Fractional & Charter MARKET

AIN PART ONE OF TWO SPECIAL REPORT

Segments holding steady but poised for growth

Companies interviewed for this year's fractional and charter market special report indicate that business is decent, although nowhere near the pre-recession pace of 2005 and 2006. The fractional-share business, at one time assumed by many to be dying or at least permanently flat, is growing, but still at a slow rate. The fact that Cessna's CitationAir has transitioned to a charter/management business model has helped some fractional providers generate new business. Most of the providers continue to see a steady flow of customers; the leader here is obviously NetJets, with its huge fleet and commensurate multibillion-dollar orders for hundreds of new jets. But NetJets isn't the only game in town, and other fractional providers are adding new aircraft, too, slowly but steadily renewing fleets with more modern aircraft.

On the charter side of the market, demand in the U.S. and Europe remains somewhat stagnant, but operators tell **AIN** that they are learning to survive and even thrive under existing conditions. One of the ways they have adapted is to pursue overseas opportunities, and this past year saw a number of charter operators partnering with companies in Asia to build charter/management capability where little or none existed. Another way to adapt is by launching creative new programs, and this is something that both fractional and charter operators have done.

In this first part of our special report, **AIN** examines the overall state of the fractional and charter markets. In the November issue, the focus will be on issues affecting the charter industry, including the disturbing prospect of excise taxes on management fees; per-seat and empty-leg availability; social media; and other key charter/management industry issues. *–M.T.*

what's inside . . .

Finding growth in an arid charter landscape

by James Wynbrandt

The numbers show a stagnant to slightly declining U.S. charter market. But after four years of drought, many operators and brokers have adapted to the market's arid conditions, and are finding ways to grow in a landscape defined by slack demand and increasingly savvy charter customers. Here are three paths these operators are following, or blazing, on the route to anticipated future prosperity, when and if the market ever returns to pre-downturn levels.

The Evolving Operator/Broker

Operators have long acted as brokers, arranging flights aboard other operators' aircraft when appropriate lift from their own fleets is unavailable. Now operators are turning this sideline into a major revenue stream, bolstering the bottom line while giving today's savvy charter customers one less reason to surf for deals from other providers.

"This really allows us to be a one-stop shop," said Bradley Stewart, president of XOJet, one of the operators enhancing its brokerage business. Brisbane, Calif.-based XOJet unveiled its Preferred Access program this year, a block charter type program based largely on a fleet of about 1,000 vetted and audited aircraft XOJet will broker for its customers.

Priester Aviation in Wheeling, Ill., established a brokerage arm in 2010 to serve clients' charter needs at times when the company had no suitable aircraft available, or clients were in other regions. Brokered flights now represent "about 30 percent of overall revenue; two years ago it was five percent," said Andy Priester, company president and COO. In the process, Priester has become a major purchaser of one-way/empty-leg flights from other operators.

Brokering can also help traditional charter operators contend with a trend toward compressed scheduling. Joe Moeggenberg, CEO of aviation data provider Argus International in Cincinnati, Ohio, noted, "[The] whole scheduling process is becoming more and more compressed" as customers reduce their lead time for booking charter flights, confident that an aircraft will always be available thanks to current slack demand. "That really plays into the one-way model, because the airplane [the customer will charter] is on a trip," Moeggenberg said. "The customers realize that, and in many cases, if they wait to schedule the trip, the operator can get a better deal [for them]."

Charter broker Sentient Jet in Weymouth, Mass., hopes to parlay operator emphasis on brokering into an enhanced charter fleet of its own. "The big focus for us is bringing on new preferred operators," said Andrew Collins, president of Sentient Jet Cards. Under its Preferred Operators program, launched this year, Sentient seeks stronger relationships with the top 20 percent of operators in the industry, and will guarantee revenue for access to aircraft in their charter fleets. Sentient uses an internal scoring system to rate the operators on their suitability for the program. Collins said the company will help owners of the youthful jets it's seeking gain entry into the program. Sentient also acts as an external sales force for its Preferred Operators and provides operational support, including catering, international flight permitting and handling, and even secures slots at airports requiring arrival and departure reservations during peak traffic periods. Concurrently, Preferred Operators can enlist Sentient's brokering capabilities on behalf of their own clients.

