Understanding Fractional Aircraft Ownership
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OVERVIEW

Aircraft ownership appeals to many travelers. The purchase of an aircraft affords freedom from commercial travel, and the resulting convenience and ability to travel when you want, and not according to an airline’s restrictive schedule. Owning a whole aircraft, however, requires a lot of time, money, and aviation expertise to address maintenance, storage, insurance, and the hiring of qualified pilots, etc. While many people enjoy owning a whole aircraft, other forms of aircraft ownership or access have become available. Amid a backdrop of personal and business flight options in the form of aircraft timeshare, jet cards, jet membership programs, and aircraft charter, the fractional aircraft ownership model is becoming increasingly popular with both leisure and business travelers. With a fractional aircraft program, the program management company provides its expertise to the fractional owners. Through the innovative structure of fractional programs, the fractional owners enjoy the benefits of sharing both the costs and responsibilities of aircraft ownership.
THE FRACTIONAL AIRCRAFT OWNERSHIP MODEL

An aircraft fractional ownership program is simply an expanded form of co-ownership of professionally managed private aircraft. What is expanded, as compared to co-ownership of one plane by more than one person, is (i) the number of planes being managed, and (ii) the right of a fractional owner of one airplane or jet to use another aircraft owned by others in the fractional group. The right to use other aircraft is created by a document that all fractional program participants sign. This document is commonly referred to as a “Dry-Lease Aircraft Exchange Agreement,” or simply “Dry Lease Exchange Agreement.”

Most aircraft co-ownership and airplane share arrangements create an equitable system of shared use and expense either through a co-ownership agreement, or through language incorporated into a management agreement when the aircraft is professionally managed. An aircraft management agreement between each fractional owner and the program manager contains the details of the allocation of the use of the planes among the owners. Included in a management agreement would be terms covering payment, costs, and specification of the areas of aviation expertise to be provided by the fractional program (aircraft maintenance and repair, scheduling, identifying flight crews, training, etc.)

Simply put, in the aircraft fractional ownership model, multiple aircraft are available to multiple owners. It is plain to see that having access to any one among many aircraft in a fractional fleet is an advantage over aircraft co-ownership of a single plane. The fractional aircraft owner can fly in another plane in the fleet in either case.

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Supplementing those advantages is that most fractional program managers guarantee the availability of a plane to each fractional owner. In the PlaneSense® aircraft fractional program, for example, aircraft availability is guaranteed with as little as eight (8) hours prior notice, depending on the size of the fractional share owned. Other programs provide similar assurances.

The fractional aircraft industry typically sells shares in sizes that are multiples of 1/16th (1/16, 1/8, 3/16, etc.). The total number of hours the airplane will be used is determined by agreement among the owners of a particular airplane. Those hours are divided among all the fractional owners in proportion to the size of the shares bought. Depending on the fractional program, a 1/16 share may afford an allotment of between 50 and 70 occupied hours of fractional aircraft use per year.
An owner's share allotment of hours is used for actual hours of “occupied flight,” plus a nominal amount for taxiing time.

Fractional programs also differ in how the choice of destination affects the economics of the program. For instance, fractional aircraft program management agreements usually define a Primary Operating Area or Primary Service Area (“POA” or “PSA”) in which owners can travel without incurring any additional costs. Outside of the POA, some cost may be applicable. For example, one such cost may be to cover the expense of repositioning the fractional aircraft back inside the POA.

Most aircraft fractional program management contracts provide for the designation of certain times of peak demand (e.g., popular holidays and other popular travel dates). During these “peak periods” longer flight scheduling notice or other methods of managing flight demand may be necessary. These peak period adjustments may differ not only from program to program, but also within a given fractional program depending on a fractional owner’s share size. These adjustments are, again, designed to create an equitable aircraft sharing arrangement among all of the owners in a fractional ownership program.

FAA regulations governing fractional ownership programs require that when you purchase an aircraft share, you sign an initial “multi-year” aircraft management agreement. The longer the term, the lower the effective “all-in” hourly cost because the purchase price is amortized over a longer period of use.

Fractional programs vary as to their policies and procedures for fractional owners wishing to exit the program. Some programs have restrictions against selling shares to third parties and require that shares be sold back to the program manager. Other programs are more liberal, and they allow sales to third parties. The more liberal policies generally lead to higher returns to the fractional owner on a sale of the share.

Since a key benefit of fractional aircraft ownership is the liquidity of your investment, it is important that the fractional program manager have a stable and long history in the industry.
REASONS TO FLY FRACTIONAL

Private aviation provides time saving benefits to individuals and businesses. Private aircraft allow travel to be more efficient, productive, and discreet. Business meetings can be conducted in the air, and individuals can avoid time lost due to restrictions of other means of travel. With private flying comes the freedom to control one’s itinerary, and the gift of time. Fractional aircraft ownership programs provide even more benefits.

**Fractional Ownership Advantages:**

1. Fractional owners have guaranteed access to either the plane in which they own a share or a similar plane in the managed fleet.
2. Fractional aircraft ownership programs guarantee availability, some requiring as little as 8 hours’ notice.
3. Aircraft ownership management responsibilities (flight crew management, flight scheduling, ground support, catering, and maintenance) are fulfilled by engaging the expertise of a fractional aircraft program manager.
4. Typically fractional aircraft owners are met at an airport of their choice by an aircraft and crew to be flown to their desired location. Commercial air travel is generally reserved for the largest 300 airports in North America, with 75% of all traffic directed through the 30 major hubs. Private aviation broadens available airports to over 5,000 in the United States. As a result the arrival airport is often closer to the final destination, and travel time is further shortened by avoidance of air and ground traffic congestion associated with large metropolitan area airports.
5. Even at major airports, fractional aircraft and other private planes are handled separately from the airlines, with special terminals typically operated by a company referred to as a Fixed Base Operator (“FBO”), which offers greater service, comfort, and amenities (often including valet parking, business centers, comfortable lounges with Wi-Fi, televisions, etc.). Some FBOs allow owners to drive right up to their plane allowing direct access to the plane for passengers and their belongings.

