



AERO CARE is an asset management provider that specialises in the Airbus A320 and Boeing 737 families. Pictured, an A320.

Image: Alexey Bakharev/iStock

Taking care of business

Helping lessors and airlines navigate the complexities of managing their assets is an intricate business. Gerrard Cowan takes a look at how leading asset management firms are facing up to some of the key challenges confronting the aviation industry.

Asset management specialists support lessors and other customers through financial, technical and logistical challenges, helping them navigate a complex industry and maximise their profits.

Industry experts point to a range of key priorities for the sector today, from supply chain issues to technological adjustments.

Asset management firms provide numerous services depending on the business in question and its customers' needs.

They support lessors throughout the leasing process – the stages of which include securing a suitable lessee for an aircraft, overseeing lease management, and organising the redelivery and remarketing of the aircraft when the lease term ends.

Outlining a typical service, asset management specialist IBA Group uses a case study in the area of aircraft delivery and

remarketing. The asset management specialist received a request from a Japanese lessor to assist with the upcoming redelivery of a B737-800 from Norwegian Airlines, while at the same time sourcing a new lessee.

According to IBA, it engaged the airline quickly, meaning that questions around records, repairs, and engine shop visit work had been managed in good time when the aircraft had to enter the final redelivery check.

The process also involved communication with the MRO facility and Norwegian Airlines, as well as providing insight into the lessee's management and operations to assess the airline's capabilities. IBA continues to manage the aircraft for the lessor today.

INVESTMENT CYCLE

Denis Brailsford, IBA's Head of Asset Management, says that such services fall

into a wider "investment cycle". This begins with market entry, analysis and aircraft delivery, then continues on to analysis of acquisition opportunities and due diligence and deal negotiation.

The cycle continues with asset management, risk monitoring and repossessions, then end of lease/aircraft delivery.

The service does not differ by market or geography, Brailsford says, because one of the primary purposes of asset management services is to "ensure any investor is aware of and educated on the technical challenges which come with aircraft investments".

He tells *LARA*: "We also need to be able to manage the risks and issues through the lease term and mitigate any impact these challenges may have on return on investment."

There are multiple factors that influence and impact financial returns from an asset, says Brailsford.

An aircraft asset manager enables lessors to understand how changes in the aviation market, regulatory changes and the status of any operator will impact their asset



during its life. A potential default scenario is a prime example.

“If you consider that there is a high risk of an airline default, then preparing yourself for such an event is clearly prudent,” says Brailsford.

“Routine inspections of aircraft and their records provide you with a good understanding of the asset’s condition and the location of all its contingent parts.”

Such planning, Brailsford explains, can support the development of a risk mitigation plan, enabling quick responses should the default scenario occur.

This will enable the aircraft to be extracted faster and enable the lessor to market it to a larger pool of potential new operators.

“Repossession should always be a last resort,” says Brailsford. “Understanding the potential costs and pitfalls is a critical part of an asset manager’s role in such scenarios.”

He adds that IBA has an “Insight” platform that helps identify potential new operators.

Brailsford notes that asset management plays a key role in understanding the condition of the aircraft, which is a crucial factor in making informed decisions.

The right maintenance investment helps make the asset attractive to future lessees, but it can be expensive, especially in the case of engines that are approaching their third or fourth performance restoration.

“Understanding the cost versus potential return is key to determining the type and length of a new lease agreement,” Brailsford tells *LARA*.

Asset management companies are particularly important when a lease comes to an end and the lessor needs to move their asset to another lessee.

For Brailsford, the key here is forward planning and understanding the condition of the asset when it returns, which determines the potential market looking forward.

ISTAT valuations, as set by the International Society of Transport Aircraft Trading, are underpinned by several

assumptions, and if your asset does not meet these assumptions, it can be difficult to achieve the appraised value.

“Maintaining oversight of the condition is therefore a major function of an asset manager,” says Brailsford. “This ensures that the impact of the asset condition is clearly understood and avoids the risk of not achieving expected returns based on appraised values.”

SERVICEABLE AND UNSERVICEABLE

AERO CARE is an asset management provider that specialises in the Airbus A320 and Boeing 737 families.

Managing Director Anca Mihalache says the company uses its own intelligence analysis and market knowledge to know in advance when a lease is set to expire and if the engine or aircraft is serviceable or unserviceable.

In the former case, serviceable assets are remarketed to the AERO CARE customer database.

Asset management firms support regional airlines and other customers in technical and maintenance focuses, Mihalache notes.

She tells *LARA*: “Typically in green-time leases there is no responsibility for the lessee regarding repairs. It is therefore critical that the asset is used per the terms of the lease to protect the lessor’s residual value.”

Once it becomes unserviceable, the aircraft will be returned to the lessor with appropriate redelivery inspections, with a process then to part-out or sell the asset depending on the exit strategy.

