

Leveraging Airport Commercial Real Estate: the right approach



...for new revenues

Michigan Airport Conference
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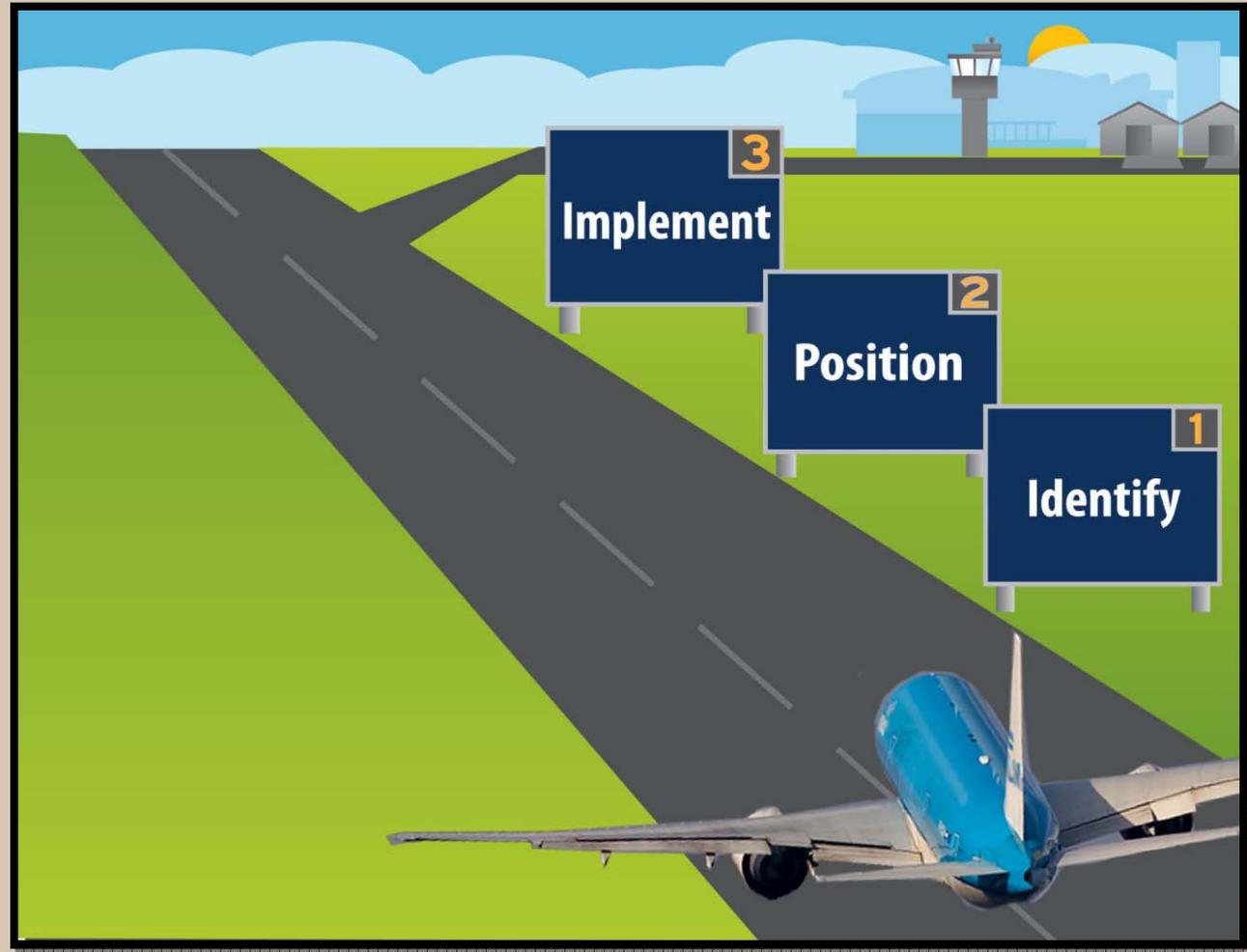


Benefits for Airports

- Produces new revenue sources
- Improves airport land values
- Supports airport operations
- Creates residual airport assets
- Enhances property tax base
- Promotes job creation



The Approach

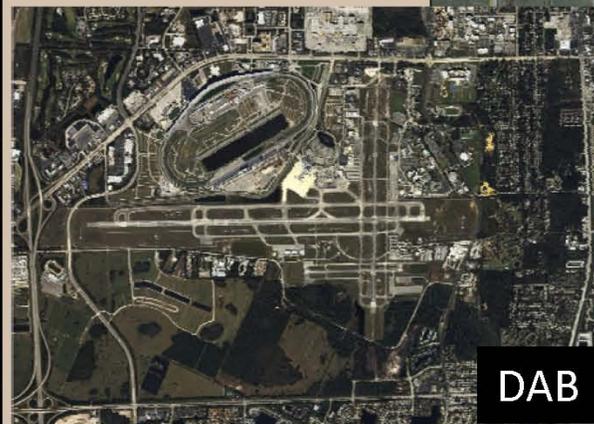


[Identify] Position Implement

Step	Task	Translation
1. Identify	Portfolio review	What do you have?
2. Position	Market Assessment	Is it unique? Who wants it? When?
3. Implement	Development Strategy	How do you make the project happen?



What do you have?

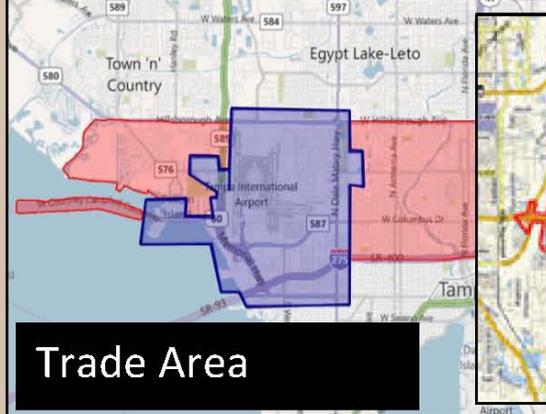


Is it unique?

SKYPLEX LONG-TERM NEEDS ANALYSIS - COMPARABLE CASE STUDIES

	Southwest Florida International Airport			Tampa International Airport			Fort Lauderdale - Hollywood International Airport		
Airport Development Zone									
(defined as the airport's area of influence for surrounding development, typically includes 2-3 miles from airport's perimeter bounded by existing development patterns, infrastructure & geographical features)									
Airport Attributes	RSW			TPA			FLL		
Code	RSW			TPA			FLL		
Acreage	6,498			3,300			1,380		
Opened/Commercial PAX Service Initiated	1983			1971			1953		
County, State	Lee, FL			Hillsborough, FL			Broward, FL		
Regional Context	2009 Existing		2030	2009 Existing		2009 Existing		2009 Existing	
County Population	615,124		957,100	1,196,892		1,744,922		1,744,922	
County Employment	280,669		398,164	799,199		1,033,072		1,033,072	
Annual PAX	7,415,958		17,700,000	16,965,545		21,090,400		21,090,400	
Gates	28		59	59		57		57	
Adjacent Uses	Inventory (SF)	% of County	FAR	Inventory (SF)	% of County	FAR	Inventory (SF)	% of County	FAR
Office	826,329	4.4%	0.14	26,220,490	36.2%	0.60	2,096,129	3.2%	0.35
Retail, Restaurant & Services	1,974,165	4.7%	0.24	6,818,615	10.6%	0.28	3,178,908	3.3%	0.23
Industrial	2,353,633	6.6%	0.22	18,108,830	17.3%	0.32	16,380,618	13.0%	0.27
SUBTOTAL	5,154,127			51,147,935			21,655,655		
Hotel Rooms	800	7.5%		10,198	46.0%		10,134	33.9%	
Profile of Adjacent Uses	industrial (warehouse, flex), flex/office, residential, retail & restaurant, vacant land & conservation area, airport related			office & bank bldgs, indus flex, light manufacturing, hotel & resort, institutions					

