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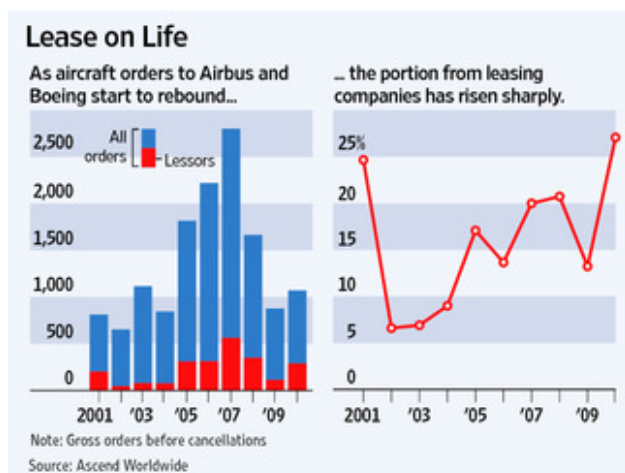
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Jet-Leasing Firms Go on Buying Spree

By DANIEL MICHAELS

Airbus and Boeing Co. are on track for a sales rebound in 2010, far outpacing expectations this time last year.



Higher airline traffic has been the main engine. But a less obvious factor is resurgent airplane-leasing companies, signaling new life in a corner of the aviation business that was gasping during the 2008 market meltdown.

Lessors account for more than 35% of orders at Airbus this year, up from 5% last year. At Boeing, lessors have placed 21%, up from 12%. The two companies next month are expected to report a combined rise of about 50% in all orders for this year, net of cancellations.

"Lessors are coming back in quite a big way," says Frank Vermeire, leasing marketing manager at Airbus, a unit of [European Aeronautics Defence & Space Co.](#)

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The 27% of orders placed by lessors with the two manufacturers combined this year is the highest proportion since 2000, according to aviation consulting firm Ascend Worldwide.

Airbus and Boeing welcome the trend, saying lessors' ability to adjust for shifts in global demand makes them more reliable customers than airlines, which are locked in to their routes.

Lessors also have filled some of the financing void created in recent years as banks have grown more skittish.

Speculative orders and competition among lessors could spur Airbus and Boeing to build too many planes, which would reduce aircraft values, some executives warn. But that would create deals for airlines, and the manufacturers are confident that supply and demand will stay in balance.

Airplane lessors make money mostly by getting discounts on large orders of planes and then renting them to airlines at higher rates. Carriers lease planes, for periods ranging from a few months to several years, when they can't afford to buy planes themselves or want flexibility. Lessors now own one of every three jetliners flying, but Boeing expects that to reach one of every two within ten years.

Funding that growth are private-equity firms, investment funds and commercial banks that have snapped up more than \$18 billion in equity and debt issued by airplane lessors since March, says Gary Liebowitz, an analyst

at Wells Fargo Securities.

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"There is a phenomenal amount of interest in the lessors among investors searching for yield," says Gregory Lee, a managing director at Goldman Sachs.

While industry veterans don't expect investment returns on leasing companies to hit their precrisis highs of around 20% soon, many lessors are yielding above 10%, far exceeding what money managers can expect in other sectors.

During the financial crisis two years ago, the plane-leasing units of [CIT Group Inc.](#), [American International Group Inc.](#) and [Royal Bank of Scotland Group PLC](#) suffered from their parents' tribulations. AIG and RBS were taken over by their respective governments, while CIT reorganized in bankruptcy

court.

But the operations, and those of many rivals, survived the upheaval. A major reason was that aircraft lessors could move planes around the world to meet demand, something impossible for many other financial companies, such as real-estate lenders.

"Leasing companies are a buffer that has proven to be very resilient," says John Plueger, president of Air Lease Corp., a lessor started this year by Steven Udvar-Hazy and Mr. Plueger, both of whom had been at AIG. Air Lease, one of several recent start-ups in the industry, in July raised more than \$3.3 billion in debt and equity.

Lessors are now positioned to thrive in part because airlines want planes, but banks have throttled back lending to carriers. Stricter financial regulations and higher borrowing costs for banks have soured most on lending to all but the strongest airlines, says Kostya Zolotusky, managing director of capital-markets development for Boeing's finance division. Instead, he says, many banks that typically lent directly to airlines now are lending to lessors.

At a recent conference in Munich, several of the world's biggest aviation bankers said they were turning to lessors because their performance is more predictable than that of airlines. While carriers are tied to the economic swings in a particular market, lessors spread their risk across many airlines world-wide.

"You can think of it as a mutual fund," says Pamela Hendry, senior vice president and treasurer of International Lease Finance Corp. The AIG unit, one of the world's biggest lessors, faced funding problems during the financial crisis. But ILFC this year has raised more than \$9.4 billion in new debt issues that allowed it to refinance existing debt and repay loans from the U.S. government.

Airlines' need for credit also has pulled lessors into the role of mortgage bankers. Carriers that once bought planes outright increasingly are selling them to lessors as the jetliners roll out of the factory and then leasing them back. The arrangement, known as sale-leaseback, cuts an airline's capital needs. "Lessors have gone from just being a source of airplanes to being a source of financing," says Paul Sheridan, Ascend's head of risk advisory in Europe, the Middle East and Africa.

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