

Above the Fray

Strategic Approaches to Private Aviation

Private aviation offers distinct advantages over commercial air travel, delivering greater comfort, convenience and flexibility than you could reasonably expect from any airline.

With a private aircraft, you have far greater control over your schedule and your surroundings. You can reach smaller airports in more remote locations without connecting flights and avoid some of the more tiresome aspects of transiting through major city hubs. Should you decide to buy or lease your own aircraft, you can also choose to staff, provision and decorate it as you see fit (within FAA regulations). Of course, you can also choose your fellow passengers.

In a corporate setting, private aviation can be a highly effective business tool that offers legitimate efficiencies to the leaders of geographically dispersed enterprises. For many effective leaders, the question is not whether to but how to secure a private aircraft and choose the type that's optimal for their needs.

This paper discusses the strategic sourcing of private aircraft as a family office and/or business resource. We'll review the questions you should be asking yourself to determine your needs and discuss relative merits of chartering, jet cards,

fractional ownership, leasing and purchasing aircraft. Our goal is to help you begin the process of choosing the optimal aviation solution for you, your family and/or your company.

Private Aviation as a Strategic Business Tool

With the occasional exception, the least expensive way to fly a group of people from point A to point B will not be by private plane. Instead, the efficiencies of private aviation are measured in the best use of time rather than the lowest net cost. As that time tends to accrue to the most highly compensated people in any enterprise, private aviation can quickly become a measurable productivity-enhancing tool. These benefits tend to quickly accrue in family offices and businesses that are dispersed around the country, particularly if some of these locations are far from major population centers. Of the 5,170 American airports open to public use, only 503 offer scheduled commercial service.¹ ▶



Corporate aircraft can be a highly effective business tool that offers legitimate efficiencies to the leaders of geographically dispersed enterprises.

¹ 2011–2015 National Plan of Integrated Airport Systems (NPIAS), released by the U.S. Department of Transportation and the Federal Aviation Administration (FAA)



State of the Industry

According to Jeff Habib, co-founder and managing partner of Intercontinental Aircraft Group, “Since Labor Day 2020, and (somewhat) continuing through today, demand continues to outpace supply for quality aircraft assets. Additionally, business jet utilization has been at all-time highs. OEM’s have not fully ramped up new aircraft production, and as such, many are sold out for several years. The recommended approach for Buyers and Sellers continues to be — engage with professional representation and be ready to transact when the opportunity presents itself.”

So, for many thousands of different routes, private aircraft can get you far closer to your final destination than any commercial flight, no matter how conveniently scheduled, saving you considerable time in the process. Obviously, as you fly more highly compensated people to more places farther from major airline hubs, the benefits of private aviation begin to increase exponentially.

Creating Quality Time

The efficiencies of private aviation are measured not only in the bulk amount of time saved, but in the flexibility of usable time. For example, think

about six members of an executive committee traveling from New York to Atlanta, a frequently traveled route with commercial flights. The executives fight airport traffic to arrive at least an hour in advance, wait in security lines and at the gate, and eventually find their seats dispersed about the first-class cabin. How much legitimate, productive business will really get done? What if any of that business were confidential? How rested and ready to go will team members be by the time they collect their bags and arrive at their final destination? These are legitimate questions, even in circumstances that are optimal for commercial travel and without delays or hitches of any kind.

Consider the same executive committee traveling aboard the corporate jet. They can leave the office later, because the drive to Teterboro is shorter, and they won’t be waiting in line. They spend the better part of the flight around a conference table conducting business. They are in the limo minutes after the plane lands, their bags already in the trunk. Whatever conversations they were having barely need to pause throughout the entire course of the journey. That’s not to mention the more comfortable surroundings, better food, fewer safety and health concerns, and greater scheduling flexibility afforded by private aviation.

Given the current economic and political climate, private aviation will continue to endure public scrutiny. It is, no doubt, the ultimate flying experience—a more comfortable and luxurious way to travel. That doesn’t mean, however, that it cannot be justified without apology on its merits as a productive business resource.

