Airport & Aviation Appraisals, Inc.

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One Airport Value Will Not Fit All Airport Tenants

- No airport appraisal should begin without a clear understanding of how the appraisal is to be used and who is to occupy the airport property.
- There is a difference in the value of airport property depending on whether it is viewed in a "wholesale" or "retail" context.
- Airport tenants who market products which are more broadly consumer oriented can pay higher rental rates than tenants who are limited to aviation related goods and services.
- Retail airside users are end-users and also do not have to mark-up goods and services to generate a profit margin.
- Determining a rental rate as a function of some fee simple value is basically an exercise that assumes something that never happens in real life on an airport.

When I am asked to appraise airport property, it is sometimes as a result of a sponsor wishing to know a basic value for an improvement which can be used upon which to develop a rental rate. Oftentimes I am told that "the airport board has determined that we will receive X amount of annual return on an airport asset". This is a policy which is in effect at a variety of airports both large and small, and I thought that I might offer my insights based on my experience in valuing land and airport buildings for a variety of purposes.

One of the most basic distinctions which can be made regarding airport real estate relates to the concept of "wholesale" value and "retail" value. An example of a wholesale user is the fixed base operation. The best example of a retail user is the corporate flight department. It may be impossible for an FBO to lease property at the same rates which an end user like a corporate flight department might be capable of paying. This is because an FBO must oftentimes rent hangar space, tie-down space and other elements of the leasehold to his customers at prices which produce an adequate profit margin for the FBO. An airport which is leasing property to an FBO who is subject to minimum standards which mandate a variety of services to be provided to the public should be mindful that the obligation to provide service imposes financial burdens which are different from the considerations which are applicable to corporate flight departments.

There is a "food chain" which exists on an airport, and the capacity of a particular user to pay a given land and/or a building rent is very much dependent on the type of business it pursues and what product it offers to the public. Businesses such as air-cargo operators and companies which provide airline related services have a broader constituency upon which to base their rates and charges than do the airport users who are solely dependent on aviation related revenues. For example, lots of people who do not use the airport at all might have a need to send a package overnight express, or dispatch cargo somewhere in the world. A fixed base operation, on the other hand is generally limited to general aviation, and cannot reach as wide a base of the consumer population as an air-cargo carrier. When was the last time you saw an FBO that could afford or wanted to advertise on the Super Bowl?

The Highest and Best Use determination the key to any appraisal report. As most airport managers know, Highest and Best Use is not only determined by the market, but also the parameters of the Airport Layout Plan, the political situation regarding any airport facility, and the operational capabilities of the airport itself. An appraisal assignment on an airport should begin with some agreement between the appraiser and the operator as to how the appraisal will be used, and more importantly what type of aviation user is anticipated for the property. This helps define the appraisal problem and develop the most functional and useful document. This is important because the final disparity in value can be great depending on the use.

Working backwards into a rental rate based on a theoretical fee simple value for airport property is a technique which airports and appraisers are fond of, but reflects something which almost never happens in real life. Airport sponsors do not realize the value of their airside property via a lump sum sale of land and improvements. It may be possible for a sponsor to sell a hangar to a user and then rent the underlying parcel but for the most part, virtually all airside land and buildings are leased for an annual rental rate. Big errors can be introduced into the appraisal process by attempting to come up with fee simple values for large airside assets. Valuations which are based on depreciated cost replacement are particularly prone to producing rental rates which are no where near what the actual market rental for a particular airside property may be in reality.