

# TRAVEL WEEKLY

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## **Airline capacity cuts create opportunity for business jets**

By Jeanie Stokes

The massive cutbacks in service now taking place in the U.S. airline industry mean that some customers whose needs are not being met by scheduled airlines might opt to fly privately instead.

Whether it's a company aircraft, owned outright or through a fractional jet arrangement with a third-party; an air charter; or the newly emerging, very light jets operated as air taxis, alternative travel is on the increase.

"As airlines cut back more, the people who really need to go -- where convenience, not price, is the real factor -- they're going to hire their own lift," said Bob Mann, a Port Washington, N.Y.-based aviation consultant.

At the National Business Travel Association (NBTA) trade show, private flying is one of the fastest growing sectors. Bill Connors, the NBTA's executive director and chief operating officer, said that's because the airport hassle factor has become a productivity issue for many frequent flyers.

With the airlines halting service to many second- and third-tier cities, Connors said, companies now need options to get to smaller destinations. The air taxi and flex jet operators "aren't going away," he said.

### Choosing the right option

Private flying requires a bit of homework. It's like choosing a car: Do you want to buy outright, lease over a long period or pay higher daily charges to rent on an as-needed basis?

Determining how much individuals expect to fly privately over a one-to-five-year time frame, and how far, are key elements.

Fractional jet ownership, for example, involves buying a portion of a specific aircraft, usually in 50-hour or 100-hour increments. It requires a five-year commitment, an up-front payment (ranging from \$400,000 to millions, depending on usage and aircraft), monthly management fees and per-hour flight fees. Fuel costs are passed on to the customer. However, fractional ownership offers participants a tax deduction for depreciation.

"If you're flying 50 to 100 hours per year, it's going to make the most economic sense to buy a fractional share," said Dennis Baker, communications director for Cleveland-based Flight Options LLC. "If you're flying 20 hours per year, a charter or membership program might be better."

Most fractional ownership companies and some air charter operators now offer a "jet card" membership program. The customer makes a deposit (\$100,000 in the case of Flight Options) and uses it as a debit card to pay for flight service as needed.

The rapid rise in fuel prices is affecting private flying. A flight from New York to West Palm Beach, Fla., which two years ago cost \$10,000, now might cost \$16,000 or more. As a result, Baker said, Flight Options is seeing a decline in discretionary trips. Owners of current jet cards without a fuel surcharge might find replacing that card much more costly today because fuel is twice as expensive as it was when they first bought the card.

Individuals or companies that need to make only a couple trips a year might find chartering an aircraft a less expensive option because it involves taking an entire plane for a specific trip from point A to point B.

Whether working with an air charter broker or directly with an aircraft operator, travel agents should expect a lot of questions about the prospective customer's needs. If you don't get such questions, shop elsewhere, advises Brent Moldowan, vice president for operations at Mayo Aviation, a charter company based at Centennial Airport in suburban Denver. Also ask about crew training and safety audit records.

VLJs: The new kid in the air

The Federal Aviation Administration's Forecast for 2008-2025 predicts that very light jets, or VLJs, "with their relatively inexpensive operating costs, may redefine 'on-demand' air taxi service." The FAA expects 400 to 500 units a year to be manufactured through 2025.

Only two models of the four-seat jets are certified in the U.S. so far: Eclipse Aviation's Eclipse 500 and Cessna's Citation Mustang.

The largest VLJ fleet operators are Florida-based DayJet, Chicago-based North American Jet and Massachusetts-based Linear Air. North American and Linear offer the whole plane for a day. DayJet sells individual seats to destinations in Florida and six surrounding states.

VLJ operators focus on routes of 500 to 600 miles or less. Service is strictly regional so far and is concentrated on the East Coast. VLJ fleet operations also are growing rapidly outside the U.S.

DayJet's software enables it to aggregate trip planning for 2,100 individual customers, who pay a \$250 membership fee. The company flew 700 flights in June, focusing on midlevel managers who would otherwise have driven to their destination.

DayJet's chief financial officer, John Staten, said the reduction of airline service in smaller markets is helping his company, which charges an average of \$600 to \$800 per seat one-way.

Bill Herp, Linear's CEO, sees the market opportunity initially as the ability to offer a more affordable and efficient alternative for people who now fly privately.

"When they've got a 500-mile trip, we can do it for 40% less than a jet that compares to say, a Citation," Herp said. "For people who normally would fly on the airline and have three people traveling, we can do that for a slight premium over what coach tickets would cost."

Linear's current price for an Eclipse flight is \$1,900 per flight hour, including fuel, or about \$6,000 for a 500-mile roundtrip. Prices are adjusted weekly to reflect fuel price changes.

Neither DayJet nor Linear is making a profit, and analysts are not sure DayJet's air taxi business model will prove to be the ultimate operating model.

George Hamlin, managing director of New York aviation consulting firm Airline Capital Associates, said the VLJ's greatest use will be in the corporate and owner-operator market, where the benefits of a faster, more sophisticated aircraft are large.

As for the use of VLJs as air taxis, he said, "I think it will nibble at the edges of commercial airline traffic, but not in great quantity."