Private Air Travel Options in the 21st Century
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The Private Jet Transportation Industry is Booming:

The late 20th century and early 21st century has seen the development of a wide array of new ownership and non-ownership options that have brought private jet transportation to a wider spectrum of society. As the variety of options have increased, so to has the level of confusion as to the nature of the various types of programs, and the methods for determining which option is best suited to each individual. This article is intended to educate the reader about the aircraft ownership and non-ownership options available today and a few pros and cons of each, and it will also identify some of the larger players in the market.

Whole Aircraft Ownership:

Whole aircraft ownership is the most basic form of ownership. Under whole ownership, the aircraft owner may directly employ the pilots, mechanics and other personnel necessary to the operations of the aircraft, or may contract for some or all such services with an aircraft management company, such as Jet Aviation, TAG Aviation or Executive Jet Management, to name a few of the largest worldwide organizations. In addition to possibly selecting a management company, the process of acquiring an aircraft requires selection of competent aviation tax and FAA counsel (e.g., Galland, Kharasch, of course), an aircraft acquisition broker or consultant, and perhaps an aircraft lender. The largest aircraft lenders are Bank of America and General Electric.

Some Advantages of Whole Aircraft Ownership Include:

- Complete flexibility on scheduling usage on an ad hoc, short notice, basis (including, operation under FAR Part 91 – the most flexible regulations).

- Tax benefits associated with depreciation.

- Reduced operating costs, through generation of charter revenue.

- Professional piloting and maintenance oversight through use of an aircraft management company.

- Opportunities for appreciation in the value of the aircraft.

Some Disadvantages of Whole Aircraft Ownership Include:

- Large capital outlay.

- Cost inefficiencies for low utilization users (i.e., fewer than 300 flight hours per year) or users with many extended trips.

- Inflexibility on aircraft size/type.

- Requires personal supervision.

- Risk of market value depreciation.

Operating Leasing:

Leasing is similar to whole aircraft ownership in many ways, but without the initial cash investment in the aircraft. Depending on the terms of the lease, the lessee may not be at risk for unanticipated market downturns. Conversely, since the lender owns the aircraft, unless a purchase option is exercised, the lender benefits from appreciation in the value of the aircraft.

Where the owner is not able to claim tax deductions for depreciation, an operating lease is preferable to whole ownership because the lender can leverage the tax benefits to buy down the financing costs. This commonly occurs with family offices that utilize aircraft primarily for oversight of family investments or other personal purposes. However, a disadvantage of operating leases is their inherent inflexibility in exiting the lease at points other than 2 or 3 early buy-out options.

Joint Ownership:

Under a joint ownership arrangement, capital costs and fixed operating costs are spread out among two or more owners. The obvious benefit is significantly lower ownership and operating costs, however, despite the compelling business model, joint ownership hasn't ever succeeded because of the difficulty in managing competing usage schedules and other coordinated activities.

In addition, where the aircraft will be financed, each joint owner should become familiar with the credit worthiness of each other joint owner. This is because most lenders will require that all joint owners be jointly and severally liable for the entire indebtedness. And, of course, the lender is likely to require the right to repossess the entire aircraft if any one joint owner defaults. Thus, each joint-owner's investment is at risk in the event of a default by any other joint owner.

Fractional Ownership:

Fractional ownership combines many of the advantages, while eliminating many of the disadvantages, of both whole ownership and joint ownership. In a classic fractional ownership program, you purchase an undivided tenants in common interest in a particular aircraft. Typically each 1/16th interest entitles the owner to 50 flight hours per year (although, newer programs are innovating on this concept). This concept has proven so successful because your share allows you to access the entire fleet of aircraft in the program, facilitating both scheduling flexibility and aircraft type/size selection, thus allowing you to select the aircraft best suited to the mission on a flight-by-flight basis. Anyone budgeting 300 or fewer flying hours per year should consider fractional as an option.

Some fractional programs are small with only a few aircraft and serve a regional market, with aircraft based at only one or two airports. Other programs such as Flexjets, Netjets, CitationShares and Flight Options are large organizations with numerous aircraft of various makes and models, serving national and international markets. Customers of the larger programs can have an aircraft pick them up at any suitable airport in the U.S., and parts of the Caribbean, Canada, Mexico and Hawaii, and not be charged for deadhead time. Smaller regional fractional programs typically have more restrictions on where they will pick you up or drop you off, and may charge for deadhead time if your trip does not begin or end at the home operating base of the aircraft, but attract owners to their programs by offering lower fees. With the larger programs, enhanced service parameters translate to increased fees.

Some Further Advantages of Classic Fractional Ownership Include:

- Sharing fixed costs among multiple owners.

- Guaranteed buy back provisions (less a “remarketing” commission).

- Flexible operating parameters under FAR Part 91, subpart K, or alternatively, less flexible operating parameters under FAR Part 135 however, with enhanced liability protection planning.

The last point is worth elaborating on. Fractional program aircraft may be operated under either the general operating rules of FAR Part 91 subpart K, or under the commercial charter rules of FAR Part 135. Under subpart K of Part 91, the customer is legally responsible for ensuring that the aircraft is operated in accordance with all applicable laws and regulations, and may be held liable for damages arising from any accident involving the aircraft. Conversely, when a fractional aircraft is operated under Part 135, the fractional program provider is legally responsible for the operation of the aircraft. Some fractional programs operate under Part 135 at all times. Some fractional programs may not be licensed to operate under Part 135 and therefore operate all flights under subpart K of Part 91. Most large fractional programs typically operate under subpart K of Part 91, but are licensed to operate under Part 135 and will do so for any customer who requests it.

Some Disadvantages of Classic Fractional Ownership Include:

- Increased management and infrastructure costs.

- Increased market value depreciation due to high utilization of the aircraft (e.g., Flight Options contracts permit as much as 1,700 hours of annual utilization compared to typical fleet utilization of 400-500 hours per year).

- Increased Federal Taxes on operations.

Flight Card and Block Charter Programs:

Flight card programs have made fractional ownership program fleets available to persons with aircraft utilization requirements of less than 50 hours per year. With a Jet Card Program, a customer generally prepays for a certain number of flight hours (typically 25) on a certain make and model of aircraft, and thereby gains access to the fractional fleet. Whenever the customer flies, the total number of flight hours flown is debited from the card. When the card is used up, the customer has no further obligation. Most large fractional programs have one or more associated card programs. The Marquis Jet Card program is associated with Netjets. The Flexjet 25 card program is associated with Flexjets. Flight Options has the Jet Pass Card program and CitationShares has the Vector Card program.

Block Charter programs are similar to the card programs associated with large fractional programs, but usually provide for access to charter fleets rather than fractional fleets. Aircraft in charter fleets tend to be older on average and do not have standardized interiors and amenities like fractional fleets. With some block charter cards, you may have access to only the charter fleet of a single charter operator. Other cards, such as those offered by SkyJet (a Bombardier affiliate) and Sentient Jet provide access to aircraft offered by many charter operators. In order to offer such access, the program is effectively acting as your charter broker/concierge. Be aware, however, that the hourly rate pricing reflects infrastructure costs and profit margins, and is not simply cost, plus a percentage fee for the service.

Future Innovations:

Several new models of “very light jets” or “VLJ’s”, such as the Eclipse 500, will be flooding into the market over the next few years. And many innovative entrepreneurs are working on new programs to make access to this new category of aircraft available to segments of the population not previously served by private jets. It is too early to tell what most of these programs will look like, but the future is sure to include some very interesting new private jet transportation concepts.