MAKING SENSE OF THE
CURRENT BUSINESS AVIATION MARKET

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Finding the right team of advisors to navigate what most people refer to as "private" or business aviation is becoming critical. As the world reopened and more airlines are expanding their services to where they were prior to the commencement of the pandemic, much continues to impact business aviation. At first glance, the tips of the iceberg reported over the past three months alone reflect an unsettling environment that could cause potential participants to look elsewhere.

Resurgence of Commercial Airlines - According to Jefferies Equity Research reports "What's Up in the Clouds" and "What's up in the Air" dated June 21, 2023, over the course of the past year more people are viewing opportunities to fly online than they were in 2019 and commercial aircraft activity is almost where it was in 2019, prior to the start of the pandemic.

Decrease in Business Aircraft Charter Activity – It is no wonder why (depending upon with whom you speak) business aviation charter decreased between 10 to 25% year-over-year. A confluence of events contributed to this including the resurgence in commercial aviation use, where many who flew business aircraft no longer need to do so; the Federal Reserve raised interest rates over concerns about the health of the economy caused those who did charter business aircraft to fly commercial business class; charter rates steadily increased over the prior two years driven by a rise in operating costs; and the rise in public "flight shaming activism" where privately owned aircraft are specifically targeted through activities that involve people handcuffing themselves or spray painting business aircraft.

Doubling of wholly owned aircraft listed for sale – According to AMSTAT (a business aviation analytics firm)'s May 2023 Business Aircraft Preowned Market Report, more wholly owned aircraft are being listed for sale year-over-year (a near 100% growth.) With 5.3% of the fleet available for sale, the market is not yet perceived to be in equilibrium. However, downward pressure on sales prices of used aircraft is starting to be observed.

Concerns over a business aviation high flyer publicly traded Wheels Up (UP) - With the departure of its founding CEO after which it completed its reverse stock split so as not to be de-listed from public trade, Up's stock reported massive devaluation (nearly 60%) in a single day amid rumors of hiring a restructuring firm in order to file for bankruptcy. On July 5th, UP sued a former partner, FlyExclusive, for wrongfully terminating their arrangement to support UP members. For their part, FlyExclusive stated that UP is in default for breach of contract related to nonpayment. This is a concern for all of business aviation given the many who provide services to UP and particularly for the company's large membership base that prepaid over $700 Million in flights for whom maintain no recourse to the return of the funds.

Potential misappropriation of funds by a trusted aviation management company - Fly Alliance, a top 20 aircraft management and charter broker, is being sued by a client over $1 Million that is characterized as overpromising and underdelivering on the operations and guaranteed charter of a business aircraft. At the core of the dispute is the $1.2 Million prepayment of maintenance costs for which the plaintiff found the documentation to be lacking information.

Vitriol over Charter Provider's Billing - Private Jet Services Group and Twitter are locked in a public dispute over what Twitter perceives as being overcharged while Private Jet Services Group states Twitter refused to pay for the market priced business aviation services that it provided.

Sudden and Unexpected Closures of Aircraft Charter/Fractional Operators - Both fractional share and charter companies, Jet It and AeroVanti , suddenly closed with comparisons being made to prior fractional share failure, Avantair. The former closure is attributed to business operational concerns while the latter closure is due to accusations of fraud with now four lawsuits pending.

Rumors, rumors, and more rumors – News on the current state of VistaJet include an extensive article in the Financial Times and WirtschaftsWoche's multiple articles specifically one regarding a large pending €58 Million lawsuit and another focused on a business relationship with a Nigerian principal who is facing charges of wrongdoing cast doubt on the firm's ability to meet its financial obligations to its creditors and prepaid flight time to its members.

Trust is earned over time. Collectively, these proverbial icebergs that we are seeing weaken the trust that was built with business aviation consumers and create concerns about the sustainability and longevity of not just aviation membership, fractional share companies, aircraft charter, but also the whole of the business aviation market.