Comparables



Trade Area



TRADE AREA, COUNTY, AND METRO AREA DEMOGRAPHIC TRENDS

	Trade Area	Orange Cty	Metro
Population			
2000 Census-based	3,045	896,344	1,644,561
2008 Estimated	7,409	1,091,430	2,078,668
2013 Projected	9,903	1,215,878	2,354,540
Historical Annual Growth 2000-2008	12.2%	2.7%	3.3%
Projected Annual Growth 2008-2013	6.0%	2.3%	2.7%
Households			
2000 Census-based	1,431	336,286	625,248
2008 Estimated	2,869	409,437	700,271
2013 Projected	3,816	455,668	894,481
Historical Annual Growth 2000-2008	12.7%	3.7%	3.3%
Projected Annual Growth 2008-2013	6.4%	2.3%	2.6%
Household Income (Y)			
2008			
\$0 - \$49,999	30.5%		
\$50,000 - \$74,999	22.0%		
\$75,000 - \$99,999	19.8%		
\$100,000 - \$149,999	13.4%		
\$150,000 or more	8.2%		
Average Household Income	\$ 86,827	\$ 77,242	\$ 75,977
Median Household Income	\$ 62,509	\$ 59,165	\$ 56,658
2013			
\$0 - \$49,999	32.8%		
\$50,000 - \$74,999	20.8%		
\$75,000 - \$99,999	17.2%		
\$100,000 - \$149,999	18.4%		
\$150,000 or more	10.8%		
Average Household Income	\$ 95,443	\$ 87,602	\$ 85,495
Median Household Income	\$ 70,781	\$ 66,964	\$ 65,821
Projected Annual Growth in Average Y 2008-2013	2.0%	2.7%	2.5%
Projected Annual Growth in Median Y 2008-2013	2.6%	2.6%	2.4%
Household Income (Y) - 2008-2013			
\$0 - \$49,999	2.8%	2.7%	2.5%
\$50,000 - \$74,999	2.8%	2.6%	2.4%
\$75,000 - \$99,999	2.8%	2.6%	2.4%
\$100,000 - \$149,999	2.8%	2.6%	2.4%
\$150,000 or more	2.8%	2.6%	2.4%
Average Household Income	2.8%	2.6%	2.4%
Median Household Income	2.8%	2.6%	2.4%
Household Income (Y) - 2008-2013			
\$0 - \$49,999	2.8%	2.6%	2.4%
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Average Household Income	2.8%	2.6%	2.4%
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Subarea Analysis



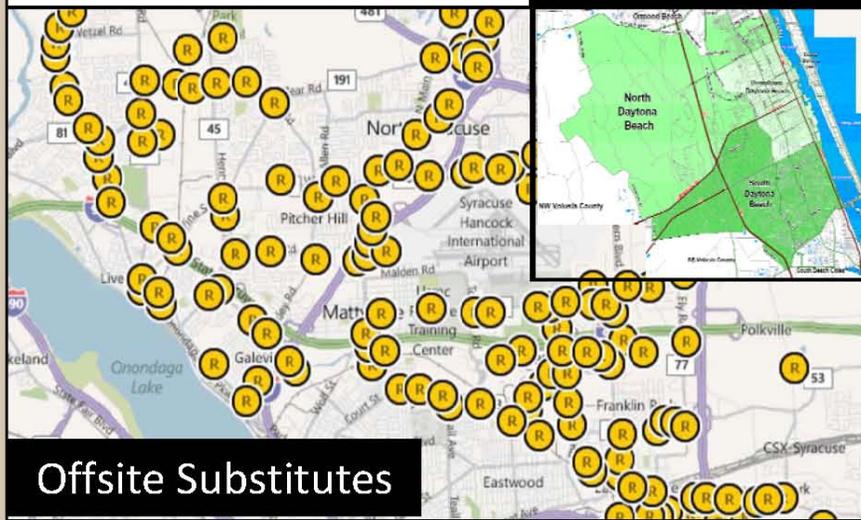
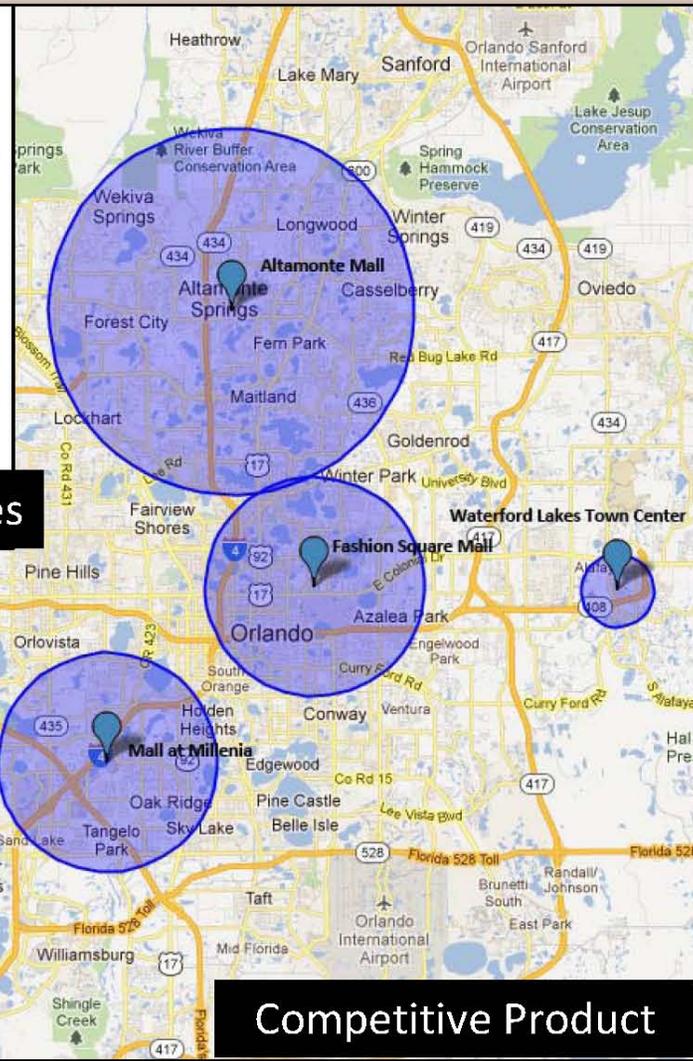
Demographics

Why it might not be...