Mihalache emphasises that to maximise returns, lessors need assets that are in the air for as long as possible and which are maintained as economically as possible without compromising on quality to retain residual values.

She says that managing an asset in the shop demands “a laser-focus on quality, costs and turn-around-time (TAT), ensuring that workscope creep is minimised, costs are managed, and performance is not compromised.

“We make sure we tailor a workscope for the lessor that delivers value, returns a quality asset to service that the operator can rely upon, and ultimately ensures that passengers themselves have the experience they expect.”

The primary objective of asset management is to minimise bureaucracy, create efficiencies and maximise returns, Mihalache says. The process must be smooth for all parties.

“For the lessor this means that the asset is properly maintained and payments are made on time, while for the lessee this means that their demands and requirements are being met in a timely and practical manner.”

As with other sectors, low-fare and regional airlines face the challenges of adapting to net zero-related demands.


From the perspective of asset management firms, Mihalache says that operating the current global fleet as efficiently as possible is just as important as the development of new technologies – for example, in terms of the development and broader adoption of sustainable aviation fuels (SAF).

She notes that efforts to extend the life of engines and assets, as well as a focus on efficiency, can both cut costs and maximise the life cycle of aircraft, which can minimise the environmental cost.

“Additionally, we pay close attention to developments across all industry verticals,” she says. “Where there are opportunities to work with repair shops using energy-efficient technologies or maximising the volume of freight through lower-emission fleets, AERO CARE will pursue these options.”

REGULATORY REQUIREMENTS

ALTEA Associate Chris Holliday says the short-term role of asset management in addressing net zero is largely limited to ensuring compliance with upcoming regulatory requirements.

But in the longer term, he says the ALTEA team “can and does provide advice on future technology, fuels, and the pathway to 



net zero. This extends beyond the asset management context for owners and lessors to include aircraft OEMs and airports, amongst others.”

ALTEA has a niche focus – it does not service lessors’ portfolios, but supports banks/financiers in related areas, such as assessing funding opportunities to the leasing sector for business jets and regional aircraft.

In a small number of cases, the company provides aircraft remarketing services.

Robin Dunlop, a partner at ALTEA, tells *LARA*: “Asset management means different things to different providers of such services. Whether we are acting for a buyer or a seller, we often manage the transition process from one operator to the next.”

Outlining the current market trends and challenges, Dunlop highlights slow near-term deliveries caused by factors ranging from supply chain challenges to labour issues. Operators seeking to replace aircraft are waiting longer for deliveries, he says.

“Many operators are seeking to keep their existing fleets for longer, therefore asset managers today are experiencing substantially increased workload on lease extensions.”

There are also challenges in related areas, such as “achieving the best lease rate or sale price in a rising market where even relatively recent transaction values no longer provide

a robust guide for current pricing.”

Holliday also highlights supply chain issues and extended maintenance downtime, which have been major focuses of the post-Covid era.

“While the asset management industry can continue to inspect and monitor many aircraft as before, rectification of deficiencies, maintenance planning and aircraft transitions have become more challenging issues to resolve,” he says.

“Parts and labour shortages mean that the functions of asset managers take much longer to achieve the desired outcomes.”

SELLER’S MARKET

Brailsford says the issues around deliveries and supply chains have led to lease extensions that are driving up values on older narrowbody aircraft.

“However, lease placements will be harder to find with operators extending current leases and any lease placements will probably be for shorter periods,” he says.

Still, the issue of low delivery rates has been with IBA for a number of years, Brailsford notes.

IBA predicts that 2024 will see major lessors looking to offload significant numbers of assets. The number of new order announcements in recent years, a high number of which will enter the leasing

market, means lessors will need to adjust their portfolios accordingly.

“The large number of aircraft coming to market with leases attached is going to introduce new investors to the aircraft leasing market who have identified an opportunity,” says Brailsford.

“This introduction of new investors will likely drive an increase in demand for experienced aircraft asset managers to support them in understanding potential returns, whilst helping them mitigate against potential risks during the lease term and transition.”

Mihalache also points to the seller’s market, which has pushed the price of aircraft and engines much higher. This has been exacerbated by widespread inflation, which pushes up the cost of capital.

Supply chain and workforce issues create long deadlines in parts being returned from repair shops to the airline or MRO.

Despite this, Mihalache is optimistic for the future of the low-fare and regional sector and for asset management, with continuing demand for support services in a market defined by both challenges and opportunities.

“If there are no further global crises like the Covid-19 pandemic, or anything else completely unexpected, the aviation sector will continue to stay prosperous,” she says. ■

Lease extensions in response to supply chain delays are driving up the value of older narrowbody aircraft. Pictured, a Boeing 737.

Image: Photoservice/iStock