Assessing Your Needs

By the time they have reached a position of considerable affluence, most people are familiar with the amenities of private aviation. Perhaps you have chartered planes of differing sizes, or flown as a

guest on the planes of friends and business associates. Before leasing or purchasing an aircraft for your own business or family office, there are a number of questions you should consider. This first set of questions may help you determine whether or not a company aircraft will make your enterprise more productive:²

- How often do employees fly and for what purpose?
- Are private airports closer to the site location?
- Do you often fly to multiple locations in a single day?
- How much could be saved on overnight hotel fees and meal costs?
- Do groups of employees often fly together?
- How much more productive are employees when they travel together?

Once you’ve determined that a private aircraft would be beneficial to your organization, the next goal is to identify the type of aircraft that would most efficiently address your needs:

- How many passengers will the plane need to accommodate?
- Should it be configured for maximum capacity, maximum comfort or some special business purpose?
- Does it need to accommodate passengers with special needs?
- How far should it be able to fly without refueling?

You should also think about the limitations posed by the airports at your preferred destinations. **You wouldn’t want to buy a jet that is too big to land at the places you need to visit most often.**

Choosing an Aviation Company

Obviously, determining the optimal private aviation solution for your needs takes a lot more than answering a list of simple questions. All but the most experienced private aviation customers should strongly consider enlisting an aviation company to help them assess their requirements and determine

² CFO.com Budgeting: A private aviation checklist

appropriate solutions. Basically, you are looking to make two determinations:

What is the right equipment for the mission: cabin size, passenger space, duration of flight, expediency, cost effectiveness?

What is the best way to access that equipment: full or fractional, own or lease, jet card/membership or charter?

Your Morgan Stanley Financial Advisor can make appropriate introductions through the firm's referral program, or you may have other resources at your disposal. In either case, it's important to understand the core competencies of the private aviation company. If they are involved in one area of the industry, say brokering planes, make sure that they are also able to help you understand other options. Ask for referrals and be sure to check them out.

Relative Merits of Private Aviation Solutions

Those who wish to travel by private aircraft have six options:

CHARTER aircraft hired on a pay-as-you-go basis.

JET CARDS offering prepaid access to a specific type (or types) of aircraft for a set number of flight hours (typically 25).

MEMBERSHIP initiation fee with annual fee thereafter and pay as you fly.

FRACTIONAL ownership of a specific aircraft, usually staffed and maintained by a management company (fractional lease options are also available).

LEASE of a specific aircraft for a set length of time.

FULL PURCHASE ownership of a new or used aircraft.

Each of the avenues has its merits and its drawbacks. See source for chart on the next page.³ If you need to customize the interior of your aircraft to meet your

Private travel has become essential as an extension of the boardroom or a means of bringing a family together. You can have the accessibility without the constraints and delays of commercial airlines.

specifications, you will probably need to buy or lease your own plane. If you are an infrequent traveler who wants occasional access to a private jet, you may be better served by chartering, or a prepaid hourly program. The only right choice is the one that best suits the needs of your enterprise and your lifestyle.

Moving Forward

Private aviation is the ultimate flying experience. Planes leave on your schedule and often arrive far closer to your final destination than any commercial flight. The petty indignities of commercial air travel can be avoided. You gain control over who your fellow passengers will be, what will be served on the way and even how the seats are configured. For those in the public eye, private aviation affords the opportunity to travel in peace, sheltered from constant interruption. Well sourced and properly managed, private aviation is also a legitimate business resource, creating efficiencies for corporations, family offices and foundations.

As in every important endeavor, the key to maximizing efficiencies is to select the right tool for the job. A competent

advisor can help you determine the optimal aircraft for your lifestyle and business needs, and figure out the most cost-effective method of gaining access to it. If you need help finding such an advisor, or have questions about how private aviation impacts your larger financial goals, please contact your Morgan Stanley Financial Advisor. He or she would be more than happy to introduce you to both Morgan Stanley professionals and external experts who are well-versed in these issues.



Which Solution is Best for You?

