

Who really owns that trailer?

The rationale for asset leasing

Asset leasing has been an integral part of the transportation industry for many years and most modes use the practice. **Walter Weart** looks at what motivates companies to lease transportation assets.

Companies lease trailers, railcars, planes and more for several reasons, but in general it's a question of how best to use assets, whether capital or equipment.

"What is your business? Where do you invest to generate income?" asks Michael Feldman, a partner who practises corporate and commercial law including structured asset-backed financing, aircraft financing and related areas with Torys LLP, a New York and Toronto law firm.

Another question he says to ask is, "Do you really need to own the asset or do you just need to use it to further your business?"

It's not just the bottom line that influences the decision to lease.

"We have more than 12,000 trucks of all types in our lease fleet and even though the size of our fleet and the financial aspects of leasing are certainly important, there are several other factors that favour leasing over ownership," says Oliver Silver, director of customer retention and marketing for Ryder Canada.

"While we offer our lease customers extensive support for maintenance, fuel availability and tax reporting, one of the most important things we provide is our ability to insure compliance with Ontario's Commercial Vehicle Operator's Registration System (CVOR) that requires that all operators of heavy commercial vehicles register and comply with stringent regulations," Silver says.

Some commercial motor carriers lease equipment for the reasons Feldman mentioned.

"Part of our strategic plan is to cycle our tractors more quickly for replacement so we are leasing them, as this prevents us from being in the used truck business," says Paul Dean, vice-president and general manager of Kriska Holdings Ltd, a large Ontario motor carrier. He adds that they plan to replace their tractors after four years or 965,600km and leasing allows them to turn the equipment back to the lessor at that point.

Private carriage is the largest sector of the Canadian trucking community, accounting for more than 60 percent of heavy trucks on the road. These companies are a major users of leased vehicles.

"We do not survey our members on this question but I think that while leasing is more prevalent in our industry, it does not exceed ownership by a wide margin," says Bruce Richards, president of the Private Motor Truck Council. He adds that many of the private carriers do not want to be in the "trucking business" but they need the equipment to further their business and leasing offers advantages including breakdown support and additional equipment to cover surges in business.

Shippers, and sometimes railroads, also lease railcars. While tank cars may have traditionally been the primary rail vehicle being leased, nearly every type of freight car can be found in the lessors' fleets. One

such firm is Procor LP, which manages more than 22,000 conventional and special-purpose tank and freight cars.

"In addition to tank cars, our fleet now includes covered hoppers, bulk-head flat cars, box cars, gondolas and pressure flow cars," says Doug Reece, manager of marketing and business development for Procor. He adds that their customer base includes both railroads and private firms.

Growth in the leased railcar market is driven by several factors, both business and service considerations.

"There has been a shift to larger-capacity cars in some market segments. However, the big story is the substantial increase in demand for almost every car type over the last two years. In the current market, inventories of existing cars available for lease are small and new cars are in tight supply," Reece says.

Other reasons for leasing tank cars are regulatory compliance and maintenance requirements.

"A full-service lease includes maintenance, engineering, technical support and the administration associated with ownership, enabling customers to focus on their core business. Furthermore, shippers with tank car fleets do not want to be in the tank car business in this time of significant regulatory change, with all the associated regulatory requirements and risks," Reece says.

Locomotive leasing has emerged in the past few years and several firms are leasing engines to Class 1 railroads, short lines and even private firms.

"We currently have more than 500 locomotives on lease to CP and we count Rail America and the Genesee & Wyoming Inc, both short-line operators, as customers as well," says Michael Teruggi, vice-president and director of motive power for CIT Rail Resources.

"We have been in serious discussions with both grain and coal shippers about leasing locomotives to be able to insure that their products move, as they have experienced delays caused by power shortages on the Class 1 railroads," Teruggi says.

"We foresee more growth in the locomotive leasing market as the railroads make determinations where best to invest. Leasing give them additional options."

One area not often thought about when discussing leasing transportation equipment is aircraft. While this is more often considered in connection with private planes, the major carriers also lease equipment.

"We leased our aircraft to minimize capital outlay as a new carrier and it also provides some flexibility should the business model change," says Chris Kelly, director of finance and strategic planning for Canadian discount carrier CanJet Airlines.

One of the firms that leases aircraft is GE Commercial Aviation Service, part of General Electric. It has a fleet of about 1,300 airplanes, including about 85 freighters.

"Capital outlay may not be the most important consideration, but rather the flexibility to upgrade at a later date and to continue to fly the newest aircraft," says Eric Jones, manager of communications for GE Commercial Aviation Service.

Part of this flexibility allows the air carrier to revise its fleet to meet changing business needs. GE can take the older aircraft and, in some cases, convert them to freighters and place them back on lease with another carrier.

Just because a vehicle sports a carrier's name doesn't mean they own it. Leasing is likely to become a significant aspect of carrier management in the near future as carriers decide where best to place their capital for the greatest return.

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