Demographic trends analysis for airport subject site vs. comparative properties		Subject site at Orlando Executive Airport	Comparative Site A	Comparative Site B	Comparative Site C
Population	3 Mile Radius	106,855	76,476	38,213	77,953
	5 Mile Radius	288,596	184,436	104,820	164,979
Estimated 5-year population growth	3 Mile Radius	6.89%	18.97%	27.68%	12.70%
	5 Mile Radius	4.30%	18.59%	18.86%	9.6%
Median household income	3 Mile Radius	\$45,494	\$48,424	\$72,635	\$50,532
	5 Mile Radius	\$44,798	\$51,585	\$59,653	\$52,443
Average household income	3 Mile Radius	\$63,758	\$56,964	\$95,939	\$64,103
	5 Mile Radius	\$61,874	\$56,077	\$83,261	\$66,832

■ Competitive Advantage
 ■ Competitive Disadvantage

Reference Analyses



Offsite Substitutes

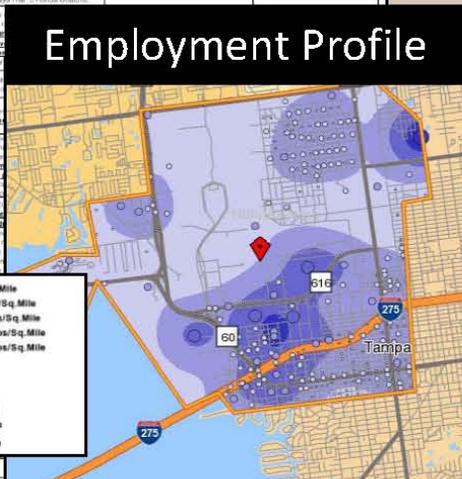
Competitive Product

Who wants it?

- ➔ Market size and conditions
- ➔ Prevailing scale of projects
- ➔ Potential tenants

Strategic Assessment of Potential Food & Beverage Operators
GOAA OEA Colonial Franchise properties

Restaurant/Operator/Company	Website	Total U.S. Stores	Preferred SF (Sq. Ft.)	Retail Classification	Relevant locations considers	Preferred Co-tenants	Free stores planned in 2009	Customer base	Demographic/Reps./Vehicles per day	Corporate Sales FY 08-09	Company in Metro Orlando	Company in OEA Trade Area	Corporate/General Comments	Special leasing considerations	Contact info
Applebee's Neighborhood Grill and Bar (Franchise) (Potential TGF Reuse)	www.applebees.com	1,369	5,300	restaurants / bars	airport/transit center, community strip center, freestanding, mixed use center (power center), pad site (suburban)	discourt, entertainment, grocery, supermarket	15-19	mid income, adult	pop of 20,000 - 50,000 in 5-mile radius, 20,000 VPD	-	yes	no	Since 11/2007, Applebee's International has operated as a division of Darden, a subsidiary of PDP. From 2009 to 2010, focus is on Franchising that company-owned stores (total units: 515 in 2008; 400 by end of 1st QTR 2009). Company is franchising to 90% franchise system for future expansion. 4 in Central Florida, University location.	Preferred lease: 15 years with 45-year options, 95 - 110 parking spaces, approximately 80% of company-owned stores are vertical buildings on arterial roads.	Timothy Colwell, VP, Construction / Real Estate, tel: 919, 961, 4000; tjc.colwell@applebees.com
Baskin-Robbins	www.baskinrobbins.com	180	2,300	retail/causal	neighborhood strip center (power center), pad site (suburban)	all considered	-	high, mid income, adult	pop of 40,000 in 5-mile radius, 20,000 VPD	-	yes	no	In 2009, one store in OEA has closed. 8 locations in Florida. Company wants to expand by opening franchises in unutilized markets. 3 locations in Metro area, University location.	Preferred lease: 20 years with 20-year options, 80-100 at freestanding location.	Mikey Shelton, VP, Franchise Sales / Real Estate, tel: 610, 520, 2000
7-Eleven Neighborhood Deli (Potential TGF Reuse)	www.7-eleven.com	23	5,200-5,600	restaurants / bars	community strip center, freestanding, neighborhood strip center, pad site (suburban)	entertainment	4-10	mid income, adult	trade area total pop of 120,000; median pop of 25,000; pop of 200,000 in 5-mile radius, 40,000 VPD, median HH income of \$95,000	-	yes	no	Acquired by Rindco's private equity firm in May, 2008. At that time, new owners announced intention to expand rapidly, opening a store every 3-4 weeks. In 2008, Murrill LLC, of Tilton Springs, FL, announced plans to open 160 units in Central Florida over following seven years. Currently 3 outlets are operating in Florida - Clearwater area, Lakeland, Altamonte Springs.	Preferred lease: 5-10 years with 25-year options, all reuse existing buildings	Mike Pearson, Sr. VP, Franchise Development, tel: 248, 388, 2500; kpear@7-eleven.com
Bourgeois	www.bourgeois.com	421	1,800-3,200	fast food	freestanding, pad site / subparcel	discount, other quick service restaurants, sublet	8	low, mid income, teen, kids	pop of 50,000 in 5-mile radius, 29,000 VPD	-	yes	no	In 2008, WFLD owned company in Top 25 high-performing franchise. Recently entered Metro Orlando market by opening a store located on Field Central Blvd. at Arroyo Trail, 5 Florida locations.	Preferred lease: 15 years with 35-year options, minimum 80 parking, 1-acre parcel of land	Richard Adams, Sr. VP, Franchise Development, tel: 714, 577, 2070; r.adams@bourgeois.com
Dulles V&B Wings (Potential TGF Reuse)	www.dullesvnb.com	579	5,000-7,000	restaurants / bars	airport/transit center, community strip center, freestanding, neighborhood strip center, pad site (suburban)	entertainment, grocery/supermarket	10-15	mid income, adult, teen, kids	trade area total pop of 40,000; median pop of 18,000; pop of 25,000 in 3-mile radius, 15,000 VPD; median HH income \$30,000	-	yes	no	In 1st QTR 2008, 10 new new franchisee (sublet-owned) stores are in growth strategy (only one closing in their 10 locations, 8 in Orlando, 2 in Tampa).		
Lopati's Roadhouse (Potential TGF Reuse)	www.lopatis.com	146	4,500-7,200	restaurants / bars	freestanding, pad site / subparcel	Target, Wal-Mart, Costco, Home Depot	-	mid income, adult	pop of 50,000 in 5-mile radius, 30,000 VPD	-	yes	no	11 locations in Florida, 1 in Tampa.		
Zaxby's	www.zaxbys.com	470	3,000-3,300	fast casual, restaurants / bars	community strip center, freestanding, pad site / subparcel	office, retail, universities	20-30	-	trade area pop of 25,000; 20,000 VPD, average income of \$82,000	-	yes	no	Privately held franchise location. Currently in		
Chick's Bar and Grill (Banker International)	www.chicks.com	1,200	5,000-7,000	retail/causal, restaurants / bars	airport/transit center, freestanding, power center, pad site / subparcel	entertainment	13-17	adult, teen	pop of 100,000 in 5-mile radius, 35,000 VPD	no	yes	no	In FY 2008, company is closed 42 properties (other brands). Sold May 2008. pop 80% of company-owned buildings or locations, 34 in Central Florida.		
DG Grill & Cold (Banker International, Inc.)	www.dggrill.com	6,000	3,200-3,700	fast food, fast casual (DG B&C concept only)	community strip center, freestanding, neighborhood strip center, power center, pad site / subparcel	all considered	-	-	30,000 VPD; median HH income of \$28,400	-	yes	no	160 locations in Florida, 1 location in Tampa. Fast location, very high traffic area, located in high traffic area. Company is in growth strategy (only one closing in their 160 locations, 34 in Central Florida).		
Hoyt's	www.hoyts.com	400	2,300	fast food	airport/transit center, community strip center, freestanding, neighborhood strip center, power center, pad site / subparcel	discount, entertainment, grocery, supermarket	45	low, mid income, adult, teen, kids	pop of 25,000 in 3-mile radius, 12,000 HH in 3-mile radius; trade area pop of 40,000-45,000; 20,000 VPD	-	yes	no			
O'Charley's	www.ocharleys.com	232	6,000	restaurants / bars	freestanding, pad site / subparcel	all considered	2	mid income, adult	pop of 100,000 in 5-mile radius, 39,000 VPD	down	yes	no			
Buby's Pub & Grill	www.bubys.com	307	3,000-4,000	restaurants / bars	airport/transit center, freestanding, neighborhood strip center, power center, pad site / subparcel	retail-oriented, upscale	0-15	high, mid income, adult	pop targeted 25,000-50,000; 25,000 VPD	down	yes	no			
					entertainment, retail-oriented, grocery / supermarket, upscale		20	high, mid income, adult, teen	pop of 10,000 in 1-mile radius, 35,000 VPD	-	yes	no			

