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**Scaling in Ireland: Ensuring  
your perfect landing**

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# Scaling in Ireland – Ensuring your perfect landing

Ireland is positioned as a leading global hub for aircraft leasing and finance, with 14 out of the top 15 leasing companies operating here. This article aims to highlight the key regulatory / tax, property and talent advisory considerations in order to scale and grow in Ireland.

## Executive Summary

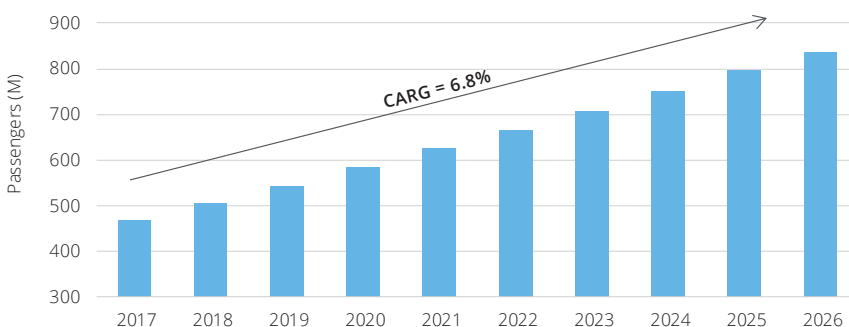
With the yearly growth of air traffic and the continual success of airline operating performance, the aviation finance industry has seen remarkable evolution over the past 10 years and a level of sustained growth is expected. This is nowhere more evident than in China, where passenger travel is expected to surpass North America and Europe by 2035, expanding on commercial aerospace sector demand.<sup>1</sup> However, due to the unfavourable transaction and tax regulations in China, Chinese aircraft leasing organisations are seeking alternative locations for expansion.

Ireland has been long established as the global centre for aircraft leasing. Attractive economic factors including high GDP growth, strong consumer sentiment, and expanding employment place Ireland as a premier location to set-up foreign businesses. Other dynamics in the Irish marketplace such as an on-going availability of global talent, preferential legal features for aircraft leasing companies as

well as a highly sought after Corporate Tax regime (12.5%) with over 70 double taxation treaties have all played a part in making Ireland the destination for aircraft leasing. This article is the first of a three part series where we will discuss some of the unique factors to consider in order to successfully scale and grow in the aviation sector in Ireland. This article will provide an overview of the industry locally and will focus on 3 key areas for consideration including regulatory / tax, property and talent advisory.

It will consider the role a favourable regulatory landscape which makes Ireland a good place to do business in. It will offer an insight into the macro environment and fundamentals of the property market and it will present a view on the essential elements of talent acquisition and talent management strategies, that are necessary to establish and expand successful aviation finance organisations.

China Domestic Passenger Forecast



Source: Global Aerospace and Defense Sector Financial Performance Study, Deloitte, 2017.

### Global Industry Overview – Flying High?

The aviation finance and leasing industry is a marketplace that continues to be reshaped by new entrants, evolving economic conditions, changing consumer preferences and demographics, as well as new categories of exposures that offer both growth opportunities and inherent bottom-line risks.

- Growth in air traffic, strong airline operating performance and the availability of low cost funding underline a strong positive outlook for the aviation leasing sector.<sup>2</sup>
- Travel demand (Revenue Passenger Kilometres – RPK) has been increasing at a compounded annual growth rate of 4.7% over the last 10 years with passenger enplanements rising from slightly over 2 billion to more than 3.5 billion annually during this period<sup>3</sup> resulting in significant order increases for new aircrafts.

This is expected to continue on an upward trajectory with passenger and freight traffic likely to grow at an average annual growth rate of 4.8% and 4.2% respectively over the next 20 years contributing to higher aircraft production.<sup>4</sup> The extent of new order backlogs is indicative of an anticipated increase in revenue growth in the sector.

