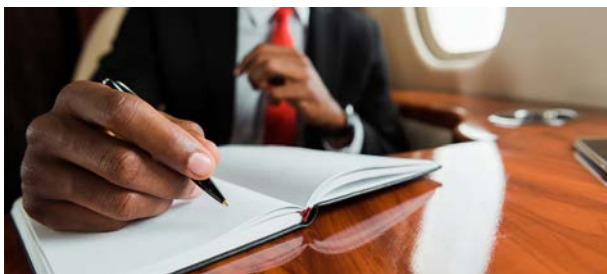


COVID-19 Opened the Door to Private Jet Ownership

Business travelers and some individuals have bumped up against the limits of charter and fractional private aircraft services and are now pivoting to ownership.

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It's no secret that 2020 changed the landscape of the aviation industry. According to data from the Los Angeles Times^[1], 2020 forecasts show that this will be the worst year in the history of commercial aviation with the industry poised to post a net loss of \$84.3 billion. Consumer air travel revenue is expected to drop from \$876 billion in 2019 to \$434 billion in 2020. Initially many individuals considered charter services or fractional shares like JetLinx and NetJets but quickly ran up against usage limits and health concerns as the planes are still shared. As a result, more people are considering direct ownership. Airline brokers have noticed a significant uptick in business. "We're on pace to have one of our best years ever," says David G. Coleman, of Duncan Aviation a private aircraft sales, brokerage and consultancy.^[2]

Key Insights

- Charter and fractional shares can lower risk compared to commercial airlines but they aren't risk free. Private ownership provides end-to-end control of cleaning, crew health and safety checks as well as limited use of the aircraft.
- Aviation finance is a fragmented industry. It's important to engage veteran professionals who understand aircraft mechanics as well as financing options.
- Individuals interested in owning an aircraft should have a clear understanding of the aircraft they are purchasing and be prepared to provide that information to lenders as well. Leasing is also an option, but individuals will want to make sure they've planned for any additional costs and are also well versed in the terms of their lease.

Charter and Timeshare Services See a Short-term Boost

While surging in popularity, many corporate travelers are realizing that chartered and shared services only offer limited flexibility in terms of schedule and personal safety standards. "What we're talking about is still a form of mass transit," says Jeff Wieand of Boston Jet Search, a private aircraft broker and consultancy.^[3] "There are fewer people involved but the questions remain the same - are they cleaning the plane in between? When was the staff tested? Individuals in these kinds of arrangements don't have much control over the aircraft or the process. The lack of control was a driver toward ownership before the pandemic and more so now."

Charter and timeshare services also require passengers to book in advance just like conventional travel, which may result in a bit of jostling if your travel schedule doesn't already line up with that of the service provider. While this may not matter much during a normal week, scheduling issues could become especially acute during high travel periods like around the holidays or ahead of virus lockdowns when many people are trying to get to more remote locations.

Pivot to Ownership

Historically, owning an aircraft was an all-cash process with a naturally limited audience. But as access to capital has improved, aircraft costs have come down and interest rates have remained low, aircraft ownership is possible for more people.

"To my mind, what has happened with the pandemic really accelerated trends that were already happening in the private aircraft market. As major carriers continue to cut back on services, if you're someone who needs to be on the road a lot it's a problem," says Coleman. "What we're really in the business of is giving people their time back. And now, with growing health concerns we're helping them find an option that eliminates more of the risk."

Navigating the Private Aircraft Marketplace

There is a robust secondary sales market within aircraft that allows people to invest in pre-owned planes that are in working condition and on established maintenance programs that lenders are willing to underwrite. New planes are also available and financeable.

For those that are new to ownership, both Coleman and Wieand suggest that it's important to work closely with veteran aviation professionals that can correctly assess the plane itself and the financing options.

"This isn't like buying a car or a house where you can just compare across and get a sense for what things generally cost," explains Coleman. "You really need to understand the life of the aircraft in terms of where it is coming from, the state of the equipment, and maintenance schedules. And, you have to understand that not every

bank is going to finance so you're going to want to engage with brokers and financing almost before you choose the plane so that people are on the same page early."

Avoid Common Leasing and Owning Aircraft Pitfalls

For those that want to invest in aircraft ownership, they can choose to lease their own planes or buy them outright. The financing considerations for both options differ.

Leasing requires careful financing. With a lease, it's important for individuals to understand that they are going to be locked into an aircraft for a period of time even if problems with the aircraft arise. Wieand suggests that it's important to consider the potential for those additional costs when determining whether a lease makes the most sense. A close read of the lease terms is also a good way to ensure that there aren't any surprises if problems arise or if someone needs to break the lease for any reason.

Focus on alignment first and financing second when taking out a loan. Taking out a loan to cover the cost of an aircraft can remove some obstacles like being locked into a lease period, but individuals will make sure that they are working with well respected financing teams that are familiar with these kinds of transactions. Coleman notes that if you're financing before you buy, lenders will typically want to be clear on the results of a pre-buy inspection so that there aren't any discrepancies with aircraft components or functionality. Appraisals and inspections can vary widely provider to provider so potential owners can avoid problems by working with appraisers and inspection teams that the lender is already familiar with and trusts. Coleman adds that some lenders will not finance specific types of planes so it is important to make sure that individuals align their desires with a finance team that is willing to support them.

"I have seen people get into situations where they find out that they can't get the financing they were counting on because they didn't do the pre-work," Coleman says. "A seasoned aviation finance team will work closely with you on finding solutions but it's best when they are included early on in the process."

Ready to Help

PNC Aviation Finance offers knowledgeable financing solutions to make private aircraft ownership possible and affordable.

We offer custom-tailored financing packages based on business needs and circumstances. Our experienced aviation finance team understands and has extensive knowledge regarding private aircraft ownership requirements, FAA, insurance, operating leases, etc.

We can help you look at the implications of each option and help you decide on the best option for you or your business.

Learn how PNC Aviation Finance can help you fly higher by visiting pnc.com/aviation.