



PRIVATE JET SERVICES

FRACTIONAL OWNERSHIP

UNDERSTANDING THE TIMESHARE OF AIR TRAVEL



Finding the right solution for private air travel can be a daunting task, especially following the 2020 pandemic environment, when money, time and safety became more precious than ever. The surge of post-pandemic travel — after more than a year of stagnation — also led to limited flight availability and skyrocketing prices, leading many to consider private aviation as an alternative. Additionally, what works for one traveler is not necessarily right for another traveler, nor should it be.

Outside of full aircraft ownership, there are two basic options for private jet travel: fractional ownerships or on-demand charters (whether through fixed-rate jet cards and memberships or pay-as-you-go charters).



FRACTIONAL
OWNERSHIP

VS.

ON-DEMAND
CHARTER

Many new and tenured users of private aviation migrate to fractional jet ownership. Fractional ownership often offers a low, more predictable barrier to entry for those new to private aviation. It is also an easy way to add value to private ownership for industry veterans not necessarily needing another full aircraft. Additionally, fractional ownership historically played a role in the growth of the aviation industry, at one time accounting for 15% of all new business jet deliveries.

Yet, while the fractional program boasts many attractive benefits, this seemingly simple private aviation solution is far more complex than its packaging.

Fractions are a valuable investment if they align with a user's mission, flight activity and volume. But there are frequently many fractional ownership elements not considered when weighing all the aviation solutions.

To help potential private aviation users determine what works best for themselves or their organization, PJS breaks down and compares fractional ownership structure to private charters. All components and options below must be considered when formulating an efficient, safe and economical aviation program.

WHAT IS FRACTIONAL OWNERSHIP?

The fractional share is a co-ownership model for an aircraft. Simply put, it is the timeshare of air travel. In increments as small as a one-sixteenth share, an individual or business can buy an interest in an asset. For that share, the management company provides the owners with a pro-rated number of hours to utilize the asset. These hours are based on total hours of utilization between all parties. Each owner's shares also cover the costs of purchasing, leasing and operating the aircraft.

Most people choose this ownership type based on the number of hours they predict they will fly annually. For fractional ownership, one often estimates flying 50-200 hours.

But choosing private aviation options based simply on the number of hours a person may or may not fly is too simple. There is much more to consider.

TOP 7 FRACTIONAL CONSIDERATIONS

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Additional Fees — In addition to paying an initial large share in the aircraft, owners pay an Hourly Rate Charge or an Occupied Hourly Charge whenever they use any of their allotted flying hours. While there is security in knowing the hourly rate and fuel surcharges in advance, the owner is paying additional rates on top of the cost of “owning” the aircraft.

Fractional owners can also expect additional monthly fees to fall in line to support management and the entire overhead of the aircraft. Overall, each fractional owner is paying a near fully burdened management fee, as if they owned the entire aircraft. Monthly overheads could include:

- Pilot compensation
- Insurance
- International fees
- Landing fees
- Inspection and maintenance
- Regular refurbishment

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INVESTMENT LIQUIDITY — Unlike financing for purchasing an aircraft outright, there is little to no market to finance a fraction. Generally, owners are on their own with the initial buy-in and a large capital outlay, thus risking that the value of the aircraft (and that person's share) may change significantly over time. While most programs operate under five-year commitment terms, some programs allow for early liquidity on your investment. However, if a shareholder decides to sell their share, the terms are up to the operator.

Fractional program management companies have various policies tied to resale. Those considering purchasing a share will want to check whether or not a program:

- Restricts the sale to third parties and requires the share to be sold back to the program manager
- Permits sales to third parties
- Requires a "remarketing fee" for selling early
- Has early termination penalties

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UTILIZATION & RETURN ON INVESTMENT — As previously mentioned, a common rule of thumb is that a share holder's annual estimated air time averages around 50-200 hours to reap the benefits of a fractional buy. If unsure or on the cusp of these hours, the overall cost of ownership could fluctuate drastically. Be sure to check for:

Overfly Rules — If one might fly more hours than a contract allows, check for additional charges or if it is possible to borrow hours from the following year's allowance. Fly too much and risk paying a contracted charter rate above market. In extreme cases, outright ownership may be more cost-effective when accounting for offsetting expenses from potential charter revenue.

Underfly Rules — If one does not use all of their annual contract hours, check if hours roll over to the following year. Fly too little, and risk paying for all contracted hours regardless of utilization.

Flight Minimums — Providers may provide short leg waivers that help elude flight minimums on certain itineraries.

Hours Outside Airtime — Consider the total hours, not just the time spent in the air. Owners aggregate to 800 hours of live flight time. Then add in ferry hours (approximately 200-300). Plus, consider the provider chartering the aircraft when not in use by a shareholder, all together averaging 1,500-1,600 hours of use per year.



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TAXES & LEGAL MATTERS — A fractional share owner must also consider the tax implications of any transaction. For tax purposes, an owner of a fractional share is an aircraft owner. This label gives the owner the financial benefits to claim bonus depreciation upon purchasing the fractional share under current U.S. Tax law.

Fractional programs are typically predicated on three or four agreements to establish the required frameworks. Depending on an individual's financial situation and time commitment, this could equate to hefty legal involvement.

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ITINERARY: MISSION AND FLIGHT INTERCHANGE — If the flight “mission” is consistent, then the consistency of the fractional aircraft is beneficial. Flight missions that vary, requiring different category aircraft frequently, may result in “interchange” to different aircraft. Consider:

- Interchange at ratios of 1.4x to 2.0x or more will cost more when one needs to utilize a different aircraft than the cost of charter or a fractional share in that aircraft category.
- Most programs guarantee downgrades. However, upgrades are likely not.
- If the program management company charters your aircraft, flyers may be “substituted” for a different aircraft than the original fractional.
- The time to “recovery” from a mechanical instance may be significant as the program management company utilizes its closed fleet rather than an open fleet.