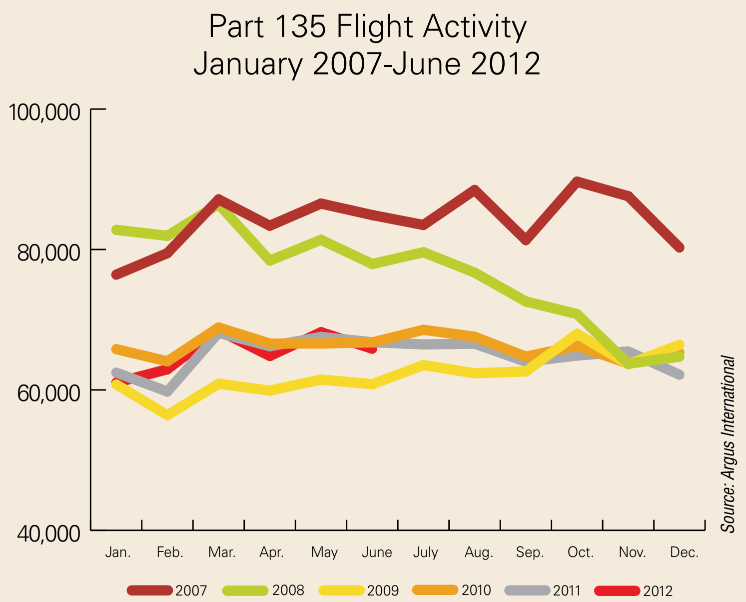
In a mirror move, XOJet rolled out its Platinum Partners Network in April to create a broker distribution channel for its jet cards and point-to-point charter, while also providing broker customers with unified, transparent pricing.

TMC Aviation in Elkhart, Ind., is on the industry's short list of go-to operators for supplemental lift, offering an owned and operated (O&O) all-Hawker fleet of 800XPs and 400XPs. "We fly for everybody," said TMC general manager Scott Wise. TMC added 14 Wi-Fi-equipped Hawker 800XPs this year, more than doubling its midsize total to 22 jets.

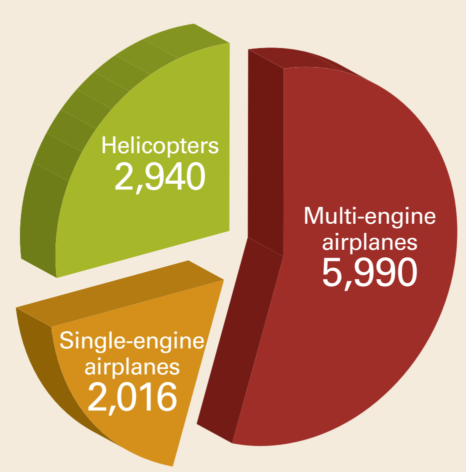
TMC does not work with brokers, providing lift only to other operators and a limited number of retail customers. Last year at this time TMC was acquiring four Citation S/IIs to base at Van Nuys and compete for charter business to and from Las Vegas. "Those airplanes are sold," said Wise. "At the end of the day, that airplane was a bastard child. We want a standardized fleet of only [Hawker] 400s and 800s. It's so much easier with parts and maintenance, so we're very much a Southwest [Airlines] model." Nonetheless, given the Hawker Beechcraft bankruptcy filing and possible sale, and other operational considerations, if TMC expands its fleet into super-midsize jets, "We may go to a Challenger or Citation X or Sovereign," Wise said.

With slow to no growth at home, some U.S. operators are

Continues on next page ▶

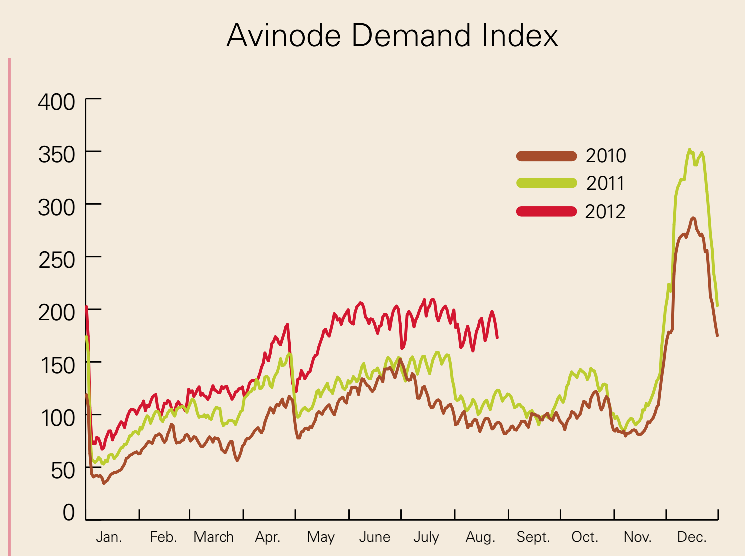


Part 135 flying this year has bounced back from 2009 levels and has been on pace with traffic numbers from the previous two years, though the highs of 2007 remain elusive.

