

# Airport Beacon Report



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## AIRPORT BUSINESS PLANS... WHO NEEDS THEM?

By Mark Davidson, A.A.E., Vice President

Every five years, the majority of public airport operators across the county spend thousands of dollars updating their master plans, while only a small number spend time and resources on a business plan for their airport. What good is additional infrastructure if the airport cannot generate sufficient income to cover the cost of maintaining that infrastructure? Similar to a master plan, an airport business plan provides the following critical functions:

- Clarifies, focuses and researches the development and prospects of a business idea;
- Offers a benchmark to measure and review performance;
- Provides strategic measures to counter business impacts, such as tenant bankruptcy;
- Serves as a basis for discussion with board members, business partners and key employees.

Simply put, an airport business plan is a communications, management, and planning tool for an airport. It is also a working document for administration that can (and should be) reviewed and modified periodically as the airport evolves with changing market and industry conditions. Most important, it helps the airport to avoid making the same mistakes and helps it recognize and seize opportunities.



### *If Engine Manufacturers Could Have It Their Way*

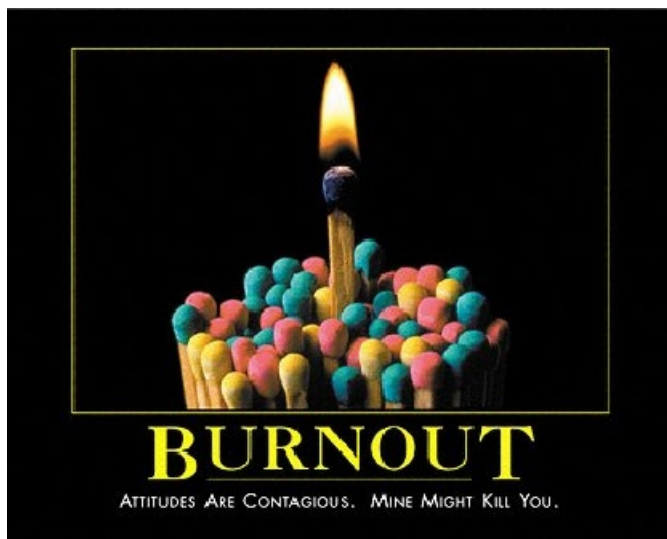
So if an airport business plan serves all these functions, why doesn't everyone have one? Is it because airport master plans are funded by the Federal Aviation Administration (FAA) and business plans have historically been exempt? Is it because airports are viewed more like a public utility than a business? Or is it because a well-written business plan takes time and resources to develop? Whatever the reason at your airport, it doesn't justify the absence of a business plan.

The FAA calls for an airport to have a goal of financial self-sustainability. As the FAA expands their scope to fund more revenue-producing projects, such as hangars and fuel farms, it is essential to develop a strategic business plan that matches the capital improvement projects to the airport's revenue and expense projections. Often, master plans (as well as airport management), ignore how capital projects impact the airport's profitability, competitive market, and the support required from the organization. How do you avoid going from "if we build it, they will come," to "if we build it, how are we going to pay to maintain it"? As such, it is essential for airports to

include a strategic business plan as one of the elements within the airport's master plan. By including the business plan or a similar version thereof within the master plan, it can potentially become federally eligible for funds by the FAA.

Some airports believe the best method in developing a business plan is to use only "in-house" resources. This approach is often driven by the thought that by developing the plan with internal management and employees, the organization can learn from the process. While this is not a bad idea, having an outside resource (read consultants) either independently prepare or work with internal staff, can improve the final product. Often, airport managers become myopic and are unable to see from a different perspective. A consultant that has experience developing business plans at different airports, can typically provide insight of what has worked in the industry and what has failed. As my boss has told me on a few occasions, *"Consultants rarely come up with new ideas. They just steal them from other airports. However, the key to a good consultant is knowing which ideas to steal and which ones to leave alone in certain situations."*

Despite their overwhelming "political" aspect, airports are fundamentally just large, complicated businesses that require a logical framework within which they can develop and pursue business strategies over time. A business plan can help put all the pieces in place and provide a vision for the future.



