

# Maximizing Airport Real Estate: Industrial Parks and Other Non-Direct Aviation Activity

Since the events of 9/11, U.S. airports have been facing downward pressure on net income, caused primarily by stagnating revenue from reduced airline traffic coupled with increased expenses from newly mandated airport security measures. This financial strain has sharpened the trend among airport operators to reevaluate both the utilization of airport assets and the mix of operations and services offered at airports. In an effort to diversify income, many airport operators are seeking alternative revenue sources and pursuing markets not

traditionally a focus of airports. One area of creative asset utilization is the maximization of airport real property use, particularly for non-direct aviation purposes. This Measure of the Month explores non-aviation-related real property development and compares it to trends from the previous year.

## Property Growth

Airports have traditionally held large tracts of land, either for existing airport use, planned airport expansion or direct aviation-related activities (such as aircraft maintenance, catering or on-airport cargo activities). In addition, many airports lease their excess land for "non-direct aviation-related property activities," which we define as either owning or managing property that does not have a direct aviation-related use or that does not have direct access to the airfield.

We analyzed the property management responses of 25 large hub (over 6.6 million enplaned passengers, or EPAX), 20 medium hub (1.6 to 6.6 million EPAX), 50 small hub (0.3 to 1.6 million EPAX) and 86 non-hub (less than 328,343 EPAX) in the 2001-2002 AAAE Rates and Charges Survey and compared these results to the 2000-2001 Rates and Charges Survey as discussed in an earlier Measure of the Month on managing non-direct aviation property (*Airport Magazine*, May/June 2001). In addition, we analyzed the responses of 88 general aviation airports in 2001-2002.)

We found that the 2001-2002 data magnified trends in non-direct aviation-related property activity that were already apparent among airport operators. For example, in the 2000-2001 survey, almost 50 percent of the surveyed airports reported revenue from non-direct aviation property activities, which included farming, industrial parks, U.S. military operations, free trade zones, hotels and off-airport access fees. In comparison, 75 percent of the airports responding to the 2001-2002 survey reported revenue from these same types of non-direct aviation property activity. (These figures do not include general aviation airports responding to the survey.)

The distribution of the types of property activity among airports did not change significantly from the

Fig. 1 AIRPORTS ENGAGING IN NON-AVIATION PROPERTY ACTIVITIES

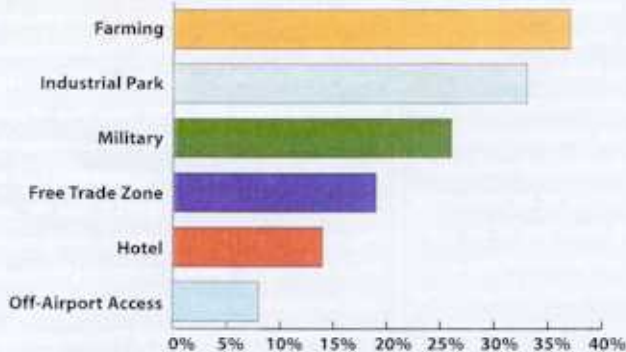


Fig. 2 REVENUE BY ACTIVITY



2000-2001 survey to the 2001-2002 survey. Of the airports responding to the survey (see Figure 1), farming activity is still the most common type of non-direct aviation property activity, with more than one-third reporting revenue from farming (i.e., leasing excess lands for agricultural purposes). Owning or managing industrial parks continues to be almost as prevalent as farming activity among the surveyed airports, as well. Approximately one in four of the surveyed airports lease facilities to military agencies. Approximately one in five of the surveyed airports owns or manages free trade zones, which may or may not be part of an industrial park. Approximately one in seven of the surveyed airports have hotels on their property, and approximately nine percent of the surveyed airports earn fees for off-airport access to the airfield.

### Bottom Line Contributions

While farming activity may be the most common activity, it does not provide significant revenue, as shown in Figure 2. On the other hand, industrial parks, which are almost as common as farming, contribute considerably more revenue to the airports surveyed – an average of \$770,000 annually. At the same time, the costs associated with owning or managing industrial parks are very low. Typically, these costs are lease administration and some marketing costs if there are vacancies or tenant turnovers. Therefore, a large percentage of industrial park revenue goes to the airport's bottom line.

