

How Flight Schools Utilize Sale-Leasebacks to Increase Profitability

Written by Max Fuller | September 2025

The content contained herein is based on my own professional experience and contains personal opinions. Additional references are provided herein under “List of References” section.

Overview of a Flight School

A flight school requires a substantial amount of capital to commence operations. A school must meet FAA certification requirements, cement a physical location, obtain insurance, hire employees (Certified Flight Instructors & Administrators) and most importantly source aircraft(s). Aircraft are inherently expensive, complex, and depreciating assets, which have limited useful lives. Not to mention significant fixed and variable maintenance cost associated with maintaining the asset. Typically, a school will finance their fleet, as flight training aircraft can cost hundreds of thousands or even millions of dollars. Commonly used flight training aircraft are the Cessna 172 Skyhawk and PA-28-181 (Piper Cherokee/Archer). Often, a school will choose to purchase pre-owned aircraft, as factory new aircraft from an original equipment manufacturer (OEM) will bear a significantly higher purchase price and long lead times in today's supply constrained market.

When a school chooses to finance an aircraft or entire fleet through a bank, it is likely a loan to value (LTV) of 70% will be received at best. Meaning the lender will require a school to put down an initial payment of at least 30% of the aircraft fair market value (FMV). This represents a significant up-front cost when working with hundreds of thousands or even millions of dollars' worth of aircraft(s). Suppose a 2019 Cessna 172 Skyhawk has a purchase price of \$300,000. Using a 70% LTV, a down payment of \$90,000 would be required. This represents a capital challenge in which a school faces. Following the purchase and financing of the aircraft, a school will continue to build equity in their fleet as time progresses. This equity becomes tied up capital, in which a school's management team is unable to access. Potentially leading to value dilution, lost investment opportunities, and reduced liquidity levels. Moreover, if cash is accessible, it could be invested elsewhere and generate additional returns.

Historically over the last 5 years, following Covid-19 (2020-2025), aircraft values have appreciated. As of August 2025, general aviation aircraft values have plateaued. Values are no longer increasing, nor drastically decreasing either. This has created a large opportunity for schools to experience a financial gain through a sale-leaseback. A sale-leaseback occurs when one party agrees to sell an asset to another and immediately lease it back, while retaining the operational use of the asset. Many times, the asset (aircraft) does not leave the possession of the operator.

A sale-leaseback contract contains two legally binding agreements: (1) purchase and sale agreement (2) lease agreement. The exchange of funds from the lessor's purchase of one or more aircraft will infuse the schools balance sheet with immediate cash, after any remaining debt balance is paid at time of closing. In today's economic environment, it is likely a school will experience a significant capital gain on the sale. However, the school is now required to pay a monthly rental payment the lessor, for "right of use" (ROU) to the asset. Following the sale-leaseback, the residual value of the aircraft transfers to the lessor. General aviation aircraft lease agreements may have a maturity spanning between 3-5 years, although it wouldn't be unusual for a term to be negotiated based upon the two party's needs.

An infusion of cash to the balance sheet can provide funds for new business opportunities to be pursued as they arise. Course of actions newly realized capital can successfully be deployed and lead to greater profitability include: (1) purchase of additional aircraft (2) expansion of facilities (3) experiencing a gain of sale.

Purchase of Additional Aircraft

As previously mentioned, bank financing typically requires at least 30% of the aircraft's value to be initially put down at closing. Flight schools often expand their fleet slowly if they choose to finance their fleet through a bank, due to a lack of funds needed to fund multiple down payments. A school will typically access retained earnings/cash available on the balance sheet to fund their initial investment. In the case the school retains full ownership of the aircraft, the consummation of a sale-leaseback would free-up previously tied up capital. In the scenario aircraft(s) are encumbered by a loan, the school would be responsible for paying the remaining balance of the loan at closing, before ownership can transfer to the lessor. A school's lender may assess a prepayment penalty depending on the terms and conditions of the loan. Assuming the aircraft(s) are not encumbered, the school would receive the full purchase amount in cash after any closing fees are paid (e.g. title and escrow).

