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Air Cargo Buildings: Is The Future (And The Money) Inside Or Outside The Fence?

- The current trend in new aviation related cargo facilities is for structures to be built on off-airport locations.
- Off-airport development has the advantages of fee simple control of the land, cheaper construction costs, faster development timelines, less onerous security requirements and freedom from the standard hassles of on-airport development.
- Over time, the two leaders of the integrated carriers, UPS and FedEx, have begun to develop similar characteristics.
- The competition between integrated carrier and freight forwarders /consolidators will create more opportunities for off-airport, aviation relevant real estate development.
- The on-airport land lease can provide the developer with the possibility of a permanent financing package that is generally 200 basis points below market - if the public entity who owns the land will issue the bonds.

Up until recently, a staple of on-airport development in addition to air carrier terminals, hangars, food preparation facilities and other airside development has been the airside cargo facility. These buildings generally consist of three portions. The airside portion is developed with large expanses of asphalt or concrete on which cargo aircraft are parked and maneuvered and cargo is enplaned and deplaned from the aircraft. The second portion is the structure through which the cargo passes on its way to and from the facility, and serves as a breakdown and buildup area for the containers which ultimately go on the airplane. The third section is the landside area where employee parking is located, and most importantly, large trucks can back up to the loading dock and either deliver or receive the cargo which is ultimately placed in transit. On large air carrier airports these structures are expensive, and the rental rates which are generally charged to tenants in order to amortize these costs reflect this.

As the air cargo industry has grown significantly over the last ten years and the integrated carriers like DHL, UPS and Federal Express have been challenged by freight forwarding/consolidators who have driven the trend toward the development of off-airport, "airport related" structures. In the process, the entire process of building up and breaking down cargo has moved to cheaper locations off the airside land . This has spawned an entirely new classification of airport related real estate, and when its development is properly executed in the right location, this type of facility generally exhibits higher rents, faster absorption and lower vacancy rates than standard industrial property which may exist in the airport's general geographic locale.



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Developers of off-airport real estate enjoy many advantages which their counterparts who choose to build structures on leased land inside the fence do not enjoy. The availability and the exploitation of fee simple land which is owned rather than leased creates obvious advantages with regard to long term financing and residual property value which generally does not apply to on-airport leased land. In addition, construction costs are often as much as 40% cheaper with regard to the building, and the speed with which a developer can execute his project is often in stark contrast to the long term mating ritual which is generally the norm between public airport owners and cargo property developers. The location off the airport also creates less expensive security provisions and is not subject to the "political vicissitudes" of on-airport development.

One of the more interesting aspects of the evolution of the two leaders in the integrated freight carrier business, UPS and FedEx, is how they have begun to mirror each other's basic primal characteristics. FedEx essentially started as an airplane-oriented company who was forced to deal with the reality of the medium and heavy freight business which it acquired when it purchased Flying Tigers in 1989. As a result, what was an airplane company in the beginning has begun to look more like a trucking company. UPS, on the other hand, was basically a trucking company which got into airplanes. As a result, its orientation has always been toward minimal on-airport facilities and off-airport real estate which it fully owned and controlled (the prototypical UPS airport facility is a large slab of concrete with a structure the size of a Pizza Hut in the center and lights around the perimeter: FedEx facilities have traditionally been far more elaborate).

The emergence of freight forwarders/consolidators has created a need for cheaper real estate in which to break down and build up cargo which ultimately goes on aircraft. The main difference between a freight forwarder and an integrated carrier is that a freight forwarder tends to sub-contract most of the elements which an integrated carrier provides directly as part of its service. The basic elements of the freight food chain such as trucking, aircraft transport and storage are obtained from different vendors contracting with the freight forwarder. Although this process can create attractive economies, it obviously sacrifices the advantages that integrated carriers possess with regard to the tracking and control of freight placed in their hands.

Off-airport cargo development, because of their lower requirement for infrastructure such as aircraft ramps and other necessities which are a part of on-airport development, can clearly provide a cheaper alternative to the often hefty costs of building and maintaining an airside cross dock facility. In addition to the economic forces which drive the marketplace, many large air carrier airports are running out of land on which to locate airside cargo facilities. At airports like Kennedy International, San Francisco International and other facilities with limited amounts of airside land, cargo has been



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forced off the airport as airport management has made the decision to dedicate their airside land to what generally are air carrier applications.

Although it seems the future of air cargo development and the financial benefits which may accrue are mostly outside the fence, the on-airport location can often provide some unique financial benefits. So long as the underlying land which supports an airside cross dock facility is leased from a public entity which owns it, it is possible to utilize a permanent financing package that is generally below market. This requires that the public entity issue bonds which it essentially underwrites, and passes the obligation through to the developer who then services the debt.

Up until now, the integrated carriers have been able to capture the vast majority of the domestic freight market. It is generally acknowledged that the expansion of international trade will create growth in the general cargo market. As this growth occurs, the freight forwarders and the integrated carriers will be competing more on an equal footing with regard to the facilities which exist in some areas outside the US to service the demand for air cargo services. There may be strong developmental opportunities internationally (particularly in Eastern Europe and Russia) for off-airport real estate if the airport and airport related infrastructure is in as poor shape as it is reputed to be.