

Airport Beacon Report



www.airportbusiness.net

April 2005

EVALUATING RFP RESPONSES: WHAT ELSE SHOULD YOU LOOK FOR?

By Randy Bisgard, Senior Vice President

Have you recently issued a Request for Proposals (RFP)? Was the process a good one, or was there some doubt as to the selection process? When selecting a respondent or narrowing the field for final interviews, are you sure you are making the right decision? Over the years, *Airport Business Solutions* has been on both sides of the RFP issue, both preparing response documents and also writing the actual RFP requests. With that experience, we have gained some insights into the process that may be helpful to seek out a better tenant. However, the first and most important issue to remember is that through the RFP process, you are looking for a business *partner*, not just a new tenant.

Although each RFP document issued is different, and the political and selection climate at each airport is unique, there are some things to look for when evaluating your potential new partners/tenants. (It should be noted that the quality of the responses you receive is usually dictated by the quality of the actual RFP request document, but we will save that discussion for another article. For this review, we will assume that your document is tightly written and leads all presenters towards the same goal: offering detailed responses in a fair and balanced environment.) Although there are many types of RFPs issued by airports, we are going to focus on RFPs for fixed base operators, or FBOs, as these always present a number of challenges for airport sponsors. However, many of the issues apply to virtually any RFP.

To begin with, there are several obvious things that any RFP response must provide: the financial terms



I told you, its not really on fire. That is only the paint scheme. Now will you please stop hosing down the plane every time I land?

offered, the proposer's experience, the proposer's background and capabilities, and most importantly, specific responses to each and every question in the RFP document. In many cases, the above items are identified as the primary selection criteria, reflecting a "point value" or "percentage" calculation for each. This method works well in many cases, but when the respondents are similar in their basic offer terms, particularly when major aviation chain businesses (FBOs, for example) are competing for the RFP, it may be necessary to add some other criteria to your review.

The goal is to get the best "long-term" partner/tenant for your airport, and ultimately the best service provider for your airport users. Often, when the respondents are close in their overall presentation, it is usually the financial offer that is the final determining factor. However, in some cases the best initial financial offer may not always be the best selection for your airport. (Beware of the financial offer that is much higher than other respondents. This respondent may not truly understand the business situation or may be trying to "get a foot in the door", only to attempt to

renegotiate a better deal later.) As such, we suggest that you look beyond the initial numbers and also evaluate the overall culture and business approach of the respondents.

Other response criteria, which can be both tangible and intangible, should include a number of other variables such as:

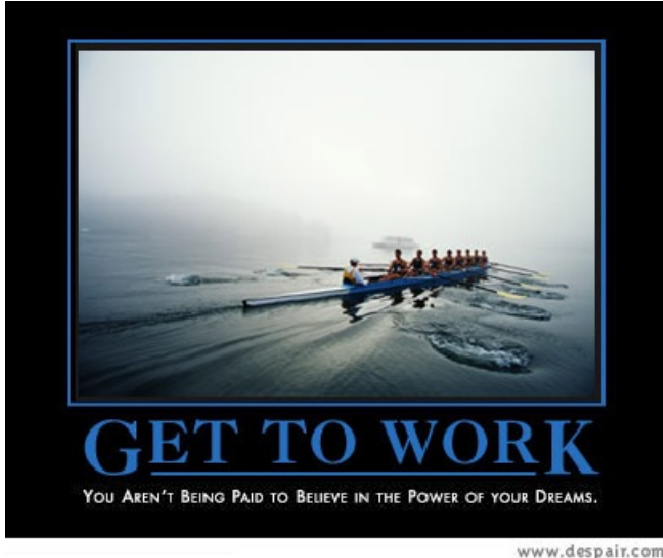
- What is the “WOW” factor? A really good and thoughtful response will try to offer something that none of the other respondents would think of, or be willing to offer. Not just more money, but things such as unique facilities, incentives, working relationships, partnerships and unique methods for communication between tenant and landlord, community participation, and issues that further the goals of the airport.
- Are there incentives in the presentation for both the airport, and the prospective tenant, to gain if the new tenant is successful? Specifically, are there ways for the airport to further benefit, over the long term if a particular respondent is selected. If the tenant does well financially, does the airport share in the up-side of the business?
- Does the respondent really understand the local marketplace and have they shown this knowledge through the total coordination of their marketing plan, financial offer and facility development proposal? Are their plans realistically achievable? Have they shown in their response, or interview, that they have fully researched the market and can they provide the research data to back it up?
- Have they discussed the specific person or persons who will manage the operation? And, has that person(s) been involved in the response document and interview process? This is critical, as this person will generally determine the culture of the business and the daily working relationship with the airport. Does the proposed facility manager “buy-in” to the response as it is written?
- Does the respondent company have a history of good tenant-landlord working

relationships at other locations? This needs to have a more in-depth response other than “we have no outstanding litigation issues with other airports”. This is where checking references and “non-references” is crucial. (By non-reference, do they have another location that is not listed as a reference? Maybe this is the better reference to check than the ones they gave you. When was the last time anyone gave you a poor reference to check on?)