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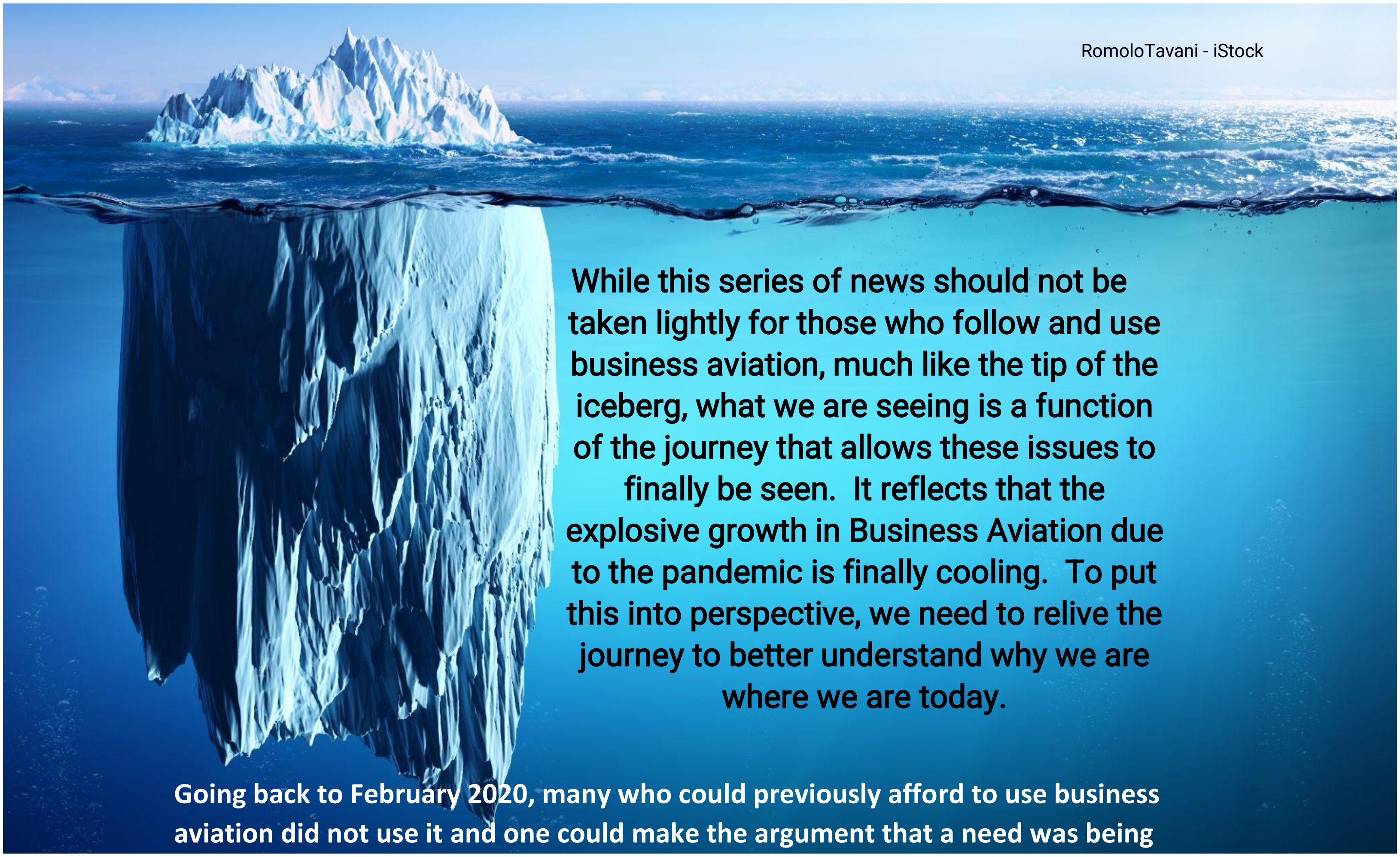

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> **While this series of news should not be taken lightly for those who follow and use business aviation, much like the tip of the iceberg, what we are seeing is a function of the journey that allows these issues to finally be seen. It reflects that the explosive growth in Business Aviation due to the pandemic is finally cooling. To put this into perspective, we need to relive the journey to better understand why we are where we are today.**

Going back to February 2020, many who could previously afford to use business aviation did not use it and one could make the argument that a need was being underserved. In a webcast prior to the pandemic, McKinsey & Co shared that approximately 10% of the 1.5 Million people who could fly business aircraft did. With airline viability in flux due to the financial hardship created by the pandemic, the only way to reach a place efficiently and effectively was through business aviation. Existing operators expanded while new operators entered the market fueled by liquidity from investors who were new to aviation (in the form of SPAC and private funding) and low interest rates. Demand for aircraft charter activity as well as whole aircraft ownership spiked to new highs, which caused not only the cost of aircraft to increase, but also the operating cost, due to tight supply and significant demand.

