Leveraging Airport Commercial Real Estate: the right approach

…for new revenues

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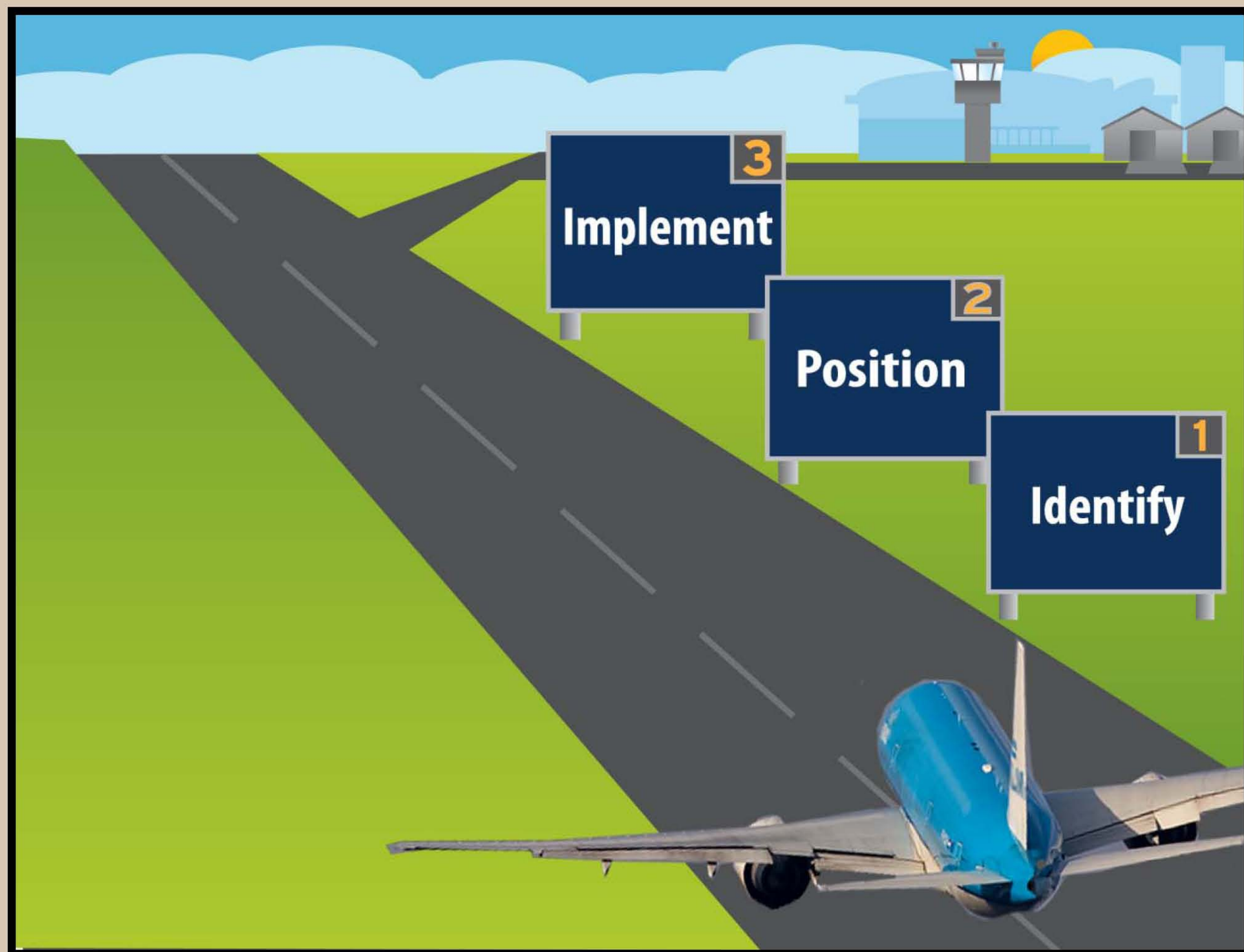
Benefits for Airports

