

# PORTFOLIO MANAGEMENT: MANAGING THE TRANSITION OF AIRCRAFT COMING OFF LEASE

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The matter of redelivering an aircraft at lease expiry or upon an early termination is an extremely complex one, and often significantly more emotive than its acceptance into service. With the operating lessors' percentage of the world's aircraft fleet showing no signs of slow down, an efficient transition process from the current lessee to the next is critical in preserving the integrity and value of the asset, good customer relations and ultimately return on investment for a lessor. There are no common rules for return procedures, even for aircraft of the same type and age, and the fact that there is no hard and fast guarantee that the parties who originally negotiated the redelivery conditions in a lease will still be around to explain any ambiguities at lease-end only increases the potential for misunderstanding and miscommunication. Couple this with the peculiarities of a particular aircraft's identity, history and problems, different individuals with different mentalities, languages, technical experience and expectations and it soon becomes all too apparent of just how much could go wrong.

It is therefore critical that both lessors and lessees accurately estimate the magnitude of a redelivery project and be prepared to dedicate substantial time and financial resource to it; firstly, at the time of the lease negotiations so

that appropriately qualified legal and technical advisors are on hand to agree and document a clear, appropriate and enforceable set of return conditions and timescales; and secondly, in the months leading up to a redelivery to monitor compliance status with the lease return conditions, and to assess the ability of the lessee to redeliver the aircraft on-time. Clearly prescribed covenants in the lease agreement relating to qualifying maintenance events, along with specific minimums on the condition and certification of the airframe, engines and various components will all invaluablely aid the process. It is also important to bear in mind that an incorrect interpretation of a technical covenant may result in unnecessary work being carried out on the aircraft, whereas its omission or failure on the part of the lessee to comply with it may have a substantial impact on a lessor's ability to re-lease or market its asset in the future.

A prudent lessor will convene a meeting with the lessee often as much as 12-18 months ahead of a contractually agreed redelivery date. This will be to discuss work scopes for any scheduled or remedial work taking into account the return conditions, the requirements of the follow-on lessee and the airworthiness requirements of the follow-on lessee's aviation authority. Cost allocation and responsibility for

the performance of tasks will need to be carefully monitored in circumstances where the current lessee's return conditions do not match what needs to be achieved, in order for the aircraft to be successfully delivered to the follow-on lessee and registered in a new jurisdiction.

A carefully prepared work scope will allow a lessor to assess what major component changes may be required so that they can order spare parts for pre-loading and, if necessary, make arrangements for the aircraft's storage, insurance and preservation of continuing airworthiness status during any gaps in the time between the redelivery and the commencement of the follow-on lease. In particular, it is a requirement of EASA that the Continuing Airworthiness Management of Aircraft be maintained throughout any off-lease transition period by an appropriate EASA Part M Sub Part G approved provider, and this will need to be outsourced to a third party when the incipient airline is unable – or unwilling – to accommodate a lessor's request to bridge a gap in time between redelivery and commencement of the new lease.

In addition to the lessor, the incipient lessee and the follow-on lessee as the obvious three key stakeholders, there are a number of significant players and factors that can have an immediate bearing on the success or failure of a redelivery project. By way of a few examples, these include: the aviation authorities of the incipient lessee and the follow lessee who will respectively

need to issue an export certificate of airworthiness and accept the aircraft into the new registry, the availability of suitably qualified individuals to carry out test flights, engines run tests and borescope inspections, the availability of spare and replacement parts, the current location of the aircraft and the impact that the attendant environmental conditions may have on the re-painting of the aircraft.

A prudent lessee will have evaluated the risks of delay during the return check process, and will have balanced the need to keep the aircraft in revenue generating service for as long as possible against the economic consequences of failure to return a compliant aircraft at the pre-agreed time. An airline operations team may insist on an aircraft remaining in service to meet a sudden unforeseen spike in demand or lack of aircraft availability, leading to the loss of a slot at a maintenance repair organisation for a standard return check, but may be willing to absorb the typically “stepped-up” rental rates applicable in the case of a late return. The condition of seats and general condition of an aircraft interior is another obvious example that any lessee should be paying special attention to in making this evaluation. Depending on the age of the seats, sometimes an entire set needs to be removed and repaired off site rather than *in situ*. Consideration should also be given to how difficult it is to find replacement seats in the market, particularly in the case of seats

which are more than 10 years old, as the lead times on supply may take a number of months. Any experienced lessor will know that it needs to maintain a constant and consistent dialogue with the lessee to ensure that this information is being relayed to it in a timely manner, so that there are no sudden surprises that could impact on its ability to deliver the aircraft to the follow-on lessee on time.

Careful lessors should ensure that their lessees who outsource maintenance repair work liaise on a timely basis with their maintenance repair organisation to gauge costs and availability of hangar and parking space, in order to determine whether additional work beyond the routine C –check can be accomplished efficiently on site or whether the aircraft should be moved on to another location for this, and they should insist on being regularly updated and appraised of this information.

Through detailed planning and investment in the transition process both at the lease negotiation and return work scope stages, this complex aspect of the leasing cycle can, to a small degree, be managed after time and repeat experience distilled into a practice. A lessor who has achieved this to any extent will in turn be able to afford increased predictability to its lessee counterparties, resulting in competitive advantage in a highly competitive marketplace.