Hotels contribute a large amount of gross revenue to the surveyed airports, as well, particularly for the large hubs. Hotels may be an excellent revenue generator for airports in highly developed areas without much excess land for an industrial park. However, airport hotels tend to be dependent on passenger traffic and are experiencing stagnant or declining revenues like traditional airport revenue sources. In fact, in the 2001-2002 survey, airports reported only \$1.1 million in annual revenue from hotels, compared to more than \$2 million in the 2000-2001 survey. Unfortunately, hotel operations can be costly and, in some cases, may not contribute much, if anything, to the bottom line.

Off-airport access fees are collected by only 7.8 percent of the surveyed airports, but they can be a large source of revenue for all airport sizes, particularly GA airports. The average access fees of \$884,000 and median access fees

of \$22,000 as reported by the surveyed airports represent a broad range due to the small sample size. For example, the two large hubs reporting revenue from access fees averaged almost \$8 million, while the six non-hubs averaged only \$3,000. Of the airports reporting revenue from access fees, 42 percent are GA airports, which earned an average of \$270,000.

Free trade zones are not large revenue generators by themselves, but they can be attractive features of industrial parks. Of the surveyed airports, 51 (19 percent) reported land used for a free trade zone, which averaged 1,017 acres per airport. However, only 13 airports (5 percent) reported revenue from free trade zones.

Finally, military leases, like farming, are not lucrative for airports. These leases are often at below-market rates, many as low as \$1. Overall, industrial parks and off-airport access fees offer the most effective strategies for boosting the bottom line and helping reduce airport's operating and capital costs.

### Size/Location Factors

The data indicates that airports pursue non-direct aviation property activity differently, depending on their size and location. For example, industrial park activity is more prevalent among the GA, non-hub and small-hub airports responding to the survey. Only 8 percent of the airports reporting industrial park activities were medium or large hubs.

Furthermore, the industrial parks at the medium and large hubs are smaller in size than the industrial parks at GA, non-hub and small-hub airports. The average size of an industrial park at a small hub is 489 acres out of an average of 2,508 total acres, compared to 286 acres for industrial parks at large hubs out of 5,704 total acres. Typically, larger airports have less excess land because they are located in heavily populated or developed areas. Smaller airports can develop more land because they often have lower land costs and less encroaching development.

Although industrial parks at medium and large hub airports have fewer acres, they generate significantly more revenue than the larger industrial parks at small airports. Medium and large hub airports earn more than \$2 million annually from their industrial parks, while smaller airports earn considerably less than \$1 million. On a per-acre basis, medium hub airports generate almost \$22,000 per acre, compared to approximately \$3,000 per acre at

small and non hubs.

However, industrial parks can be a critical revenue source for small airports, comprising 21 percent of total airport revenue on average. In fact, some GA airports are industrial parks in their entirety, such as the Clinton Sherman Industrial Airpark in Oklahoma, at which the entire 3,000 acres of the airport is considered an industrial park.

For large hubs, industrial parks are not common and, when they are present, they generate less than 2 percent of revenue. More often, hotels represent a significant revenue source for large hubs. Of the airports reporting revenue from hotel activity, 30 percent had annual EPAX of more than 8 million, with an average of \$3.2 million annual revenue. This compares to average annual revenue of less than \$200,000 for all other size airports responding to the survey.

### Maximizing Revenue

Maximizing the value of real estate is financially and strategically important for airports. Airports with excess land should consider the land's market potential as a piece of real estate rather than just for airport functions. Even airports without substantial land or flexibility in its real estate utilization may benefit from off-airport access fees.

By looking at the airport's surrounding market, airport operators may find alternative land uses with greater revenue potential. However, airports should consider whether they create unfair competition with other community businesses that may have a negative political impact.

Regardless of an airport's size or strategy regarding land development, long-term master planning is always critical. Obviously, airport operators should not pursue an industrial park development on land that might be needed for a runway extension or extra parking as the airport grows. Finally, airport operators must consider the constraints of the rest of the airport's infrastructure, such as roads and utilities, and whether they will be overburdened. Airport lands, like any other asset, need to be managed for the functional and financial benefit of the airport. 

Has this reflected the experience at your airport? If you would like to share your ideas and information, contact Diane Preston at [dpreston@imggroup.com](mailto:dpreston@imggroup.com), Sasha Page at [spage@imggroup.com](mailto:spage@imggroup.com) or Infrastructure Management Group, 4733 Bethesda Avenue, Suite 600, Bethesda, MD 20814, 301-907-2900, Ext. 3009.