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

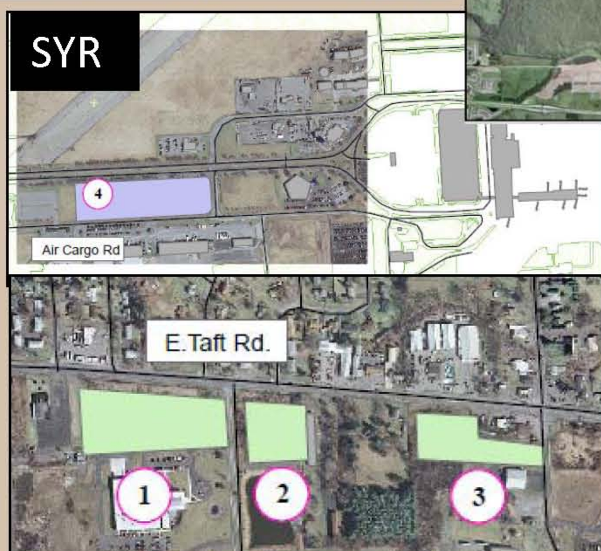
The Approach

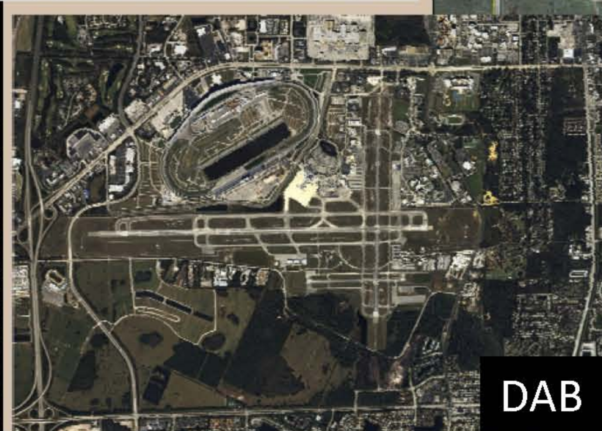


[Identify] Position Implement

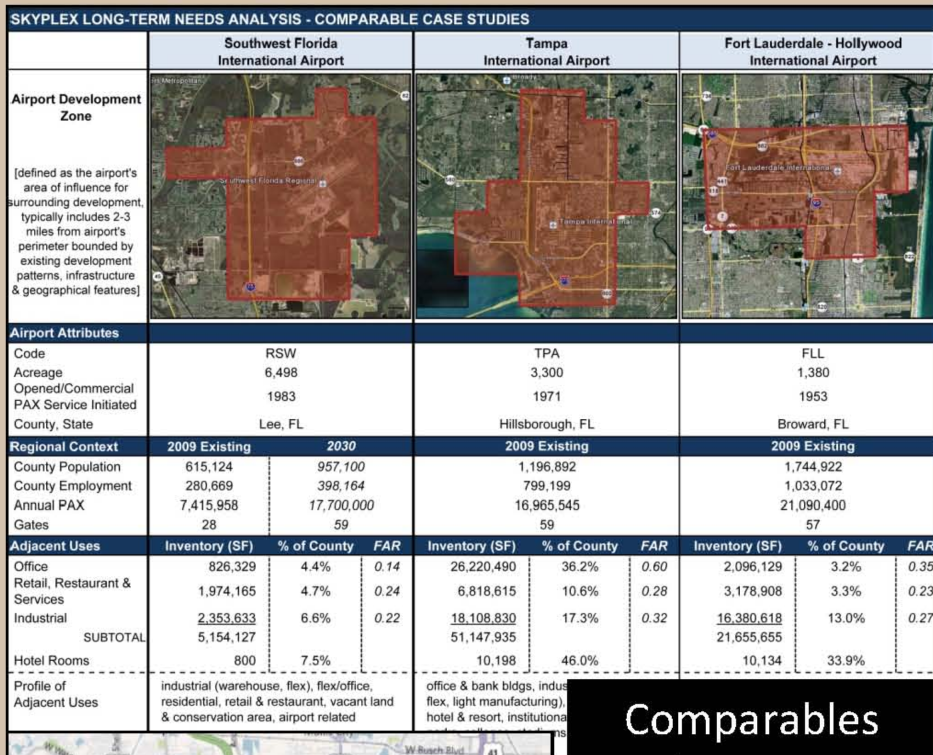
Step	Task	Translation
1. Identify	Portfolio review	What do you have?
2. Position	Market Assessment	Is it unique? Who wants it? When?
3. Implement	Development Strategy	How do you make the project happen?

What do you have?





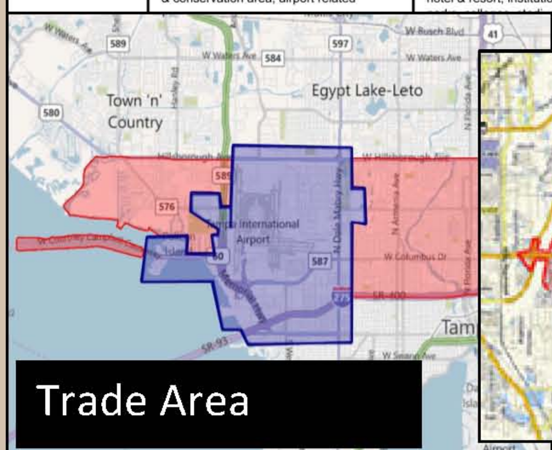
Is it unique?

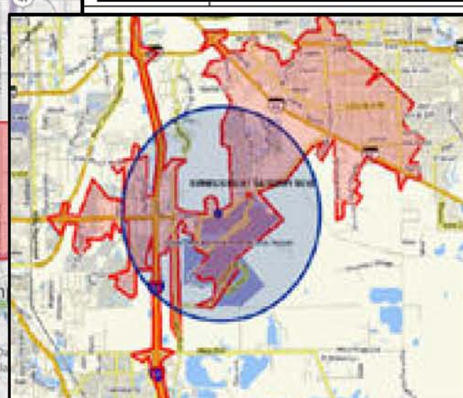


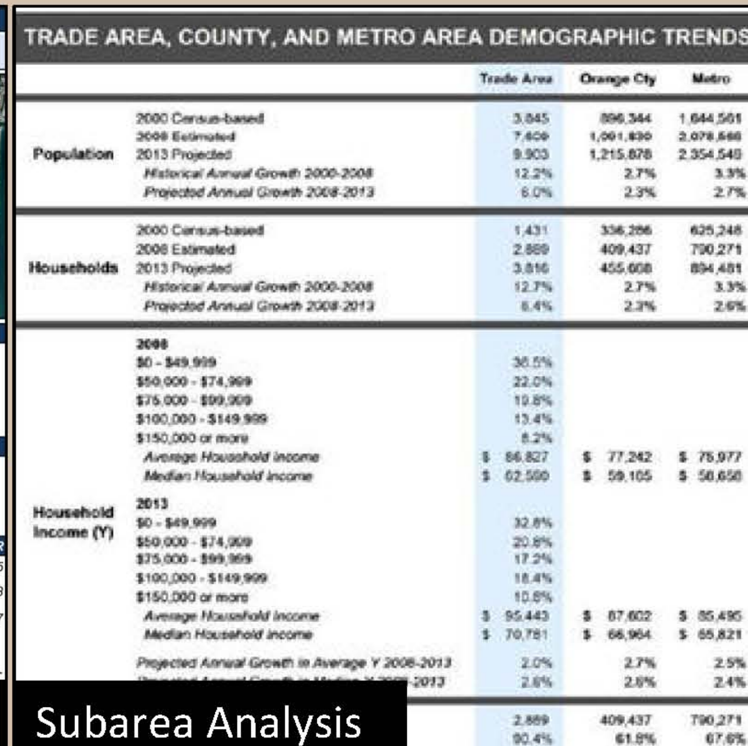
SKYPLEX LONG-TERM NEEDS ANALYSIS - COMPARABLE CASE STUDIES	Southwest Florida International Airport	Tampa International Airport	Fort Lauderdale - Hollywood International Airport
Airport Development Zone [defined as the airport's area of influence for surrounding development, typically includes 2-3 miles from airport's perimeter bounded by existing development patterns, infrastructure & geographical features]			
Airport Attributes			
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
County Population	615,124	957,100	1,196,892	1,744,922
County Employment	280,669	398,164	799,199	1,033,072
Annual PAX	7,415,958	17,700,000	16,965,545	21,090,400
Gates	28	59	59	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, institutiona…					