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## AIRPORT LAND VALUES

By Michael A. Hodges, MAI, President/CEO

Airport management has been asking the following questions for years: 1) What is my property worth?; 2) Why can't I just look at land values in the industrial park across the street?; and, 3) Why can't I just use the same local appraiser that just did the appraisal on the farm we just bought for the runway extension? To get the answer to No. 1, let's take a brief look at Nos. 2 and 3.

Land values at an airport may correspond to land values of similarly zoned and utilized parcels surrounding the airport. Many airports are situated in industrial areas due to the consequential limited impact of noise emissions, as well as the desire of most industries to be located in close proximity to the area's available modes of transportation. However, it is important to note that this does not necessarily mean that airport land values are directly comparable to values in the new industrial park around the corner.

Airports are unique pieces of real estate, and are really little cities or communities. They have their own market dynamics, supply and demand characteristics, and development restrictions. Sometimes, these various issues create a scenario where airport property is more valuable than property "across the street," sometimes it is less valuable, and sometimes (coincidentally), it is the same.

This raises the pivotal question: **"What is the difference between property values on- versus off-airport?"** First of all, on-airport and off-airport real estate are inherently different because of the infrastructure that is available for properties on an airport and the limitations on its use. However, this does not mean that land at an airport is necessarily more valuable than a similar site "off-airport." There are additional factors which can offset the superiority created by the accessibility to the runway/taxiway system, navigational aids, control tower, and other amenities. On-airport parcels carry restrictions as to

the type and size of facility that can be constructed, (we are talking about aeronautical use parcels here), while “off-airport” parcels are generally only limited by local zoning regulations. Airport properties are typically subject to more stringent construction guidelines by the airport sponsor and/or FAA. Setbacks from runway and height limitations are typically more restrictive for “on-airport” developments due to flight patterns. Furthermore, most properties adjacent to a runway/taxiway system are restricted to an aviation-related use, whereas parcels off the airport are limited only by local zoning. Therefore, it can be argued that properties on an airport are less valuable than their “off-airport” counterparts due to these development restrictions and limitations.

However, the other side of the argument could be that on-airport properties are provided with millions of dollars worth of infrastructure for the benefit of their use. Also, airports provide a “captive audience” for commercial aviation businesses, and that the fact that the only place for someone to operate a commercial aeronautical business is on an airport, so the demand by those particular users warrants higher property values.

In other words, valid arguments can be made on both sides. So what is the right answer . . . IT DEPENDS! Each airport is unique with regard to not only their infrastructure, but also their economic and operational characteristics. Some airports are in higher demand for commercial businesses, while others may reflect a greater demand for corporate operators, while others may be focused on “taking care of the little guy.” As such, there is no “one size fits all.”

Along similar lines, there is often a question of the difference between the values of “aviation-related” versus “non-aviation use” properties within an airport complex. Aviation-related generally refer to such projects as FBOs, corporate hangars, aircraft maintenance facilities, etc., while non-aviation properties include those utilized for car rental ready-

lots or service facilities, hotels/motels, parking structures, office buildings, and other facilities which may benefit from being part of an airport complex, but do not require direct runway/taxiway access. Typically, properties designated for aviation-related uses exhibit lesser rents than those allocated for non-aviation developments. However, this may not be the case where there is not sufficient alternative land off-airport, and/or the additional marketshare potential that is provided by being directly on-airport creates a greater market demand for the on-airport location. Once again, the appropriate answer to “So what’s it worth?” is: IT DEPENDS!

