

# Should Fractional Jet Owners Sell Their Shares?

BY JAMES D. BUTLER | DECEMBER 2008

IF YOU OWN A FRACTIONAL JET SHARE, now may be the time to sell. Share values are beginning to fall, but it's likely that the worst is yet to come.

Like the rest of the economy, this is a tough time in the private jet business. Credit is tight, share sales have slowed considerably, flights are fewer and many fractional owners are concerned about the long term viability of their fractional jet companies.

As a fractional jet owner, you're not merely a customer; you're actually a joint venture partner with your jet provider. You've invested a lot of capital in a jet, with a promise from your provider that it will buy back your share based on your aircraft's fair market value. But capital is dear, so much so that some fractional companies are looking to delay repurchasing shares. Indeed, we recently had a client for whom we were contesting a low repurchase offer opt to take a bit less in exchange for an expedited closing.

Even if your fractional provider remains financially strong, it still may be a good time to get out. Why? Because the market for preowned aircraft is in gridlock—many sellers aren't willing to accept lower prices while buyers are sitting on their hands waiting for prices to fall further.

In this market, fractional aircraft will take a beating because they have more miles on them than low time non-fractional aircraft that also are flooding the market. (Fractional aircraft are flown as much as 1,200 hours per year, while non-fractional jets are flown on average around 400 hours per year.) Just as with a used car, higher mileage equates to a lower price.

For now, relatively few preowned sales are occurring. So, if you're selling your fractional share today, the declining prices aren't yet reflected in comparable sales that will be the basis for valuing your share. Yet, as the market declines and sales occur, these comparables will show declining values for low time aircraft (which will be the first to sell), perhaps significantly hurting the value of fractional aircraft, and thus your share.

At this a pivotal moment, the wiser course may be to sell your share before its value declines precipitously, reclaim your capital investment and use other private flying options like fractional jet cards that allow you to fly on the same fractional fleet or even traditional jet charter (there's a lot of excess capacity out there so rates should be favorable). This way, when the dust settles, you can reassess your needs and budget without being stuck with a long term commitment.

## A Word to the Wise

Fractional providers, faced with taking over management costs for your share with little prospect of reselling it, may not offer you fair market value. We've successfully contested low fractional jet share repurchase offers, either through negotiation or, if that fails, through the appraisal process provided in most fractional contracts so that, in the end, our clients receive all they're entitled to.

**James D. Butler** is an attorney and the CEO of Shaircraft Solutions ([www.shaircraft.com](http://www.shaircraft.com)), based in Bethesda, Md. Shaircraft advises individuals and businesses with respect to the full range of private air travel investments, including fractional ownership, jet card programs, air taxi services and charter, and also specializes in fractional share valuation disputes. ■

*“At this pivotal moment, the wiser course may be to sell your share...”*

James D. Butler  
Shaircraft CEO

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