THY's entire fleet of 12 Avro RJs, together with a 146-100 operated by National Jet Systems. New leases for single 146-200s were agreed with BAE Systems Corporate Air Travel department and Cityjet.

ATP activity was limited to a single example leased to Westair of Sweden, but the Jetstream 32 saw 13 aircraft transactions. Directflyg of Sweden extended the leases on all seven of its Jetstream 32s and subsequently leased an eighth example, while Origin Pacific of New Zealand leased three and Corporate Flight in the USA another two.

debis AirFinance was established in November 1995 as part of DASA's rescue attempts for the then failing Fokker. The formation of debis was to remove the large number of leased aircraft held on Fokker's balance sheet.

The first portfolio of 35 aircraft was purchased in December 1995 and a further 30 followed by December 1996. The combined fleet consisted of 27 Fokker 50s, nine Fokker 70s and 27 Fokker 100s, together with two older F.28s. Even before the transfer of the second batch of Fokker aircraft, the new company had purchased its first Airbus

aircraft and the high concentration of Fokker aircraft did not last long. In July 1999 debis purchased a portfolio of 15 Airbuses from Airbus Industrie Financial Services. This was followed in November 2000 by the acquisition of the Aerfi Group, which brought with it additional regional aircraft in the form of the GPA-ATR fleet of 22 ATR42s and ATR72s, six Dash 8-100s and five more Fokker 100s.

As a result of the acquisition of these companies, together with orders for new production aircraft, the portfolio has expanded enormously and now comprises over 200 aircraft. Along the way it has moved to reduce its regional fleet. It is significant that excluding the takeover of Aerfi it has not added a single regional aircraft. It has been actively reducing its Fokker portfolio, by either selling off aircraft with leases attached, or converting operating leases with existing customers into finance leases.

debis leased a package of two Fokker 100s and three Fokker 50s to the existing Fokker 100 customer Pelita of Indonesia, and a single Fokker 100 to Montenegro Airlines in 2002.

GE Capital Aviation Services (GECAS) is the world's largest lessor, with a fleet of over 1,000 owned aircraft and a further 300 under management, principally The Airplanes Ltd portfolio of ex-GPA aircraft. In June 2000 GECAS also became the first, and to date, only major operating lessor to commit to regional jets. It made headlines when in the space of three days it ordered 50 regional jets from each of the three regional jet manufacturers: 15 CRJ200s; 25 CRJ700s; and 10 CRJ900s from Bombardier, 50 Embraer 170s and 50 728Jets from Fairchild Dornier (subsequently cancelled with the collapse of the manufacturer).

So far the only commitment to these new aircraft, with the exception of the CRJ200s, has come from LOT of Poland, which has ordered six Embraer 170s direct from the manufacturer and four more on lease from GECAS.

In addition to its commitments for the current generation of regional jets, GECAS is heavily involved with a number of earlier generation regional aircraft as a result of its management of the Airplanes portfolio. This includes ATR42s (4), DHC8-100 (6), DHC8-300 (15), Fairchild Metro III (3) and Fokker 100 (16). GECAS is also heavily involved in financing regional jets.

Little noteworthy activity occurred during 2002, but in January 2003 GECAS announced LOT's order for four Embraer 170s and agreed a wide-ranging deal with US Airways to supply regional jets as part of the carrier's planned emergence from Chapter 11 bankruptcy protection.

Pembroke's interest in regional

aircraft comes from its merger with the former Aircraft Financing and Trading (AFT). AFT was set up in 1984 as a 100% owned subsidiary of Fokker to manage its operating lease transactions. A 50% share was subsequently sold to Rolls-Royce and in May 1998, following the Fokker bankruptcy, Rolls-Royce acquired complete control. The portfolio consisted of six Fokker 100s, 24 Fokker 50s, six F.28s and three F.27s. In December 1998 Rolls-Royce merged AFT with Pembroke, and then in January 2001 the 50% interest not controlled by Rolls-Royce was acquired by GATX.

Pembroke now owns a fleet of 63 aircraft and manages a further 93 for a total portfolio of 156 aircraft. Despite the diversification into a fleet of A320 and 737 family aircraft, together with a large commitment for 717s, half the total portfolio remains Fokker aircraft.

