A proliferation of leasing companies is more likely in the future, writes Adam Pilarski, senior vice-president at Avitas.

Many people believe that we are at a threshold of solid consolidation of leasing companies. After the merger of AerCap and ILFC most people expect a continuation of such a trend and see the number of lessors diminishing in the future.

A number of lessors were, or are, on the market either for sale or moving towards raising public funds. Hence, a logical conclusion drawn by some is that in the future we will see significantly fewer lessors.

At the March Istat conference in Phoenix the heads of all major lessors supported such a view. One expressed the opinion that the only reason we do not yet see substantial consolidation is that the industry is doing too well, so nobody wants to sell at a reasonable price.

My view is different. I do not see consolidation but rather a proliferation of leasing companies in the future. No doubt that 2014 was a very good year for leasing companies. Air Lease Corporation (ALC) reported revenues of more than $1 billion for the first time. SMBC reported an average profit sharing/bonuses of more than $500,000 for all staff and over a $1.5 million for upper management. Such developments encourage newcomers to try to enter the industry rather than to leave it. This is especially the case in regional dispersion of leasing companies, which for a long time were mainly based in the US and in Europe.

A plethora of new competitors has sprung up in Asia and in the Middle East. China and the Middle East, where traffic has been booming and plenty of available capital exists, have formed totally new entities, while Japan has expanded into the business by buying existing platforms or creating joint ventures with established lessors such as the recent transaction involving CTE.

Overall, the environment supporting leasing companies in the world has been very favourable. Lessors have benefited from large amounts of money floating around while interest rates are incredibly low, an overly booming order cycle, as well as virgin money trying to enter the sexy life of aircraft leasing—and what more convenient way than via investing in a leasing vehicle supported by mobile and generally profitable assets?

The question of whether aircraft leasing is consolidating, or not, is an empirical one. We can answer it by looking at the composition of the 25 top aircraft lessors in the world in 2014. The results are illuminating. We notice that less than half of those companies making that list were operating only a decade ago. The list includes operators which are the result of consolidation of previously separate entities such as AerCap. However, a large crop of totally new entities has been established in the past decade. Of the newcomers, new businesses from China and the US had four new representatives each on the list and three were European, with a sprinkling of Japanese, Australian and Middle Eastern rounding the count. Some were totally new, such as ICBC Leasing and CDB Leasing in China or DAE Aerospace in Dubai. Some were the children of prolific serial entrepreneurs such as Air Lease Corporation or Avolon, which have in them the DNA of ILFC and RBS, while some were the grand or even great grandchildren of even more insistent serial entrepreneurs, such as Jackson Square.

There are the usual suspects which want to enter the fray of aircraft leasing. These include excess funds looking for suitable returns, huge new economies euphemistically called emerging markets and the above-mentioned large cadre of seasoned professionals which have set up new leasing companies in a row for a very long time.

There is a new category, though, which eventually may also add to the proliferation of aircraft leasing companies. Some airlines which ordered huge amounts of aircraft started talking about possibly leasing some of them out in case their own demand does not materialize fully. While the airline business is quite different than the business of leasing, those newcomers are already establishing the proper infrastructure to run a leasing business.

Indonesia’s Lion Group three years ago formed a dedicated unit that already has leased out new 737NGs into the Chinese airline market and is keen to place used units from its core airline fleet into the US market. In a few years’ time we might see others such as Norwegian or AirAsia eventually becoming owners of a successful leasing arm.

All the reasons enumerated above lead me to believe that a consolidation of the aircraft leasing companies is not on the cards.