- Despite various headwinds including Brexit, the impact of the Trump Presidency, growing uncertainty in the Middle East, new heights of debt financing, lease term maturities and impending regulatory changes, i.e. changes to the double tax treaty operating in Ireland, the industry remains robust and is becoming increasingly competitive.
- Due to the growing intensity of competition, there is also a trend of consolidation as companies want to grow quickly as opposed to organically in the marketplace.
- Globally, developing economies including China, present the most lucrative opportunities for aviation leasing over the next 20 years<sup>5</sup>.
- To demonstrate the scale, China's passenger travel demand (RPK's) is

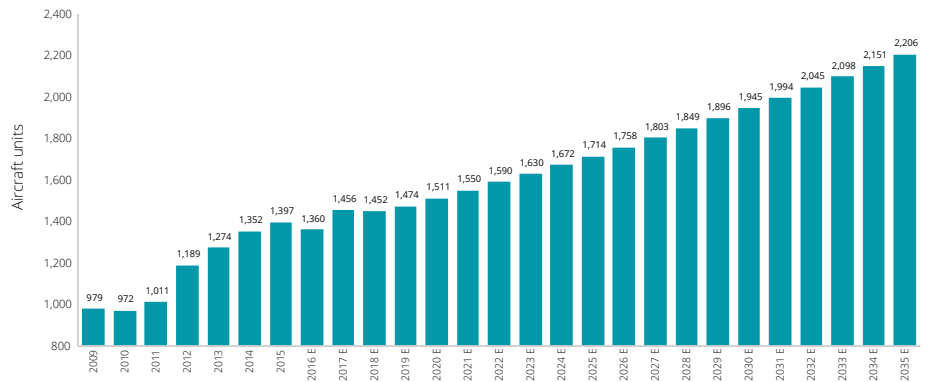
estimated to surpass North America and Europe by 2035<sup>6</sup>, with 1.9 trillion revenue passenger kilometres estimated in 2035. This is expected to drive the commercial aerospace sector demand in China, which would require 6,180 aircrafts in the next 20 years to meet growing demand.

- As companies face multiple structural challenges in embedding in their operating environment, there is now an appetite to expand and grow aircraft leasing operations in Ireland more than ever.

### Why Ireland? - Take Your Business to New Heights...

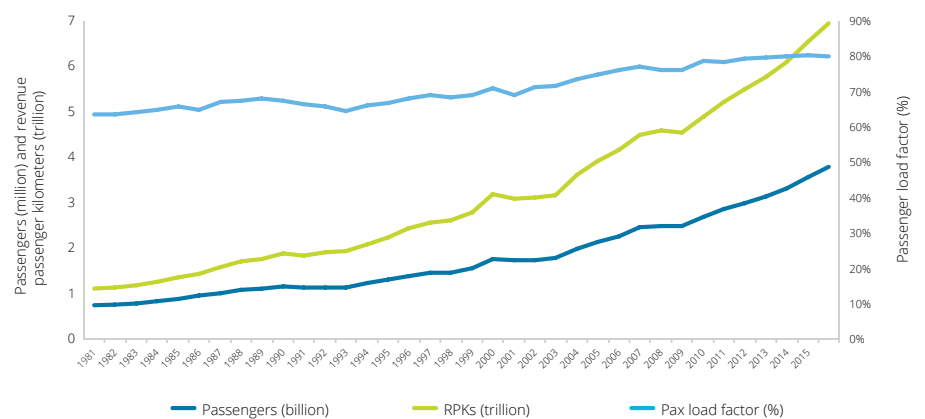
Overall, there is a positive outlook for the sector as evidenced in the overview above. However, growing demand for aviation services present challenges for lessors that seek a suitable basis from which to operate. Ireland, having firmly established itself as the leading global centre for aviation

Aircraft production (2009 to 2035F)



Source: Deloitte analysis of the following data: The Boeing Company, Current Market Outlook (2016–2035), July 2016, [http://www.boeing.com/resources/boeingdotcom/commercial/about-our-market/assets/downloads/cmo\\_print\\_2016\\_final.pdf](http://www.boeing.com/resources/boeingdotcom/commercial/about-our-market/assets/downloads/cmo_print_2016_final.pdf); and Airbus Group, Global Market Forecast (2016–2035), July 2016, <http://www.airbus.com/company/market/forecast>.

