

MARKETPLACE

Private Jets Tempt Rich in New Ways

Companies, Once Reliant on Selling Plane Shares, Offer Fresh Options as They Navigate Tough Skies

By DAVID KESMDEL

Private-jet companies are expanding services aimed at well-heeled travelers as they seek a better business model in a tough economy.

In recent months, Bombardier Inc.'s Flexjet, Flight Options LLC and NetJets Inc., owned by Warren Buffett's Berkshire Hathaway Inc., have started rolling out more flexible travel options—sometimes at a lower cost—for fliers who seek alternatives to commercial planes. The services are a twist on the companies' traditional business of selling shares in business aircraft.

Among the offerings: a "debit" card from Flexjet that lets customers fly as often as they want. Travelers make a minimum \$100,000 deposit, and money is deducted as they take trips on Bombardier-built jets.

The program grew out of the industry's rental cards, which were adopted about a decade ago to help fill seats. That plan typically requires fliers to prepay for 25 hours of flying on a specific model plane. Flexjet customers, for instance, pay \$210,850 for 25 hours on an eight-passenger Challenger 300 jet. Flexjet says the new option, which it began offering last fall, attracts customers because it offers a lower-priced entry point.

The industry's original fractional-ownership programs are roughly analogous to investing in a timeshare condo. Customers buy a share of an aircraft that they can fly up to a specified number of hours each year. All the owners pay monthly management and maintenance fees, as well as hourly operating costs.

In its various forms, the fractional-aircraft market accounts for about 15% of all U.S. business-aviation flights. The 2008 credit crisis squeezed the industry, which makes most of its money selling plane-ownership shares. Wealthy clients and businesses quit the programs to cut costs, and Flexjet, NetJets and others responded by slashing their fleets and laying off pilots and other staffers.



Fractional jet ownership has become a tough sell. Above, a Learjet 40 XR at Million Air in White Plains, N.Y.

In 2011, the number of share owners dropped to 4,677 worldwide, the lowest level in about eight years, according to Jetnet LLC, a market-research firm in Utica, N.Y. Some owners said they felt burned during the recession when they tried to sell back their shares and saw the values—which reflect conditions in the overall used-aircraft market—fall as much as 40% to 60%.

Earlier this year, CitationAir, a unit of Textron Inc.'s Cessna Aircraft Co., said it would stop selling shares in aircraft, but it would maintain a jet-card program. Fractional-aircraft flights last year, while still down 14% from 2008, edged up 2% from a year earlier in the U.S., thanks to an improving economy, according to Argus International Inc., a Cincinnati-based aviation-services company.

"Customers are becoming much more discerning and are not buying what they don't

need," says Mike Riegel of AviationIQ, who advises wealthy clients about fractional ownership.

The fractional providers have also responded by offering more customized solutions. For instance, some travelers can buy cards in 12.5-hour increments instead of the traditional 25 or can split their hours across multiple airplane types, Mr. Riegel says.

Tom Wyatt, president of a private golf club in South Carolina, says he joined Flexjet's debit program in October because his flight needs vary and he didn't want to commit to a specific number of hours on a rental card or own a piece of a plane. "It's just so simple and painless," says the 33-year-old.

In another twist, some fractional providers are finding that more customers want to lease shares in planes, giving them the same access as an owner with less risk. Avantair Inc., a Clearwater, Fla., fractional-aircraft

company, has been signing up about 13 to 16 lease holders a month since it started its leasing program a year ago, says CEO Steve Santo. Avantair operates about 60 Piaggio Avanti turbo-prop planes.

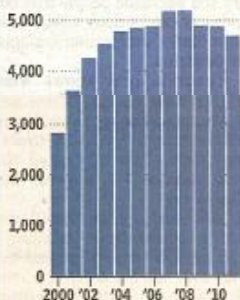
Flight Options LLC, a Cleveland, Ohio-based fractional provider, is courting fliers with what it calls a hybrid between owning fractional shares and buying a jet card. Its jet club membership provides access to its seven-passenger Embraer Phenom 300 jets, which aren't part of its card programs.

Travelers who want to fly 50 hours pay a \$270,000 membership fee, plus \$158,150 for the block of hours. It's a lower commitment than the \$537,500 that Flight Options requires for a one-16th share in the Phenom 300 jet, plus monthly management fees and other costs.

NetJets, the pioneer and largest player in the fractional seg-

Downdraft

Number of fractional aircraft owners



Source: Jetnet The Wall Street Journal

ment, has made some changes, too. In November, it introduced a new version of its jet card for customers traveling from one coast to the other.

In his annual shareholder letter this year, Mr. Buffett said that "NetJets would have gone broke" during the downturn without Berkshire Hathaway's support. Now, "these problems are behind us."