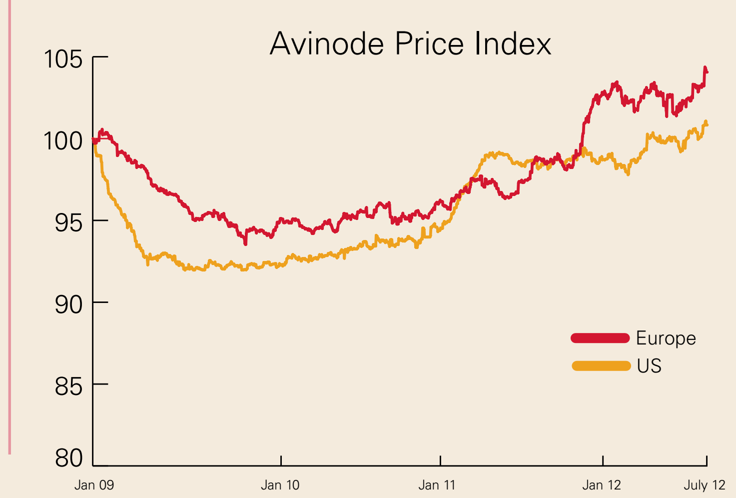


Total: 10,946

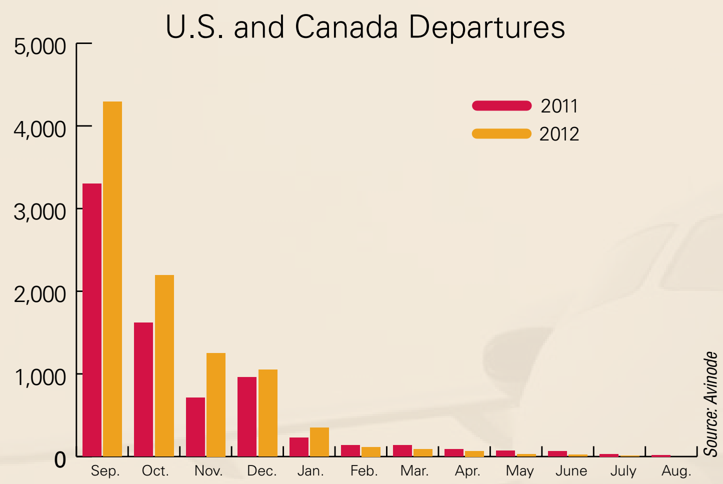
8.3 percent of the total operations are cargo only.



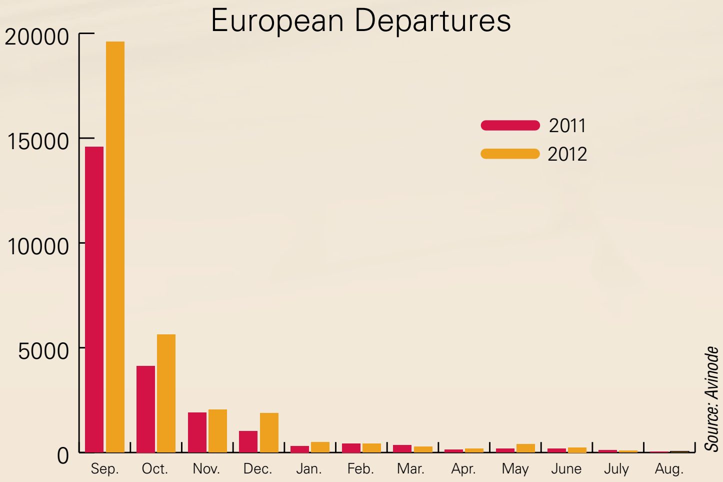
Avinode keeps tabs on the state of the market by generating forward-looking indices showing projected demand and prices over the coming 30-day period period, calculated from flight requests processed through its online portal, www.avinode.com. Figures produced for **AIN** in early September show the demand index on the first of each month averaging higher than in the equivalent periods in 2010 and 2011. The price index, meanwhile, particularly in Europe, has been on an upward trajectory.