While many factors may influence your decision, a good place to start is with the number of hours you expect to fly each year. If you need access to a private aircraft:

- Less than 25 hours a year, consider chartering or an entry-level membership.
- About 25 to 50 hours a year, consider jet cards or a mid-level membership.
- About 50 to 300 hours a year, consider fractional ownership or leases, with a membership for supplemental lift needs.
- Three hundred hours a year or more, consider full ownership or leases, with a membership for supplemental lift needs.

³ Chart Source: Morgan Stanley, NetJets, Executive Jet Management and Wheels Up

Aviation Solutions

SOLUTION	ADVANTAGES	DISADVANTAGES	YOU SHOULD ASK
Charter	No commitments beyond a single flight Flexibility to choose aircraft size/type depending upon the mission or passenger count	Variable cost per flight hour for a given type of aircraft Access is subject to availability Condition of aircraft and quality of staff vary from provider to provider	How long has the provider been in business? Are they a management company or just brokering hours? Will they guarantee their quote in writing?
Jet Cards	No large upfront capital investment Better providers will allow you to also split the hours between two separate aircraft types	Higher hourly costs than fractional or full ownership for a given type of aircraft Set rate, regardless of destination and time of year (no off-season discounts) Does not provide access to a specific aircraft, so you cannot reconfigure cabin interior or choose specific staff	Can I pay for the hours as I go? If no, will my money be held in an escrow account? When will unused hours expire? Can I roll unused hours into a fractional if I need to upgrade? Can you provide proof that you are financially sound with a proven track record and safety record?
Membership	No large upfront capital investment Flexibility to pay as you fly, with no minimum number of hours required Dynamic hourly pricing, backed by capped hourly rates with mid-/premium-level memberships Ability to choose best aircraft type for each trip without being locked into a specific one	Generally unable to <i>guarantee</i> bookings with less than 24 hours' notice Bookings often done at the category level, meaning specific aircraft types cannot be selected	Does the provider own their fleet of aircraft and who operates the aircraft? What aircraft categories are available and their seating capacity? What are the provider's safety standards? Does the provider offer nationwide or international travel options?
Fractional	Guaranteed availability, usually with little notice required (depending on type of aircraft and portion owned) Consistent experience Lower cost per hour than charter or jet cards	Higher upfront costs than charter or Jet Cards Responsible for management and variable costs in addition to purchase price Limited opportunities to customize cabin interior and/or choose specific staff	What is the exit strategy if I want to sell? (Better plans offer guaranteed repurchase of shares at fair market value minus fees.) Are there any repurchase options offered after a minimum ownership period or at the end of the contract? Are their short-leg fee waivers and/or ferry fee waivers? What are the liability provisions? Can you provide proof that you are financially sound with a proven track record and safety record?
Lease	No initial capital outlay Guaranteed access (depending on the aircraft, size and duration of your commitment) With lease of full aircraft, opportunity to choose staff and customize cabin	High fixed costs With lease of full aircraft, need to staff and maintain aircraft, or hire a management company to do it for you Very difficult and costly to end lease early Can't use tax benefit of aircraft ownership Financial institutions are very strict with leases	Will this one type of aircraft meet all of my travel needs? Can they use the tax depreciation? Are they confident they will need the asset for 7 to 10 years (duration of lease)?
Full Ownership	Guaranteed access to a specific aircraft Ability to customize interior to your tastes and needs Continuity of crew Often lower-cost solution when compared to the other types, for high-frequency fliers over long term	Large initial capital outlay Substantial ongoing costs for maintenance, staffing hangering, fuel, etc. Need to hire and manage staff, or arrange with management company to do so No access to a larger, or smaller, aircraft to accommodate passenger groups of various sizes	Do I anticipate consistent need for 300 or more hours of utilization per year that would be well-served by a specific aircraft? Do I have business needs, investment opportunities, or personal travel desires that would benefit if I commit to the fixed cost of owning my own aircraft? (Once one commits to the fixed cost, additional hours are at direct operating cost, so we often see clients increase utilization after they commit to owning an aircraft.) Can investing in an aircraft give me tax benefits from depreciation of the aircraft? Are there other considerations, such as a personal desire to own an aircraft, that do not show up on spreadsheets?

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