Global airline traffic (1981 to 2016E)



Source: Global Consumer & Industrial Products Industry group analysis of the data from International Air Transport Association (IATA), 2015.

finance and leasing is well poised to take advantage of developing opportunities in the industry. The following section outlines the various factors specific to Ireland that allow such businesses to thrive in this setting and sustain continued profitability.

### Economy

Ireland is enjoying a booming economy, one that is growing from strength to strength. This trend shows no sign of decline with the following positive economic indicators supportive of continued growth in Ireland:

- **GDP Growth:** GDP growth forecast at 3.8% in 2017 and 3.6% in 2018, above OECD norms.<sup>7</sup>
- **Strong Consumer Sentiment:** Consumer Sentiment rises to its strongest level in 17 months in July, 2017.<sup>8</sup>
- **Employment Growth:** Robust expansion of the employment market with employment expected to grow 3.1% in 2017.
- **Pace of Employment Creation:** The pace of employment creation is strong. 40% of Financial Services firms with a presence in Ireland are expected to hire in 2017 as a result of Brexit. Ireland is also a global gateway for Fintech start-ups.
- **FDI:** To-date, FDI inward investment from the United States has been positive, with the cumulative value of foreign direct investment by US companies into Ireland doubling in five years from \$158bn (€148bn) in 2010 to \$350bn (€329bn) in 2015, according to new figures from the US Department of Commerce. With President Trump's plan to entice US companies to remain in the US, US FDI will need to be monitored.
- **Redomiciliation:** The number of Irish incorporated entities found by the Central Bank of Ireland with activities linked to aircraft leasing was 1,132 in total.<sup>9</sup> The entities include two types of aircraft lessors in Ireland, the longstanding incumbents in the industry (including aircraft assets redomiciled to Ireland over time) and more recently established special purpose vehicles.

### Legal & Regulatory

The legal and regulatory landscape is favourable to lessors seeking to scale and

grow in Ireland and is demonstrated in a number of different areas which include;

- **Flexibility in Financial Reporting & Compliance:** Companies can choose from IFRS, Irish GAAP or US GAAP for financial reporting in Ireland.
- **Cape Town Convention:** Ireland is the only EU State to adopt the convention on international interests in mobile equipment.
- **Agility:** The Irish Statutory Regime is sufficiently agile to integrate with the majority of global organisations, with large numbers of multinational corporations from various countries successfully locating operations within Ireland.
- **Favourable Corporate Tax Regime and extensive Tax Treaty Network:** Ireland has a 12.5% corporation tax and an 8 year tax write off period. There are over 70 double tax treaties (the majority of which "provide for zero withholding tax on inbound lease rentals"). Tax depreciation write off period is 8 years – much quicker than in other locations compared with a typical 20-25 year economic life.
- **Aviation Act July 2014:** This act enables investors to benefit from 'Alternative A' type protection highlighted in the Cape Town Convention resulting in increased security for creditors upon the occurrence of an insolvency related event.
- **Special Purpose Vehicles & Vendor Finance:** Establishing an entity in Ireland is straight forward, quick and inexpensive. Entities can be established with a share capital of €1 / US\$1. Ireland is an attractive location for vendor finance and many manufacturing companies have already set up here.
- **IAA Aircraft Registration:** Aircraft registration with the Irish Aviation Authority remains one of the most desired globally.

### Talent

There is an on-going availability of a global, highly skilled and educated talent pool in Ireland.

- **Talent Pool:** Ireland has a proven



track record with over 1,150 overseas companies with a presence here.

