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LEASE NEGOTIATIONS: EXAMINING THE PHYSICAL VARIABLES

By Michael A. Hodges, President and CEO

The importance of a solidly structured lease cannot be underestimated. It is the foundation upon which any private aviation enterprise builds its business. It is also a critical element to the future success of the airport, both economically and in the quality and types of services it provides. When negotiating lease agreements, it's important to consider a number of variables including physical, functional, and economic. The following article is going to focus on the physical variables that can impact leases at airports.

Physical variables are those related to the specific material characteristics of the airport and/or a specific leasehold. Variables specifically relating to the airport include the number, length, and capacity of runways, available navigational aids, and presence of an air traffic control tower. With regard to a specific leasehold, factors to consider include the location on the airfield, accessibility to the runway/taxiway system, total land area, amount of paved ramp/apron area, size, age, quality and condition of buildings, the amount of office and/or terminal area, and the utility/ capacity of the hangars. While most of the factors in the physical category are generally objective in nature, there can be a certain level of subjectivity regarding the quality of location and quality/ condition/utility of the improvements. Consequently, this is only the first of many areas that may require some unbiased, third-party intervention, or at least some compromise or negotiation between landlord and tenant.

The following represents some of the issues to be considered.

Open wide, here comes the airplane...

Multiple Runways

Multiple runways are generally only an issue when analyzing airports with a significant volume of air carrier (airline) or military traffic. With airports catering to this type of traffic, the level of access available for general aviation users can be an important factor - less access can mean less value for a particular leasehold.

Runway Length and Capacity

Runway length and capacity specifically applies to the type and size of aircraft which can reasonably and safely land and take off at an airport. In simplest terms, the longer the runway, the larger the aircraft that can safely operate at an airfield. To an FBO, larger aircraft mean the potential for higher fuel sales; thus, it is important to consider the types of aircraft which can reasonably utilized the field.

Consequently, you cannot usually compare an airport with its longest runway being 4,000 feet with on that offers a 10,000 foot runway. Generally, 5,000 feet is adequate to accommodate most aircraft in the general aviation fleet. However, with the conversion of some former military airports in recent years, some variation to this issue must considered. Some of these airports offer extensive infrastructure (long and wide runways), yet the airport only caters to general aviation traffic. As such, in certain situations, an airport with a 10,000-foot runway may best compare to one with a 5,000 to 6,000 foot runway.

Available Navigational Aids and Control Tower

The availability of an Instrument Landing System (ILS) or Global Positioning System (GPS) precision approach expands an airport's utility in varied weather conditions. While other available navigational aids may be present, and ILS or GPS approach is probably the most important navigational feature affecting an airport's value to aviation users and thus the FBO.

An air traffic control tower can also be an important factor, particularly if the airport has a great deal of flight training traffic. The lack of a control tower can be a negative factor for pilots-in-training, increasing flight time per lesson due to slower traffic, and can potentially be a safety issue to all users of the airport.

Have a nice day :)

Location and Runway/Taxiway Access

Probably the most cited cliche' in real estate is that the three most important factors are "location, location, location." For FBOs, convenient access to taxiways and runways is also important, and can be a significant factor on airports with more than one FBO. While the quality of a location is often subjective, there are a few straightforward guidelines which typically warrant consideration. An FBO situated along the dominant runway has a locational advantage over one located on a secondary runway. Similarly, a location at the dominant arrival end of the runway is preferred to one at the dominant departure end. Pilots, given the choice and disregarding the influence of name recognition or the preference for a particular fuel brand, generally select the FBO requiring the least amount of taxi time, especially in bad weather.

Leasehold Size

The size of a leasehold, along with its usable versus unusable areas designated by restrictions such as building setbacks and limitations, is a significant variable in comparing land areas. While most airports will generally set a standard ground rental rate for all land designated for aviation-related usage, this is not usually appropriate. (Each parcel on the airport potentially reflects a different unit value depending upon its size, development condition, location, potential use, etc.) As with non-aviation real estate, there is usually an "inverse relationship" between size and unit value. In other words, as the size of a site increases, the corresponding unit value per square foot (or per acre) tends to decrease. Although there is not generally a set rule, common sense says that a tenant is not usually willing to pay the same rent per square foot for a 10-acre site as for a 1-acre site.