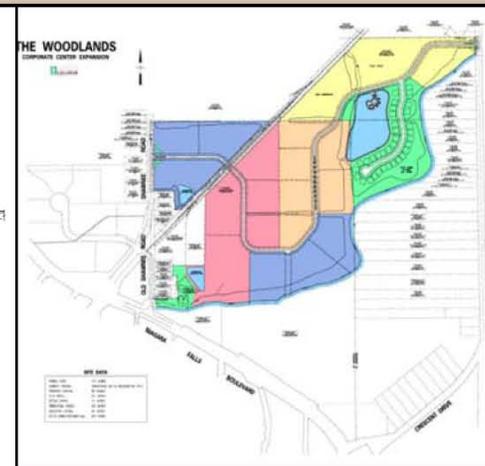
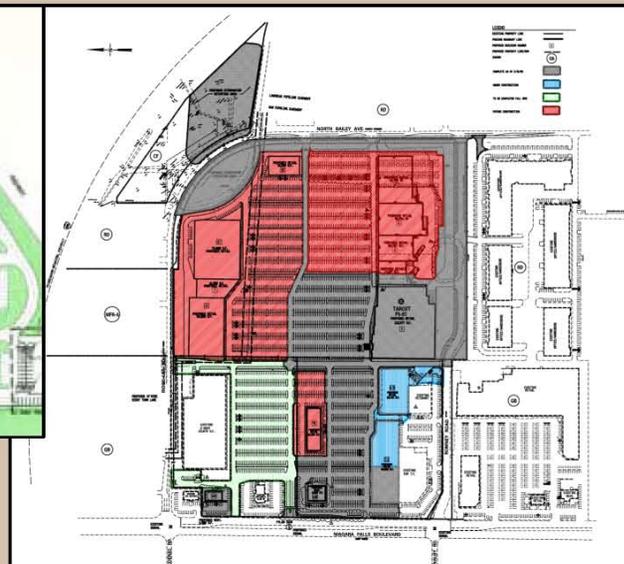


Tenant Research



When? (...and at what price)

DEVELOPMENT INTENSITIES AND VALUE RELATIONSHIPS – AIRPORT PROPERTIES				
Planning Horizon	Development Environment	Likely Land Use Characteristics	Net incremental demand	Property Value Potential in 2006 dollars
2015	Intensified retail shopping centers	Big box and In-line retail, restaurant and supporting services; outparcels.	+200,000 to 250,000 SF of retail/services over 2006 demand levels	\$7.00 to \$9.00 per square foot <i>Outparcels: \$12.00 to \$15.00</i>
2025	Towncenter	Retail, restaurant and services complemented by office space and for-rent multifamily residential	+100,000 to 125,000 SF of retail/services, 60,000 to 120,000 SF of office, 150-200 for-rent multifamily apartments over 2015 demand levels	\$27.00 to \$32.00 per square foot



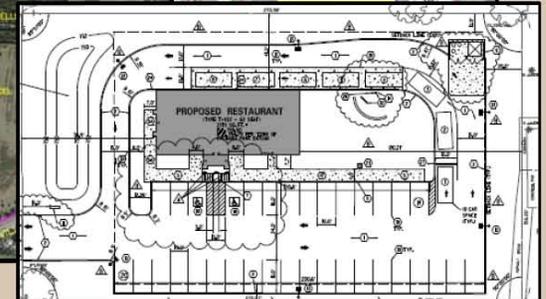
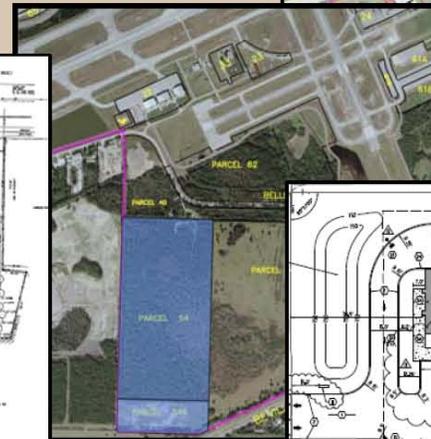
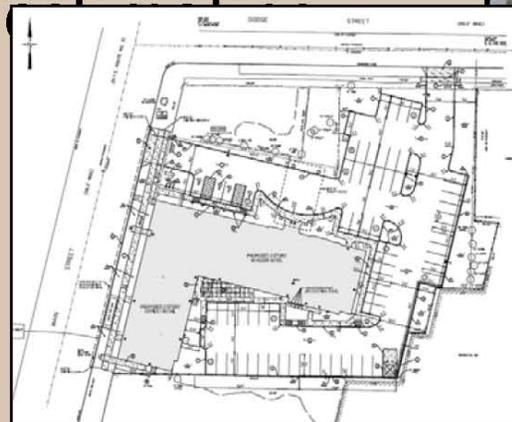
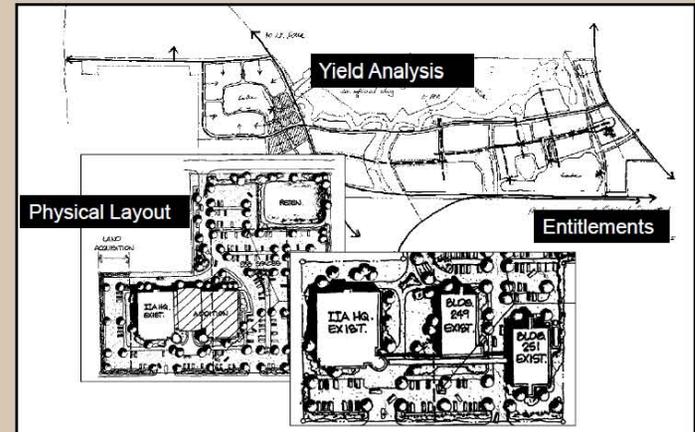
Identify **[Position]** Implement

- Due diligence
- Planning analysis and regulatory approvals
- Financial Feasibility

