

Business Jet Charter Moving up from charter

You might be better off buying your own aircraft—especially now

By James Wynbrandt - February 2010

Has there ever been a better time to be a charter customer? Rates have declined significantly and aircraft availability is unfettered. Yet some charter operators are advising regular customers that now is the time to consider buying an aircraft, and more charter users are seeking acquisition advice on their own, according to some charter companies. The thinking goes like this: Fire-sale prices of quality used models combined with the ability to charter out the airplane when you're not using it can make owning financially attractive even for some low-time charter users.

"Charter customers think if they aren't flying at least 200 hours per year, it doesn't make sense to buy an airplane," said Toby Batchelder, sales manager of Minneapolis charter operator Elliott Aviation. "That's not the case anymore."

When a charter company's managers advise customers to buy instead of charter, you have to ask what's in it for them. The answer is that many charter operators also offer aircraft acquisition and management services; so as these providers see it, they're not losing business when a customer becomes an owner—they're gaining an aircraft for the charter fleet while earning an acquisition fee and ongoing management fees.

As for what aircraft buyers have to gain, while low prices and an expectation of charter income are driving many deals, enticements to own also include depreciation and other tax benefits as well as fleet discounts on expenses like insurance, hangaring and crew training.

"We have inquiries from three clients asking us for a cost analysis of aircraft ownership," said Robert Seidel, senior vice president and general manager of Jet Aviation at New Jersey's Teterboro Airport. "The prices of airplanes are so depressed, they think owning makes sense."

It just might, but make no mistake: there's no cheap way to own a jet. As Seidel put it, "If someone is telling you that if you buy an airplane, they'll put it on charter and you're going to get paid to own it, I've got a bridge in Brooklyn I can sell you."

Might a fractional share or jet card be a better purchase for someone seeking to take advantage of low aircraft prices? That depends on your situation. These solutions require less commitment and upfront expense than full ownership, but if all you want is guaranteed access to aircraft, you can effectively get that now via charter because the market has so much excess capacity. And neither fractional shares nor jet cards offers the opportunity for charter income.

On the other hand, some circumstances may render charter income hard to get. For example, if you're based in North Dakota and need regular access to a Gulfstream V, you'd better not count on offsetting some ownership expenses with charter revenue because you probably won't find much demand for that jet in that market. As such, a fractional share might make more sense for you.

So the charter vs. purchase decision still requires a careful analysis of your needs and of the options and opportunities available in the charter arena. In particular, those considering a switch from charter should investigate these issues:

Charter income. While charter revenue can help offset operating costs, the upside is sometimes oversold and profit margins often prove smaller than owners realize.

"I look them in the eye and say, 'There are no guarantees,'" said Batchelder of charter customers interested in buying a jet. "Even though it's a great time [to buy], don't buy an airplane based on charter expectations. Buy it because you want it, you need it, you can afford it and the charter income can help you chip away at cost."

Added David Rimmer, executive vice president of Excel-Aire, a charter operator in Ronkonkoma, N.Y.: "Charter is a nice way to offset your expenses, but it shouldn't be something you count on. [An airplane] is expensive to own, expensive to operate, and you should be prepared for that."

Your aircraft needs. One benefit of charter is that you can select the category of aircraft you need for each flight. If you charter light jets, large-cabin jets and aircraft in between, owning probably isn't for you. But most charter customers predominantly use one category of aircraft, and in these cases owning can make sense.

"Try to find an airplane that will do 80 percent of the missions," said Elliott's Batchelder. "Don't buy a 14-passenger Gulfstream because you use it once a year if a Beechjet 400 would be perfect for the rest of the trips.

If you occasionally need a large aircraft, charter or buy a jet card for those times."

In some cases, a charter company you work with may need a specific category of aircraft to add to its fleet due to high demand. If that aircraft meets your needs, that can also help justify a purchase—although the same cautions about buying based on potential for charter revenue still apply.

Scheduling flexibility. Flexibility is a selling point of charter, and presumably you want to preserve that “get up and go” freedom as an owner. But charter operators want your aircraft available for their customers as much as possible. You’ll have to strike a balance between your use of the airplane and its availability for charter. The less flexible you are, the more difficult it will be to charter out the aircraft.

“Some airplane owners give us their schedule months in advance and we sell time around that, and some give us their schedule only a couple of weeks in advance,” noted Rimmer. “The key is to partner with a company that has a decent-size fleet. If you have a pop-up trip, maybe you can use one of their other charter airplanes.”

What it comes down to is this: You will give up some benefits of charter when you become an owner, but it still can make sense for some business aircraft users. If you think you might fall into this category of potential owners, now is a great time to investigate your options.