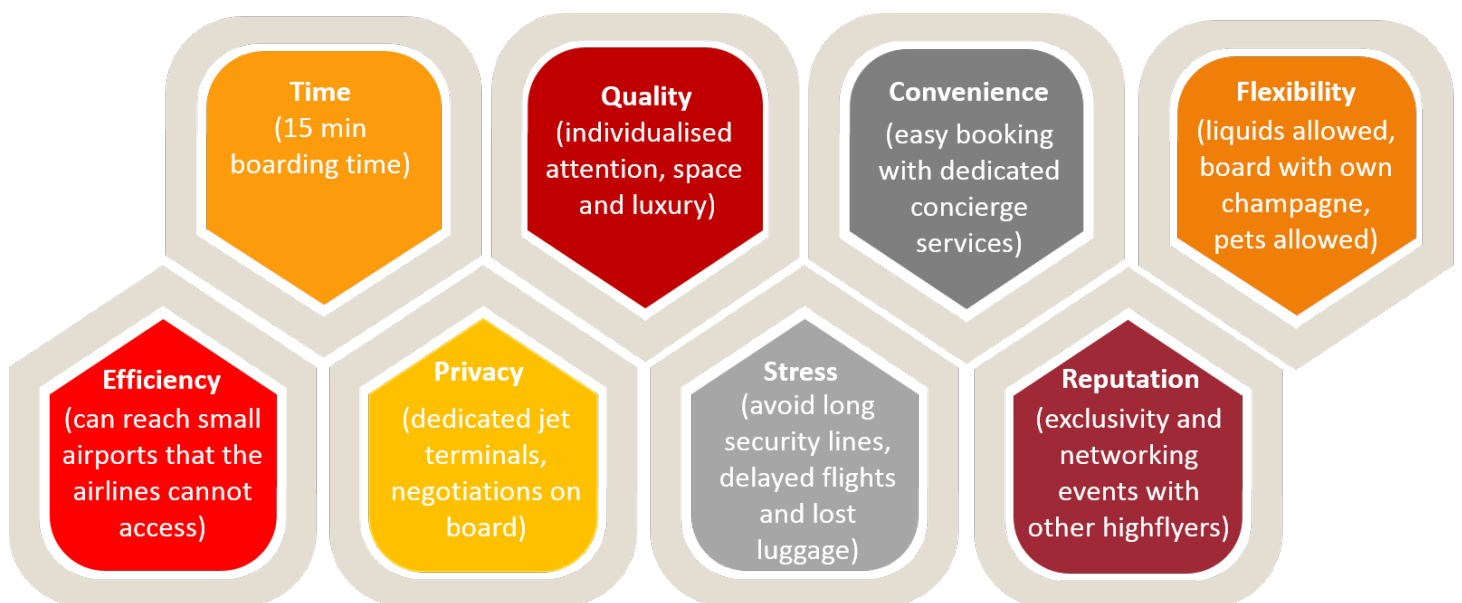


In times of pandemic, fly private!

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Pprivate jets have always been seen as the lifestyle of the rich and famous. From presidential to royal fleets, picture the US presidential stepping off Air Force One and John Travolta’s house which is actually a functioning airport with planes parked in the front yard. Depending on a variety of factors, such as the number of passengers, distance, luggage space needs, and costs, there are various aircrafts to suit one’s needs. There is also a myriad of reasons contributing to its appeal for both business and personal purposes:



Emerging trends from Covid-19:

An interesting study by McKinsey showed that prior to the pandemic, only 10% of those who could afford to fly privately were doing so. This means that despite all its merits, it still wasn't compelling enough for the wealthy, with its high carbon footprint, abundant alternatives of commercial flights at lower prices being some of them.

Some of the jet aircrafts belong to individuals/businesses who would rent them out when they are not in use, however with the current pandemic, they may prefer to avoid others from utilisation. The other significant segment is operators with their own fleet, who are keen to defray the high fixed costs and take advantage of the lower fuel costs. Some initiatives have been taken to make private air travel more accessible, such as lowering the typical buy-in for jet cards to make it more accessible, and more tie-ups with luxury hospitality operators who have also seen their businesses impacted.

Before Covid-19, the growth of private jets market was around 6% per year, and was forecasted to continue at the same compounded annual growth rate for the next 10 years. After the pandemic, the attractiveness of the private jet market should increase with travel safety taking a front seat. The crisis is bringing about a change in perception at a time when commercial air travel seems risky for most, due to the high contamination risks involving crowded airports with strangers sharing a small cabin space, as well as grounded aircrafts affecting availability of flights and schedule.

On the contrary, private jet flights seem safer. GlobeAir, Europe's foremost private jet operator, estimates that chartered flights are 30 times safer, as a series of "Covid-19 cleared" programs have been launched to clean and sterilize every touch point in a journey to prevent potential contact with pathogens. This includes a seven-page checklist detailing which cleaning agents are to be used, the equipment cleaners themselves wear, and to illustrate the meticulousity, ground transportation vehicles which have been disinfected are sealed until guests arrive, to avoid any potential contamination from unauthorised personnel. Private jets have a clear advantage in offering customized safety package. In the near future, people will travel less and will most likely ask for a high level of security standard.