TRADE AREA, COUNTY, AND METRO AREA DEMOGRAPHIC TRENDS

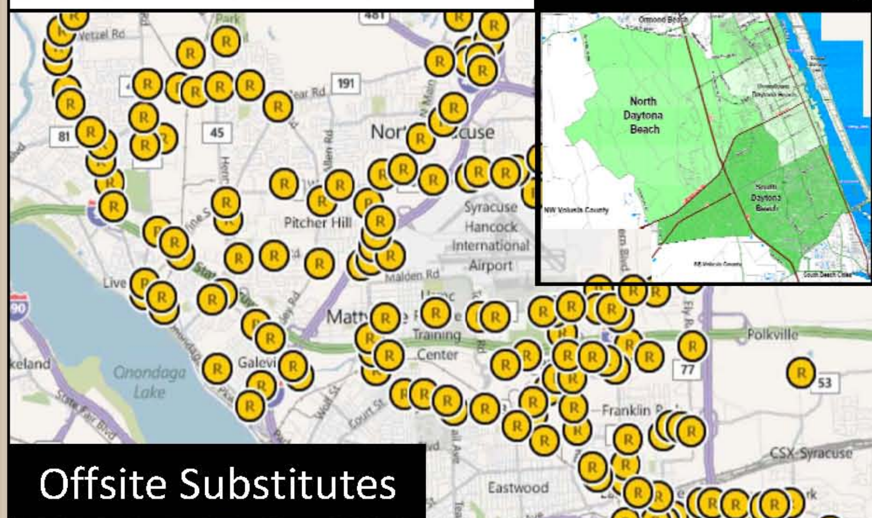
		Trade Area	Orange Cty	Metro
Population	2000 Census-based	3,845	896,344	1,644,561
	2008 Estimated	7,409	1,091,830	2,078,660
	2013 Projected	9,903	1,215,878	2,354,540
	Historical Annual Growth 2000-2008	12.2%	2.7%	3.3%
	Projected Annual Growth 2008-2013	6.0%	2.3%	2.7%
Households	2000 Census-based	1,431	336,286	625,248
	2008 Estimated	2,889	409,437	790,271
	2013 Projected	3,816	455,608	894,481
	Historical Annual Growth 2000-2008	12.7%	2.7%	3.3%
	Projected Annual Growth 2008-2013	6.4%	2.3%	2.6%
Household Income (Y)	2008			
	$0 - $49,999	36.5%		
	$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	$ 62,590	$ 59,105	$ 58,658
	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%
		2,889	409,437	790,271
		90.4%	61.8%	67.6%
		9.6%	38.2%	32.4%
		3,817	455,668	894,481
		90.5%	62.1%	68.0%
		9.5%	37.9%	32.0%
	…s 2008-2013	0.4%	2.3%	2.6%
		54.7%	25.1%	27.4%
		45.3%	74.9%	72.6%
		$ 87,503	$ 100,208	$ 99,467
		$ 200,147	$ 233,923	$ 228,351
		$ 238,342	$ 276,289	$ 268,292
		18.1%	18.7%	16.2%
		3.8%	3.6%	3.5%

Why it might not be...

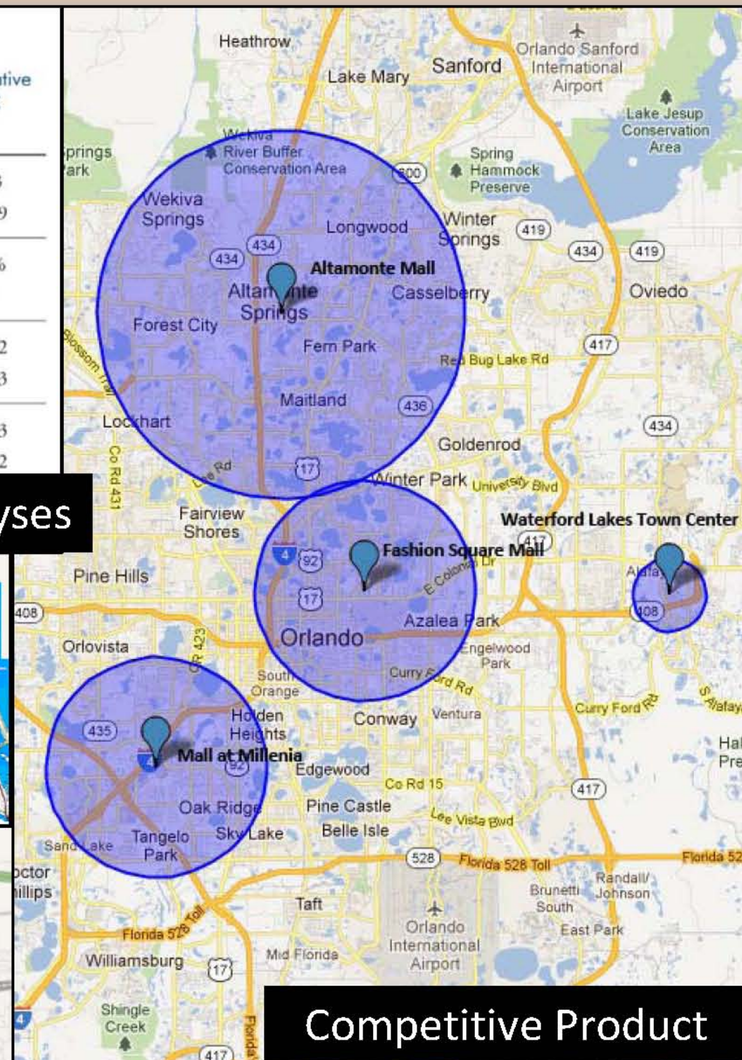
Demographic trends analysis for airport subject site vs. comparative properties		Subject site at Orlando Executive Airport	Comparative Site A	Comparative Site B	Comparative Site C
Population	3 Mile Radius	**106,855**	76,476	38,213	77,953
	5 Mile Radius	**288,596**	184,436	104,820	164,979
Estimated 5-year 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



