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Renting The Farm: How FBOs Make (Or Lose) Money With Airport Real Estate

- Fixed base operations have a specialized function on an airport, and their relationship to airport property is unique. Negotiating FBO leases successfully is easier if you have a general sense of how FBOs make and lose money.
- Maintenance activities are generally acknowledged to produce among the healthiest profit margins, particularly for turbine aircraft and engines.
- Charter activities can mirror maintenance profit margins. Charter work using piston powered generally is less profitable than operating turbo props and jets.
- Aircraft sales are not locationally sensitive, particularly when a small FBO specializes in a particular type aircraft, or is just a shrewd trader and buyer.
- Fuel sales can be profitable, but the margin FBOs make has been decreasing every year due to the over long time static margins between wholesale and retail cost.
- The most profitable FBOs consistently have real estate-related expenses at or below 5% of annual gross sales.
- The financial impact of new FBO construction and absorbing the costs is so great that built-from-scratch FBOs will be extremely rare.

Theoretically, fixed base operations are supposed to be for-profit enterprises. Most FBOs choose to locate on an airport because they intend to sell a variety of aviation-related services to the public. This causes them to evaluate airside real estate in ways which relates primarily to the profitability of their business. Airside property is only valuable to an FBO insofar as it supports its capacity to make a profit at a given location.

Understanding what motivates FBOs an airport owner can test whether or not the proposed rental rate for land and buildings at your airport will pass the sniff test when considered by the FBO.

Of all profit centers, maintenance can have one of the biggest impacts on the bottom line. Turbine maintenance has more inherent profitability due to the size of the invoices delivered and the nature of the work. High-end, heavy maintenance facilities can enjoy profit margins of as much as 35% if the maintenance work force can be managed in a productive manner. ("Profit margins", are the profit which exists from a particular operation prior to the deduction of general and administrative expenses - rent is generally considered as a GA expense.)



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Worker productivity and billable hours is an important factor in this area. For instance, shops which employ a work force which is older and has worked for the facility a long time will lose some productivity as a result of greater vacation benefits applicable to mechanics with many years of service.

Aircraft charter can also produce higher levels of profitability for an FBO. Again, like maintenance, charter tends to develop better levels of profitability when turbo prop and turbo jet equipment is involved. Charter which relies on smaller piston-engined twins exhibit smaller margins due to the limitations of the aircraft. Jet charter activities are of course, governed by more stringent Part 135 standards, and not surprisingly, compliance is a management-intensive operation. In densely populated urban areas, competition is intense and this can reduce profit margins compared to charter operations located elsewhere. Utilizing aircraft owned by others in an efficient and cost effective manner generally has the most impact on profitability for a charter operation. FBOs with the financial wherewithal to make investments in the planes also can take advantage of depreciation and deductions associated with aircraft loans.

Because the market for used and new aircraft is a national market, this is not a locationally sensitive activity. There are many FBOs located on small, uncontrolled airports who can and do compete successfully with larger dealers located in high-profile locations. An evolved maintenance capability helps due to the capability to remedy any mechanical or cosmetic faults and ultimately providing a better end product for the marketplace.

FBOs with a strong capital base naturally have an advantage when competing in this marketplace. The capacity to move quickly when a promising aircraft comes up for sale will ultimately provide higher sales volumes and more profit in this area. The most important attributes are an FBO's FAX, his phone, his timing and experience level.

Fuel sales profitability are mostly dependent on volume and the capacity of an airport to attract based and transient turbine aircraft. FBOs with annual volumes in excess of 1,000,000 gallons tend to sell Jet A over Avgas at a ratio of approximately 5 to 1. The lower the fuel volume inherent in any given location, the less competitive FBOs can generally be with regard to their pricing structure. The ticking time bomb in the FBO industry is the spread between the retail cost of aviation fuel and the wholesale cost. This has remained static over the last 15 years. (Excluding the spike in prices during the Gulf War.) Unfortunately, the costs associated with putting fuel in the airplane such as rent, labor, insurance and other items have escalated steadily over this time period. The net margin attributed to the sale of fuel has subsequently diminished. Undoubtedly, this is a



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major factor in the reduction of the FBO population along with other adverse occurrences in the marketplace.

Since the 1960's, flight instruction has been at the bottom of the profit center food chain. When the aircraft manufacturers decided that a flight school was a tool to sell aircraft to customers with an upwardly mobile buying pattern, virtually all the significant margin disappeared from flight instruction. Today, flight instruction either produces an extremely small profit (generally under 5%) or breaks even at best.

Margin on tie-downs and hangars vary from location, but the best situation is for an FBO to mark up property 100%. If a hangar costs \$2.00 per square foot to rent, it should retail at least \$4.00 per square foot in the marketplace. This retail rent is "gross", with the FBO moving the aircraft, providing utilities, and absorbing other related costs.

Although FBOs are diverse with regard to their financial characteristics, some generalizations are applicable regarding airport-related real estate. If the amount the FBO is paying for real estate on a particular airport is more than 5% of gross annual sales from all sources, a red light should go off on your profitability enunciator panel. The most successful FBOs pay well below that, and a part of their success relates to reasonably priced real estate. This equation does not include fuel flowage, which is generally viewed as a cost associated with selling fuel.

The most endangered species on airports is the brand new, built-from-scratch FBO. When the costs of building a facility (generally \$90 to \$150 a square foot) are factored into the average FBO's income and expense statement, FBOs will conclude that the old adage my mom told me is true: if it floats, flies or fornicates - rent it.