The infusion of cash to the balance sheet will increase liquidity which can enable a school to go out and purchase additional aircraft; they now have the cash to fund additional down payments. (subject to purchase price) Moreover, it is important to keep in mind that lease payments will now need to be made to the lessor until the maturity of the lease. Financial managers should decide the amount of cash that should be retained on the balance sheet at any given time. Cash offers the highest level of liquidity and can be allocated on short notice to fund investment opportunities. The process of figuring out where and how to be allocate funds is known as Capital Budgeting. It is important to keep in mind a long-term fleet plan strategy in which the school plans to develop overtime. For example, whether a school plans to operate a leased, owned, or mixed fleet. There are advantages and disadvantages to both. Managers should

conduct an analysis and examine the cash flows, while simultaneously considering tax benefits for each option. Lessor's may allow the lessee to purchase the aircraft at "Fair Market Value" at the maturity of the lease if eventual ownership of the aircraft(s) is of interest to the school (Financial/Capital Lease).

By selling either a portion or the entire fleet to a lessor, the school will realize funds to further expand their fleet. Assuming that upon analysis, the school can fill the additional capacity with students and renters at a high utilization level, the school would be able to generate more revenue, thus achieving profits if cash inflows are greater than cash outflows. As an average rule of thumb, the recommended ratio between students and aircraft is 8:1. Meaning for every 8 students it is recommended a school have at least one aircraft in their fleet. Therefore, the acquisition of additional aircraft would enable more students to be comfortably taken on, while the school benefits from more revenue.

Expansion of Facilities

Flight schools must have access to an airfield to operate, maintain, and store their aircraft. Managers will want to perform a market analysis to ensure a strong demand for flight training is present in the market before investing in facilities. Globally, aviation continues to expand at a steady rate each year, both commercial and private. Therefore, an increasing supply of pilots will be needed to fill these future positions.

After completing an analysis of the expected cash flows, the project should either be accepted or rejected. If the cash inflows are expected to be greater than cash outflows upon the project stabilizing, a school will conclude that expanding operations could have a positive long-term effect on profitability. Therefore, expanding operations would be a viable financial investment. Using infused cash from a sale-leaseback has the potential to unlock equity in the school(s) fleet that can be used to fund an expansion. Otherwise, additional cash will need to be raised from an alternative source. Traditionally schools may have difficulty raising funds through a bank unless it is specifically for aircraft, since the aircraft is usually seen as strong collateral depending on the lender expertise. Typically, a school will lack sufficient business credit (e.g. Dun & Bradstreet PAYDEX score) which makes it unlikely a school will meet the lenders financial requirements. If business credit is available, it is likely, but not always, that the lender will impose a high APR (relative to current prime rate) and additional collateral may be required by the bank/debtholder to approve the loan. Ultimately, making it more realistic for the school to make an unlevered investment into new facilities, or to fund an expansion of its current physical assets. Finding cash to allocate towards a new investment can be tricky especially if significant cash is not already available on the balance sheet. Participation in sale-leaseback can infuse cash to the balance sheet, providing the funds to execute the investment.

Experiencing a Gain on Sale

When a flight school operates its fleet under ownership or financial lease(s), the financial accountants will depreciate each aircraft on the balance sheet over a fixed period. There are multiple depreciation models in which a school can apply, two common methods include: (1) straight-line depreciation (2) modified accelerated cost recovery system (MARCS). This non-cash expense is deductible, and will reduce the business's annual tax liability, by reducing net income.

Book value (BV) is the recorded value of an asset on the balance sheet. Each time a depreciation expense is recorded, Book Value (BV) decreases. When an asset is sold for more than BV, a gain on sale is experienced. The business has generated a profit based upon the assets previous recorded value on the balance sheet. Any amount received above the recorded BV, is recorded as a gain of sale and considered profit on the income statement.

When a lessor negotiates the purchase of aircraft(s) from a school, it is likely the lessor will pay the school an amount greater than BV (likely unknown to the lessor). This may be the reality if the school engages in depreciating the aircraft at a fast rate than its actual remaining useful life (RUL). Since the school may receive a greater amount than it currently values the aircraft at, a gain on sale would be experienced. Profit from a gain on sale will increase net income (single accounting period only) and ultimately benefit stakeholders by increasing liquidity, distributed to shareholders, or invested other projects.