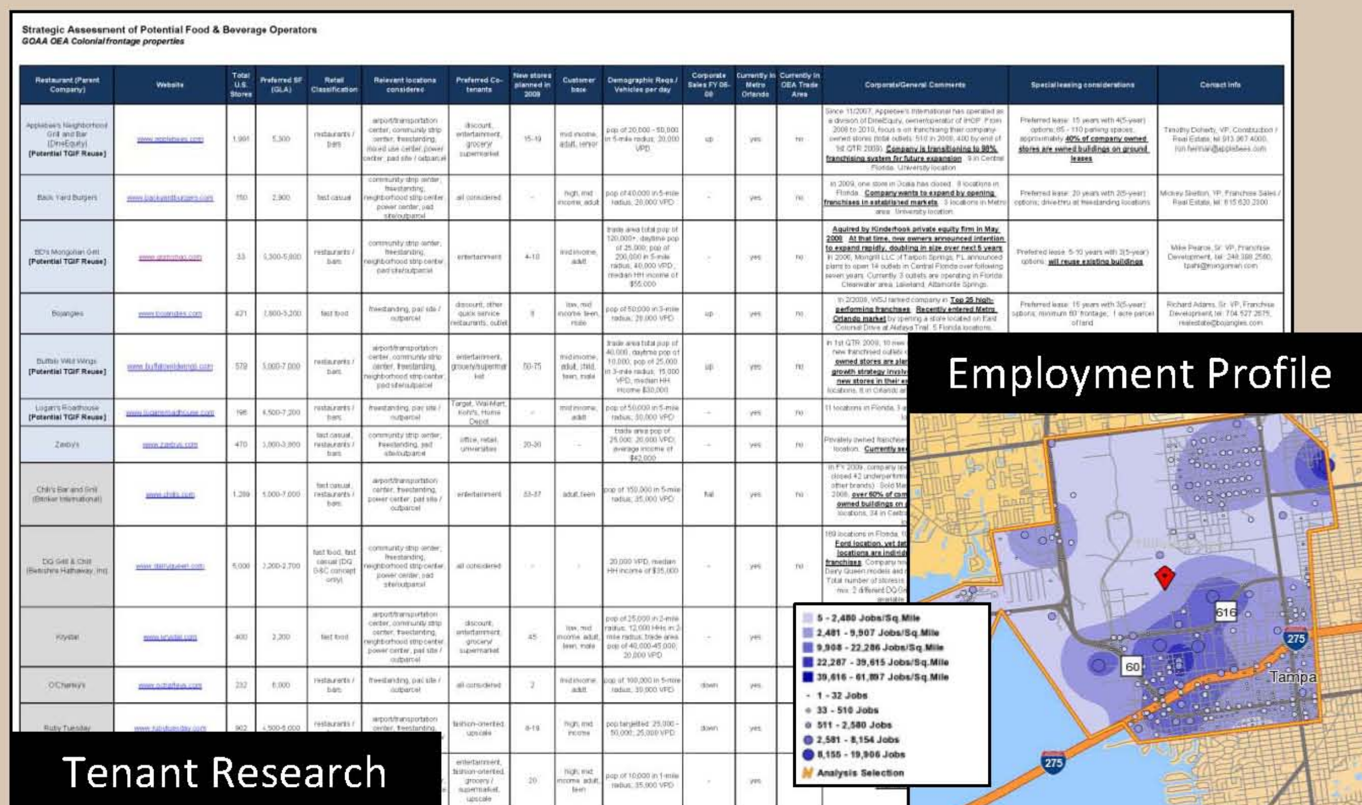
Offsite Substitutes



Competitive Product

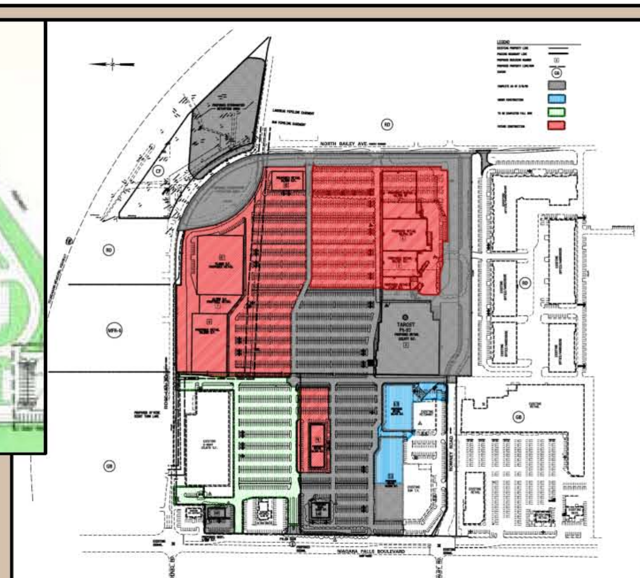
Who wants it?

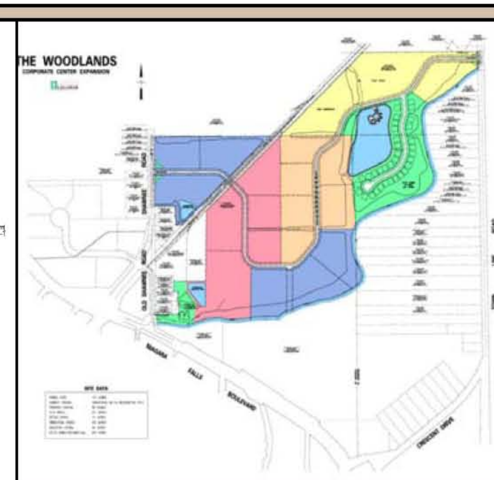
- ✈ Market size and conditions
- ✈ Prevailing scale of projects
- ✈ Potential tenants



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 *Outparcels:* *$12.00 to $15.00*
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