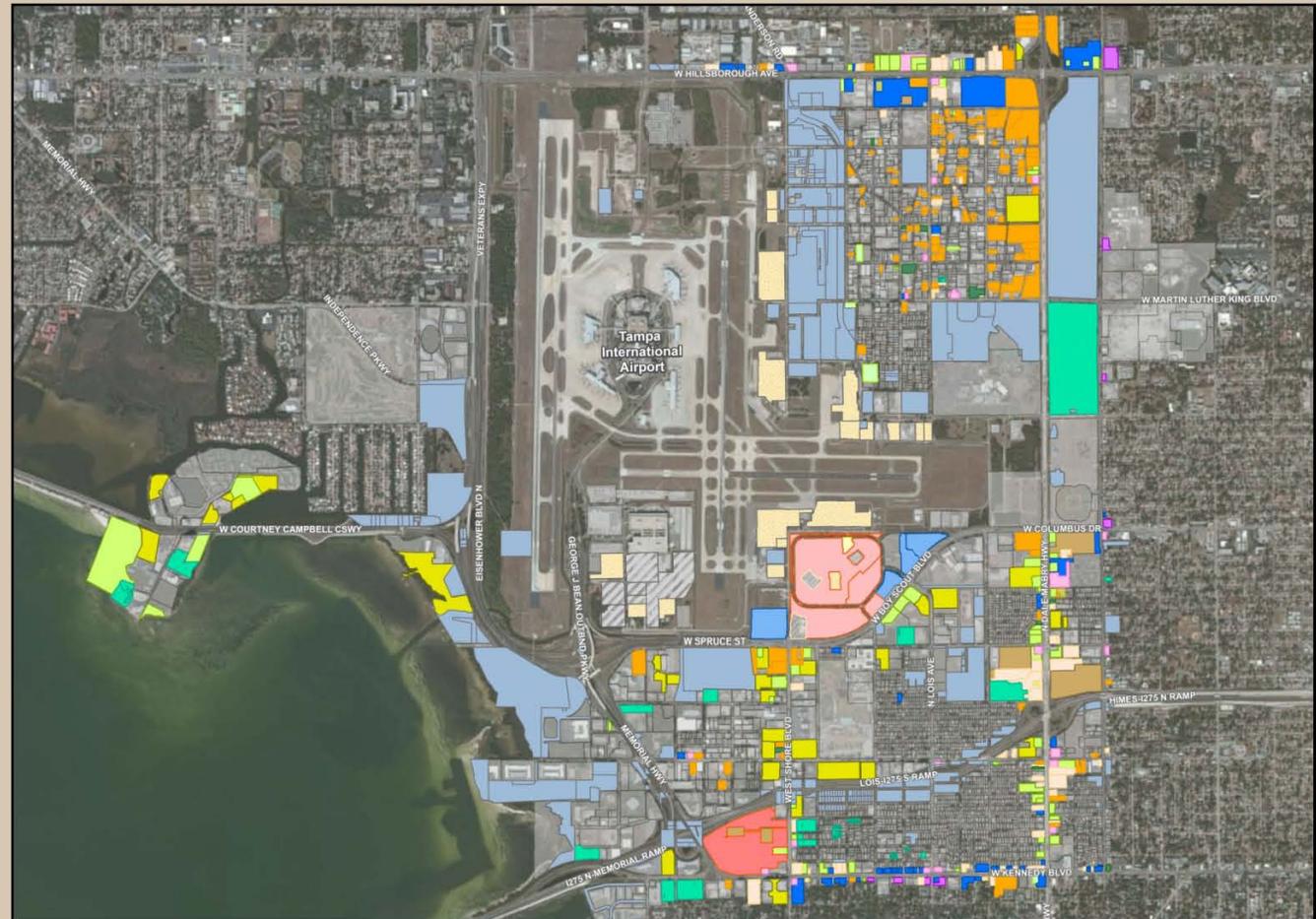


Due Diligence

- ➔ Property survey and mapping
- ➔ Infrastructure
- ➔ Site conditions
- ➔ Environmental
- ➔ Cost



Planning Analysis & Regulatory Approvals



Financial Feasibility

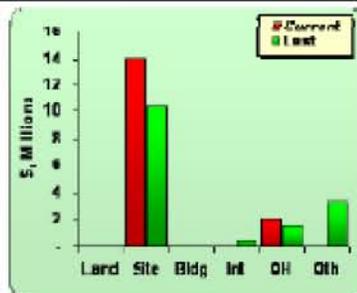
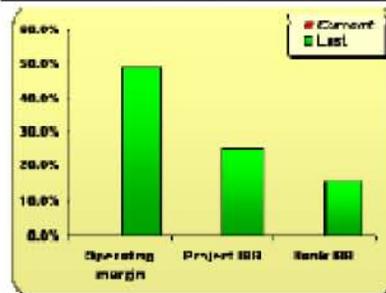
- ➔ Cost-benefit analysis
- ➔ Cash flow and ROI metrics

(sample representation only)

TOTAL RAW LAND		TOTAL DEVELOPMENT SUMMARY			
Total project acres:	50.70	Total residential units:	470	Total Market value:	#DIV/0!
Avg price per sq. ft.:	#REF!	Average value per unit:	#DIV/0!	Gross density:	8.39
Owner financing:	#DIV/0!	Months to sellout:	9.0	Cost inflation:	6.00%
Total acquisition cost:	#REF!	Sales per month:	237.86	Value escalation:	6.00%

TOTAL COSTS	TOTAL	PROJECT PERFORMANCE	BANKING
Land acquisition	\$ -	Profit before interest	#DIV/0!
Site development	14,063,647	(less) interest	#DIV/0!
Units construction	-	(less) tax provision	#DIV/0!
Parking facilities	-	Net Profit after taxes	#DIV/0!
Interest and fees	#DIV/0!	NPV of Profit after taxes	#DIV/0!
Settlement costs	#DIV/0!	Net profit on development costs	#DIV/0!
Real Estate Taxes	-	Project return (IRR):	#DIV/0!
Developer's Overhead	2,100,547		
Marketing	300,138		
Other	-		
TOTAL COSTS	#DIV/0!		

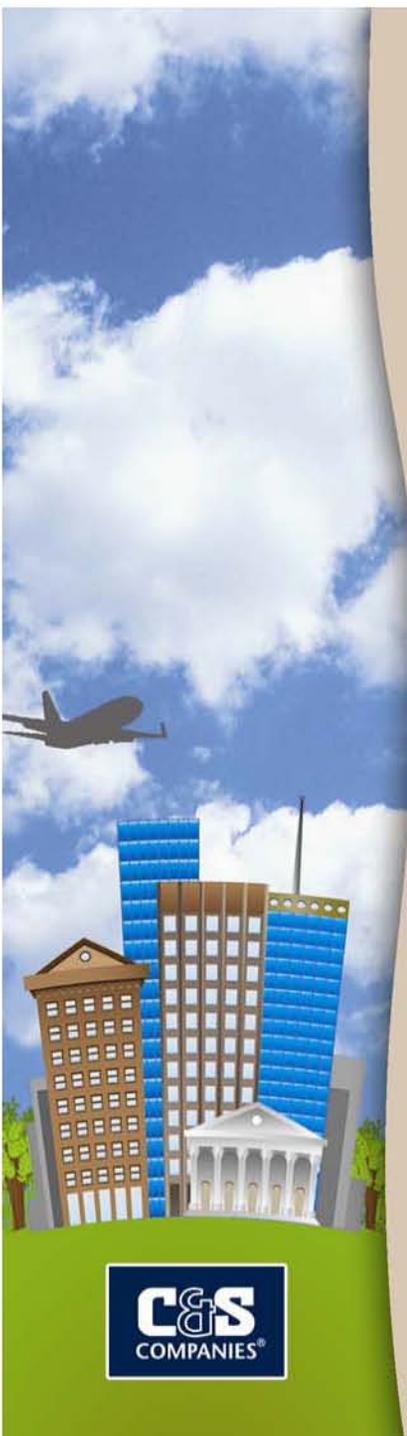
BANKING	
Bank Funding	#DIV/0!
Max Loan	#DIV/0!
Equity Investment	#DIV/0!
Equity/Loan	#DIV/0!
Total fees	#DIV/0!
Interest	#DIV/0!
Bank Profit	#DIV/0!
Total Revenue	#DIV/0!
Loan to value	#DIV/0!
Loan to cost	#DIV/0!
IRR	#DIV/0!



