



# To charter your jet or not to charter your jet—that is the question

Chartering out your jet when you don't need it can seem like a no-lose proposition. It's certainly not earning you any money sitting in a hangar. On the contrary. So why not put it to work to help defray your ownership costs? You may well want to do just that, but not before you've carefully weighed the pros and cons. Chartering out the jet isn't for everyone, and it's not without its perils.



by Kirby J. Harrison

“When people come to us to buy an airplane and say they want to make it available for charter, we always ask, ‘Why?’” said Kevin O’Leary, president of Jet Advisors, an aircraft acquisition and brokerage firm in Broomfield, Colo. Often, he added, owners have an inflated idea of the profits that charter will produce.

“There are management companies that suggest your airplane will earn as much as a million dollars a year,” explained O’Leary. It might indeed gross that much, he said, “but after brokerage fees and the costs of operation, ownership, management, maintenance and insurance, the owner might net as little as \$125,000 from that \$1 million.”

The bottom line: charter can reduce your costs, but it won't come close to erasing them. According to Stephen Hofer

of the Aerlex Law Group of Santa Monica, Calif., “If you can't afford to buy, maintain and operate the airplane on your own, don't count on charter to make up the difference.” Moreover, keep in mind that making your airplane available for charter may well lower its resale value by piling on the flight hours.

Still interested in tapping the charter market? Then hire someone with experience—a broker or aircraft finder—who can guide you through the process. Here are the key questions you need to ponder:

## Will my loan application hit a roadblock?

If you're buying an airplane that



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you intend to make available for charter, better have a talk with your lender. Many will insist on reviewing the charter agreement and some will simply decline to make a loan to buyers who plan to charter.

**What's the management company's safety record?**

With charter customers focused on safety, safety audits are almost a requirement for a successful charter business. Most major charter operators have been approved by one or both of the industry's two leading safety auditors—Wyvern and Aviation Research Group/U.S.

**Do I really need a management company?**

“In general, it isn't worth it financially [to charter on your own] if you have only one airplane,” said O'Leary. “But for an individual or company with three or four airplanes, it might make sense.” Some flight departments with their own Part 135 certificate simply make their aircraft available for charter through independent brokers who sell seats on deadhead trips or

when the company doesn't need the jet.

**How much will I actually earn?**

Some aircraft management companies offer pretty attractive numbers with regard to the charter income a customer might expect, said O'Leary. But he warned, “The first question that should be asked is, ‘Is that number guaranteed, and what penalties are attached if they fail to make that guaranteed number?’ Then ask how the money from the charter income will be paid—will it be in the form of a check to you or will it simply reduce the management fee?”



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**Will I save much on taxes?**

You may indeed, but the amount depends primarily on state and local laws. California, for example, will exempt a new aircraft in service in the state from sales and use taxes for 12 months if it's used more than 50 percent of the time in charter. “Exemption from an 8.25 percent [state and local] sales-and-use tax is a powerful incentive when you're buying a \$20 million airplane,” said Hofer.



**What costs will actually rise—and by how much?**

More flight hours will increase the fre-  
*A clear understanding of the partnership between aircraft owner and management company is critical, according to Delta Air Elite, whose charter fleet includes the Challenger 300.*

quency of unscheduled maintenance, according to O'Leary, and scheduled maintenance may go from every four years to every two.

Keep in mind that those charter customers don't have the same incentive to take care of your airplane that you do. Your jet may be subject to everything from executives smoking cheap cigars to undisciplined kids with crayons to rowdy rock groups that are as well known for trashing hotel rooms as they are for their music.

### What risks lurk in my insurance policy's fine print?

Aircraft management companies typically carry coverage for the airplanes they have available for charter and can usually negotiate lower premiums—sometimes considerably lower. However, it's a good idea to question the extent of the coverage, and whether you'd have a say in the disposition of your airplane if it were involved in an accident.

### Can I accept less than 24/7 access to my jet?

Delta Air Elite director of marketing Brandon Greene emphasized the importance of the partnership between the aircraft owner and the management company. "[Charter] makes sense only if the partnership makes sense," he said. "We and the client earn our revenue based on how much charter we can put on the airplanes, and if the contract is too restrictive, we both lose."

Said another charter operator: "They [jet owners] place the airplane with us and then put unrealistic constraints on its use, like short prior notice for their own trips and limits on the types of trips and even the kind of people they want using their airplane. Or they have so many pop-up trips of their own that charter availability is seriously reduced. There has to be a good-faith commitment by the owner to the charter

operator that airplane availability will be something reasonable."

### Will charter customers flock to my bird?

When it comes to charter, some aircraft models are just plain more popular than others. In the light-jet category, for example, the Beechjet 400 is well regarded for its comfortable cabin, good performance, and last but not least, its enclosed lavatory, O'Leary said. Among midsize jets, the Hawker 800XP is popu-

To attract charter customers, you need a popular model such as the Gulfstream G550 or the Challenger 300, not to mention an attractive cabin that's equipped with good entertainment and ground/air communications systems.

lar, "probably because it's well known and has good range and good cabin comfort. Overall, the Gulfstream IV series, with range, a big cabin and name recognition, is probably most requested by charter customers," he said.

Cabin amenities can be as important as the model in attracting business. An entertainment system is high on customers' lists of demands, and it normally includes DVD and CD players and even docking ports for iPods. Such features are particularly desirable for weekend charters, which are often vacation trips and frequently include kids who need to be kept occupied. For business executives, a ground/air phone is a necessity, too, and on a larger business jet, high-speed Internet connectivity is a plus.

### Are my jet and the management firm a good match?

Having an airplane that's in high demand by charter customers isn't enough to guarantee success. For example, it's probably not a good idea to place your Hawker 800XP with a management firm that already has a half dozen 800XPs in its stable. Unless, perhaps, yours is the *crème de la crème*.

You may get more charter action for your Gulfstream IV if it's with a management operator in a major metropolitan area. But if the airplane will sit in Teterboro, N.J., and you live in Waterloo, Iowa, the situation will make for poor logistics, not to mention high repositioning costs. Also, if your aircraft and the charter company are based in different cities, it could raise operational-control issues with the FAA. [See "Using Your Jet for Charter? Heed the FAA's New Focus," in our October/November 2006 issue.—Ed.] And it may not be the best idea to add your airplane to a charter operation based at an airport like the one at Van Nuys, Calif., where at least a dozen charter outfits compete.

These considerations notwithstanding, charter is without a doubt a popular option for many business aircraft owners. Although this is an unofficial figure, industry experts estimate that some 80 percent of the business aircraft available for charter in the U.S. are owned not by the companies that operate them but rather by other companies, corporations and individuals. □

# BUSINESS JET TRAVELER