6. Most fractional aircraft ownership programs have customer service representatives who are available around-the-clock to assist fractional owners. For example, fractional owners often enjoy meals and beverages of their choice, and other amenities arranged by the program, during flights.

7. Aircraft ownership, whether whole or fractional, brings prestige. Business prospects, customers, and friends are favorably impressed when invited to travel by air on a private fractional program flight.

8. Listed below are seven benefits commonly cited by fractional owners:
   a. Scheduling flights according to the owner’s timetable, not an airline’s schedule;
   b. Consistency and reliability of service, comfort, and familiarity with pilots and scheduling personnel;
   c. High quality appearance and maintenance of fractional program aircraft;
   d. Ability to rely on availability of aircraft and flight crews, as compared to charter;
   e. Simplicity and efficiency of airport access and boarding procedures;
   f. Fractional program aircraft provide privacy for meetings, conference calls, brainstorming sessions, quality family time, or just quiet solitude;
   g. Cost efficiency as compared to whole aircraft purchase, charter and “jet card” programs.
COST STRUCTURE – PURCHASE, MANAGEMENT AND FLIGHT

**Purchase**

Just as in whole aircraft ownership, the fractional program participant must first purchase an interest in an airplane. The difference in fractional ownership, however, is that although ownership in an airplane is shared, availability is better than in a whole airplane purchase. The shared ownership model provides access to an entire fleet, not just one plane.

**Management**

Once either a whole aircraft or a fractional interest in an aircraft is purchased, it has to be managed. Fractional programs are designed to allow the owners’ management responsibilities to be fulfilled by relying upon the expertise of the fractional program manager. The delegation of management responsibilities to fractional program managers has proven to maximize aviation safety, evidenced by fractional programs having the best safety record of any aviation sector.

The majority of fractional programs charge a monthly management fee to cover those costs associated with aircraft management, most of these costs are incurred whether or not an airplane is flown. Such costs are often referred to as fixed costs. Examples are pilot compensation, pilot training, insurance, aircraft storage, periodic (calendar-based) inspection and maintenance, regular refurbishment, and administration.
**Flight**

After the fractional share has been purchased and a management agreement with the fractional program manager is in place. The costs left to be accounted for are the costs of flight. Fractional programs generally charge a separate fee for the actual use of the fractional share on an hourly basis, often called the “Hourly Rate Charge” or “Occupied Hourly Charge.” The details of this cost are usually also addressed in the aircraft management agreement.

When comparing fractional programs, evaluate what other costs or fees might be charged when the fractional share is flown. Examples may be charges for landing and ramp fees, catering, fuel, positioning charges, taxes, deicing, etc.

### Reach Out to Learn More
THE FORMAL AGREEMENTS

Here are some agreement descriptions that may be of use to prospective owners considering fractional aircraft ownership:

**Purchase Agreement** – the purchase and sales contract through which the share is acquired from the fractional program provider.

**Owner Agreement** – a contract among the owners of each of the factional program aircraft, which establishes the rights and obligations of all owners with regard to the use of the aircraft.

**Dry Lease Aircraft Exchange Agreement** – a form of lease among all of the fractional aircraft owners in a program giving each the right to the use of the others’ aircraft.

**Aircraft Management Agreement** – a contract between an aircraft fractional owner and the fractional program manager which governs how the program manager coordinates the use of the aircraft by the fractional program aircraft owners. The costs, geographical limitations, if any, and the administrative and aviation support services provided by the program manager are detailed in the aircraft management agreement.

Fractional aircraft agreement terms are typically five years in duration, sometimes giving the fractional owner a renewal option. Fractional aircraft management agreements can be found for a shorter term than five years, but they must be "multi-year" agreements to satisfy requirements of the FAA.

In the USA, fractional aircraft owners and management companies are subject to the rules of the Federal Aviation Administration, specifically the Federal Aviation Regulations, FAR Part 91, Subpart K (14 C.F.R. 91.1001, et seq.).
HOW TO EVALUATE PRIVATE AVIATION PROVIDERS

A stable and reliable fractional aircraft program is supported by a substantial infrastructure – including sufficient aircraft storage and maintenance facilities, adequate flight crews and maintenance personnel, pilot training, flight planning resources, well-trained customer service representatives, and comprehensive safety program and quality control functions.

Questions to ask:

• How much aircraft management experience does the program manager have?
• How long has the fractional program been in operation?
• What is the fractional program’s record for on-time departures?
• What are the available “exit strategies” if one should want to leave the program?
• Has the FAA issued the program manager authority to act in that capacity under the fractional rules?
• Can the fractional program manager offer the names of fractional owners as references?
• What are the aircraft “hull” and liability insurance policy limits for coverage that protects fractional share owners?
• How does the “all-in” cost to fly compare with jet timeshare programs, jet cards, aircraft charter, or other flight options?
CONCLUSION:

An aircraft fractional ownership program can be a convenient way to enjoy the benefits of private, recreational, and business aviation while minimizing the resulting high costs of whole aircraft ownership or charter.

Fractional aircraft share programs are long lasting relationships. Make sure your provider is a leader in the field, and has demonstrated a dedication to safety and service. Choose the provider that best suits your individual flying needs. Fractional aircraft ownership should reach far beyond the accessibility of convenient travel; it should exceed expectations in every way imaginable - on every single flight.