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In Asia, fractional aircraft ownership is slow to take off, but jet charter business soars

By Sonia Kolesnikov-Jessop
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SINGAPORE:
In January 2006, when business aviation was in its infancy in Asia, Executive Jets Asia took a gamble on what it saw as a growth market, setting up shop in Singapore as the first company in the region offering fractional aircraft ownership. Its founders saw shared ownership as the niche with the best potential because it offered an affordable entry point to the world of private jets.

Two years later, the gamble has paid off, but not as expected: business aviation has indeed expanded in Asia, but the bulk of growth has not come from fractional ownership. It has come from plain, old-fashioned chartering.

"Chartering has done very well," said Prithpal Singh, the company's chief executive, who called it a "a far, far better business than the fractional side. That's because the market in Asia is still unsophisticated when it comes to business jets.

"It's like anything else: Before you buy something you want to try it first, and we're at that stage where although the market is growing, the potential customer is only in the mood to test."

Singh speaks from experience. When Executive Jets Asia set up shop it offered a deal in which customers would share ownership of a $3 million jet. In return for buying a $500,000 share - six shares were offered in each plane - and paying an annual $60,000 management fee, investors would have a right to 70 hours of travel a year for five years, with additional travel charged by the hour.

Only three customers came forward. The fractional ownership program has yet to start.

"We started here with a business plan that we were going to do fractional ownership. As it turned out, we realized we were putting the cart before the horse," Singh said. "We realized there were very few people interested in fractional ownership, but a large number interested in chartering, so we completely changed the business model."

Still, fractional ownership remains available if enough customers come forward. Executive Jets Asia started with two small private jets, flying 30 to 40 hours a month each, and now has four jets flying 40 to 50 hours a month. "As you add better-quality aircraft, the demand from certain segments of the market increases," Singh said.

Given the size and fast-paced development of the Asian region, and the limited numbers of commercial airline routes serving secondary cities, private jets look like a good option for busy Asian executives.

Yet growth of the industry has been held back by obstacles including government bureaucracy, infrastructure bottlenecks and a lack of attractive financing from Asian banks for executive jet purchases, partly because of a lack of expertise in aircraft valuation, Singh said.

The chartered business flight sector also remains very fragmented, comprising many small and midsize operators like MetroJet in Hong Kong, Travira Air in Indonesia and Siam Land Flying in Thailand.

"Ironically, it's about 20 percent more expansive to operate a business jet in Asia than in the U.S. because support services providers feel this is the opportunity to gouge customers for standard services." Singh said. "So the cost of ground handling, catering, over-flying permits, air navigation charges can amount to 15 to 20 percent of the total cost of a one-way flight from Singapore to Hong Kong."

Despite these hurdles, there are now an estimated 462 executive jets in East Asia, according to Ratan Shrivastava, director of the aerospace and defense practice in South Asia and the Middle East at the market research firm Frost & Sullivan. That is still fewer than in the single state of California, but significantly more than a couple of years ago.

The Brazilian business jet maker Embraer alone expects to deliver 250 planes, valued at $3.8 billion, to the Asian region in the next 10 years, with market growth expected to average 9.1 percent a year until 2015, Shrivastava said.

Latching on to the growth opportunities, Dassault, the French aircraft maker, recently opened a Hong Kong office to sell its Falcon business jets. "Asia is growing strongly and is expected to account for up to 13 percent of the total business jet demand in the next five years," he said.

In Korea, the local press recently reported that an aircraft management firm, FunSky, planned to start the first Korean fractional aircraft ownership operation in September, while another company, Lohas Development, has also announced plans to start a fractional ownership service next year.

Earlier this year, BJETS, based in Mumbai, which has a partnership with the Tata Group of India, placed an order worth more than $600 million for up to 50 jets to be delivered over a five year period, in a bid to become the largest fractional-ownership private jet company in Asia. The order included 20 Cessna Citation CJ2+ jets and 20 Hawker 850XP and 900XP jets, with options for 10 more. The first plane, a Hawker 850XP, was delivered in April and Mark Baier, chief executive of BJETS, says he expected operations to start in July or August.

The company plans to have 15 jets operating throughout India and Southeast Asia from its operations center in the new Hyderabad International Airport.

"In term of geography, we expect about two-thirds of the business will come from India and its surroundings, i.e. from India to the Middle East and Sri Lanka, and one-third from Southeast Asia," Baier said by telephone from Mumbai.

"Initially we expect there to be a fairly strong take-up in the 25-hour block-charter program. But as people recognize their needs and requirements, the ones that have a larger usage will migrate to the fractional ownership program," he said, predicting that the "deal-making" point would be for someone flying more than 50 to 100 hours a year.

Baier said the experience of Executive Jets Asia was probably not representative, and he said BJETS was ready to make the financial commitment necessary to offer customers a choice of aircraft - a basic requirement for success in the fractional ownership business. BJETS will also have all its planes registered in India, making it much easier to operate there. "It is virtually impossible to travel inside India with an aircraft that is not registered in India," he said. "Ours will be, which means that a transiting customer who comes in with a commercial airline or his own business jet in India and wants to continue within India does need a professional operator," to continue traveling within India, he noted.

Baier said it was too early to gauge whether the use of planes based in India would be more international or domestic. "Our assumption is that a lot of the demand will be domestic demand. People need to find new ways to get around quickly, get to three different cities in a day and get home to their family that evening. Time is the critical value and a business jet allows you to buy time."

To help improve facilities for the burgeoning private jet industry, the Indian civil aviation ministry has indicated it is considering developing around 300 airstrips currently lying idle. According to ministry data and industry estimates, the demand for corporate jets in India has risen rapidly over the last couple of years, with an estimated 180 private jets now in service, and this is expected to grow by 25 percent over the next three years.

India's civil aviation minister, Praful Patel, was recently quoted by the local press as saying that the country would need around 300 to 400 private jets in the next three to five years.

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