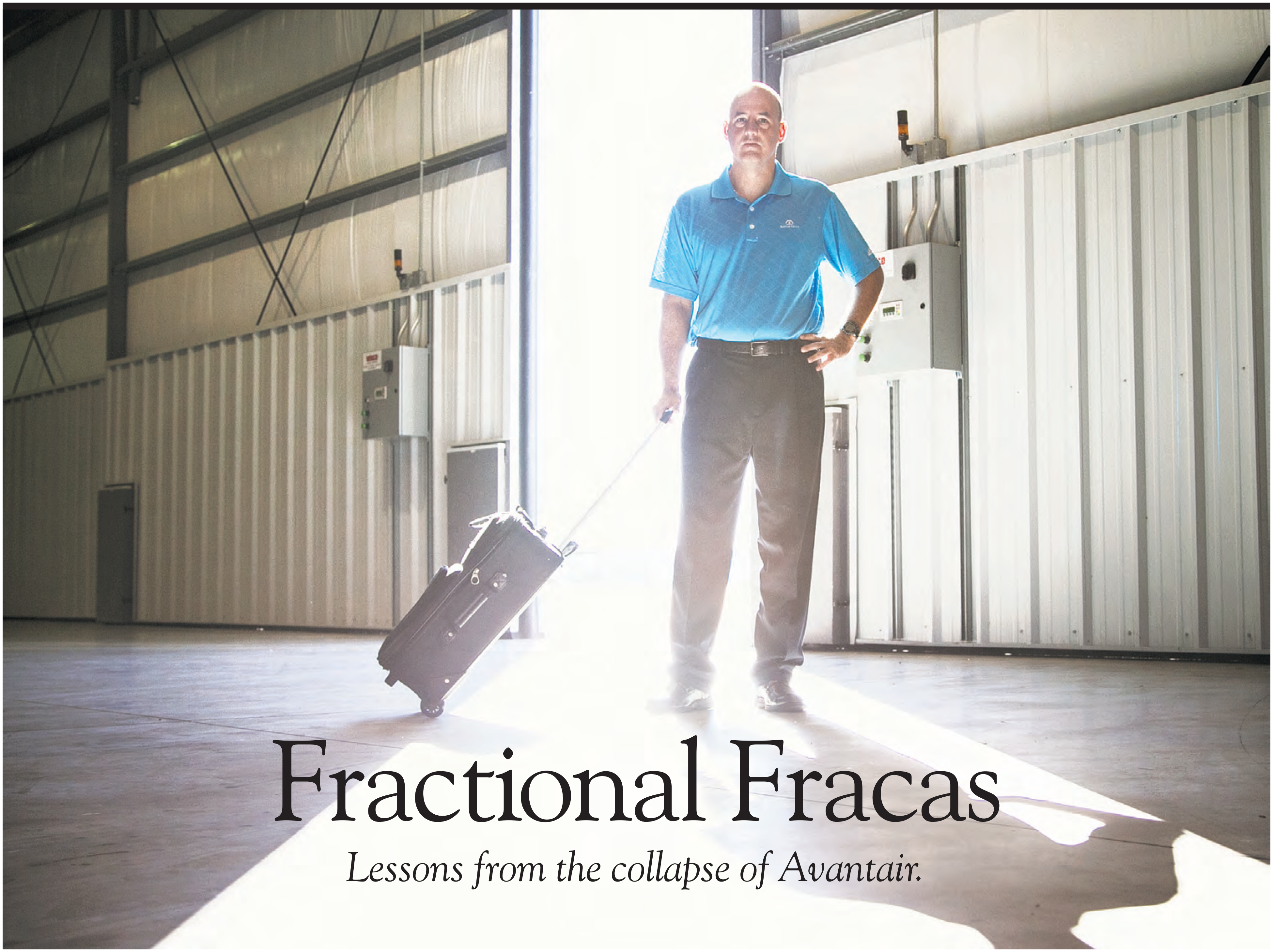

Fractional Fracas

Lessons from the collapse of Avantair.

Joel Trammell in Austin created a forum for disgruntled owners of Avantair jets.

By James Wynbrandt

Photograph by David Strohl

THIS PAST SUMMER, CASH-STRAPPED AVANTAIR, OPERATOR OF 56 fractionally owned Piaggio Avanti P180 twin turboprops, grounded its fleet. Customers owning part shares in the airplanes frantically sought their missing rides, and the postings on the Avantair Owners Forum suddenly read like the back of a milk carton. "I'm looking for N167SL—last flight that I can see was into Dallas Love Field (KDAL) on June 7," read a typical post.

It was a humbling turn for the 600-plus owners who had relied on their on-call aircraft—each co-owned by up to 16 individual parties—for business and personal travel.

"It was the perfect plane in performance and price for what I needed, flying mostly one- or two-hour trips with three kids and two dogs," says Joel Trammell, a high-tech entrepreneur and Avantair shareowner from Austin, Texas. He started the owner's forum last January, after a pair of his scheduled flights went badly awry, in what turned out to be a harbinger of much bigger foul-ups.