- What is their personal commitment to the airport? How will they resolve conflicts with you and their customers or subtenants? Beyond their overall investment in facilities and equipment, what are they investing in training, community relations, people issues and personal advancement of employees?
- Have they discussed goals for the operation, again not just financially, but as good neighbors. Where do they see the business in 5, 10 or 20 years as it relates to the airport’s plans for the future?
- Is the language of their response simply a “we will do this” offer to each question, or is the document more personal in nature with discussions of how this tenant will work with you, the airport, to solve problems and advance the plans for each entity? (The tone of the response language can sometimes be a telling indication of whether the respondent intends to make good on all their promises.)
- Is this someone who you would want in your community? Do they present an image that the airport wants to project?

Finally, do as much as physically and financially possible to get to know your respondents. Visit them at an aviation trade show and ask about their relationships with the various aviation trade associations. Interview their customers or tenants at other locations. If possible, visit their existing facilities. You can often tell more about a company in a few minutes at one of their facilities than you can in a hundred pages of written promises. Essentially, the selection committee must have as much information as possible about the respondents. Remember, often

times those involved in selecting a particular respondent will not be the persons required to work with the successful presenter on a day-to-day basis. As such, the more information provided by the respondent, in terms of their overall business culture, the better you should feel about selecting them as your new partner.



NOT YOUR ORDINARY APPRAISAL

By Michael A Hodges, MAI, President/CEO

Despite your own personal circumstances, many airports across the country have become sensitive to the economic pressures facing FBOs when negotiating long-term lease commitments, and many FBOs have come to realize that airports are accountable to the public and must generate a fair return on their investments. (I can almost hear the “Yeah, right.” comments in Tampa!) However, there is still an abundance of controversies and adversarial relationships when it comes to lease negotiations. As a result, the involvement and expertise of unbiased, third-party appraisers and/or consultants is often helpful in the mediation of these conflicting perspectives by providing objective and supportable estimates of the market value and/or market rent.

The following article provides insight into an appraisal of an FBO leasehold at an airport. However, for simplification, the term appraisal will also be used to address market rent studies, or any

type of analysis to determine the value or rent applicable to an FBO property. While reading the article, you will come to realize how important it is to obtain an appraiser/consultant that has an aviation background, when the assignment consists of an FBO/aviation leasehold. (Note: Aviation experience is not necessary or prudent for valuation for property acquisition outside of the AOA. In most of these cases, a competent local appraiser is best suited for the assignment.)

Typically an appraisal consists of three basic approaches to value: the market or direct sales comparison approach, the cost approach, and the income capitalization approach. The market or direct sales comparison approach is generally not a viable method for an FBO leasehold. FBOs typically occupy land and facilities leased from their respective airport sponsor, or construct their own improvements on leased land. If a sale occurs, it typically reflects the transfer of an ongoing business whereby an allocation of real estate and business values is not feasible. Other situations involve the distressed sale of an FBO with only a nominal consideration beyond the assumption of the existing lease. As such, the only real estate transferred is really just the assignment of the existing lease.

The cost approach analyzes the reproduction cost of the improvements, less any accrued physical deterioration, and couples it with the estimated value of the land. However, a primary problem in utilizing the cost approach is the difficulty in accurately measuring functional obsolescence which may be the result of new, more modern designs which create more efficiently operated FBOs. Furthermore, the cost approach does not directly consider the impact of current economic conditions relating to the profitability, feasibility and/or marketability of a project.

Therefore, the most appropriate valuation method for an FBO is the income approach whereby the “net operating income” is capitalized to an estimate of value. What is important to note here is that the “net operating income” is referring to the income attributable to the real estate only and not the business

enterprise. In most cases, FBO leases (as well as virtually all airport leases) are “net leases”, where the tenant is responsible for all expenses related to the ongoing operation of the business and leasehold.

Typically, FBOs sublease additional office or hangar space to charter companies, maintenance and avionics specialists, corporate flight services, flight schools, aircraft sales, and other users. However, the FBO is responsible for all expenses incurred in the operation and maintenance of this space in the master lease from the airport sponsor. A lease where the landlord is responsible for most or all of the expenses is generally known as a “gross lease.” In addition, the FBO generates business revenues and corresponding expenses for direct sales and services to general aviation users not specifically associated with the real estate. The significance of this relates to the necessity to compare “apples to apples” in the determination of market rent.