- **Education:** Annual investment in education of 10% of public expenditure in the 10 years to 2008 (vs. a European average of 3%) has contributed significantly to Ireland's educational success.<sup>10</sup> A European Commission study of third level education in 2012 stated that Ireland produced "the most highly employable graduates in the world".
- **Specialist Skills:** The strong history of growth in aviation finance in Ireland has led to a concentration of specialised skills required by the industry and a number of bespoke aviation finance higher education courses, currently being offered by Irish universities.

### Key Considerations in Establishing and Growing Presence in Ireland – Are You Ready for Take-off?

The economic, regulatory, and talent advantages categorising the Irish business environment evidently highlight Ireland as the preferential global hub for aircraft lessors. In order to spread your wings in the Irish aviation landscape, we will discuss 3 key areas to be cognisant of when scaling and growing your business, including regulatory / tax, property and talent advisory considerations.

#### Regulatory / Tax Insights

What are the tax benefits of establishing a leasing platform in Ireland?

- Ireland is an onshore jurisdiction and a long standing member of the European Union and the Organisation for Economic Cooperation and Development with access to a wide double tax treaty network. The standard corporation tax rate is 12.5% with no withholding tax on lease rental payments.
- The Irish tax regime generally provides for tax depreciation in respect to aircraft, including equipment and engines.
- A zero per cent Value Added Tax applies on international aviation leasing.
- There is no stamp duty or transfer taxes on the transfer of aircraft or aircraft parts.
- Furthermore, there are wide exemptions from withholding tax on interest and dividend payments.
- Section 110 Companies allows qualifying companies a tax deduction for profit participating interest (in certain circumstances) resulting in tax neutrality and making it an ideal vehicle to facilitate investment.

#### How Will International Tax Reform Impact the Leasing Industry?

- The Irish government's continued support of the industry and commitment to Ireland remaining the number one country for all leasing activities has led to a highly developed and efficient, pro-business regulatory regime.
- Whereas tax incentives no doubt

will continue to play a role in the attractiveness of a location, it is clear that the enjoyment of tax benefits in the future will be more closely aligned to those jurisdictions where the relevant lessor has real economic activities and substance. Therefore, care should be exercised in deciding on a leasing location, and a lessor should consider whether it would be able to sustain business operations in the future.

#### Property Market Insights

##### Commercial

Does your re-location plan take into account the availability of office space in prime locations across Ireland?

- Ireland is one of the most globally connected countries in the world. Its geographic position and membership of the EU and the Euro makes it a great base and gateway from which businesses can access the UK, Europe, US and the Middle East. There has been investment of €4.46bn in the Irish commercial property in 2016, which is an annual increase of 21%.<sup>11</sup>
- There are over 130 new office building developments planned for Dublin in the next year totalling over 1.1 million SQM.<sup>12</sup>
- However in light of Brexit, companies need to be aware that there could be profound implications on the Dublin office market – not to mention the residential property market – if large numbers of well-paid personnel

start relocating to Dublin, given the severe shortage of Grade A office accommodation in the city centre and headline rents now soaring to boom era peaks.<sup>13</sup> (In Dublin: €673 per sq. metre or €62.50 per square foot)

### Residential Housing

Have you considered the private housing needs of your employees in a market low on supply?

- Businesses need to be mindful of residential housing market shortages for their employee's when re-locating or setting up in Ireland. Nationally, chartered surveyors anticipate property values to increase by an average of 7.3% in 2017.
- The pipeline of construction is looking healthy with a 36% increase nationally in the number of buildings under construction, moving to 5,996 up from 4,375 in 2016. Despite this large increase in output, demand is outweighing supply, with the ESRI increasing their estimate of new dwellings needed each year to be 30,000 to 35,000.<sup>14</sup> Therefore, a further significant increase in output is needed over future years to meet growing demands, and even then it seems likely that pressure on prices will continue.
- Additionally, companies need to consider that there may be increased salary demands, particularly in Dublin, as people struggle to gain a foothold on the property market and buy their dream/ starter home. A change in lifestyle, as we move to more apartment living, and increased demands on public services, such as the transport and water networks, are expected. This may bring increased demand for flexible work practices as working from home becomes more prevalent and the challenge of managing a geographically spread team<sup>15</sup> becomes more of a reality.