The other question to be answered is: “Why can’t I just use a local real estate appraiser?” Well, I am going to be honest with you as an appraiser. In most cases, you can (and should) use a qualified local appraiser to determine the value of non-aviation properties, as well as those properties being acquired for airport expansion. HOWEVER, if the subject is an aviation use leasehold, I strongly recommend finding someone who is knowledgeable and experienced at appraising on-airport, aviation-related properties. The appraisal of aviation properties requires an understanding of airport operations, FAA regulations, airport/aviation market trends, and aviation business operations to adequately analyze value. Any or all of these factors can (and do) play a major role in the amount of rent and corresponding lease terms that an airport sponsor can expect under current market conditions. Yes, it may cost you more now, but the potential value gained over the life of the lease could well exceed this up-front premium.



## PROPOSED FAA REGULATION

### *Notice of Proposed Rule Making (NPRM)*

*No FAA certificated airmen, or person or persons acting on the direction, or suggestion, or supervision, of any certificated airmen, may try, attempt to try, or make or make any attempt to try, to comprehend or understand, any or all, in whole or in part, of the herein mentioned Federal Aviation Regulations, except as authorized by the Administrator or an agent appointed by, or under the supervision of, the Administrator.*

*If any certificated airmen, or group of certificated airmen, becomes aware of, or realizes, or detects, or discovers, or finds, that he, or she, or they, are, are beginning to, or are about to, understand the Federal Aviation Regulations or any of its provisions, (he) (she) (they) must immediately, within three (3) government working days of such discovery or awareness, notify, in writing, the Administrator.*

*Upon receipt of any such above notice of impending comprehension, the Administrator shall promptly cause said Federal Aviation Regulations to be rewritten in such a form and manner as to completely and totally eliminate any further possibility of comprehension by any pilot or pilots.*

*The Administrator may, at his or her option, require any certificated airmen, who commit(s), or attempt(s) to commit, or exhibit(s) any propensity to commit, the offense of understanding or comprehending the Federal Aviation Regulations, or any part thereof, to attend courses of remedial instruction in said Regulations, until such time as said certificated airmen can demonstrate that they are no longer capable of exhibiting any comprehension or understanding of anything.*

*The FAA Administrator*



### **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](mailto:mdavidson@airportbusiness.net)

This month's question was not actually submitted by a reader, but it was the topic of a recent discussion with an airport manager. It involved an FBO tenant that was asking for a new lease, but during discussion, the FBO owner mentioned that he wanted the new lease because he has an offer to buy the FBO, contingent upon a new 40-year lease term. So the question is, how should the airport handle the situation knowing that: a) the new lease will create a "windfall" for the tenant, and b) that this new lease is effectively with an unknown third-party?

Well, first of all, the question has to be "Can the airport legally and ethically provide a new lease knowing the circumstances?" It could certainly be questioned that the airport is breaching their ethical and fiduciary obligations by giving this new lease without significant terms, conditions, and restrictions. Not to mention the fact that it "just doesn't look good" in the public's eye that the airport is knowingly doing

something for a tenant that provides them with an immediate financial windfall, while having marginal (or no) benefit to the airport.

Secondly, what if the new tenant is not “acceptable” to the airport. (Chances are you will not find out they are unacceptable until after-the-fact.) Airports are in precarious positions when it comes to lease assignments. Most leases provide the clause: “. . . said assignment shall not be unreasonably withheld.” In other words, in most cases (and rightfully so), the only way an airport can “reasonably” deny a lease assignment is if the tenant has previously been kicked off the airport, or if they are owned by convicted felons. In most cases this works out okay in the long-run, but the reality is that the airport is granting a new lease to a tenant because they are comfortable of that relationship/partnership continuing into the future.

There are lots of possible answers to resolving these problems, but not enough space in this newsletter. However, I feel the need to advise you that the next time a tenant requests a lease extension, think carefully about all of the possibilities and long-term ramifications of such an agreement. Always remember, a lease is not just a contract between a landlord and tenant, it is a partnership agreement. Make sure you know who your partner is going to be over the near term.

*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.*

*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.*



**”KIND OF MAKES YOU RETHINK HOW BAD YOU HAVE TO GO!”**

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