The most accurate and reasonable method of estimating the fair market rental rate for a development is by looking at its competition. In other words, it is important to survey other airports throughout the region (with some airports, this search has to be expanded to a national basis) to determine what competing FBOs are paying to their airport for land, ramp, facilities, and services. Careful consideration must be given to the quality and condition of the project, as well as the overall location and level of local competition. In addition, it is important to fully understand all components of “rent” and assess how they are interrelated. This includes land rent, building rents, fuel flowage fees, percentage rents, and the amount of common area within a particular leasehold.

It is also important to select the right airports for surveying. Generally, rates charged at a GA airport within close proximity to a metropolitan area are not going to reflect the same levels as those for a similar development in close proximity to a small/moderate size city. Similarly, neither of these projects would attain the rent levels realized at a major airport in an area such as Atlanta, Los Angeles, Chicago, Miami, etc. Therefore, it is important to carefully consider

all factors, to include location, infrastructure, and the overall amenities and services available at a particular airport.

However, the most important issue is not to “generalize” in your research. First of all, it is extremely important to make sure the data gathered is pertinent to the subject. In other words, make sure you are comparing FBO lease information if the subject property is an FBO. Leases for corporate hangars, cargo facilities, etc., are usually very different in their terms, lease obligations, etc. Secondly, make sure you get the date of the actual lease where the information is coming from. Lease data is probably not pertinent if it comes from a 15 year old lease that is annually adjusted based upon changes in the CPI. Obviously, a more recent lease better reflects current market conditions.

As previously mentioned, it is important to consider all components of rents and fees in an analysis. While most FBOs pass-through fuel flowage fees to the customer as an “airport fee”, it is important for an FBO to make sure that it doesn’t price itself out of the market if the fuel flowage fee is inconsistent with the competing market. In tight economic times, especially in today’s market with exploding fuel prices, pilot’s are becoming even more cost-conscious when it comes to fuel.

In summary, the valuation or assessment of market rents for an FBO, or any aviation property, requires an extensive analysis of many factors. In addition, many other factors must be considered which are not typically recognized by non-aviation professionals that do not deal with airports on a regular basis. FBO appraisals, or any aviation property valuations for that matter, are not your ordinary appraisal.



Ask ABS!

In the past few issues, we have included a section called "Ask ABS", where we request aviation-related questions from our readership. Each month we publish one question that we receive from our readers with a joint reply from our professional consulting team. Even if your question is not selected, all questions submitted will be responded to via e-mail. Please submit a question by e-mailing Mark Davidson at: mdavidson@airportbusiness.net

This month's question comes from Robert Carew, Properties Administrator with the Charleston County Aviation Authority/Charleston International Airport. Robert asks: Are there any guidelines or sources of reference for determining what *types* of concessions (outside of the usual food/beverage and retail new/gifts) that are best suited to successfully operate in an airport terminal?

Now I am not an airport concessions design expert, but I can share some experiences from my own world travels, as well as discussions with the concessions teams at other airports throughout the U.S. Basically, it comes down to the passenger mix at your airport. Are you more heavily weighted with pleasure or business travelers, do you have any international traffic, are you a resort destination, etc. Much of it will be subjective, and only resolved through trial and error. However, the more creative the better in my opinion.

Personally, I get tired of seeing the same concessions and kiosks in every airport virtually throughout the world. It is even more annoying to go to an airport and find virtually nothing with any "local flavor". In my mind, travelers are looking for two primary items when passing through an airport. One, for something to take their mind off the experience to come (i.e., sitting on a cramped airplane for the next two hours). Secondly, for something to bribe their family with when they get home to reward them for putting up with their ridiculous travel schedule. (I usually fall into category number two.) As such, put yourself in the customer's shoes and pretend you are a transient passing through your airport. What kinds of things would you like to have access to? What about your

co-workers? To me, one problem is that many of the "master developer" concessionaires in today's marketplace want to adapt your airport to their concepts, not the other way around. Remember, airports are like snowflakes, there are no two exactly alike. The same should be said for airport concessions.

Thanks, Michael

UPCOMING CONFERENCE SESSIONS

77th Annual AAAE Convention - Seattle, WA
May 5, 2005 - Michael A. Hodges, MAI
Focus on FBO/Business Aviation
Challenges and Opportunities

Virginia Airport Operator's
Council Conference - Lynchburg, VA
April 21, 2005 - Bobbi Thompson
Using Appraisals for On-Airport
Land Leases and Facilities

Airport Business Solutions is recognized as the leader in providing valuation, analysis, and consulting services to airports and aviation businesses, and offers a diversity of backgrounds and experience which provides a new, creative, and "outside the box" perspective on a myriad of aviation issues and problems.

For More Information
Michael A. Hodges, MAI
President/CEO
Airport Business Solutions
10014 N. Dale Mabry Highway, Suite 101
Tampa, Florida 33618
Phone (813) 269-2525
Fax (813) 269-8022
mhodes@airportbusiness.net
www.airportbusiness.net

