Airfinance
JOURNAL

AHEAD OF THE GAME

June 1, 2000
www.airfinancejournal.com/Article/2051799/Ahead-of-the-game.html

It is about speed, vitality, knowing your market. It is about being nimble, ahead of the game, changing your product. The world of the remarketing agent is a darting one, where relationships are all, size is small and beating your slower, weightier competitors is the way to come out on top.

They like to think of themselves as lessors, this crowd. They coolly drop in references to the big players, Gecas and ILFC. They mention the contracts they have had with Boullioun and Sale. But they know their real market. They are not owners, labouring under the heavy burden of asset-laden balance sheets, portfolios and risk. They are dealmakers, negotiators, salesmen, always ready to make a fast buck, held back only by the knowledge that relationships and word of mouth are their advertising tools. Keeping the customer happy is what they are about.

These companies offer much of the same business as the larger lessors - remarketing, financial packages, managing aircraft and leasing. But while the lessors own the aircraft they lease out, the smaller remarketing agents lease out aircraft owned by banks and airlines, and manage leased aircraft.

They have searched hard for, and found, their own niche business. With the major lessors ordering aircraft at a rate never seen before, it is good that they have.

“We are largely in the regional aircraft business,” says Angus von Schoenberg, senior manager at Airstream in the UK. He adds, however, that the large-scale orders are likely to affect second-hand values and remarketability. “No-one is going to order large amounts of aircraft unless they think the market can take it. Obviously, though, newer aircraft fair better than the old units, if the market does go pear-shaped.”

The aircraft managed define the niche that these service providers specialize in. One aspect of Airstream’s business focuses on financings for Embraer 145s, and turboprops, which are increasingly sidelined by airlines, have ensured that the remarketing agents continue to do healthy business. “The movement to regional jets has had an affect on turboprops,” says von Schoenberg. “It is harder to place used turboprops - if it was easy, our clients would do it themselves. Demand is shrinking.”

But **Stephen Vella, managing director of the UK's ALM**, disputes this. "The reality is that it's a myth that turboprops are difficult. They are, if you don't appreciate that the potential users are generally different in many ways from operators of large commercial jet aircraft." Lease rates are stable for turboprops and there are numerous airlines, including start-ups, that still require them.

That is where the skills of these companies lie - speed in finding a customer. Specializing in second- and third-tier carriers, the remarketeers work hard to place all aircraft types, which gives them a very thorough knowledge of the industry. **The key to the business is relationships.** Vella says that it's often hard to turn an aircraft away. "An owner may ask you to place an old Fokker 27 after you have finished placing his new 737. Not that I mind placing F27s," he adds, hastily. One deal often leads to another.

"The aircraft management side gives us a good chance to build up relationships with operators, not just the CEOs and VPs, but on a grassroots level, which means we know a carrier's needs." This enables them to identify a customer more easily than the competition: manufacturers, and the larger lessors.

"There is a high degree of manufacturer control in the secondary turboprop market," says Vella. "They like to control their products, but the banks frequently ask us to remarket their aircraft, so that the manufacturers are not tempted to prioritize their own interests."

Often, the larger lessors have eaten up a big proportion of the primary market, taking the best credits and the top-tier carriers. Von Schoenberg concedes: "Smaller lessors tend to end up with poorer quality credits where, obviously, there is more risk."

The risk is very different from that taken by aircraft-owning lessors. Payments can be hard to predict. Vella explains: "The income comes in unforecastable amounts and timing. You just don't know when equipment remarketing mandates will arrive, or when you will dispose of the aircraft. We get an arrangement fee of between 1% and 3% of the lease rate or the sale price, but must bear significant marketing expenses until the aircraft is placed."

The problem is that they must sell or lease aircraft at a price fixed by the customer. If the customer has overvalued the aircraft on its balance sheet, or values have fallen, it will not want to sell the aircraft at the market rate.

Vella says that only once has he had to resign from a remarketing agreement, after the client refused every offer brought to it in 18 months. "An aircraft owner must be aware of and accept the realities of the marketplace," he says. "Book values do not always match prevailing fair market values."

These companies work hard to ensure their survival, against stiff competition from the major lessors, the manufacturers and each other. Vella expects to see further consolidation of the medium-sized lessors, which, he says, may affect some of his business. "We do not have the resources to compete with the lessors, but we are looking at partnerships," he hints, while declining to reveal more.

As a subcontractor, ALM has had contracts with various lessors, which need ALM's "grassroots" knowledge and experience. But Vella fears that some of this business may be at risk if there is further consolidation, but is confident that the range of products the company offers will make sure that it survives.

He echoes von Schoenberg's statement about the need to remain ahead of the game. "We have been good at keeping ahead of what the market needs, and we need to be aware, and adapt our product-line accordingly." He adds, knowingly: "We are a few steps ahead of the competition".