Pro forma Analysis

Identify Position **[Implement]**

- Development Strategy
- Implementation Activities



Development Strategy

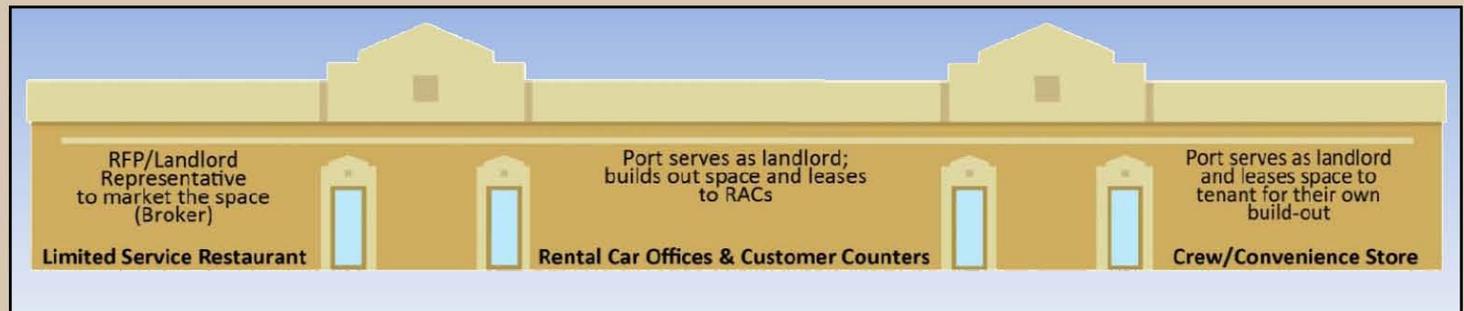
- **Do It Yourself**
 - More inherent risks
 - More control
 - Greater potential upside
 - Prevailing market rate of return
- **Public-Private Partnerships**
 - Shared risks and control
 - Negotiated rate of return
 - Leverage private investment to achieve goals & objectives



Development Strategy (cont.)

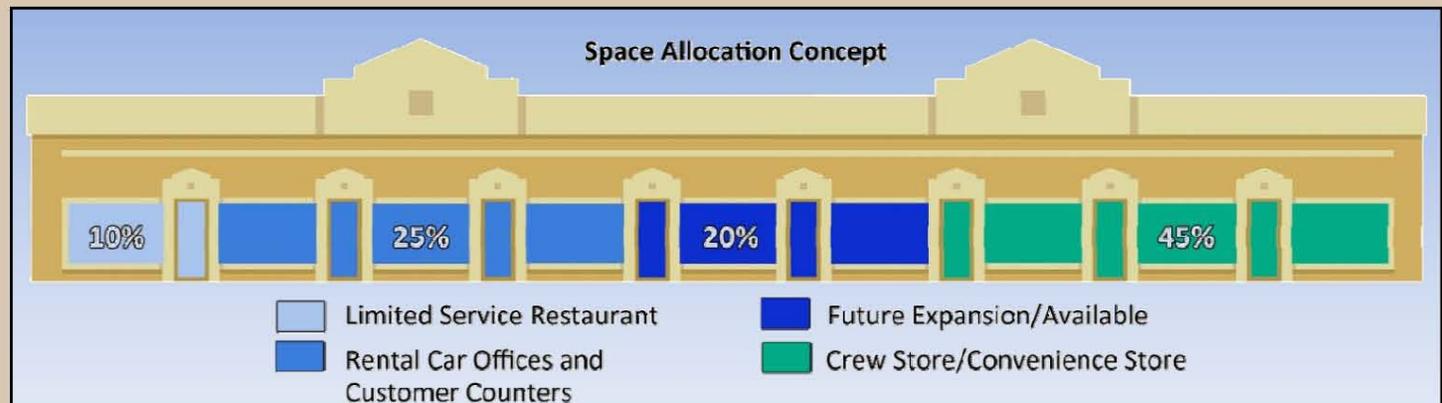
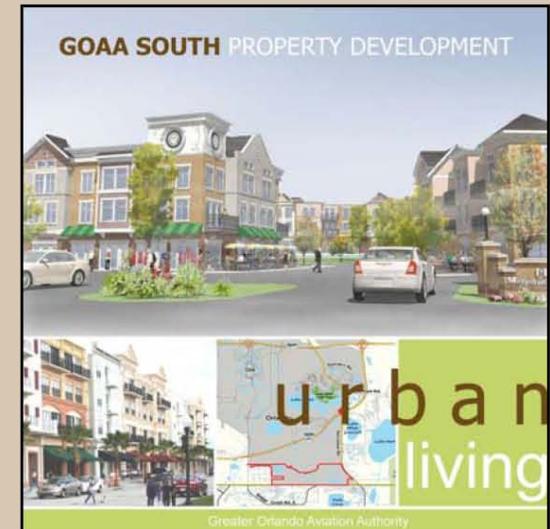
- **Financing Alternatives**

- Ground lease
- Special authority
- Joint Venture (JV)
- Airport-owned and third-party operated
- Airport-owned and operated



Implementation Activities

- Property positioning/
marketing
- Developer solicitation/
evaluation
- Policy development



What the Development Community Needs/Wants

- **Market support**
- **Defined process and timelines**
- **Minimum lease term**
- **Greater certainty** in future land value
- Comparable site and location
- Infrastructure to site or similar
- Deferred maintenance funding/incentives
- Preliminary due diligence



What Commercial Brokers Need/Want

- ➔ Broker **compensation policy**
- ➔ **Defined process** and timelines
- ➔ **Registry of prospects** (procuring cause)
- ➔ Exclusive and non-exclusive **opportunities**