From an aircraft owner's perspective, much changed over the course of the past two years. Many aircraft management companies as well as owners share that the growth in operating costs continues to be significant and creates issues beyond cost as the tight supply challenges the certainty of aircraft use. Additionally, many aircraft owners no longer want third-party charter users on their aircraft as it leads to an increase in maintenance events as well as a possible acceleration of the devaluation of one of their largest assets. Both issues contributed to the growth in the cost of charter.

Diving deeper into the depths of the iceberg of operating costs is an exploration of the journey to what we are seeing today. What has noticeably grown is the cost of staff, such as the pilots the directors of maintenance, which increased by over two times from pre-pandemic levels. Exacerbating this is the limited supply of pilots who are being pulled in many different directions, which includes some receiving a better offer upon completion of type ratings who walk from their original commitment. Fuel prices also spiked and as they represent 25% of the operating costs of an aircraft, the growth in this key expense is material. Even cost of aircraft hangars, which were traditionally a rounding error in relation to the total operating costs of an aircraft, saw an increase most notably due to professional real estate investors entering the business aviation real estate market where leasing rates were increased to obtain returns.

SO HOW CAN THESE EVENTS BENEFIT THOSE WHO WANT TO RELY UPON BUSINESS AVIATION?

Keep in mind that MANY businesses within business aviation ARE working and maintain high standards of excellence. The unflattering news highlights what is NOT working and solidifies what Infinite Branches recommends: Conduct thorough due diligence on those with whom you work both from a financial viability AND integrity perspective to find the right partners for you. Both require a healthy dose of curiosity and the ability to overlook the glossy marketing material that is meant to be aspirational and exclusive.

Options are plentiful and one must conduct due diligence on one's partners. An example is the aircraft charter market where we are paraphrasing Doug Gollan, the Editor in Chief and Founder of Private Jet Card Comparisons who said during the June 6, 2023 Corporate Jet Investor Town Hall: If you have a great charter broker, there is no need to buy a membership, jet card, or a fractional share in an aircraft.

In the aircraft charter and membership segment, it is estimated that anywhere between 10,000 to 16,000 aircraft charter brokers are operating and with so many options, how do you know what qualities make a "good" charter broker? How they approach you and what they ask during your initial consultation is telling. For those that strictly want to haggle on price you should ask yourself, what am I missing? If they take the time to ask what you fly, how you like to fly, how often you fly, are further able to walk you through the safety history of the aircraft and its operator, and share comparable aircraft charter market rates, you may have found a "good" aircraft broker.

Regardless of whether you are seeking to charter or acquire a business aircraft, one should follow the African Proverb: If you want to go fast, go alone. If you want to go far, go together. In terms of the aviation industry, much is nuanced and at times opaque. It is far too easy to make a financially detrimental mistake through unsubstantiated assumptions and it is best to obtain the advice of knowledgeable aviation industry insiders with integrity to navigate the icebergs surrounding you. **We look forward to discussing opportunities to be a part of your team of trusted advisors and offering solutions and relationships that meet your unique business aviation needs.**

Stay curious,

Shelley A. Svoren,
CEO + Founder of Infinite Branches July 2023

(707)235-5929

shelley@infinitebranches.com

infinitebranches.com

Shelley A. Svoren is the CEO + Founder of Infinite Branches, a project-based business that supports the initial and ongoing needs of those who view their aircraft as an investment in their brand. She previously financed over 200 aircraft transactions worth over $1Bn USD during the course of her tenure at a $100Bn+ financial institutions with no repossession or losses and credits transparency and mutual respect with her clients for the results. She previously worked as a federal banking regulator and in corporate finance for multinational corporations.