Demand for Future Flights



Future demand trends for air charter in the U.S. are positive, according to this 'snapshot' provided by Avinode. The 2011 and 2012 demand indices are based on charter booking requests on hand on 8/15/11 and 8/15/12, respectively. Requests for charter flights from Sept. '12 through Jan. '13 averaged 42.86% above the prior year's totals. (About 20% of this increase is due to growth in the number of providers in the U.S. reporting their charter activity to Avinode, currently numbering some 180 charter brokers and 310 charter operators acting as brokers.) The negative numbers shown in succeeding months indicate insufficient data for valid projections. Avinode will release a formal 2013 Charter Business Forecast at the NBAA Convention in Orlando later this month.



exploiting expanding international charter markets. In March TWC Aviation of Van Nuys, Calif., announced a marketing alliance and charter/management agreement with Hong Kong-based SinoJet Management. TWC will manage and handle charter for SinoJet's N-registered jets, currently including a Bombardier Global Express and a Gulfstream G200. U.S.-registered aircraft enjoy an advantage in some international charter markets because of the perceived value of the FAA's imprimatur of regulatory compliance, and ease of movement in, out and within the U.S.

Priester Aviation has seen a "significant" increase in international activity during the past year, made possible by a shift to large-cabin jets, which now account for about half of the 35 aircraft in Priester's charter fleet. But taking advantage of international opportunities isn't as simple as adding appropriate aircraft to a charter certificate. Bob Marinace, president and CEO of charter operator Key Air in Oxford, Conn., whose international charters to and from the U.S. now account for about one third of its business, noted the complexity of arranging international charters today. "It's a lot harder to run the same exact trip that we were running ten years ago," Marinace said. "The challenge is having an adequate infrastructure to handle that."

One example of the challenges: 2012 is the first "full implementation" year of the EU-ETS (European Union-Emissions Trading Scheme); operators using jets in Europe must monitor, report and verify their CO_2 emissions and, by March next year, surrender their annual carbon allowances. The patchwork of EU agencies with authority for implementing the scheme makes for contradictory or inapplicable rules that complicate compliance.

To meet such infrastructure needs, Priester Aviation brought in house an international flight planner from a major flight handling company. "Our ability to facilitate international trips quickly demands that particular relationship," Priester said.

Geopolitical issues can trump regulatory considerations. Last October JetFlite International (JFI) of New York, N.Y., formed JFI Russia to advance its business interests in the region in a venture with Moscow's Best-Jets. "We have the facility, the people, the agreements, and most important, we have the licensing and legal right to operate," said CEO Bob Seidel, but "we have not really flipped the switch. We're moving cautiously."

Playing Cards Over Charter

Paradoxically, charter providers see profitability in downplaying one-off charters in favor of jet card sales. Sentient Jet has more than three times the number of card customers (about 4,500) compared with on-demand charter customers (1,000-1,500), according to Collins.

At JetSuite, with an O&O fleet of 13 Phenom 100s, one-off charter represents only 20 percent of business, with jet cards accounting for the remainder. Underscoring the vitality of its card programs, the Irvine, Calif. O&O recently doubled the minimum cost (to $50,000) and the value of its top-end jet card (to $400,000). The more money deposited, the lower the locked-in hourly rate.

JetSuite gave a boost to its one-off business in June when it launched instant online booking with guaranteed charter price quotes. The service has had a "huge impact," JetSuite founder and CEO Alex Wilcox said. "Our bookings are way up and prices and utilization as well," and while the surge can't be attributed exclusively to the quoting tool, "No doubt there's a correlation between increasing transparency and [business] activity," Wilcox said. This summer JetSuite expanded service to the Northeast.

At XOJet, which reported 55-percent year-over-year growth in flight hours (primarily through expanding its O&O fleet of super-midsize Challenger 300s and Citation Xs; its aircraft continue to fly 95 to 110 hours per month), about two-thirds of revenue comes from its three card programs (Coast2Coast, Preferred Access and Elite Access), the other third from one-off charter. XOJet generates about 70 percent of these bookings itself and brokers account for the remainder.

Delta Private Jets (DPJ) views its charter business as a conduit to its card programs. The former is "holding its own," said Cyril Turner, president of Cincinnati-based DPJ, while the company is "finding a ton of activity in the card business."

Since its reorganization following the acquisition of floating fleet progenitor Segrave Aviation in 2010, DPJ has concentrated on developing synergies with parent Delta Air Lines to boost its card business, such as including Diamond Medallion status and offering 20-percent discounts on first-class airline fares with the purchase of a jet card–benefits unavailable to one-off charter customers. Turner said Delta's database is "a great source of referrals," but DPJ is just beginning to mine the information and is developing tools that would, for example, compare first-class ticket purchases at the time of online booking and offer an alternative DPJ charter solution when appropriate.