During 2000 Pembroke leased three Fokker 50s to Air Andaman of Thailand and sold one Fokker 50 to Naka Nihon of Japan. Pembroke also managed the placement of 17 ex-US Airways Fokker 100s, owned by KfW, with Germania. Pembroke acts as the lease manager for a single Embraer ERJ-145 owned by GATX. This aircraft was originally leased to European Regions Airlines of Spain. After the failure of this operator in October 2000, it remained off lease until

April 2002, when it was leased to City Airlines of Sweden.

Saab Aircraft Leasing (SAL) is the asset management arm of Saab. The portfolio peaked in 1999 with a total of 316 aircraft out of the total of 522 Saab turboprops manufactured (459 Saab 340s and 63 Saab 2000s). The high proportion, over 60%, of the aircraft that remained on recourse to Saab was the responsibility of Saab Aircraft Credit established in 1987. This was renamed Saab Aircraft Finance Group in 1993 and then in 1998 became Saab Aircraft Leasing (SAL).

At the end of 2002 the SAL-managed portfolio had decreased to 260 Saab 340s and 29 Saab 2000s, and will continue to decline as head leases expire. Of this total, 203 were covered by the Financial Risk Insurance Programme (FRIP) arranged by BAE Systems. The balance are covered by non-recourse long term loans or Export Credit Guarantees from the Swedish government.

Saab Aircraft Leasing was responsible for 34 aircraft transactions during 2002. Saab 340As were leased to Aurigny Air Service in the UK (1), Swedline (1) and Transwest Air of Canada (1). The first post factory corporate conversion of a Saab 340A was leased to Vee Neal Aviation. Saab 340Bs were leased to Aerolitoral of Mexico (7), Loganair in the

UK (2) and REX of Australia (13). Saab 2000s were placed with Air Jet of France (1), Lithuanian Airlines (1) and OLT of Germany (1).

The lengths to which SAL had to go to place these aircraft are noteworthy. To lease seven Saab 340Bs to Aerolitoral, SAL agreed to take over re-marketing responsibility for nine Metro IIIs, while in Australia REX appears to have been able to swap out three owned Saab 340As as part of its lease of 13 340Bs.

Independent lessors

While the six lessors covered in the first part of this article provide a large proportion of the available lease capacity, there are a number of independent companies providing competition. These range from the likes of AeroCentury and Magellan, with 21 and 50 aircraft respectively, to privately owned lessors with single figure fleets.

AeroCentury was formed in 1997 from the consolidation of predecessor companies and is listed on the US stock exchange. The company has acquired its portfolio through sale and leaseback transactions. The five Dash 8s, for example, were all acquired from operators that continue to fly the aircraft. Two are from Air Jamaica Express, one from Wideroe of Norway and two from

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UNI Airways of Taiwan. The six Fokker 50s were all acquired from existing lessors, two from Ansett, two from Lazard Freres and two from Air Finance Europe.

Aerocentury specialises in turboprops, but not in any particular type or manufacturer. The company currently owns a total of 21 aircraft. These are three DHC-6s, two DHC-7s, five DHC Dash 8s, one Fairchild Metro III, six Fokker 50s, two Saab 340As and two Shorts 360s. During 2002 a Shorts 360 was leased to BAC Express, one Fokker 50 was leased to Indonesian start-up Riau Air and another to Aero Condor of Peru. The two Dash 7s were leased to Tropical Airways D'Haiti and the company performed a sale and leaseback with UNI Airways of Taiwan for two Dash 8-300s.

Boeing Capital was heavily involved in the financing of the regional turboprop generation including ATR42s, BAE Jetstream 41s, de Havilland Dash 8s, Embraer Brasilias and Saab 340s. With many of these aircraft now being returned it has found itself with an increasing role in the operating leasing business. This is particularly true for the Embraer Brasilia with aircraft returned from Comair, Continental Express, Mesa and Skywest and nine aircraft currently being advertised as available for lease. During 2002 two freighter-converted Brasilias were leased to Air Omega of Germany and a passenger-configured example was leased to Avior Express of Venezuela.