Positive Margins and Leveraging Capital

Flight schools core operations consist of renting aircraft and providing flight training services. Typically, services are provided on a per hour basis; therefore, it is well practiced that operating expenses are analyzed on a per hour basis. Expenses that must be accounted for include use cost, maintenance reserves, fuel, insurance, labor (Certified Flight Instructors & Administrators), and other expenses associated with conducting business. Financially solvent schools can generate an operating margin between 15-30% on average. Moreover, it is important to understand internal and external factors which can positively and adversely affect the margin.

It is well understood known that renting is more expensive than ownership, when comparing the use cost for a specific duration. "Use cost" refers to the monetary expense required to own, access, or hold "right of use" (ROU) to an aircraft. Commonly expressed as a dollar amount per hour.

It is important to note advantages that leasing offers, and why many schools choose to do so. The most significant advantage is that capital isn't tied up in a depreciating asset. Tying up capital in a depreciating aircraft would not allow your current cash to silently generate interest or fund additional profitable projects. By discounting back to the present value (PV), a school can adequately evaluate its financial opportunities after an analysis of the cash flows is considered. The present value (PV) will lead managers to allocate capital according to expected returns (Capital Budgeting). Most agree the best use of cash would not be allocated into a depreciating asset such as an aircraft. Although, the tax benefits that coincide with ownership should be carefully considered.

Should a school choose to tie up capital in a depreciating asset, if a 15-30% (Avg.) operating margin can still be achieved without leveraging its own cash? Furthermore, conserved cash can generate interest elsewhere, be invested in the equity/bond market, or be used to fund additional profitable projects. Although, some may argue that an unleveraged investment in aircraft(s) may generate the greatest return as it is used to drive core operational activities of the school. This may very well be true, and it is ultimately up to the school to best allocate their resources and operate to their distinct advantage.

Book Value (BV) – Recorded value of an asset on the balance sheet.

Levered- Financing of an asset or project with the use debt.

Unlevered – Financing of an asset or project without the use of debt.

Loan-to-Value (LTV) – Loan amount expressed as a percentage in comparison to the assets appraised value.

Present Value (PV) – Monetary amount expressed based of future cash flows, using the Time Value of Money (TVM); a dollar received today is worth more than a dollar received in the future, due to the opportunity for it to be invested and make a return today.

Financial Lease/Capital Lease – Legal arrangement in which a lessee (e.g. airline) pays compensation (rent) to a lessor (e.g. owner of aircraft/leasing firm), in which the lessee has an option to purchase the asset at a bargain price or fair market value at maturity of the lease. The lessee can expense depreciation on their balance sheet as if they own the asset. Lease must meet at least one of the requirements under U.S GAAP ASC 842 regulations.

Operating Lease – Legal arrangement in which a lessee (e.g. airline) pays compensation (rent) to a lessor (e.g. owner of aircraft/leasing firm), in exchange for having right-of-use (ROU) to an asset for specified period before returning the asset to its owner (lessor). Under U.S GAAP ASC 842 and International Finance Reporting Standards 16, lessees are required to hold contractual future rent amounts as “Lease Liability” or “Right-of-Use Asset” on their balance sheet.

Purchase & Sale Agreement (PSA) – Legal arrangement in which a purchaser agrees to compensate a seller in exchange of an asset.

Sale-Leaseback (SLB) – Legal arrangement where one party agrees to sell an asset to another and immediately lease it back, while retaining the assets operational use.

Modified Accelerated Cost Recovery Systems (MARCS) – Deprecation method commonly used to deprecate aircraft and other assets, in which an asset is depreciated upon a selected percentage bracket published by the Internal Revenue Service (IRS).

Use Cost – Monetary expense required to own, access, or hold “right of use” (ROU) to an aircraft. Commonly expressed as a dollar amount per hour.

Certified Flight Instructor (CFI) – Individual who has met specific requirements under the Federal Aviation Administration (FAA) regulations and are qualified to train pilots.

Type Certificate Data Sheet (TCDS) – Document specifying specifications, limitations, and components of an aircraft. Published by OEM and approved by airworthiness authorities.

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