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Buying The Farm: Selling The Privately Owned Airport To A Public Entity

- Selling a private airport to a public sponsor frequently nets the seller the best price but often is a long process.
- The more money that a sponsor has to contribute to the purchase, the better. This allows for the purchase of airport components of value, but are not eligible for purchase with AIP money.
- The seller should have a feasible plan in place to show the sponsor how to run the airport and at least break even.
- Sellers often take back a purchase-money mortgage when it is necessary to make the transaction possible.
- If the seller can stay on as a tenant/manager at the airport, it may be worth it to trade off some real property value in exchange for business value.
- One of the most important aspects of any existing airport's value is its "assemblage" value.

Virtually, anyone who has been in the aviation and airport business for more than 24 hours recognizes that airports are special purpose properties. The dedication of land and improvements which is required even to make the smallest airport functional is idiosyncratic to the industry, and ultimately creates a real estate product for which there is a limited and highly defined market. Excluding the buyers who wish to turn airports into Wally Worlds, the market for airports is a special breed. The market is also comprised of municipalities who recognize the benefits of acquiring a private airport and maintaining it for public-use.

The financial mechanism which mostly fuels this process is the Airport Improvement Program. This produces a number of benefits, but also requires a long period of examination and negotiation with regard to the airport under purchase consideration. An airport owner who hopes to sell his facility to a public entity should be prepared for a long, and sometimes frustrating process.

The Airport Improvement Program basically provides money to buy elements of a private airport which roughly correspond to those elements on a public airport eligible for AIP grants. Runways, taxiways, lighting systems, public parking lots and land are considered eligible for purchase funding. Important revenue producing items for the private airport operator such as hangars, fuel farms and exclusively leased structures, are not. The private airport is generally extensively developed with non-eligible items, and the sponsor can and does purchase these as part of the transaction. These can sometimes be problematical. As a practical matter, few sponsors are willing to put in much more than the minimum required under the program as equity (10%). Many times sellers will then take back "paper" from the public buyer as a way of reconciling any disproportionate emphasis in value for ineligible elements of the airport. By structuring the transaction so that payouts occur over time, the seller can ease his tax burden. The interest held by the seller is also reasonably secure.

Many municipalities and other governmental organizations are inexperienced in the process of running the facility. The seller can help make the sale by anticipating this, and with the intimate and knowledge of the airport property, produce a workable and viable financial plan which can help allay the buyer's fears about acquiring a property which might wind up costing taxpayers money.

While some airport owners are happy to cash the check and retire, others want to stay in business. Most airport owners utilize their facility in support of some form of fixed base operation. The seller's willingness to stay on and maintain consistent levels of service and management can be an attractive incentive for the purchaser. Although the seller may be giving up some of the advantages which are inherent in ownership such as exclusivity and control of the marketplace, it may be also possible to enjoy greater profitability due to the fact that the care and feeding of the entire facility is no longer his alone. Sometimes the airport owner who remains as some kind of tenant can trade off property value in the initial purchase price in the form of an advantageous lease or some other form of concession which enhances the profitability of his business.

One of the most interesting, and hard to quantify aspects of any privately owned airport value is how much it would cost and how politically difficult it would be to build from scratch. In certain sections of the country, it is highly debatable whether a new airport could be built at any price. This can be due to demographic and political characteristics, and virtually everyone in the aviation industry is familiar with the NIMBY phenomenon (Not In My Back Yard). A going-concern assemblage of land and improvements used for aviation purposes certainly represents a significant savings to the buyer in time, money and hassle. The few who have ever built an airport will agree. My theory is that God was originally going to build the airport on the Seventh Day, but gave up in frustration and decided to go play golf instead.