"The company was just not behaving appropriately in any manner, and there was no way to contact other owners," Trammell recalls. But then an Avantair e-mail inadvertently left all of its recipients visible, and Trammell used this corporate slip-up to build the forum that eventually became the online meeting place for disgruntled owners, furloughed employees, and gawkers.

In July, after publicly traded Avantair abandoned plans to resume service and announced that it was seeking "alternative financing," Trammell and three other fed-up owners filed the Chapter 7 involuntary-bankruptcy petition that triggered August's order of liquidation for the Clearwater, Fla.–based company. It wasn't the perfect solution. A 16th share in a new Piaggio Avanti had cost about $425,000, but now many of the shares have little value. Owners are mired in efforts to reclaim their airplanes, all 56 stripped of their airworthiness certificates by the Federal Aviation Administration. Many are now no longer flyable, and most are encumbered by mechanics' liens.

The fractional market is a shadow of its pre-2008 glory days, as users have shifted more to using jet cards and charter flights, which don't require purchasing an actual airplane.

Cessna stopped selling fractional shares in its CitationAir program in early 2012. Directional Aviation Capital—which owns the Flight Options fractional program—is scheduled to close out its purchase of Bombardier's fractional arm, Flexjet, by year end. While the industry's consolidation doesn't reflect a fatal flaw in the fractional-ownership model, Avantair's collapse does bring to light some basic lessons.

Protect yourself from yourself. Broadly, fractional ownership means buying an interest in a specific aircraft, typically for three to five years. A 16th share, entitling owners to 50 hours of flying per year, roughly costs from $325,000 for a Nextant 400XT light jet from Flight Options to $3 million for a long-range Gulfstream G-550 from NetJets.

Owners in fractional programs additionally pay a monthly management fee, plus a charge for each hour flown. Assuming 50 hours of flight time a year, that would annually add roughly $184,000 in costs for the same Nextant light jet (fuel and federal excise tax not included), or $416,000 a year (fuel surcharge and federal tax not included) for the NetJets Gulfstream.

To help sort through these various offerings, advisors at fractional companies help buyers identify the best aircraft and service options, but these experts won't say if a competing provider has a better solution. Furthermore, buyers emotionally attached to certain airplane models often "aren't viewing the transaction through the lens of strict economic analysis," says aviation attorney Paul Lange.

So seek the help of a reputable independent consultant, who typically charges about $5,000 to $10,000 for handling a standard ownership contract; the independent oversight is well worth the investment. Fractional programs have differing rules that affect access, upgrade and downgrade options, and ownership periods, all of which quietly influence the value of ownership and its related costs.

Don't look for bargains. Fractional ownership is often pitched to clients as a "bulk discount" offering; if you're flying more than a certain number of hours per year, it's cheaper to own than rent.

In fact, a jet card or charter is almost always less costly than fractional ownership. What fractional ownership is supposed to provide is a consistency of service, access to the latest aircraft models, and potential tax benefits through depreciation. But you pay a premium for such benefits, even if Avantair promoted its low costs.

"When I'm talking to [Avantair] owners today, the term I hear repeatedly is 'fool's gold,' " says aviation consultant Michael Riegel. Bargain hunters who simply must have a deal are best off looking for "empty leg" charter flights, which are flying to a destination with no passengers aboard. Customers on the prowl can book these repositioning flights that are, essentially, the private-jet equivalent of supersaver fares.

Know your co-owners. Jet owners generally treasure their privacy, but that becomes a liability when buying into fractional programs. Operators may institute changes that adversely affect owners, for example, and their rich and powerful customers are relatively toothless when standing alone.

"An aspect of the [fractional] business model is to control owners by creating walls between them," warns aviation attorney James Butler. "By not being able to deal with providers as a group, [owners] don't have much leverage." Identify your ownership partners, and encourage communication among program participants.

Understand due-diligence limits. You will likely invest millions of dollars over the term of a fractional-ownership contract, so know your provider before signing. Unfortunately, their financial statements aren't particularly illuminating; fractional providers often don't disclose data that reveal their operational health, such as the percentage of the fleet available on a daily basis. When Trammell bought into Avantair, he "took a little comfort in the fact that this was a publicly traded company. I thought there were less likely to be financial issues."

Of course, that becomes cold comfort after a collapse, and the operator's contracts essentially become meaningless. Although Warren Buffett and his NetJets are highly unlikely to experience a cash shortage, and there is no reason to exaggerate the inherent risk, aviation consultant Kevin O'Leary notes, "You could also say, 'Lehman Brothers is not going down,' or 'Enron is looking good,' and just like that, the music stops."

A painful lesson. Back in Austin, Trammell and his co-owners are trying to figure out how they will regain their plane's airworthiness certificate and get back in the air. The entrepreneur says he might even join another fractional program, and, if not, "there are worse problems than not being able to fly on private aircraft."

Now there's a philosophy to fly by. ■

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