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FLEXIBILITY & CONVENIENCE — In a fractional share, users are committing to a single aircraft. Yes, users have interchange on the closed-fleet under some agreements, but at a premium. If a user’s flight activity varies frequently, then a fractional share may be inefficient as minimums accrue on short itineraries that may not require a large aircraft. Otherwise, pay premiums to upgrade to a larger cabin aircraft or downgrade to a smaller cabin aircraft.



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SECURITY & PRIVACY — Every private aircraft has a tail number (NORgistry) or a registration number, similar to how cars are assigned vehicle registration numbers. When someone becomes part of a fractional share, that fractional user becomes tied to the dedicated tail number of that airplane. With FlightAware and ADS-B, the general public can easily follow a user’s movements by looking up this tail number.



SECONDARY OPTIONS

Outside of owning a fractional share, on-demand charter is one of the most popular private travel options on the market and provide more flexibility without forfeiture of service, safety and major financial risk.

Let's compare private charters to our fractional ownership considerations:

Additional Fees — Charter is a great option for those who do not want a long-term commitment or contract. Charters also provide freedom from costly overheads, monthly management fees and reliance on the residual value of an aircraft.

Utilization & Return On Investment — Fly as little or as much as needed with no added restriction -- there is no commitment beyond the specific trip booked. In most cases, just pay per flight or find a membership option that works more closely with individual flying needs.

Legal Matters — While there are still potential legal implications and headaches with chartering private jets, agents or consultancies like PJS take on most of this burden -- both financially and time management-wise. For example, PJS has established a single-point contracting process in which its clients sign a single contract for transportation and management consulting across an organization. PJS takes responsibility for all vendor contracts, providing greater cost efficiency and favorable negotiation terms.

Itinerary: Mission and Flight Interchange — Charters are easy to tailor to different travel needs, whereas a fractional share can tie someone to a specific aircraft or aircraft type. For each trip, a charter client has the opportunity to select an aircraft specific to the needs of that trip. One trip may require a mid-sized cabin that seats nine people, and the next trip, one that has a full bar and a private master bedroom.

Flexibility & Convenience — Fractional ownership typically guarantees an aircraft within a specified amount of time. Ad hoc private jet charter means one could charter an aircraft from any local airport and be in the air within an hour, providing more wiggle room and guaranteed lift for last-minute needs.

Security & Privacy — Unlike fractional ownership regulations, chartering has more privacy for UHNW individuals and corporations. There are no requirements that tie a single client to a single tail number. PJS even rotates tail numbers to ensure the public cannot follow a client's movements.

ANALYSIS: FRACTIONAL VS. CHARTER

Charter is not always better than a fractional share. A fractional share is not always better than charter. However, time and time again, the most efficient program ends up not being a solely fractional share. When working with clients through its consultancy and weighing all the considerations above, PJS often finds that chartering provides more flexibility and does not bear certain financial risks.

Ultimately, the choice is up to the purchaser, but sometimes a little extra support from the experts can help bring these discussions and decisions to life. PJS knows that anyone considering private air travel likely has many options — from ownership to fractional to charter. It is essential to weigh the options down to even the finite details when investing time and money.

That's why PJS offers a unique consultancy approach using over a decade of experience to chart individualized solutions for every scenario by determining the metrics that are most meaningful to each organization. PJS deeply understands the choices and the costs and helps clients make the most well-informed purchase decision possible.

A PJS Consultation determines if and how private aviation solutions will work for specific requirements. Here are some basic options to consider:

	FRACTIONAL	CHARTER
ADDITIONAL FEES	✓	—
MINIMUM FLIGHT HOURS	✓	—
LIMITED MANAGEMENT RESPONSIBILITY	✓	—
PRIVACY	—	✓
AIRCRAFT INTERCHANGE	—	✓
FLEXIBILITY	—	✓
PRIVACY / ANONYMITY	—	✓
OPEN AIRCRAFT AVAILABILITY	—	✓
PAY AS YOU GO	—	✓



On-demand Charters — One of the most significant benefits of chartering an aircraft is the flexibility of choosing a plane to fit specific needs. Whether traveling with five people or 50, PJS has over 7,500 on-demand options readily available 24/7/365.

With PJS, all on-demand charters come with:

- A Certificate of Insurance with maximum liability coverage on every flight
- Thorough pre-flight security and safety inspections that meet both TSA and CDC requirements and guidelines
- A dedicated in-house safety team — the only private jet consultancy in North America with an in-house team



PJS Membership — For the frequent flyer who wants to avoid the commitment of a fractional share. PJS offers the most transparent and flexible membership program in the industry. Priced competitively. PJS offers significant savings when compared to fraction programs.

Member benefits include:

- No membership fees — pay discounted hourly rates instead
- 12-month rate locks
- Zero expiration on purchased funds
- The option to be billed actual versus estimated flying hours
- Access to aircraft 365 days a year in as little as 10 hours notice
- Domestic and international flights

FRACTIONAL

50-200 FLIGHTS HOURS PER YEAR

OWNERSHIP

450+ FLIGHTS HOURS PER YEAR

MEMBERSHIP

50-300+ FLIGHTS HOURS PER YEAR

ON-DEMAND

LESS THAN 50 FLIGHTS HOURS PER YEAR



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