Bombardier does not have an asset management arm as such, but two separate parts of its organisation effectively cover the role, the Aircraft Trading Unit and Bombardier Capital. The Aircraft Trading unit maintains a low

profile in keeping with Bombardier's desire not to broadcast the number of aircraft either returned or traded in. Bombardier Capital provides interim financing for both used and new production aircraft. During 2002 US Airways terminated the finance leases on nine Dash 8-300s with Bombardier Capital.

Bombardier acts as asset manager for the Canadian Regional Aircraft Finance Transaction (CRAFT) portfolio. This was a securitisation put together in the late 1990s by Bombardier, including Dash 8s and CRJs from about a dozen operators. During 2002 aircraft within CRAFT were returned by Midway (CRJs), Southern Winds of Argentina (CRJs and Dash 8s) and US Airways (Dash 8s).

Coronation Aircraft Leasing was established in 2001 as a subsidiary of Coronation Holdings, one of South Africa's largest independent financial institutions. It entered the leasing business by taking over SA AirlinK's order for 30 ERJ-135s, for which it arranged the financing.

Corporate Aircraft Leasing (CAL) was, as the name suggests, set up to offer operating leases for corporate aircraft operators. In 2001 it also structured a sale and lease back for Skyways Express of Sweden.

Deutsche Structured Finance is a specialist in German Operating Leases. The portfolio comprises two 767-300s, 12 737-300s, nine CRJs and three Dornier 328 turboprops. The CRJs were acquired through a sale and leaseback transaction with Air Littoral, although two are now leased to Eurowings.

The company was planning a major venture into the regional jet operating

ATR Asset Management finances new aircraft for customers and also takes back aircraft from operators which have short-term leases. ATR Asset Management completed 53 transactions in 2002, making it the most active regional aircraft asset management company.

lease market following a change of ownership, and in June 2001 signed a Memorandum of Understanding with Bombardier for the acquisition of 30 CRJ700s and 20 CRJ900s. This initiative was overtaken by the events of September 11th.

Elmo Aviation is a small Icelandic lessor, with a portfolio of three MD-80s, five Fokker 50s and two Saab 340s. The five Fokker 50s were all acquired from their owners with leases attached, three owned by Austrian Airlines with leases to Denim Air and two owned by Aviation Investors of the USA with Leases to Maersk Air. Three Saab 340As were acquired as a speculative purchase. Two were leased to Cosmic Air of Nepal and one was sold for parting out.

International Airline Support Group (IASG) is principally a specialist aftermarket parts supplier, but has also become involved in the aircraft leasing business. The current portfolio includes eight Brasilias, six of them leased to its sister company North South Airlines, and two to Skywest Airlines.

Lazard Freres, the investment banking house, purchased 10 aircraft from the Fokker receivers in 1998: three Fokker 100s leased to TAM and seven Fokker 50s leased to four different operators. Three of the Fokker 50s have been sold, two to lessor Aerocentury and one to operator Naka Nihon Airlines of Japan. The remaining four Fokker 50s remain in the portfolio along with the three Fokker 100s. Re-marketing assistance is provided by Pembroke.

Magellan was formed in June 1998 as AGES Aircraft Sales and Leasing, part of the AGES Group, now Volvo Aero. In January 1999 it entered the asset management business, with the GPA-ATR portfolio of 17 ATR42s and three ATR72s. In October that year it also took over management of the Prop Leasing and Trading Company (PLTC), with a further seven ATR42s. PLTC is owned by Air Liberte, TAT Group and Societe Generale.

In April 2000 AGES sold the company to the Novus Holding Corporation in partnership with the existing management. In June the company was renamed Magellan Air Limited, and in November a 50% shareholding was sold to the TAT Group of France. This agreement brought with it a further two portfolios of aircraft, those of Aircraft International Renting with

There has so far been little appetite by lessors for RJs, with a few prospective orders being cancelled. A more likely source of operating leases may be the manufacturers.

two ATR42s and 16 ATR72s (which is 55% TAT Group, 35% Indosuez and 10% EADS), and Air Group Finance Limited with a single ATR42 and four Fokker 100s (100% TAT Group). The combination of these ATR portfolios makes Magellan the largest lessor of ATR aircraft behind the manufacturer, with a total of 46, 27 ATR42s and 19 ATR72s.