DPJ has been leasing more aircraft to meet demand, with strong growth at the light end of the fleet, which surpassed the 50-aircraft mark (51) with the recent addition of four light and midsize jets.

Jet Aviation's PT jet card remains popular with charter customers, said president and CEO Gary Dempsey. Now the Teterboro, N.J.-based aircraft management and charter company aims to create a card in partnership with Avcard, the aviation services credit card company, providing up to $500,000 of credit to enrolled Jet Aviation charter customers for their global travel needs.

"If you're overseas trying to arrange for charter, typically people don't want to extend large amounts of credit," said Dempsey. The card would eliminate the hassles and glitches of wire transfers and last-minute charter bookings.

Jet Aviation's PT jet card provides category-specific access to light, midsize and large-cabin aircraft in increments of 10, 25, 50 and 100 hours (ranging in price from $51,500 to $1,068,000). Round-trip pricing on qualifying trips cuts hourly costs by 40 percent. Jet Aviation has added 17 aircraft to its rolls this year, bringing its charter fleet to 90 aircraft.

TWC Aviation introduced its TWC Debonair Jet Card this year, providing guaranteed one-way and round-trip hourly rates and aircraft availability. The debit-style card ($50,000 minimum refundable deposit) features two categories of light jet, two categories of large-cabin jet, and midsize and super-midsize jets, with hourly prices ranging from $3,100 (roundtrip) and $4,000 (one way) for a Citation II, CJ1, CJ2 or Learjet 35 light jet, to $10,350/$12,595 for a Falcon 900 or Gulfstream IV.

To help ensure access to a quality pool of aircraft for card clients, TWC debuted two guaranteed charter revenue programs this year: TWC Revenue Flex and TWC RevenueMax. "It's really centered around new model airplanes," said Paul Class, senior v-p of charter services. Ten years is the maximum aircraft age, preferably Wi-Fi equipped. RevenueFlex guarantees annual charter revenue, flying the maximum additional hours the owner wants the aircraft flown to offset operating and ownership costs. RevenueMax provides a negotiated revenue guarantee for a number of days set at the beginning of each month that the owner agrees to make the aircraft available for charter. ❑

Report continues on page 24 ▶

The Charter Deal of the Year

Directional Aviation Capital (DAC), the private equity firm headed by Kenn Ricci, purchased charter broker Sentient Jet from Australia's Macquarie Global Opportunities Partners in May for an undisclosed sum. DAC's aviation holdings include Corporate Wings, Constant Aviation, Nextant Aerospace and a majority stake in Flight Options.

Ricci told **AIN** DAC bought Sentient because of its "tremendous brand value" and "unique product options," and though the holding company will seek synergies, DAC intends to operate Sentient as a standalone company. Fractional ownership company Flight Options is one obvious place to seek operational compatibilities. "Most important is an exchange of best practices," said Andrew Collins, president of Sentient Jet Cards, for example "observing how the respective companies command centers operate." Collins said he wants to see the two companies leverage their technologies to mutual benefit. "It's early on," said Collins. "We'll uncover the synergies in the future." –J.W.

European market stalled, East proves bright spot

by Charles Alcock

London Executive Aviation fields a fleet that includes Citations, Falcons, Challengers and Legacys and has been facing the same pressure on charter pricing as other operators.

Sitting in Europe, drowning in bad news about the continent's struggling economies and financial woes, you could be forgiven for assuming that prospects for the executive charter sector must be pretty grim. Generally speaking, the core European market for charter has still not recovered from the shock delivered by the 2008 financial crisis and shows no immediate signs of doing so. But that doesn't tell the whole story because market forces from beyond Western Europe are giving the sector some grounds for optimism, as are emerging markets farther to the east and south.

One saving grace for the European market is that despite the continuing financial crisis wealthy individuals are still flying privately in pursuit of new investment opportunities. At the same time, Europe continues to see an influx of super-rich Russian s, Asians and Arabs, who have become keen charter clients.

LEA's George Galanopolous

"Overall we are still not seeing the market expanding, and since the crisis it has been contracting," said David Macdonald, sales director of broker Air Partner Private Jets.

Leisure trips now account for about a third of Air Partner's business. "This flying is not as vulnerable to decisions over corporate travel budgets, and is more about lifestyle choice," he told **AIN**. "Emerging markets remain strong. Russians are not cutting back [on charter flying] and demand in China is also growing in part because [Chinese customers] need to make longer flights and their airline options are worse." Air Partner is helping growing numbers of customers from India, Brazil and the Far East who will fly long-haul airline to Europe and then charter aircraft, increasingly by using block charter jet cards.