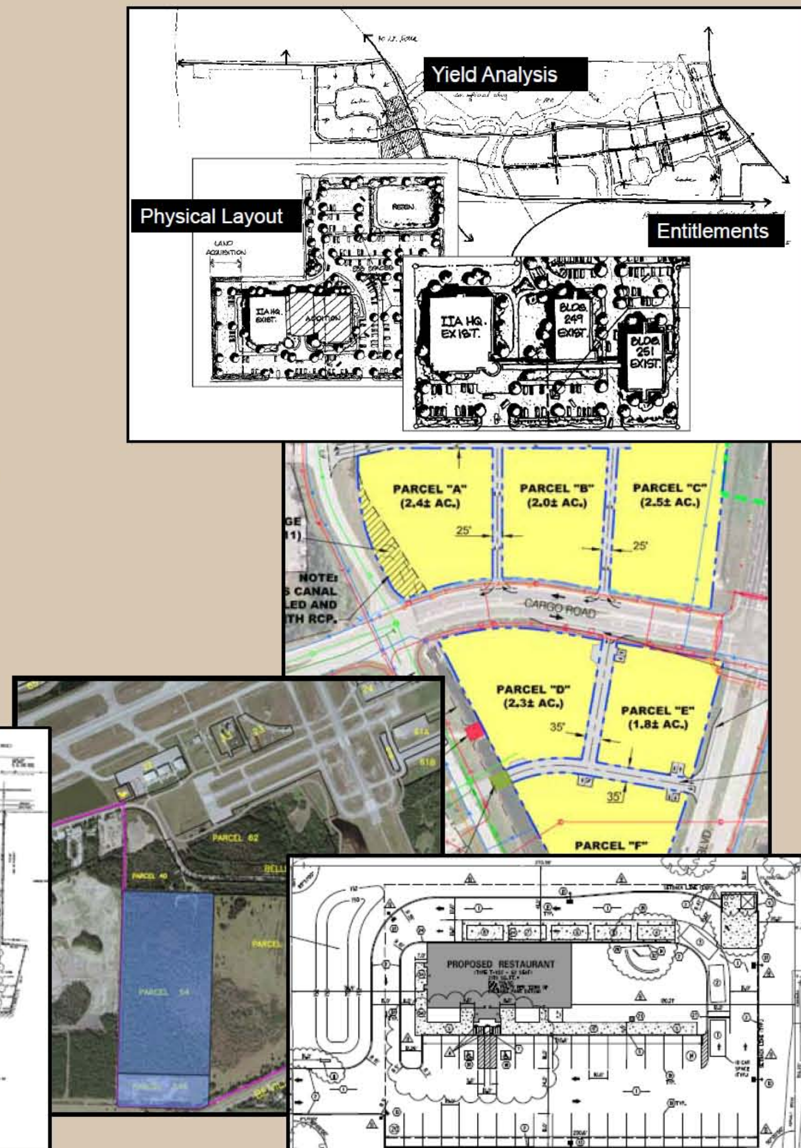


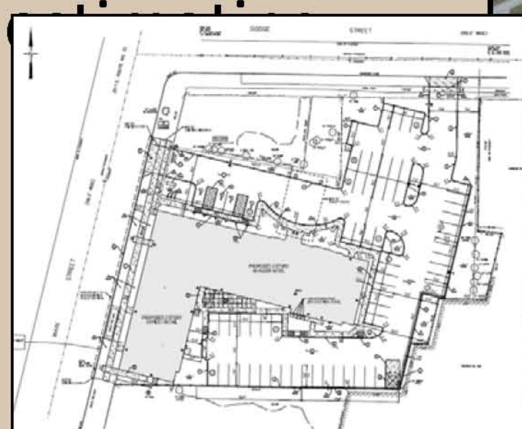
Identify **[Position]** Implement

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

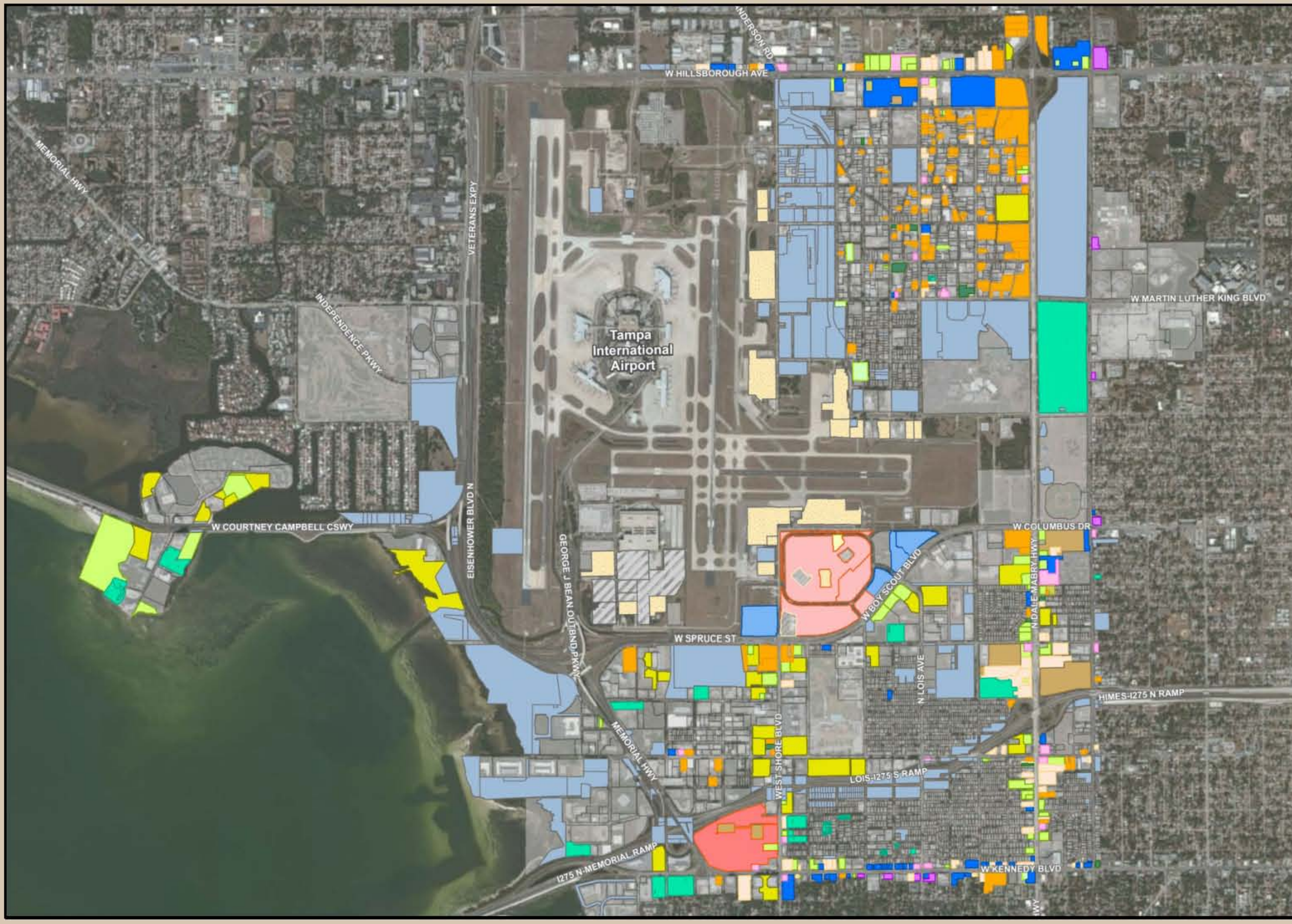
Due Diligence

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





Planning Analysis & Regulatory Approvals



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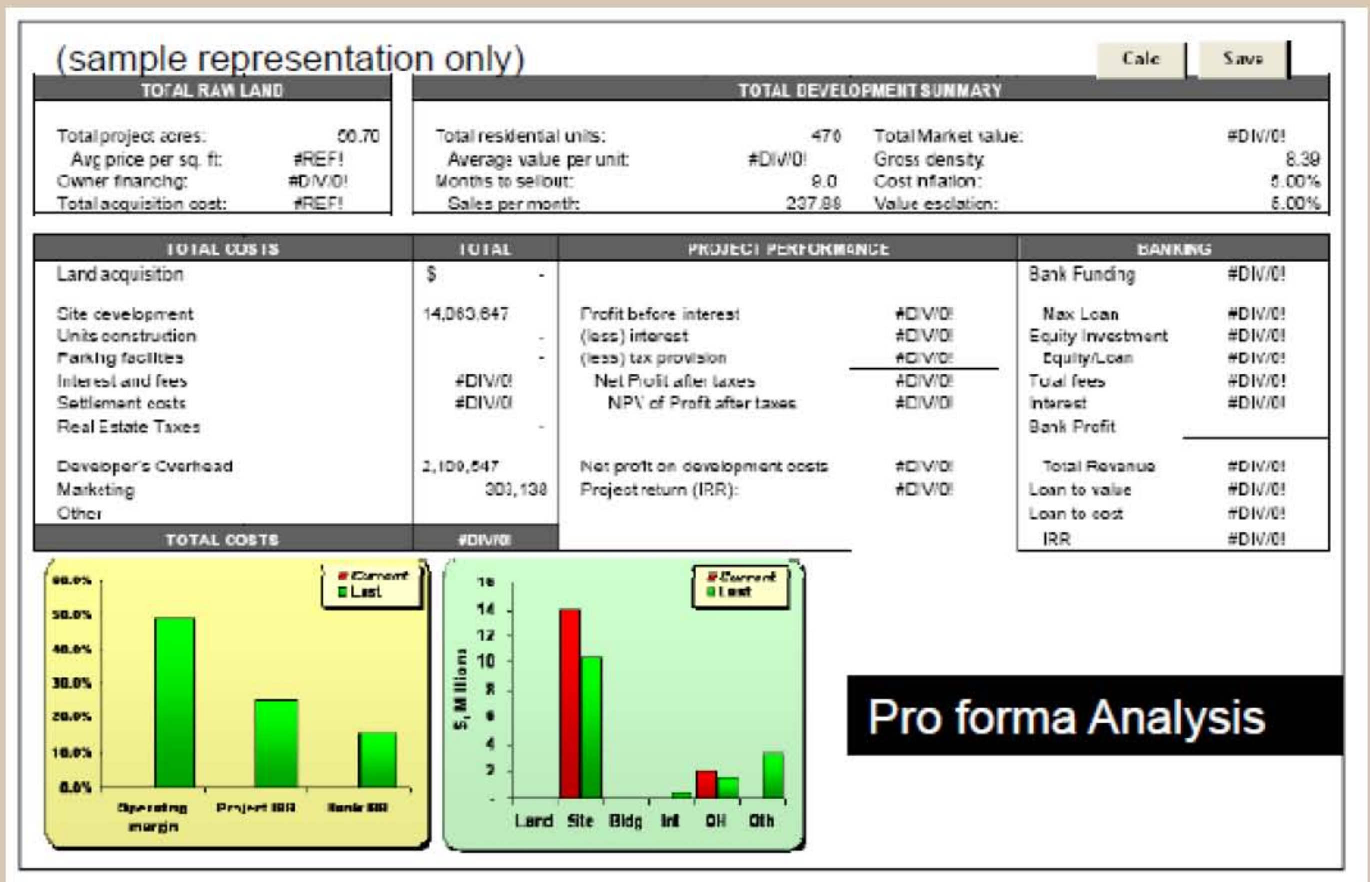
