THE ASIA PACIFIC LEASING MARKET

David Henderson,
Managing Director Asia Sales,
Global Jet Capital

Interview by Litalia Yoakum

GLOBAL JET CAPITAL, PROVIDER OF FINANCING SOLUTIONS for corporate aircraft, has strengthened its presence in the growing Asia-Pacific market with the addition of David Henderson as Managing Director, Asia Sales. With over 20 years of experience in aviation finance across Asia, Henderson now hopes to take his knowledge gained throughout the years to drive further growth in the regional market. The new appointment comes just after Global Jet Capital's 2.5 billion USD acquisition of GE's fixed-wing Corporate Aircraft financing portfolio in the Americas.

The purchase, which stands as one of the largest deals involving corporate aircraft, has led to global expansion of the company.

What are you hoping to achieve in your new role at Global Jet Capital?

With the acquisition of GE's corporate aviation portfolio in the Americas, Global Jet Capital is now ready to expand the business across the globe. The company has hired a number of former GE people to help drive the growth of the business, myself included. I'm excited at the prospects for building the business in Asia and I am really looking forward to building a business that adds value to customers and our shareholders. The key to achieving this will be having the right coverage and growing that coverage over time, delivering a strong product offering and efficient funding capabilities be that onshore or offshore.

What is the current outlook of business aviation in the region?

It would be fair to take the view that the market has been under pressure for some time, in part because of an overhang of supply contributed to by buyers who have purchasing aircraft speculative without having a firm allocation of use for those aircrafts. As this starts to flush out of the market, we are now seeing a more stable market. While the market may have dropped, I feel we are now dealing with true buyers, who have a business need for their aircraft. As a result of the overhang of supply, we are seeing the manufacturers reduce the number of aircraft being supplied and once supply and demand equalize, the market will become more stable and consistent. It is a matter now of seeing that market start to grow and yes, we are seeing a reasonable level of activity.

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What are some of the typical conditions when looking to finance an aircraft?

There are a number of typical conditions we might come across. Some of these conditions will depend on the strength of the customer credit and/or the structure of the transaction. Conditions might include:

- A loan to value ratio or advance rate,
- A loan to value covenant which may require the borrower to pay down the loan should the aircraft value drop. This is more typical for loans or finance leases where the customer is taking all the asset risk or value risk in the aircraft,
- A requirement to have a professional management company manage the aircraft along with a tripartite agreement with the financier,
- An aircraft enrolled in a manufacturer's approved maintenance programs,
- A security deposit, which typically would make-up part of the advance rates in leases,
- Some funders require pledged wealth assets to be under their management and
- Tax indemnities, to name just a few examples.

A lot of people will ask: Is there a standard loan-to-value ratio that is done? And the answer to that is it may be between 70%-90% or it might be 100% loan-to-value that financiers are willing to advance, but it really comes down to the strength of the credit behind the funding. Financiers look at the risk of the underlying credit together with the value and use of the aircraft.

Where do buyers run into issues when financing?

This will vary according to the region, the maturity of the market, and the knowledge that the buyer and their advisors have. We often see first-time buyers who don't have strong advisors to guide them through this process, so they are running into hurdles and the process is getting drawn out and consequently costs are higher.

Buyers are also often unsure which of their companies they should fund the aircraft through, what type of financing product is best suited for them, and tax implications, etc. All of these can have significant implications on the ability to finance, the structure of the transaction and transaction costs. The early engagement of an experienced prospective financier can facilitate a much better outcome for the customer.

What is the typical process of financing through Global Jet Capital?

A client's interest in an aircraft is really what starts the process. At Global Jet Capital, the process is relatively simple with the first step being getting to know the customer and the potential way the funding can be structured to best meet the customer's requirements and identifying the best product for that customer to finance this aircraft. The best product might be a loan, a finance lease or an operating lease. The next step is issuing a funding proposal, which once accepted we then complete our credit underwriting of the transaction and issue a funding commitment. Once this is accepted, we document and fund the transaction.

Why is it beneficial to use a financing provider, such as Global Jet Capital?

Global Jet Capital is the only true global financier that solely specializes in corporate aircraft. Global Jet Capital brings additional liquidity to the market for funding corporate aircraft along with an experienced aircraft financing team. This additional liquidity allows customers to preserve their banking lines for their business activities while potentially providing higher funding amounts, meaning that customers can use their cash for alternative investments or opportunities. Global Jet Capital has a strong product offering including loans and finance leases but we also provide true operating leases whereby Global Jet Capital takes the asset risk until the end of lease. This enables the customer to simply return the aircraft in accordance with the lease at the end of the lease term. The customer has no refinance risk or asset sale risk, as these are taken by Global Jet Capital. When you think about risk who is better positioned to take the asset risk, on a corporate aircraft: a global leasing company with over 300 aircraft and a remarketing team, or a property developer, miner, retailer with one, two or three aircraft? Global Jet Capital has a highly experienced team of corporate aircraft funders and our customers benefit from that experience.

What can buyers expect to see when financing a private aircraft over the course of the next few years?

A number of banks may reduce lending in this space, particularly on leasing products because of regulations and capital adequacy requirements. So we may see a shrinking in the space from traditional banks, which will open the door to non-bank financial institutions. Liquidity will continue to be a major thing and alternative liquidity in the market is key. In the medium term, I would expect the banks to continue to be selective with who they lend to and how they are structuring their deals.

What are the challenges the business aviation industry is facing in the region?

The logistics of getting around the region, combined with the strong economic and business links both within the region and between the region and the rest of the world, make it ideal for use of corporate aircraft with one big challenge being the infrastructure to support the industry. While the infrastructure is slowly being improved, it remains a challenge for the industry.

Another ongoing challenge for the industry is perception. The industry needs to strongly advocate that these aircraft are business tools. The vast majority of aircraft are used by people who have business interests both across the region and around the globe and the aircraft facilitates their ability to get maximum efficiency for their time. While the above are two ongoing industry challenges, another is the weak secondary market, which makes it difficult for customers to upgrade their aircraft. This is due not just to the drop in the secondary market values but also the cycle time to find a buyer and sell their existing aircraft.

Where do you think Global Jet Capital will be in next 5-10 years?

We are backed by strong private equity partners and have a mandate to go out and build a business that adds value and provides a strong platform for funding corporate aircraft globally. So, in 5-10 years I would expect we will have grown substantially.

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