London Executive Aviation (LEA) is at the forefront of the struggle to make the best of a challenging charter market in Europe. "We have really only seen the same number of flights so far in 2012 as we did in 2011, which is quite disappointing because with events like the Olympics we had expected to be busier," said the UK company's managing director, George Galanopolous. He added that it's unrealistic to expect new people to enter the European market unless doubts surrounding the euro currency are resolved.

In his view, charter pricing has remained under pressure, with many operators still willing to fly for cost or even at a slight loss. "There are some desperate people out there who are getting even more desperate," Galanopolous told **AIN**. However, flying activity for LEA's larger Embraer Legacy jets has been up slightly this year.

Glimmers of Hope

LEA now bases a couple of its aircraft in Moscow to tap rising Russian demand. The company is also seeing more Russian and Eastern European aircraft owners choosing to place their equipment on UK air operator certificates–in part to satisfy the preferences of lenders.

"We've been pleasantly surprised considering how bad it looked earlier this year," commented John Brutnell, general manager of charter operator ExecuJet UK. "We're fairly well protected against the worst of it because we are largely chartering bigger aircraft, such as the Global Express and Falcon 900s. Pricing has become cut-throat at the light end, but these days old-fashioned customer service, knowing the business and being trusted are paramount."

PrivateFly.com, a UK-based charter-booking portal, says that it has achieved sales growth despite the weak market conditions. "We're still bumping along the bottom of the recession and only now and again see a glimmer of hope of a revival," CEO Adam Twidell told **AIN**.

But overall, Twidell's prognosis for charter remains optimistic on the grounds that it is still viewed as a better-value alternative to either full aircraft ownership or fractional ownership.

One trend that illustrates the extent to which the charter market in Europe remains a buyer's market is data from PrivateFly showing that the average time between booking a jet and taking the flight dropped to five days from 25 between 2008 and 2011. Customers clearly have assumed that reduced demand will make aircraft available at the drop of a hat, although the average booking period did briefly lengthen to almost 20 days during the recent Olympics.

"Russian demand is still propping up the market in Europe and [Russian customers] have a preference for larger aircraft," Twidell added. He also pointed to rising charter demand in Australia and Africa, driven in good part by increased mining activity. ❑

Fractional-share market flying steady

by Matt Thurber

Beginning with a 2010 order for up to 125 Embraer Phenom 300s, each year since then NetJets has announced significant new orders for hundreds of jets as part of the company's 10-year fleet renewal plan. The 2010 order was followed by a March 2011 announcement of a firm order for 50 Bombardier Globals, with options for an additional 70. In June this year NetJets added an order for up to 275 Bombardier Challengers (100 firm, 175 options) and up to 150 Cessna Citation Latitudes (25 firm and 125 options). "The business model is running well, and we've been adding owners," said NetJets chairman and CEO Jordan Hansell. "We have more fractional owners in the program today than we did in 2007."

NetJets remains the biggest player in the fractional-share market with a fleet of about 530 jets operating in the U.S. and Europe. The company recently opened a new private terminal facility at one of its busiest locations, Van Nuys Airport in southern California, and broke ground on a similar facility at Palm Beach International. Plans call for adding more such facilities. Another recent NetJets move was a new supplemental lift assurance program, which allows aircraft owners and flight departments to purchase access to the NetJets fleet. Purchasers typically fly in their own aircraft, he explained, but like to tap into NetJets when they need additional lift. So far, response to the new program has exceeded expectations, Hansell said.

As new aircraft flow into the NetJets fleet, older aircraft will be sold. The many options allow the company to ramp the fleet up or down, depending on the economic conditions, he explained.

Executive AirShare

On the other end of the fractional-share spectrum, regional

Continues on page 26 ▶

Executive AirShare


Avantair


Steve Santo

operator Executive AirShare now has twice as many shareowners as it did in the depths of the downturn in 2009. “We grew during the recession at a faster pace than any national programs without jeopardizing the level of personalized service and with no mad exit of fractional owners,” said president and COO Keith Plumb.

The company introduced the Embraer Phenom 300 in 2009, and that was a big driver for new customers joining the program. Another factor, he said, “was news like CitationAir bowing out. That has directly related to the number of new owners in our program.” CitationAir, a division of Cessna, announced early this year that it was halting sales of fractional shares and Jet Access memberships and shifting to a traditional charter/management business model.