### Talent Advisory Insights

#### Talent Management

Do you have you a comprehensive talent management programme in place to attract, develop and retain the right talent?

- As evidenced above, Ireland is enjoying a buoyant economic climate, has a strong

base of existing lessors and a highly skilled talent pool. With a large number of overseas global companies and Brexit related expansion opportunities being realised, collectively these factors are intensifying the war for talent.

- In order to compete and attract talent, lessors will need to ensure that they have a robust talent strategy in place, which includes talent acquisition, talent management & retention & performance management practices.
- The aviation finance and leasing industry is synonymous with lattice career moves and vertical progression, devolved organisational structures and accelerated learning and career progression, elements that will resonate with new graduates and Millennials in Ireland. A comprehensive talent management strategy can complement the already attractive features of the aviation finance and leasing industry, attracting top performers these organisations.

### Talent Acquisition

Have you considered your ability to attract top talent into your organisation?

- In a competitive and growing market, new entrants will be competing with some of the largest and most prolific brands in the world e.g. Google, Facebook etc. Lessors will need to carefully consider their Brand / Employee Value Proposition both as an industry and as an organisation in order to attract top talent.
- In order to do this, organisations will need to consider the use of alternate talent models and different hiring methods to remain competitive in the war for talent in the Irish marketplace.
- Deloitte has observed the following talent acquisition practices at play within the sector:
  - Leading organisations are embracing social networking, analytics and new cognitive tools to find people in new ways.
  - The most utilised medium for sourcing talent remains outside agencies whilst social media and online websites are also beginning to play a bigger role.

- In-house recruiters and employee referral programmes continue to be important and can be used as an additional employee benefit.
- There are a number of niche recruiters in the Aviation sector with some new entrants making a big impact at lower levels, e.g. Barden.
- Lessors will need to build relationships with a number of key aviation talent acquisition providers to ensure adequate coverage of the market for candidates. Ireland is a small market and whilst talent acquisition is heavily reliant on personal relationships, selected recruiters in aviation leasing will have an understanding of the size, scale and nature of the market and can easily network and tap into key talent.
- Ireland provides specific tax incentives for individuals relocating to Ireland from overseas which provide cost savings at the individual and corporate level. These provide an added stimulus to relocate talent as required.

### Performance Management

Does your organisation have a performance management strategy that delivers high employee engagement & supports talent retention?

- Lessors will also need to consider the design of their performance management process. A focus on performance management is associated with strong organisational benefits with 90% of companies having redesigned performance management seeing direct improvement in employee engagement. Investment in this process allows organisations to make more informed decisions through data driven methods that are simpler to manage. It also helps to develop key talent, provide opportunity to build core capabilities needed to succeed in the future and in doing so, acts as a process to anchor and retain talent.
- Driven in part by expectations of the millennial generation, organisations, are now concentrating on creating a culture of continuous feedback to take emphasis off year-end performance reviews. Frequent discussions and

real-time feedback are becoming more common as employees seek to know how they are performing on an on-going basis. Implementation of such models support strong cultures, improving the employee experience and strengthening a company's ability to compete for first class employees.

### Organisation Design

Do you have the right organisational structure to scale effectively and have you considered organisation design alternatives?

