THE FUNDAMENTALS OF FRACTIONAL OWNERSHIP

FRACTIONAL OWNERSHIP became popular in the 1990s and now is a staple on the private air travel menu of options. With fractional, you purchase a partial interest in an aircraft that an aviation company operates. Along with other owners, you have the right to use any comparable aircraft in the company’s fleet, on demand, for a predetermined number of hours each year. (A typical agreement might include 100 hours of flying time per year for each one-eighth share you buy.) Your operator manages the aircraft and the rest of the fleet, providing pilots, maintenance, hangaring, insurance, catering and other services. You merely call a few hours ahead to schedule a flight and the company will deliver an airplane where you want it, when you want it, to take you where you want to go.

The cost of fractional flying includes a capital investment for purchasing the aircraft share; ongoing management fees that cover maintenance, insurance and operating expenses of the program; and a charge for each hour you fly. These costs vary depending upon the type of aircraft and the size of your share.

You’ll also pay fuel surcharges, which reflect price increases over a base rate for fuel that is specified in your contract. Because most providers use unrealistically low base rates, the recent surge in fuel costs has significantly increased these surcharges, so much so that they now substantially affect the cost of fractional flying.

Fractional contracts usually last five years. However, if you want to get out of the deal after the minimum term (usually two years), your provider is obligated to repurchase your share at the then fair market value of your aircraft, less a remarketing fee (generally 5 to 12 percent). Thus, in addition to the costs you incur while you own the share, you...
FRACTIONAL OWNERSHIP

WHERE TO BUY A FRACTIONAL SHARE

As recently as the early 1990s, the fractional business offered only about 30 aircraft and one national fractional provider—NetJets, which launched the concept in 1986. Today, four major companies with more than 800 aircraft compete in this business in the U.S. and you can also sign on with a wide variety of smaller operators, such as Avantair, EliteJet, Heliflite Shares, JetChoice, Ouiflaine, PlaneSense and Sikorsky Shares.

Here’s a look at the four biggest providers:

<table>
<thead>
<tr>
<th>Fractional Company</th>
<th>Year Founded</th>
<th>Owner</th>
<th>Headquarters</th>
<th>Note</th>
</tr>
</thead>
<tbody>
<tr>
<td>FLEXJET</td>
<td>1995</td>
<td>Bombardier</td>
<td>Dallas, Texas</td>
<td>Program allows for purchase of exact number of hours needed and guarantees access to smaller and larger aircraft.</td>
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<tr>
<td>FLIGHT OPTIONS</td>
<td>1998</td>
<td>H.I.G. Capital</td>
<td>Richmond Heights, Ohio</td>
<td>First program to feature used aircraft, which it claimed could save owners 35 percent. Now focusing on newer aircraft, however.</td>
</tr>
<tr>
<td>NETJETS</td>
<td>1986</td>
<td>Berkshire Hathaway</td>
<td>Woodbridge, N.J.</td>
<td>First company to offer fractional shares remains the industry leader. Also offers NetJets Europe.</td>
</tr>
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bear the risk of changes in the market value of your aircraft. So the “all in” cost of your investment includes not only the management fees, hourly fees and fuel surcharges that you pay as you go, but also the difference between what you pay for the share when you buy it and what you recoup when you sell it back to your provider.

The fleets of the major U.S. fractional programs—NetJets, Flexjet, CitationShares and Flight Options—include aircraft of various sizes and capabilities. If an airplane other than the type you own will better serve your needs for a particular trip, you may upgrade or downgrade to the right-sized jet for that flight and your cost will be adjusted accordingly.

Is fractional the best choice for you? The general rule of thumb is that if you fly fewer than 50 hours per year, jet cards or charter may be better options; and if you fly more than 400 hours per year, purchasing a whole aircraft may be the way to go. If you’re in between, fractional may be your best bet, but the number of hours you fly is only the starting point of the analysis. From there, you should look closely at your needs, travel patterns and budget. Here are a few more factors to consider as you do so:

**Your home base and destinations.** If you’re not near a hub airport and you’re not well served by a charter operator, fractional may be a good choice. Similarly, if you travel to out-of-the-way places not well served by major airlines or charter companies, fractional may be attractive. However, if you fly outside the fractional providers’ main service areas, you may incur additional charges.

**When you fly.** If you fly primarily on high usage or “peak” travel days, such as around major holidays and events like the Super Bowl, you may not be guaranteed a flight or often may find yourself on a charter.

**Length of your flights.** If you fly lots of short hops—say, 30 minutes each—you’ll lose about half your flight time because you’re charged a minimum of one hour for each flight.

**Your passengers.** Make sure that the aircraft you choose will accommodate your passenger load and luggage on most trips.

**Your budget.** Carefully estimate the total cost of your investment, including anticipated fuel surcharges, expense increases and a likely loss in value of the share when you sell it back to your provider.

**Tax depreciation.** The benefits of depreciation, if available to you, may significantly reduce the after-tax cost of your investment.

If you determine that fractional is your best option, shop...

WEIGHING THE PROS AND CONS OF FRACTIONALS

Here are some of the pros and cons of fractional flying when compared with jet cards and charter:

**PROS**
- No extra charge for one-way trips (though providers do factor the cost of empty-leg flights into their pricing structures)
- Easy scheduling and guaranteed availability (subject to certain limitations during “peak periods”)
- Uniformity in maintenance and operation of program aircraft
- Flexibility in using a wide range of aircraft
- Depreciation expense deduction (if available to the owner)
- Depending on usage, jet cards generally cost more in the long run

**CONS**
- High, up-front capital investment
- Long-term commitment
- Ongoing costs regardless of use
- Market risk regarding value of aircraft
- Generally more expensive than charter
around to find the provider that offers the best fit for your needs. Despite what your salesperson will tell you, there is room to negotiate, but be sure to negotiate concessions that add value for you.

Once you strike a deal, read the contracts carefully. Although they’re made to look like standard boilerplate and are squeezed onto relatively few pages, don’t be fooled. These documents, and not the beautiful brochures, govern your rights and obligations in what may well be a multimillion-dollar investment. They cover when and where you can fly; responsibilities assumed by your provider; allocation of costs and other liabilities; and when and on what basis the provider will buy back your share.

Your goal should be to negotiate an investment that offers the right amount of flight time on the most appropriate, safe aircraft, at the best possible price. Remember, in the private air travel business, a mistake can cost you hundreds of thousands, if not millions, of dollars. On the other hand, however, the convenience, flexibility and reliability of a well-founded fractional investment will do nothing less than dramatically improve your life.

James Butler welcomes comments and suggestions at: jbutler@bjtonline.com.

Fueled up about fuel prices?

Look to the fractional provider with the best overall value and the most fuel efficient aircraft in its class. Without compromising anything, Avantair offers luxury and performance within reach.

- Lowest fuel burn and carbon emissions
- Lowest fuel surcharge
- Spacious stand-up cabin
- Increased operational flexibility
- Light jet performance with turboprop fuel efficiency

Who says you can’t have it all?
Call today and start flying tomorrow.