Financial Feasibility

- Cost-benefit analysis
- Cash flow and ROI metrics



Identify Position **[Implement]**

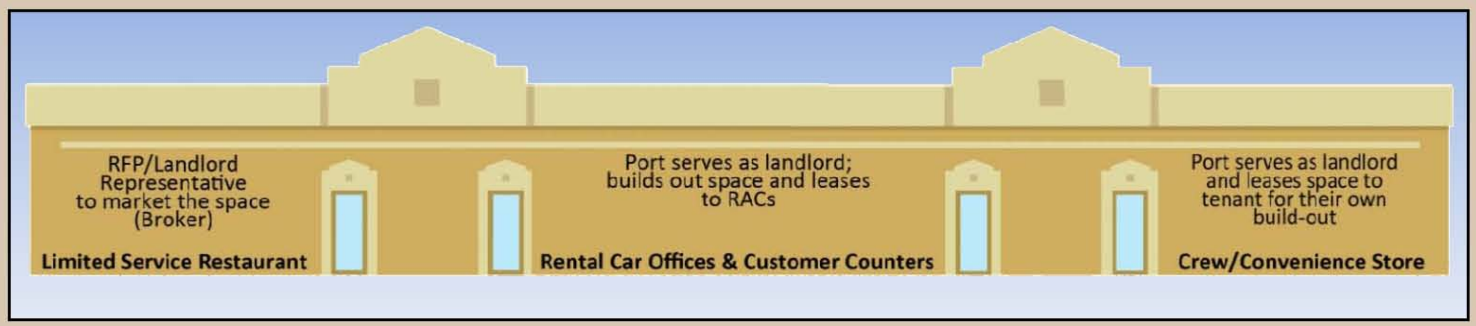
- → Development Strategy
- → Implementation Activities

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

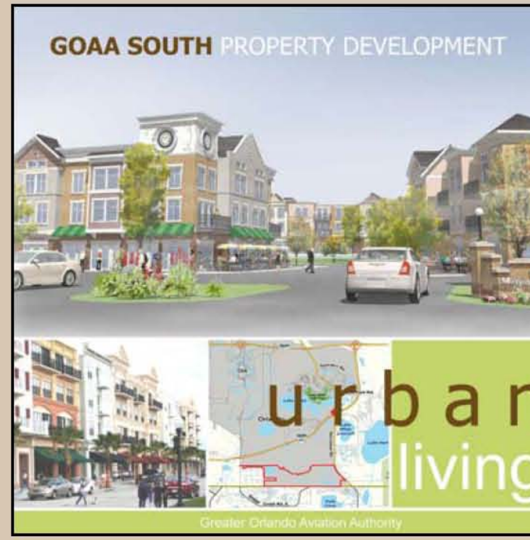
Development Strategy (cont.)