- Organisation Design needs to be considered in conjunction with talent management as the leadership team seek to ensure that person-job fit is correct.
- In the fast paced industry of aviation finance, lessors face a growing imperative to redesign themselves to move faster, adapt more quickly, facilitate rapid learning and embrace the dynamic career demands of their people.
- The approach that you adopt in designing your organisation is fundamental to achieving these objectives. For lessors choosing to rethink their companies' structure, key activities that deserve focus include the development and agreement of a high level operating model and a detailed approach and a review of previous attempts at organisation design in the aviation industry. By embracing these changes and moving towards a 'network of teams' approach, lessors can leave behind traditional hierarchical structures creating agile, empowered, fast-paced teams to match the requirements of the rapidly evolving environment in which they operate.

### Navigating the glide path

Ireland has firmly established itself as a Centre of Excellence in aircraft leasing over the last 35 years, with 90% of the world's lessors operating through Irish companies. A strong economy & employment market, attractive talent pool, and an advantageous legal regulatory and tax environment, make Ireland a premier destination for those operating within this industry. Combined,

these factors have cemented Ireland's unrivalled position in aviation finance for some years to come.

However, lessors should also be mindful of some of those potential irritations when operating in an Irish business climate that is growth oriented, reaching near full employment with property supplies at a premium.

Deloitte, with a firm wide team of 2,800 professionals in Ireland and an experienced aviation advisory and consulting team, are uniquely positioned to support lessors with these challenges as they deliberate their market entry strategy.

From tax and employment advisory services to organisational transformation and talent advisory, all play their own essential role to supporting lessors to deliver maximum shareholder return, whilst scaling to success as an aviation finance player in the Irish and global market.

Strategic HR is the key to growth and sustainability within an industry that enjoys supercharged performance. The variance between high-performing and low-performing enterprises is nearly 40%, this is primarily due to investment or the lack of investment in the combination of business leader skills, people management skills, and HR Performance <sup>16</sup>.

In our next thought leadership article in this series, we will explore the integral role that Board Governance, Culture, EVP & Leadership plays in sustaining and safeguarding the success of lessors in the Irish marketplace.





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## 1Footnotes

1 Global Aerospace and Defense Sector Financial Performance Study. Deloitte, 2017.

2 20-Year Air Passenger Forecast. The International Air Transport Association, 2017.

3 Annual Analyses of the EU Air Transport Market 2016. European Commission, 2016.

4 Global Aerospace and Defense Sector Financial Performance Study. Deloitte, 2017.

5 Deloitte Insights.

6 Long haul for China's Big Jet. Bloomberg, 2016.

7 Economic Growth Set to Remain Solid in 2017 and 2018. ESRI, 2017.

8 Economic Growth Set to Remain Solid in 2017 and 2018. ESRI, 2017.

9 The Aircraft Leasing Industry in Ireland: Cross Border Flows and Statistical Treatment. The Central Bank of Ireland, Quarterly Bulletin, 2017.

10 Key Data on Education in Europe. European Commission, 2012.

11 Property Market Trends Past, Present and Projections. Cushman and Wakefield, 2017.

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13 Brexit Bounce: Will Dublin's Property Market Benefit from the Vote to Leave EU. Irish Times, 2016.

14 Residential & Commercial Property Review & Outlook. Society of Chartered Surveyors Ireland, 2017.

15 Residential & Commercial Property Review and Outlook. Society of Chartered Surveyors Ireland, 2017.

16 Residential & Commercial Property Review and Outlook. Society of Chartered Surveyors Ireland, 2017.

17 The Millennial Majority is Transforming Your Culture. Deloitte, 2016.

## Case study

A global Deloitte client wanted to scale their position in the Irish aviation landscape and sought advice on taking a step forward to align their people and their core business strategy. Deloitte has in-depth experience working with aviation lessors on their human capital challenges in the Irish marketplace. Working through six different streams (Work Stream Management, Future State Organisation and Core Workforce Transition, Talent Acquisition and Integration, Compensation and Benefits, HR Function Integration, Communications and Culture) Deloitte Human Capital helped the organisation define its future business structure. Once completed, a strategic plan was developed with appropriate processes to manage the transition, supported by a dynamic multi-faceted communications plan for all stakeholders.

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