For travellers who were already on business or first class, the higher prices of flying on a private jet are not a deal-breaker. GlobeAir reported a 67% increase in newly-acquired passengers since the beginning of the pandemic who used to be frequent business class travellers. In light of a lack of commercial flights, there has been a surge in demand for private jets due to repatriation needs as well as cargo services for emergency medical supplies.

Ways to access the private jet experience:

1

PRIVATE JET CHARTER

Suitable for people with relatively low annual travel requirements and choose to rent on a per-trip basis without commitment. Price would depend on the specific aircraft (its size, capacity, flight range), availability of the preferred aircraft, its location relative to one's intended departure location and post-flight positioning requirements. Prices can range from USD1,300/hr for a smaller jet plane (seating 4-6 passengers) to USD13,000/hr for larger ones (seating 14-19 passengers).

2

FRACTIONAL OWNERSHIP

The individual purchases a share of the aircraft and agrees to an annual number of flight hours depending on one's needs. It usually comes with significant upfront fees and monthly operational costs but saves on deadhead costs. It also enables one to reap the same capital asset tax benefits as they would from ownership. The downside is that hours are allocated on an annual basis (some with rollover provisions), and monthly management fees are paid even when not flying.

3

PRIVATE JET MEMBERSHIP / JET CARDS

There are many providers with substantial variations across offerings. It would normally entail paying an upfront fee with a pre-determined number of hours (starting between 10-25) on a specific aircraft type/size category. It could also work on a deposit basis (entry level ~USD100k) to be used for future flights where one agrees to a fixed cost per hour at the start of the contract and the bill is debited after each flight from the account's balance. A fixed in-advance budget, more attractive rates than on-demand charters, and guaranteed availability are some of the perks.

4

FINANCE LEASES

A finance company is the legal owner of the asset for the duration of the lease, while the lessee not only has operating control over the asset, but also share some of the economic risks and returns from the change in the valuation of the underlying asset. At the end of the contract, one can simply terminate the contract, or renew the lease with the same or a different plane or opt to purchase the plane. There are typically two types of lease agreements: wet lease (includes the complete package with pilot and cabin crew), or the dry lease (just the plane rental without the essentials).

5

DIRECT OWNERSHIP

For travellers flying several hundred hours per year, full ownership may offer the most bang for the buck if the long commitment and heavy capital investment are not a show-stopper.

Owning a private jet:

Owning a jet comes with a serious price tag, the entry level for a brand-new aircraft would set one back from USD3mio and could extend to USD90mio. Beyond the upfront price, one should also consider the depreciation of the jet value, hangar fees, maintenance costs, insurance, fuel and crew's salaries even when they are not flying. For example in the light-jet market, where the Citation CJ4 is a popular choice for chartering, the costs to own the single-pilot aircraft with eight passenger seats could easily be in excess of USD1.2mio¹ per year, taking into consideration jet fuel, pilot's salary, and maintenance. With an average hourly charter rate of USD2,500², one would need to lease it out for more than 700 hours in order to just cover the fixed costs. Dealing with multiple aviation regulations in different jurisdictions is also a challenging task whereby reputable operators can solve a lot of problems. Owning a jet will also oblige the owner to cope with the specific jet characteristics such as range and dimensions, which would dictate the number of passengers and available cargo space.

However, should money not be an issue, then it is absolutely crucial to carefully select aviation specialists and partner with a network of proven professionals including aviation law firms, manufacturers, reputable aircraft operators and managers. Choosing your financing partner can also be complicated, where due consideration has to be given to the suitable financing structure, depending on the buyer's needs and unique situation. Fortunately, private jets are considered a relatively liquid asset class, that one will be able to leverage. There are various financing solutions offered by traditional banks, banks with aircraft finance groups, as well as private lending groups, such as the following:



Mortgage loan – provides the opportunity to finance the purchase based on a loan-to-value of 60-85% of the asset value.



Pre & Post Delivery Financing – staged partial payments of the aircraft price by the customer to the manufacturer in advance of its delivery. This can account as much as 30% of the price and serves as working capital for the production. Once the aircraft is delivered to the customer after typically 1-3 years of building/customisation, the remainder financing will take place. Customized financing approach is an option and will depend on where the aircraft is registered, type of aircraft and the jurisdiction selected to sign the contract.

Sources:

1. <https://www.thedrive.com/the-war-zone/33046/heres-what-it-really-costs-to-own-or-charter-a-private-jet>
2. <https://www.paramountbusinessjets.com/aircraft/citation-cj4.html>

Conclusion: With the onslaught of Covid-19, most cyclical businesses are experiencing a historical drop in revenue, the global airline industry has been brought to its knees, with major carriers cancelling as much as 96% of scheduled flights in a bid to contain the pandemic. It is estimated that the industry may need a USD1 trillion bailout, as airlines prep for a long-drawn battle with travel restrictions translating to reduced flight routes and frequency, while social distancing brings about reduced passenger capacity. Yet, in this perfect storm, the world of private jets is receiving more attention than it has ever done.

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