PROJECT HIGHLIGHTS



Greater Orlando Aviation Authority



Tampa International Airport



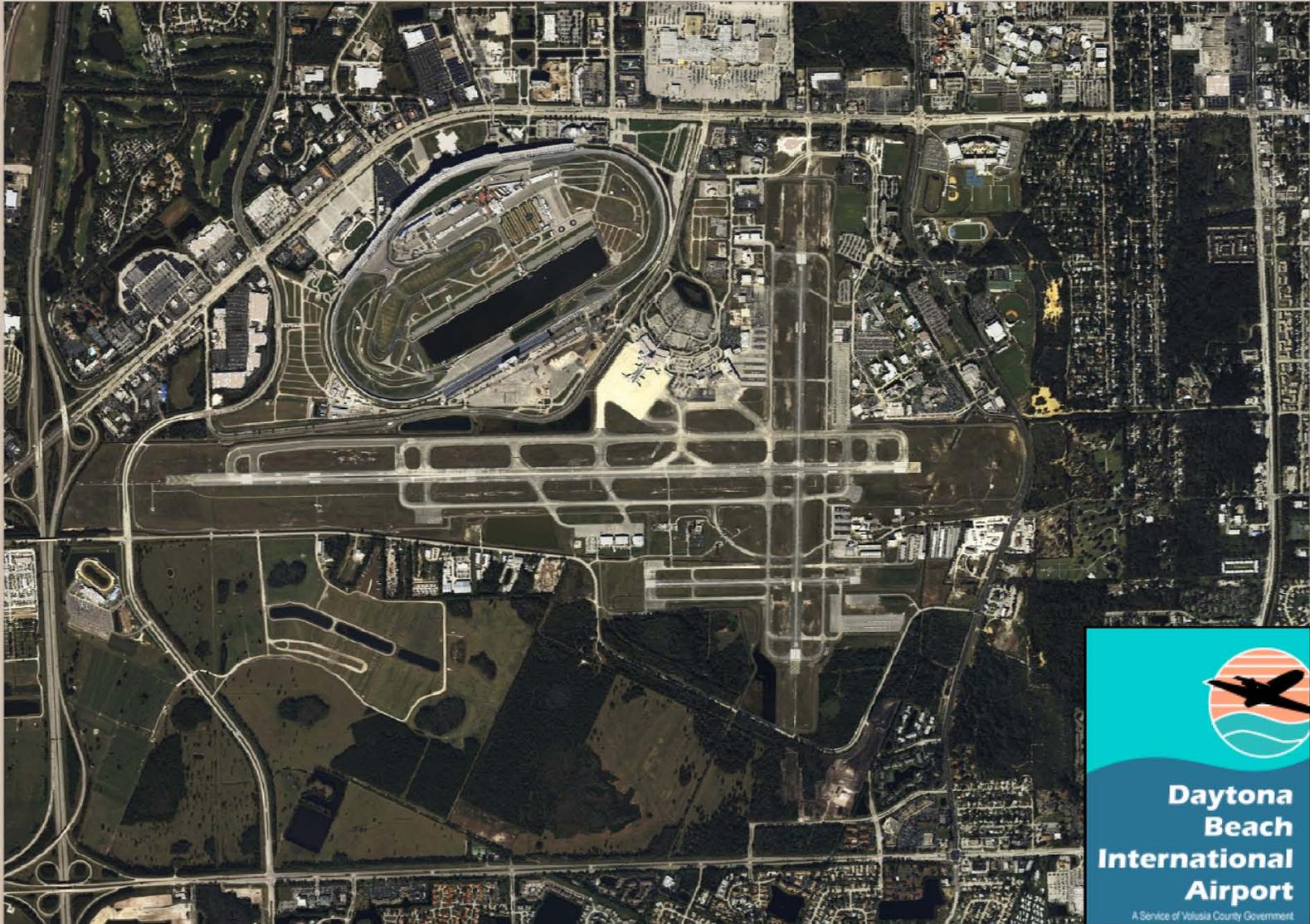
Syracuse Hancock International Airport



Lee County Port Authority



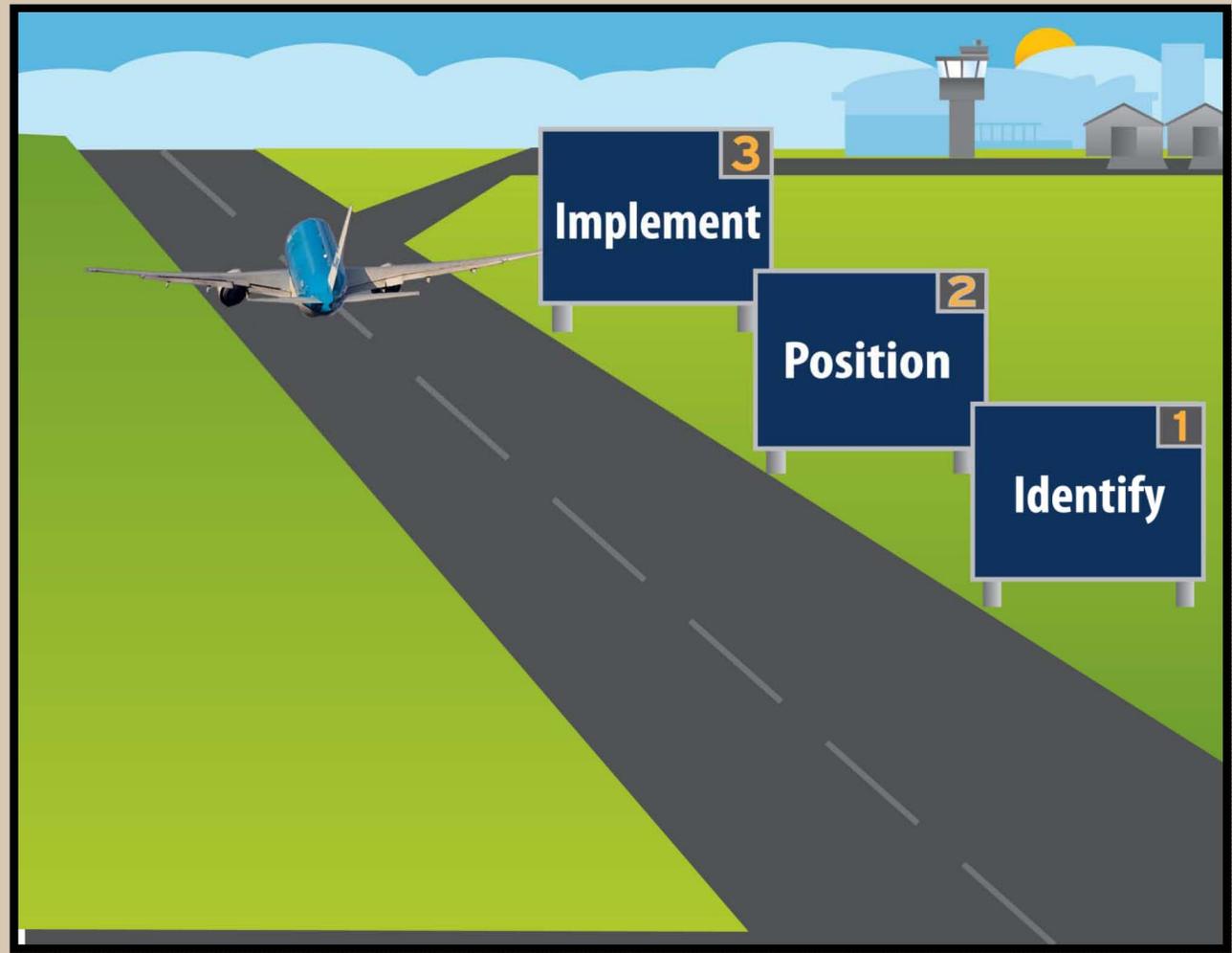
Daytona Beach International Airport



Canaveral Port Authority



The right approach ...for new revenues



Additional Resources

- ➔ *Airport World (Feb-Mar 2011)*
- ➔ *Global Airport Cities (Oct 2011)*

SPECIAL REPORT: LAND DEVELOPMENT



Land of opportunity

Are airports making maximum use of their available land? Matthew Taylor considers how an airport can leverage its commercial real estate.

Global economic challenges and changing airline industry dynamics are intensifying financial pressure on the world's airports. One effective source of relief leverages one of the airport's most visible assets – land.

While the concept of deploying land to generate revenues is not novel, a renewed focus by airports on this sometimes under-utilised, but mostly hibernating asset is particularly attractive today given funding constraints and emerging market opportunities.

Leveraging an airport's real estate portfolio offers numerous benefits beyond just a new revenue source. Airport real estate values are improved and residual assets are created while also expanding the community's property tax base and job market.