Ramp/Apron Area

The quantity, quality, and condition of the available ramp/apron area (that part of a leasehold used for maneuvering, parking and servicing aircraft) is also a

factor which must be considered in the determination of rental rates. (It is important to note that this refers to a ramp that was constructed by the airport or areas constructed by the tenant during a previous lease period.) Condition is generally self-explanatory, but quality can be misleading. Quality in its simplest terms means the structure and thickness of the paved area related to its capacity to support a variety of aircraft types. The pertinent parameters for pavement quality may vary in different parts of the country based upon climate, uses, and other factors.

Quality/Condition/Utility of Improvements

Structures on a leasehold are probably the most difficult to compare because of varied features that may be present. However, after condition, the most important features to consider are typically the amount and quality of finished office and terminal space, and the capacity and utility of the hangar space. (The quality of the terminal area often has a direct impact on the type and quality of the customers it can attract.) While the cost of improvements and other "finishing touches" is typically an expense incurred by the tenant, it can be an issue, particularly at the time of renegotiation, if the improvements have reverted to the airport at the expiration of a prior lease term.

In summary, this article attempted to touch on the numerous physical variables to consider when negotiating a lease. While these variables are not intended to be "all-encompassing", hopefully they can assist in sorting out some of the important vs. marginal issues to be considered.

ASK ABS

In each issue, 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 the following: ***mdavidson@airportbusiness.net***

This month's question came from an "anonymous" airport manager who asked "Are there any ingenious methods of leasing FAA funded aprons, within the guidelines of Grant Assurances?"

Practically every time we contact an airport operator to obtain rental rates for an appraisal or market rent analysis, we will find a few airports that are not charging for ramp/apron space. Usually, upon further inquisition, the reason given is that the ramp was funded by Airport Improvement Program (AIP) funds. Some airport operators think that since the FAA requires that the ramp/apron be available for all users, and not be designated for the exclusive use of one entity, that the airport is not permitted to charge anything. This is not a correct interpretation of the Assurances, and more importantly, does not assist the airport to achieve its goal of financial self-sufficiency/self-sustainability.

To provide insight into what airports can and cannot do, the FAA developed the Airport Compliance Handbook (FAA Order 5190.6A). The document is not regulatory; however, it provides policies and procedures for airports to follow to avoid compliance problems. One of the sections within the document addresses general aviation (GA) ramps funded by Federal dollars, and provides two alternatives.

The first alternative is to develop a management agreement with another entity, usually an FBO, to manage tiedown space, maintain the ramp/apron area, remove snow, and address similar functions. Under this scenario, the agreement should clearly specify the responsibilities and provide acceptable practices, such as non-discriminatory waiting lists for tiedowns and a

designated itinerant tiedown area to protect public availability. If this alternative is selected, the tiedown fee schedule should be established by, or at least approved by the airport sponsor. In some cases, the FBO and airport will share parking fees on a percentage basis, with the percentage allocation differing depending upon the costs incurred by the "managing entity".

The second alternative offered by the FAA is to lease the GA apron to individual aircraft owners, and/or to the FBO as space necessary to serve the needs of the aircraft in their business. In general, the lease should contain provisions which will ensure that the public will be served by the lessee in a manner equal to that which the airport sponsor is required to provide under the Grant agreement. A demonstrated immediate need for the leased space shall be documented by the FBO to preclude accusations relative to the limitation of competition or an attempt to create an "exclusive right". The FAA clearly states that in no case shall an FBO be leased more apron space than which an immediate demonstrated need can be shown.

The real problem comes when you have two or more FBOs competing for aircraft on an AIP funded ramp. The FAA advises that a lease must preclude a tenant from requiring that the users of the leased area must secure goods and services from that tenant. Moreover, the lease does not have to allow a competitor to enter the leased area to perform a service (including fueling), providing that there is adequate capability for the customer to secure those services at another location on the airport. (However, the competitor must be allowed to assist an owner/ user of a disabled aircraft to place the aircraft in a condition that can be taxied/towed from the area.)

In summary, while we do not have any ingenious methods of leasing GA aprons funded by the FAA, hopefully we have provided some alternatives to consider which will keep the airport in compliance, while serving as a revenue opportunity.

Redneck Storm Shelter - Just in time for Florida's 2006 Hurricane Season

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In addition, our international affiliate, Airport Business Solutions International, AEC, has helped numerous airports worldwide with a variety of airport management and operational issues and problems. Problems at international airports are no different from those experienced at airports in the U.S., and the diversity of experience and breadth of knowledge of Airport Business Solutions International has been extremely valuable in achieving comprehensive solutions to those issues.

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