During 2002 Magellan successfully concluded six lease transactions, Aer Arann (1 ATR42), Cimber Air of Denmark (2 ATR42 lease extensions and 2 ATR72s) and Coast Air of Norway (1). In addition, Magellan obtained an exclusive agreement with American Eagle to re-market its ATR42s and placed the first of these with Highland Airways in the UK.

MCC was formed by Fairchild Industries in 1982 as the Metro Credit Corporation to lease Fairchild Metro IIIs. The company was sold in 1988 and developed into an operating lessor specialising in the Saab 340A as well as regional aircraft re-marketing. MCC's leasing activity has become a casualty of the market dominated by SAL and the company is now concentrating on re-marketing working, in particular, with American Eagle to place its fleet of nearly 90 Saab 340Bs, and with Horizon Airlines to place its 10 F.28s.

Skyways Aviation is a sister company to the Swedish airline Skyways Express. The company specialises in regional aircraft, arranging transactions on behalf of owners and operators. During 2002, the company leased two Saab 340Bs owned by Mandarin Airlines of Taiwan to Hellenic Star of Greece and two of its own Saab 340As to Swedline of Sweden. The company also leased two Saab 340Bs, recently returned off head lease by Saab, on behalf of owner Svenska Volkswagen. One aircraft was placed with Golden Air, which subsequently purchased the aircraft, and one with Varmlandsflyg. Other activity included leasing an Avro RJ70 to Druk Air of Nepal.

Wexford was an unknown name in the world of aviation, but burst onto the scene in 1997 with an order for 20 Embraer 145s. When this first order was placed it was expected the regional jet mania would soak up this capacity. In practice these aircraft proved surprisingly difficult to place and the only deliveries to date have been to Wexford; sister



company Chautauqua Airlines, which was acquired by Wexford in 1998. The entire orderbook of 15 ERJ-135s, 15 ERJ-140s and 45 ERJ-145s is currently earmarked for the airline's contract operations with America West, American Eagle, Delta and US Airways.

Summary

Turboprop leasing is a declining business for most of the principal lessors. This is particularly true for BAE Asset Management and Saab Aircraft Leasing, which are simply managing away the risk for their parent companies. debis AirFinance is looking to exit the regional business as it concentrates on larger aircraft.

ATR Asset Management is the exception as the only expanding lessor, because it is effectively supporting the ongoing production of the ATR family. ATR is by far the most active lessor in terms of both the number of aircraft placed and the number of operators. Saab is second, but BAE in comparison has a large number of inactive aircraft, particularly ATPs.

The specialist lessors such as AeroCentury are dwarfed by the manufacturers' asset management organisations, but this balance may change as whole fleets of aircraft reach the end of their original head leases. This will create opportunities for the smaller independent asset managers and aircraft re-marketing specialists. However as the acquisition costs of these aircraft continue to fall, operators may simply purchase the aircraft, reducing the overall lease market.

Regional jet leasing offers potential for expansion, but most of the larger operators have tended to rely on long-

term methods of financing for their aircraft to obtain the lowest possible monthly cost.

The strong demand for RJs has also ensured that the manufacturers are not desperate for business under any terms. The RJ operating lease business has also seen a few false starts. Wexford was the first to the market, but so far has only placed aircraft with wholly-owned Chautauqua. GECAS followed with its larger order for 50 aircraft from each of the three manufacturers, but has so far only managed to place four Embraer 170s with LOT of Poland. Deutsche Structured Finance was planning an order for 50 CRJs, but its commitment evaporated with September 11th.

ILFC came close to placing an order with Embraer in July 2001 for 75 regional jets, with options on another 75, but they did not proceed. September 11th killed removed any doubts.

The key dilemma for ILFC was to match the existing rate of return of 25-30% on its core business of leasing mainline jets. It was difficult to see RJ operators paying the lease rates that would result from such a return, since it was far cheaper for the operators to obtain long-term financing from other sources. This may be changing as sources of finance are no longer so readily available. At the same time, however, airline customers are financially marginal and therefore less attractive to operating lessors. Demand RJs is softening, and there is the prospect of oversupply from high production rates and a developing used market. The most likely source of operating leases in the future may be the manufacturers, and the whole cycle of manufacturers' involvement in the financing of their products could start all over again. **AC**