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Fractional ownership: Appreciation of depreciation shapes an industry

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Private flyers who are airborne fewer than 50 hours a year benefit from chartering aircraft, rather than part-owning one, according to the rule of thumb. The same rule says that ownership of a whole aircraft makes financial sense if one is flying at least 250 hours a year.

The territory in between has been a fertile ground for NetJets, the global leader in long-term fractional ownership. Fractional stakes generally start at 1/16th of an aircraft, or 50 hours' flight time a year. There are tax advantages, too, on business ownership, which vary depending on where it is registered.

Another alternative to ad hoc charter for regular flyers is a jet card. This is essentially a prepaid debit card sold in 25-hour increments. Participants can book a flight on a jet anytime, anywhere, with little advance notice. After a flurry of entrants to the fractional market in the late 1990s, the two main players (for larger jets) are now NetJets — owned by Warren Buffett's Berkshire Hathaway — and Texas-based Flexjet, owned by aviation entrepreneur Kenn Ricci's Directional Aviation Capital.

Part of the appeal for clients is the familiarity and consistency on offer. Jets arrive with the same interior and agreed service standards — whether amenities on board or personal chauffeurs on landing. The strategy is working for Flexjet, which reports 31 per cent growth in bookings over the past quarter, with a 20 per cent lift in sales over the previous year.

In 2014, the company placed an order for up to 50 Gulfstream jets comprising G450, G650 and the new G500 aircraft. The first G650 is due to be delivered early in 2016, but Flexjet says it has moved the G450 deliveries forward in response to customer demand.

Matt Doyle executive vice-president of sales at Flexjet, says: "By the end of the year, we will have added 27 aircraft. We have Bombardier Challenger 350s and Learjet 75s coming, as well as

Embraer Legacy 450s and 500s. Our customers are really excited by the new, more capable, efficient aircraft in each category.” Connectivity, in-flight entertainment and longer legs are factors that help to attract customers, he adds.

Sister company Flight Options, meanwhile, is also seeing increased sales. The company mostly sells shares in smaller aircraft — the Nextant 400XTi (a remanufactured Beechjet/Hawker) and Cessna Citation CJ3 variants. “The Nextant enhances range and technology with its new engine,” says Mr Doyle. “Our customers opt for range with the Nextant and speed with the Citation X.“

Both Flexjet and NetJets are offering highly tailored programmes to their customers. The Flexjet version is called “Red Label” and offers what Mr Doyle describes as “state-of-the-art interiors the customers would choose for themselves”. They also get crew dedicated to an individual aircraft, which is guaranteed to be less than five years old.

> Fractional ownership may make sense if one flies between 50 and 250 hours per year
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NetJets is offering a similar concept called the “Signature Series”, which it says is countering a somewhat flatter market in Europe. NetJets Europe is selling its ageing Falcon 7X aircraft and taking delivery of new Bombardier Challenger 350s. NetJets became the launch customer for the type when it placed an order for 75 aircraft and options for a further 125 in 2013. The order could be worth $5.4bn (€4.8 billion), if all are delivered.

NetJets also ordered up to 150 Cessna Citation Latitude business jets in 2012 and will take delivery of the first one in July 2016. Its new booking app has received about 20,000 bookings through its online customer portal.

While the fractional providers are doing well, jet card operators are also thriving. Switzerland’s VistaJet is reporting a 17 per cent increase in flights globally over the past 12 months.

New York-based Wheels Up, which concentrates on the lower end of the market, signed 1,000 members by the end of 2014 and flies 27 new turboprop Beechcraft King Airs and 10 refurbished Cessna Citation jets.

Californian operator JetSuite operates a fleet of Phenom 100 and Citation CJ3 light jets. Alex Wilcox, chief executive, says: “Fractional ownership is twice as expensive and our passengers are buying lift not metal. Aeroplanes depreciate and are a liability. We also have no membership fee, which is very attractive for our customers.”

He adds: “The larger jets market is saturated, and there is no one else competing in the light jet segment.”

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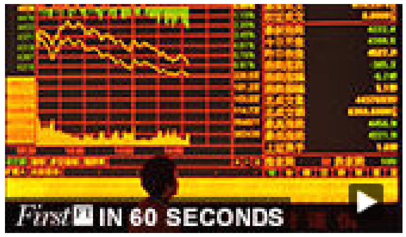

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