



## **Airport & Aviation Appraisals, Inc.**

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### **Airport Industrial Parks: Blood, Sweat, Tears and Hopefully Money**

- If you decide to develop industrial property on your airport, be prepared for some hard work. The proper execution of property development constitutes 95% of the effort required to be successful. The concept and plan is only 5%.
- Industrial development by airports is sometimes opposed by the existing real estate developers. Airport development is often perceived by developers as unfair competition.
- Banks and other lending institutions require a minimum of a forty year ground lease in order to lend on airport industrial property.
- The perceived disadvantage of leasing underlying land long term can be turned around to appear as an advantageous situation to the user. This is particularly effective in depressed real estate markets.
- Costs to make a vacant site buildable (utilities, rudimentary site preparation, some infrastructural road work generally run between \$5,000 to \$10,000 per acre.

The capacity to turn undeveloped land around an airport into a productive industrial park is desirable on many levels. The additional income which can flow to the airport is a benefit, as is the development of adjacent property which will be compatible with airplanes.

Industrial parks can mean jobs for a community and greater identity for an airport as a whole for both aviation and nonaviation users. But like all good things, airport industrial parks take time, sweat and a certain degree of luck.

Your plan to develop an airport park will not necessarily be universally loved. If there is industrial and commercial property developed by the private sector, the existence of a competing facility will not be welcomed. The addition of an airport park to the inventory of potential of industrial and commercial property in your community may touch off a political dispute. This dispute can get very nasty if developers perceive that the airport is the beneficiary of financing options, ownership possibilities and other "goodies" which are not available to the private sector.

One potential hurdle to clear is that if your industrial park is to be constructed on long-term ground leases like the airside portion of the airport, you may get resistance in the marketplace.



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In portions of the United States, the market prefers to own a potential building site. This is partly due to tradition, and partly due to the valid perception that the reversionary value of the land and the building is an important investment component. The reality is despite the fact that the aviation community has learned to accept the principal of constructing improvements on long-term land leaseholds, the rest of the industrial and commercial marketplace has not.

The concept of long-term ground leases can be made to appear to be an advantageous situation for a user. This is true in markets where financing is difficult to obtain, and overall development has been sharply curtailed. The advantage of leasing as opposed to purchasing land is that the up-front expenditure of capital is reduced. The capacity to lease the land asset removes the land purchase and what can be significant outlay of money from the developmental process, and this savings can be allocated to some other element of the tenant's business to help ensure its success and survival.

Another mitigating factor regarding a land lease is a long lease term. This not only creates a tenant comfort factor, but is a requirement by most lending institutions in order to secure permanent financing for a project. Most banks require a fifty year ground lease. When the lease is for this amount of time, the bank tends to regard it as an adequate buffer against the loss of the property's reversionary value. Since most ground leases are assignable, a potential tenant can enjoy the benefits of the property for a period of twenty five years and still have a sufficient term on the ground lease if he chooses to sell the building.

Site preparation, utilities and any other infrastructural improvements are an important economic factor when a property is to be developed. The cost of these elements normally run between \$5,000 and \$10,000 per acre. I have seen the cost run as high in some locations as \$15,000 an acre. It is possible to install infrastructural improvements and create a park which is subdivided ready to be built upon immediately. This requires up-front capital and is sometimes beyond the capabilities of airports with limited financial capability. The most viable alternative is for the tenant to bear these costs. These expenses can generally be exchanged as a rent credit and/or an abatement. If other sites are developed subsequently, future tenants can pick up roads and utility lines where the last tenant left off.

Successful development also depends on the aggressive education of the local real estate brokerage community. This means informing the brokers with a view of the important aspects of lease transactions, and most importantly, allowing for a competitive commission payment so that local brokers will have some incentive to steer customers to your facility.



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Although there are a lot of benefits to airport related industrial park development, like all good things, they come only with hard work. Successful real estate development depends on the execution of a long range, and sometimes difficult to control strategic plan. Merely having a good location, a good concept and other positive factors does not guarantee success. Airport managers with highly successful industrial parks claim that they spend as much as 60% of their time on duties relating to the park's development.