

**Aircraft leasing****Buy or rent?****The steady rise of airlines with no passengers**

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THERE is a saying in the transport business that if it flies or floats, you should rent it (there are also much ruder versions of this epigram). Nevertheless, airlines have traditionally bought their planes, even if many purchases were arranged as "finance leases", with the instalments dressed up as rent payments so as to make them tax-deductible.

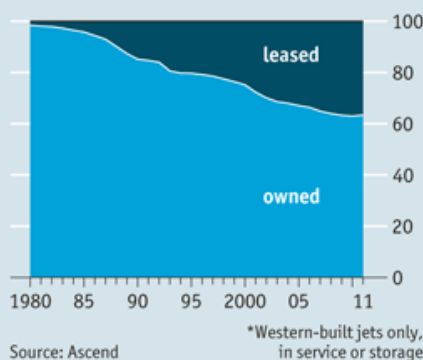
However, airlines are turning increasingly to "operating" leases, in which they really are renting the planes, for a few years at a time, with a leasing company bearing the risk of any slump in their second-hand values. Over a third of the world's airline fleet is now rented (see chart) and the proportion is likely to keep growing. Paul Sheridan of Ascend, an aviation consultancy, reckons that of the world's top four owners of airliners, two are lessors: GECAS, with 1,732 planes, and ILFC, with 1,031, soar miles above Delta (800) and American Airlines (775). A chunk of the aircraftmakers' bulging order books is from leasing firms betting that demand for rented planes will keep rising. Alafco, a Kuwaiti lessor, splashed out \$4.6 billion (at list prices) on 50 Airbus A320neos in November.

One of these big "airlines with no passengers", RBS Aviation, was sold this week by Royal Bank of Scotland, a state-rescued British bank. A consortium led by Sumitomo Mitsui of Japan paid a handsome \$7.3 billion, a sign of Asian banks' eagerness to move into aircraft finance as struggling Western institutions retreat. China Development Bank bid unsuccessfully for RBS Aviation and may now seek another leasing firm to buy. Bank of China bought a Singaporean lessor just before the financial crisis and it is now in the world's top ten. ILFC is part of AIG, a bailed-out American insurer, which is seeking to sell it.

Prospects for the leasing business are strong, says Philip Baggaley of Standard & Poor's, a credit-rating agency. Airlines lack cash to finance their big plans for fleet renewal, and they cannot borrow cheaply to buy new planes. Deals in

**Rent to fly**

% of global airlines fleet\*:



Source: Ascend

\*Western-built jets only, in service or storage

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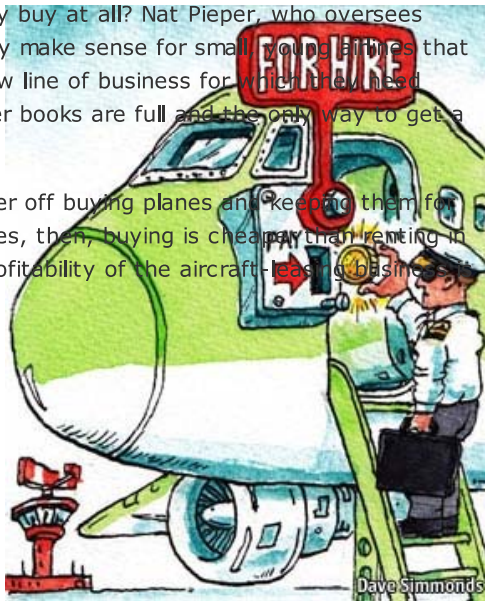
which airlines sell part of their existing fleet to a lessor and rent it back are becoming more common: Air France-KLM wants to do this with planes worth a total of €700m (\$897m).

RBS Aviation's boss, Peter Barrett, notes that aviation is becoming more like the hotel business: one type of firm specialises in owning the assets, while another operates them. But there is an important difference: a hotel owner cannot easily seize his premises back from a hotelier who skips the rent, whereas leasing firms can and often do take back their planes. That makes the aircraft-leasing business less risky.

This flexibility cuts both ways: carriers that go bankrupt can tear up leases and hand planes back, as American Airlines' parent, AMR, is doing with some jets. Helene Becker of Dahlman Rose, an investment bank, says leasing is widely misunderstood to be all about tax breaks: in fact a big part of the business is judging which aircraft will maintain their value and managing the risks of owning them.

If renting planes makes sense for airlines, why buy at all? Nat Pieper, who oversees Delta's fleet planning, agrees that renting may make sense for small young airlines that lack capital, for larger airlines trying out a new line of business for which they need different planes, or when manufacturers' order books are full and the only way to get a plane is to rent it.

However, he argues that big airlines are better off buying planes and keeping them for their full lifespan of 30 years or so. Like houses, then, buying is cheaper than renting in the long term. So perhaps the growth and profitability of the aircraft-leasing business is a reflection of how short-term the airline business has become.



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