Executive AirShare’s fleet has grown to 42 aircraft, including nine Phenom 100s and four Phenom 300s, and the company operates from seven regional bases, the newest of which is in Buffalo, N.Y.

PlaneSense

PlaneSense, the eastern-U.S. fractional-share operator flying 32 Pilatus PC-12s, took delivery of a new PC-12 in August and expects to take another during the final quarter of this year, according to president and CEO George Antoniadis. “We continue to be committed to the model where you buy a share and get the benefits of fractional ownership,” he said.

Antoniadis recognizes that buyers of business aviation travel have many choices, from shares to charter and empty legs to whole aircraft ownership, leases and other ways to deliver the product. “Because of significant unsold inventories, providers have been creative to get their assets to work,” he explained. PlaneSense, while sticking to its original model, has enhanced its program with new features, such as increasing the number of hours a buyer gets when purchasing a share and lengthening the contract time to longer than five years. Those changes, he said, have generated positive feedback.


PlaneSense

Avantair

Avantair, the nationwide fractional-share operator of a 57-airplane Piaggio Avanti fleet, has also grown during the downturn, although that growth has slowed, according to founder and CEO Steve Santo.

Avantair has been able to retain existing shareowners at about an 80 to 90 percent renewal rate, he said. Customers who aren’t interested in making a long-term commitment to buying a share are ideal candidates for leases of shares. “Growth is coming through leases,” he said. “We’re selling about seven to nine leases a month.” Some lease buyers were hurt financially by collapsing residual values of shares they held in other programs, Santo said. “They don’t want to make that mistake again.”

The advantage of Avantair’s all-Avanti fleet is that Piaggio hasn’t flooded the market with airplanes. “There are few Piaggios for sale,” he said. “Because fuel is so expensive and [the airplane] is so fuel efficient, it does well in the market. Even with that, people seem to like the lease program better because they want to know what their costs are.” Avantair doesn’t assess a fuel surcharge, and its hourly rates cover fuel costing up to $8 a gallon.

A creative change that Avantair planned to implement by the end of September is a new ride-sharing program, prompted by customer requests. Many customers, for example, fly between Los Angeles and San Francisco or Palm Beach, Fla., to New York, and might want to share the expense with other Avantair owners. Avantair’s new mobile app will allow these customers to list potential flights and constraints such as no pets, then set that flight to self-cancel if no one expresses interest and if the owner doesn’t want to fly alone. “We think this will be really popular,” Santo said, “and it gives the owners a chance to get to know each other.”


Flight Options

Flight Options

Flight Options chairman Kenn Ricci understands exactly why his competitors are adding new aircraft, something that is also happening at his company. “I think new products stimulate the market,” he explained. During the next two years, Flight Options will replace its 31 Beechjets with remanufactured 400XTs (which are done by Nextant Aerospace, another company owned by Flight Options parent Directional Aviation Capital). Flight Options already operates six 400XTs, with four more to be added shortly. “From the fractional side there’s been a couple of percentage points of growth,” he said. “Overall, the aviation industry looks to me to be acting a lot like a mature market. You’re seeing some consolidation, and that explains where we are right now.”

Ricci recognizes that customers are seeking different ways to buy business aviation lift. In May, Directional Aviation Capital bought charter consolidator Sentient Jet. “People have become smarter purchasers of private aircraft travel,” he said. “Ten years ago they might have signed up with NetJets. Now they might have a share, a whole aircraft, do some charter and own a card, so there’s all kinds of different reasons.

“People are hesitant to put their capital at risk because they still remember what can happen to aircraft values. It doesn’t surprise me that the market is moving to higher-priced but shorter-commitment products.”

With 86 airplanes, Flight Options is the second-largest

Continues on next page ▶


Kenn Ricci
JIM BARON

NetJets stands alone in spreading frax globally

by Charles Alcock

With the exception of some small-scale operations, NetJets remains the only company to achieve any lasting success in establishing fractional ownership outside North America. After the 1996 launch of NetJets Europe, it took the group almost 10 years to achieve an operating profit. Having shared in the setbacks inflicted on the wider industry by the financial crisis that started wreaking havoc in 2008, the UK-based company was able to return to profitability in 2010 after implementing a range of cost-cutting measures.

So why, having seen off the threat of short-lived upstarts such as Jet Republic, does NetJets Europe stand alone in the fractional domain in its territory? Chairman and CEO Eric Connor pointed straight to the strong financial support and abiding faith of investment group Berkshire Hathaway and its founding father, Warren Buffett.