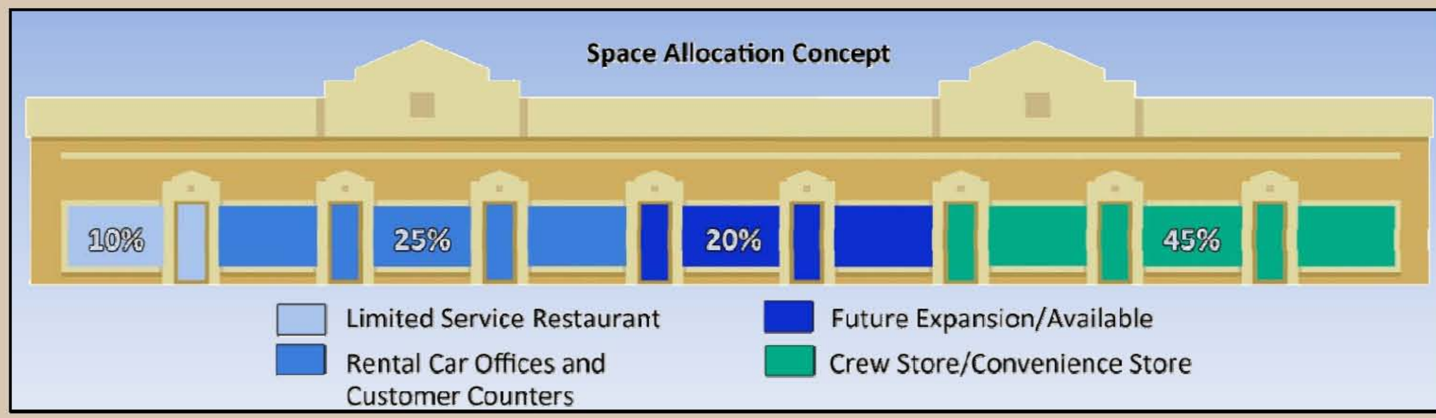
- **Financing Alternatives**
  - Ground lease
  - Special authority
  - Joint Venture (JV)
  - Airport-owned and third-party operated
  - Airport-owned and operated