For these reasons and others, airports continue to assume an ever-increasing role of importance in their communities.

The question is generally not if commercial land development can occur on airport, but rather what should be developed, where and when.

Whether an airport was originally sited on the escarpment flings at a pre-filled site or in a more urban hill context, the private market has come, and is coming, to the shores of these economic gateways.

From professional office and industrial uses to retail, restaurants and hotels, airports have historically attracted compatible land uses to their perimeter, effectively creating transitions to community neighbourhoods expanding outward from the centre city.

Commercial corridors have become the market's preferred transition zones between airplanes and residential nodules, creating opportunities for airports.

To date, much of the commercial development has occurred external to airport lands along access corridors and airport boundaries. Now, the market's growing demand for both larger tracts and smaller key development sites closer to the airport itself affects airports' ability to generate new revenue by leveraging land assets.

At Orlando International Airport and Orlando Executive Airport in Florida, Orlando-based REIC Strategic Advisors has worked with the Greater Orlando Aviation Authority (GOAA) to identify and leverage commercial property opportunities from among more than 15,000 acres (6,070 hectares) at the two locations.

In 2009, Orlando International Airport ranked 27th in the world in total passengers and currently has the third largest land holdings of any US airport.

During the past two decades, REIC's assignments have resulted in positioning airport assets totalling nearly 4,000 acres (1,630 hectares) of existing and/or planned commercial development.

At Orlando Executive Airport, revenues to GOAA from commercial development – which includes retail shopping centres, movie theatres, outdoor restaurants and other commercial uses – now comprise approximately 7% of total revenues.

At Orlando International Airport, 11.5% of total revenues come from commercial leasing activity.

To keep GOAA's real estate portfolio relevant, REIC is now identifying redevelopment strategies for older, underperforming commercial assets constructed more than 30 years ago to attract the current highest and best use for revenue purposes in ground leases approach application.

So where do you start? Experience suggests five essential steps to leveraging an airport's commercial property within an overall master real estate strategy.

First, what do you have to work with? Conduct a portfolio review of existing land assets including an inventory of aviation and non-aviation lands to identify possible available vacant or redevelopment parcels for the marketplace.

The process recognises that airports intrinsically require adequate land for operational areas and future aviation related growth and development.

Your goal in this process is to understand the relative advantages and limitations of the commercial land. An airport's locational advantages are usually balanced by restrictions placed on its lands by regulatory agencies.

When a new 28-gate midfield passenger terminal complex opened at Southwest Florida International Airport in Fort Myers, airport officials began planning and pursuing regulatory approvals for the redevelopment of hundreds of acres surrounding the former passenger terminal site. Now, airport administrators are deciding which financing alternatives are the most appropriate for implementing new commercial development, as part of their overall diversification strategy.

In general, five financing alternatives are available to airports implementing

Financing

Fertile ground

How can airports implement new commercial land development projects? Matthew Taylor explores the range of financing alternatives.

Global uncertainty, regulatory changes and fiscal contraction are compelling airports to look to their land assets for non-traditional revenue sources.

While there's no debate as to why airports must diversify their real estate portfolios by adding market-supported commercial land development and associated revenues, the question remains: how can airports implement financially viable commercial projects as part of their operating strategies?

When public airports invest in commercial development, there's a clear nexus of public benefits, including regional economic development, buffers to neighbouring communities, enhanced passenger experience and convenience and airport revenue diversification, among others.

However, given limited airport discretionary budgets, the ability to self-perform commercial development is all but non-existent. For this reason, airports are faced with making tough choices among a range of financing alternatives, with varying degrees of risk, reward and control.

When a new 28-gate midfield passenger terminal complex opened at Southwest Florida International Airport in Fort Myers, airport officials began planning and pursuing regulatory approvals for the redevelopment of hundreds of acres surrounding the former passenger terminal site. Now, airport administrators are deciding which financing alternatives are the most appropriate for implementing new commercial development, as part of their overall diversification strategy.

In general, five financing alternatives are available to airports implementing

new commercial developments: ground lease, special purpose authority, joint venture, airport-owned and third-party operated. Each alternative has advantages and disadvantages related to revenue stability, capital and credit risks, quality and schedule control, and return on investment.

A ground lease represents the traditional development model at airports in that it is a simple lease of property to a developer. This alternative requires no airport capital and generates a lease payment (base rent) typically based on a percentage of appraised property value plus, depending on the use, a percentage of sales from the new business enterprise to be developed on site.

The ground lease alternative provides a stable revenue stream without the risk of airport capital. In turn, the airport has limited opportunity to participate in any upside (profitability) and less control of the customer experience. A ground lease works well when development opportunities are site specific of a defined scope and scale, and the airport desires the least amount of risk.

Daytona Beach International Airport in Florida has successfully deployed ground leases as a financing alternative to implement new commercial development on site. Notable ground leases have included the iconic Daytona International Speedway and world-renowned Embry-Riddle Aeronautical University main campus.

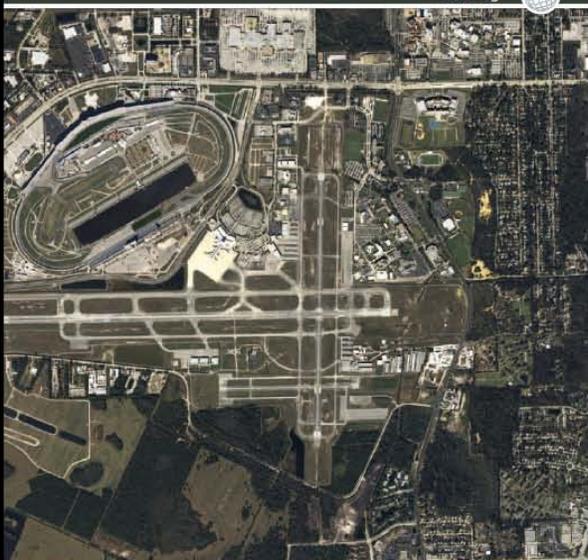
A special purpose authority can be created in which the airport oversees the actions of the authority. The authority, which has greater cost of capital than the airport, controls the development of the property and compensates the airport for



the land that is developed. The authority keeps the risks generated by the business developed on site and uses such risks for reinvestment in the development.

When compared to the ground lease, the special purpose authority alternative provides the airport with more control of the development with limited or no airport capital at risk. The airport can also extract more upside but returns to the airport are limited due to the nature of the relationship. Special purpose authorities are optimal when the amount of property available and the

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scale of associated market supported development are sufficient to achieve economies of scale that fully leverage the new authority.

A joint venture (JV) involves the airport partnering with a developer to develop property jointly and split profits according to an upfront formal agreement. The JV leverages the airport's cost of capital while bringing strong development expertise from the private sector, creating the possibility of more economic return to the airport.

At the same time, the JV places more airport capital at risk and creates the challenge of aligning developer and airport interests through potentially difficult legal structures. A JV works best when there are clearly defined, quality, financial and performance expectations for a specific project or development programme that can capitalise on those benefits associated with a public-private initiative.

The airport-owned and third-party operated alternative requires the airport to provide the capital for the development while contracting out the operation of the commercial enterprise to a third party. The airport retains all revenues associated with the development's operations. This alternative leverages the airport's cost of capital and provides the airport with more control over the final design and construction. While there are more variable costs for the airport, the airport receives all revenues but it must also assume all capital risk.

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