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Airplane Buyers Go Shopping

Investors, Lenders Back New Lessors, Lifting the Mood of Jet Makers at the Farnborough Airshow

By DANIEL MICHAELS

LONDON—As the aerospace industry gathers Monday for its biggest annual trade show, jet makers are striking an upbeat tone amid global economic uncertainty.

A big reason: Airplane-leasing companies are shopping again, with several major leasing orders expected during the Farnborough International Airshow.

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The Boeing 787 Dreamliner lands Sunday prior to the opening of the Farnborough International Airshow in Farnborough, England, from July 19-25. It's the Dreamliner's first visit outside the U.S.

Dan Michaels talks to Tom Williams at Farnborough Airshow on producing record volumes of planes and surviving the downturn

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Carriers world-wide are emerging from their worst crisis in decades, boosting demand for planes. As significant, money is returning to the aviation market.

Private investors and lenders are pouring several billion dollars into new lessors, while banks and fund managers are returning to financing airplane deals.

One of the biggest new ventures—Air Lease Corp., recently established by airplane-leasing pioneer Steven Udvar-Hazy with $3.3 billion in fresh capital—will announce orders from Airbus and Boeing Co. for more than 100 jetliners, with a catalog value of roughly $7.5 billion, this week at the air show outside London, according to people familiar with matter.

Air Lease has already agreed to buy 60 jetliners from other leasing companies and airlines, said Mr. Hazy, who declined to comment on new orders.

The world's biggest lessor, General Electric Co.'s GE Capital Aviation Services, is also likely to place a large order with Airbus and Boeing, said people familiar with the matter. A GE spokesman didn't comment.

"I think you'll see a lot of leasing orders at this air show," said John Leahy, Airbus chief operating officer for customers.

Dubai's Emirates Airline, a relatively strong carrier, will also order more than 30 Boeing 777 widebody jetliners, with a catalog value of

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A Boeing employee sat next to a tinted window on the Boeing 787 Dreamliner at Farnborough airport in southern England on Sunday.

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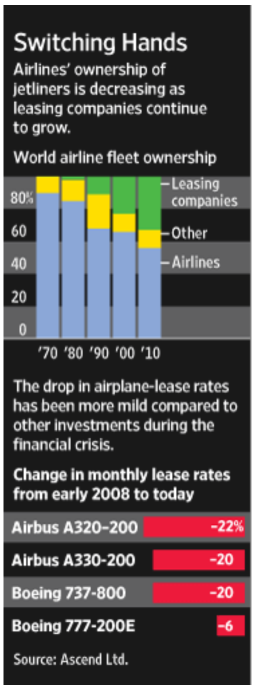

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more than $7 billion, according to a person familiar with the matter.

An Emirates official declined to comment.

But for airlines with more limited funding, renewed liquidity is the key to getting new planes. Winners from the rebound include airline passengers, who get to fly newer, safer planes, and airlines, which are cutting fuel bills thanks to more modern equipment. Among the losers are owners of older aircraft, whose value is dropping unusually fast due to the influx of new models.

Underpinning the shift is a lesson from the recession: Jetliners can be a relatively safe investment—even when the airlines that use them are struggling. That's largely because most new planes can be shifted quickly among airlines if one doesn't pay its bills. Lessors are expert at yanking planes from deadbeat carriers.

"You can get funding for aircraft because they produce good cashflow," said Robert Martin, chief executive of BOC Aviation, a unit of Bank of China and one of the world's biggest airplane lessors. "And unlike other investments—like buildings—you can move an airplane."

Generating cash from airplanes is a skill airlines world-wide have honed over recent years. They are flying planes more, squeezing more seats onboard and charging for baggage fees. The change is vital, because while jetliners need fuel to take off, what they really fly on is cash—to pay fuel bills, staff airport fees and airplane financing.

Lessors own more than one-third of all jetliners, up from 23% in 1990, according to Ascend Ltd., an aviation-consulting firm in London. Industry officials expect that figure to top 40% in a few years. The shift has helped Boeing and Airbus parent European Aeronautic Defence and Space Co. scrape through the recent recession without slashing production. That stability, in turn, has protected thousands of well-paid jobs in the U.S. and Europe.

The positive tone at Airbus, Boeing and their suppliers is particularly notable because many corners of the aerospace industry face darker prospects. Defense contractors expect painful cutbacks as governments slash military budgets to shrink deficits. Makers of business jets and helicopters are still feeling fallout from the financial crisis.

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Jetliner demand is getting a lift from the rise of budget carriers able to expand during downturns and growing air travel in buoyant markets such as Brazil, China, India and the Middle East. High fuel prices, meanwhile, are prompting older airlines such as AMR Corp.'s American Airlines and Air France-KLM SA to replace their gas-guzzlers with more efficient models. America and Europe have also intervened with billions of dollars in loan guarantees to ensure that frozen credit markets didn't stop airplane deals from closing.

Prospects for the airplane business could be hit by a new global shock, industry officials concede. But having weathered soaring fuel prices, financial upheaval, terrorism threats and a major volcanic eruption, the officials say they are prepared to handle turbulence.

Today's optimism among big jetliner makers and their suppliers is sharply different from past gyrations in the cyclical commercial-aviation industry. Historically, when airlines got battered by recession, they dragged down plane makers. During the recent economic crisis, shares in many big airlines again lost much of their value. But new airplanes are flying out of Boeing and Airbus factories faster than during the boom times three years ago.

Airplane prices are confidential, making it hard to judge how much Airbus and Boeing are discounting to maintain production. Both insist demand is real and prices are steady, which

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prompted each recently to boost output of their most popular models and flag more potential increases.

"We have learned that trying to overproduce is a short-term solution that will come back to bite you," said Kostya Zolotusky, managing director of capital markets development at Boeing's finance division.

One indication that the price of new jetliners is holding steady despite high production and airlines' woes is monthly airplane-lease rates. The fees track market values of the underlying assets much the way real-estate-rental prices follow property values. Rates for many popular jetliner models dropped less than 20% from their precrisis peaks, according to Ascend.

Lease rates dropped by less than 15% at Gecas, said Chief Executive Norm Liu in an interview. Returns have held up far better than for many of GE Capital's other lines of business, such as container shipping, which dropped by roughly 50%, he said.

"Given the way airlines have suffered, you would think airplane asset values would have been hit harder," said Mr. Hazy, who in the 1970s was among the first to understand that planes and airlines are fundamentally different investments. His International Lease Finance Corp., bought by insurer American International Group Inc. in 1990, was for many years the world's biggest lessor. Mr. Hazy left ILFC in February to start Air Lease.

Some financiers worry that the relatively strong investment performance of new jetliners will draw so much money into the sector that demand gets artificially stoked—the way easy credit fueled the U.S. housing bubble.

Some skeptics point to Dubai's DAE Capital, which burst on the scene in 2007 with a 200-plane order, but is now retrenching amid financial turmoil in its emirate. Others note that the sharp decline in values for older planes is upending many assumptions about investment returns, which is squeezing some players.

"There's a bit of a bloodbath in the older equipment," said Andy Golub, head of risk advisory at Ascend.

But retiring old airplanes cuts emissions and passengers prefer to fly new planes.

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