Charter operators and brokers alike commonly claim that they continue to pick up former fractional shareholders as clients. “Since the crisis the market has been more about flexibility and value for money,” said David Macdonald, sales director of broker Air Partner Private Jets. “People who bought fractions found themselves locked into deals where they couldn’t reduce their [cash] burn, and this has driven them to seek more flexible solutions.”

NetJets

But Connor told **AIN** that NetJets Europe is content with its fractional client retention rate. He asserts the company has responded to the market’s desire for flexible options by offering block charter jet card terms alongside the core fractional packages.

In May this year NetJets Europe launched its own aircraft management division, and Connor describes early market reaction to this move as positive. With an air operator certificate and crew separate from those of the main fractional/charter fleet, the new venture is seeking to manage mainly larger, longer-range business jets. It is looking to attract aircraft owners who may not be able to sell their assets at a desirable price and who may wish to exercise the option to reduce their costs by allowing NetJets to use the jets to carry fractional clients.

Fractional Desert?

In November last year NetJets Europe quietly ended its decade-long attempt to introduce a locally operated fractional ownership service in the Middle East, when it concluded its franchise agreement with Saudi Arabia’s NAS with just 12 months remaining on a partnership launched in 1999 and renewed in 2009. It has always been unclear how many aircraft and owners the NetJets Middle East program accrued.

However, NetJets Europe has continued to serve Middle Eastern clients directly and reported 9.2-percent growth in demand from this region in 2011. In April this year the company extended its ferry waiver zone, inside which it does not charge for positioning flights between 21 airports in the Middle East and Europe. The extension added Jordan, Saudi Arabia, Bahrain, Qatar, Kuwait and the United Arab Emirates to this preferred zone. ❑


NetJets

China Gets NetJets, But Not Frax

Next stop for NetJets is China, but the company isn’t trying to plant fractional ownership there, at least not yet. In April the U.S.-based group announced plans to launch an aircraft management and charter service through a joint venture called NetJets China Business Aviation. The company, which is awaiting Chinese regulatory approval, will be a three-way partnership between NetJets; a consortium of Chinese investors led by Hony Jinsi Investment Management (Beijing), a subsidiary of Chinese private-equity firm Hony Capital; and Fung Investments, which is owned by the families of Dr. Victor Fung and Dr. William Fung (the controlling shareholders of the Li & Fung group of companies, which are involved in supply chain management as well as the wholesale and retail sale of consumer products).

NetJets, which embarked on a six-month study of the Chinese market in September 2007, has spent almost five years plotting its first steps in this hugely exciting, but equally complex, new frontier for business aviation. The new operation will be based in Zhuhai on the southern coast of Guangdong province.

Once operational, NetJets China will provide flights within China for customers of the group’s programs in the U.S. and Europe. The company has said it would like to develop a fractional ownership program in China eventually. Current legal requirements for private aircraft ownership could make this complicated. *–C.A.*

Fractional-share market steady

▶ Continued from preceding page

fractional operator. Ricci sees moves such as CitationAir leaving the share business as another indicator that fractional ownership is a mature industry. “The conservative assumption is that we’re going to operate in a mature industry environment for a long time, and if we’re surprised to the upside we’ll adapt quickly,” he said.


Flexjet

Flexjet

For fractional-share operator Flexjet, which is owned by Bombardier, business “spiked in an encouraging way in 2011 and in the first quarter of 2012,” according to president Fred Reid, “and since then there’s been a marked slowdown across the industry.” He noted that the company remains profitable and continues to add new aircraft.

Flexjet’s market share in fractional sales grew by 7 percent last year versus 2010, according to Reid, outperforming the company’s competitors. Flexjet has also seen customer retention rates climb to 75 percent this year, up from 55 percent historically. “Net-net, the industry has probably shrunk in the last two years by small single-digit percentages,” he said. “But it’s nothing like the rupture of 2008, 2009. We feel we’re holding our own; we earn a fair return for our owners and we’re investing in the future with both fleet renewals and customer experience enhancements.”

Flexjet’s fleet has remained relatively stable this year, at just over 80 aircraft, and the company added four Learjets and four Challengers this year and expects to add seven to 10 new aircraft next year. Those are primarily replacement jets, Reid pointed out, which helps Flexjet maintain its status as having the youngest fleet in the industry. Next year, deliveries of Flexjet’s new Learjet 70s will begin. ❑

© 2012 AIN Publications. All Rights Reserved. For Reprints go to www.ainonline.com.