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

OrlandoAirports.net
Greater Orlando Aviation Authority

Tampa International Airport

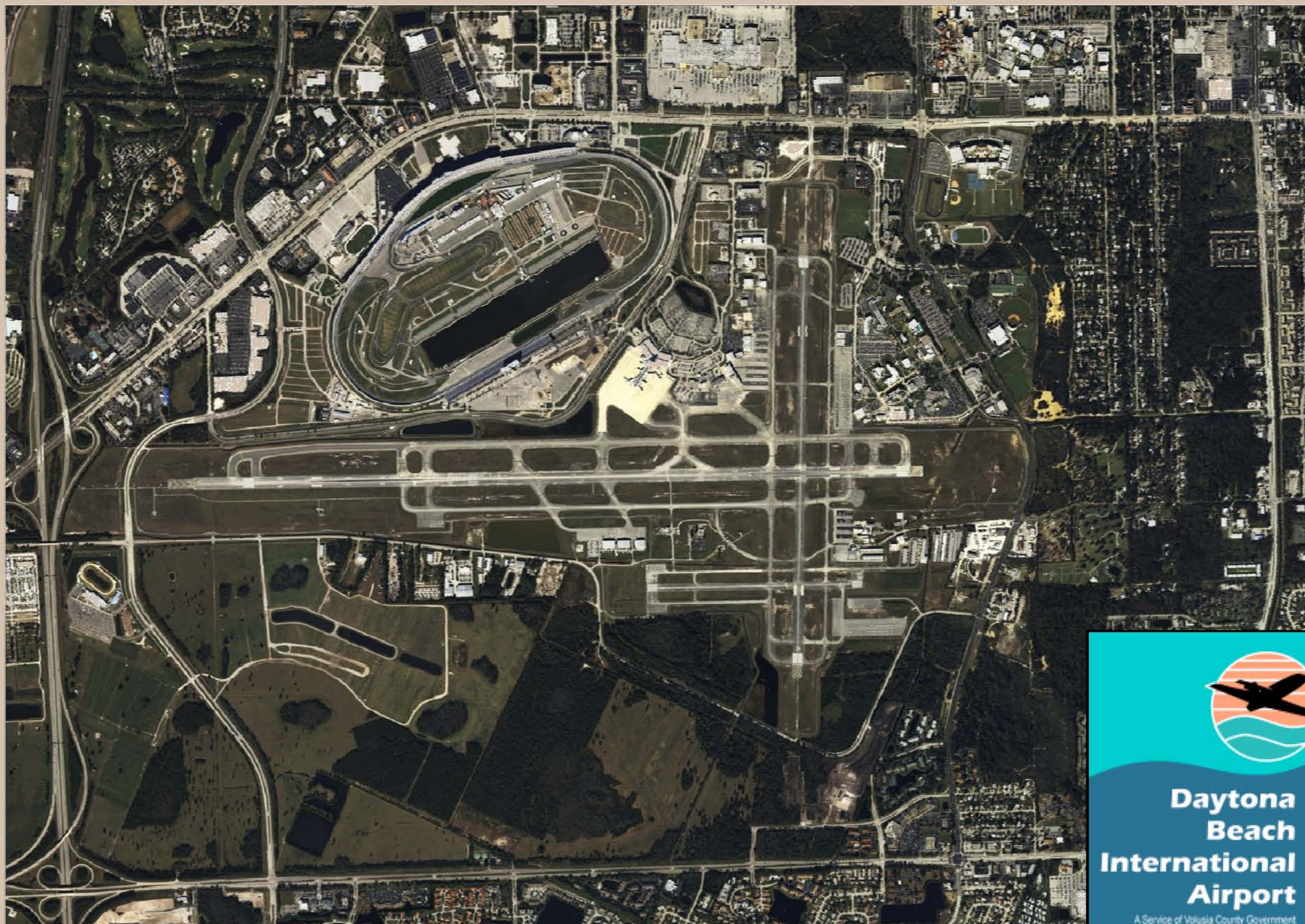
Tampa
International
Airport

Syracuse Hancock International Airport

Lee County Port Authority

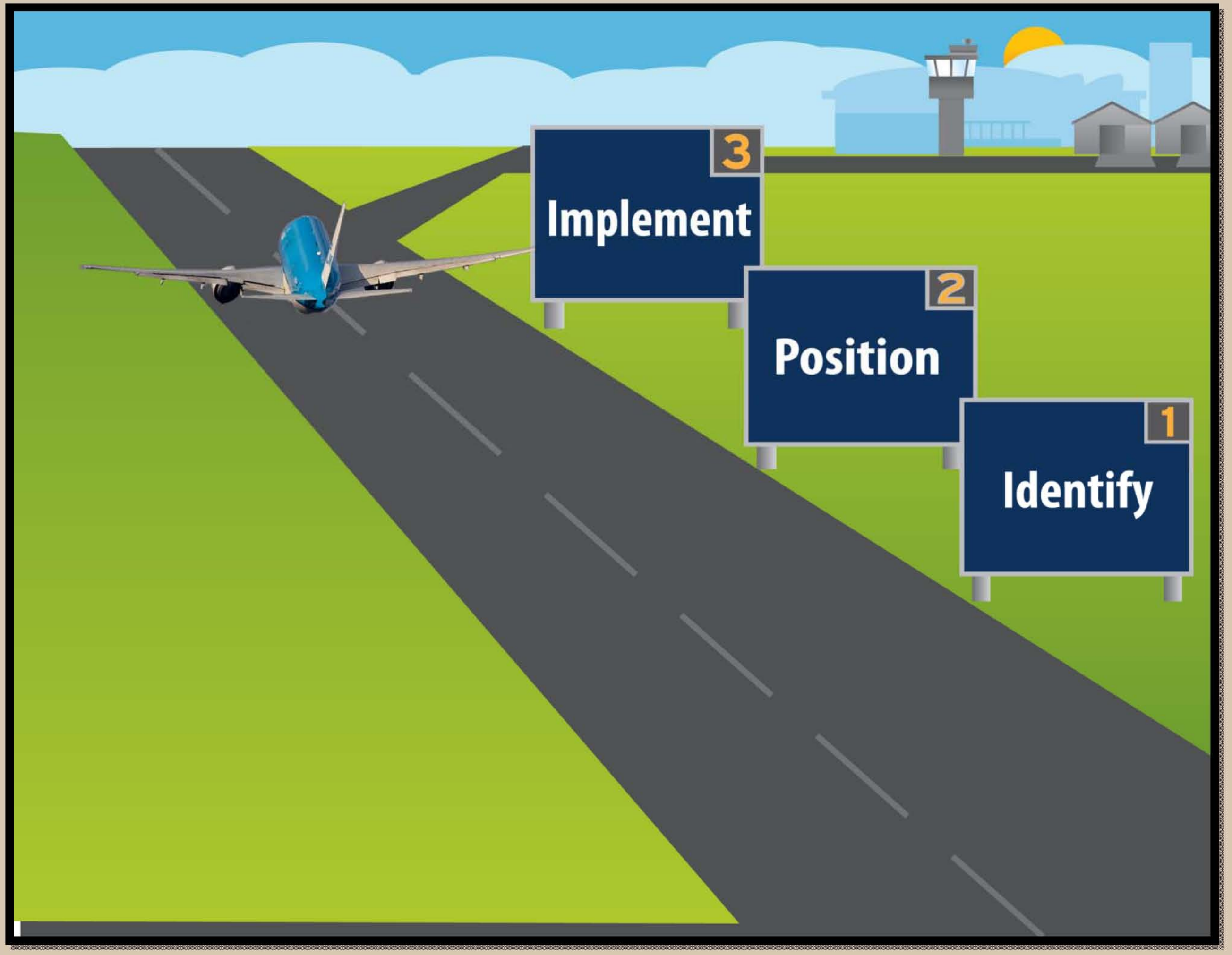
LEE COUNTY PORT AUTHORITY
Southwest Florida
International Airport

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 exurban fringes at a greenfield site or in a more urban infill 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 perimeters, 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 rooftops, 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 affords airports the ability to generate new revenue by leveraging land assets.

At Orlando International Airport and Orlando Executive Airport in Florida, Orlando-based RERC 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, RERC's assignments have resulted in positioning airport assets totalling nearly 4,000 acres (1,620 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, outparcel restaurants and other commercial uses – now comprise approximately 73% 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, RERC is now identifying redevelopment strategies for older, underperforming commercial areas constructed more than 30 years ago to extract the current highest and best use for revenue purposes as ground leases approach expiration.

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.

36 AIRPORT WORLD/FEBRUARY-MARCH 2011

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 revenue 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, and airport-owned and 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.

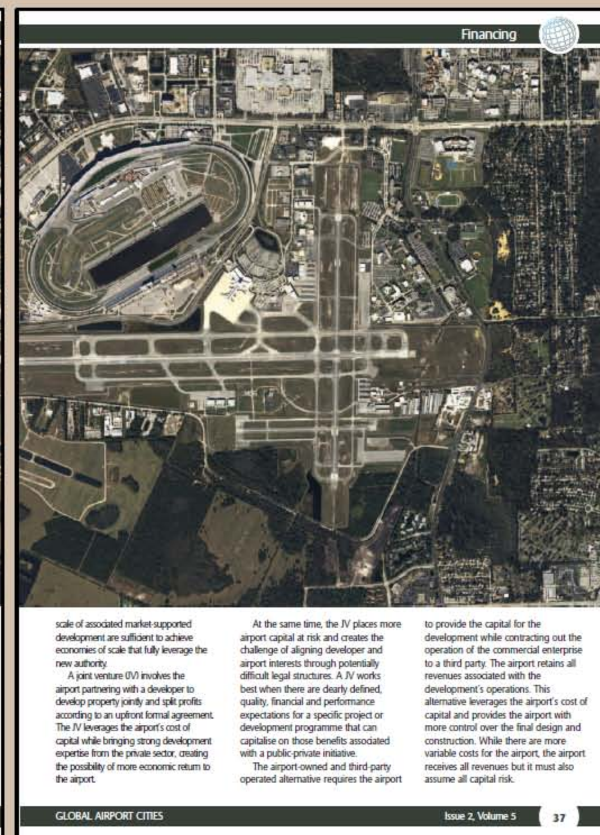
Daytona Beach International Airport in Florida has successfully deployed ground leases as a financing alternative to implement new commercial development on site. Notable ground leases have included the iconic Daytona International Speedway and world-renowned Embry-Riddle Aeronautical University main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

Daytona Beach International Airport

36 Issue 2, Volume 5 GLOBAL AIRPORT CITIES



Financing

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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