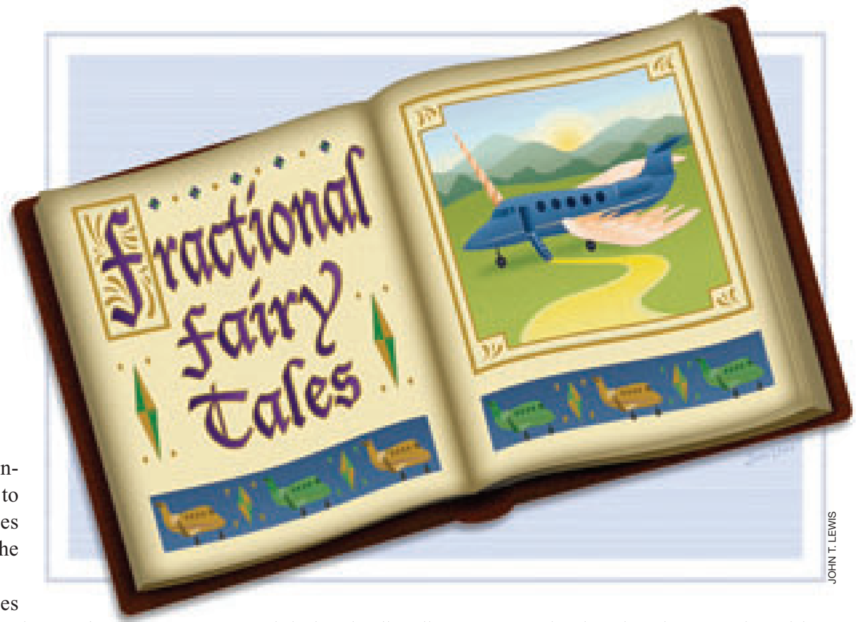
Truths, half-truths and falsehoods

These views about fractionals are widely held–and sometimes way off the mark.



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The fractional aircraft business is fascinating, in part because it is founded upon several myths, partial-truths and artificial constructs that are both pleasing for owners and profitable for providers. In many ways, fractional flying is more akin to using an executive airline than to owning a whole aircraft. Yet, for reasons ranging from the need of providers to satisfy FAA regulations to the desire of travelers to enjoy the psychic rewards of "owning" a jet, several enduring myths mask reality.

Here are five examples of conventional wisdom and the real story behind them.

1 If you fly between 50 and 400 hours per year, fractional is your best bet.

Sometimes true.

If you fly fewer than 50 hours, a jet card or charter may be better options; and if you fly more than 400 hours, you should consider purchasing an aircraft.

If you're in between, fractional may be the way to go. However, if you fly lots of short hops–say, 30 minutes each–you will lose about half your hours because fractional providers charge a minimum of one hour per flight. If you plan to travel primarily on high-usage or "peak" days (around major holidays and events like the Super Bowl), you may not be guaranteed a flight or often may find yourself on a charter. Suffice it to say, the number of hours you fly should be the start, not the end, of your analysis.

2 You "own" a share of the aircraft.

True, but only up to a point.

If you check the FAA registry for your aircraft, you'll find your name listed on the title as an owner. In reality, though, you've ceded most of the control that goes with ownership to your provider, which manages your aircraft and the rest of the fractional fleet.

This arrangement varies substantially from the traditional owner/manager relationship. For example, your fractional provider may use your aircraft to fly others in its jet-card program and retain all the remuneration paid by the jet-card holder. Your provider has little practical accountability to you for costs incurred in operating your aircraft. It decides where and when your aircraft is flown; you have no say in the matter. Your provider may even unilaterally sell your aircraft and transfer you to another. This kind of absolute authority is something you'll never see in a traditional owner/manager relationship.

3 You don't pay for deadheading.

False.

This is one of the great myths of fractional flying–often touted by the providers as a reason to prefer fractional over charter. Yet the expense of positioning aircraft is factored into the overall costs of the program, which are passed on to you through management fees and hourly rates. In addition, when calculating fuel usage, most programs add to the burn rate of the aircraft, some as much as 40 percent, to account for fuel consumed during repositioning. When you sell your share, you'll see that the high time on your aircraft, a fair amount of which is due to deadheading, has significantly reduced its value. Certainly, to the extent that providers are able to well position their large fleets to accommodate owners' needs, they may minimize deadheading.

But don't kid yourself: you pay for deadheading both in terms of operating costs and in diminution in the value of your aircraft.

4 Your costs are predictable.

False.

This is another favorite myth perpetuated by fractional providers. They'll tell you that in addition to the purchase price for your share, you'll pay a monthly management fee and an hourly rate, both of which are set at the time you sign up and will rise each year by no more than the increase in the Consumer Price Index. The provider thus gives you the impression that it is taking the risk of increases in variable costs, not you. Some providers, though, have instituted additional surcharges–for example, to cover pilot salary increases and war risk insurance premiums. Providers also tack on fuel surcharges that often do not reflect merely the increase in the cost of fuel burned on your flights over the same cost at the time you signed up for the program (as most owners expect). When you bought your share, moreover, you paid a premium over the fair market value of the aircraft for it, and when you sell it back to the provider, there's no guarantee what it will be worth.

In truth, your cost per flight hour must be calculated as the cost to purchase your share, plus the monthly management fees, hourly rates and fuel and other surcharges that you pay over the life of the investment, less what you receive when you sell your share back to the provider, divided by the actual number of hours you're in the air. That cost is neither knowable nor accurately predictable when you purchase your share.

5 Everyone signs the same simple contract.

False.

Providers do their best to convince you that everyone signs the same simple contract. They make the contracts look like "boilerplate," and by using fine print and squeezing them onto a few pages, they give the impression that they're short, simple and not subject to change. But, as they say, "The devil is in the details," and the details are important–including how, when and where you can fly; what responsibilities the provider assumes; how costs and other liabilities are allocated between you and the provider; when and on what basis the provider will buy back your share; and so on. I am constantly amazed by the number of otherwise savvy owners who simply sign the providers' contract, sometimes without even thoroughly reading it, only to discover later that it isn't "fair." In truth, most providers will accommodate reasonable requests to modify their contracts in a way that will add value to your investment.

John F. Kennedy once said, "The great enemy of the truth is very often not the lie–deliberate, contrived and dishonest–but the myth–persistent, persuasive and unrealistic." Ironically, by shedding some light on the myths of the fractional aircraft business and clarifying what it is not, we may better appreciate it for what it actually is to those for whom it well fits and who go into it with their eyes wide open–simply the best way to fly. ❑

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