Non-traditional revenue sources improve the financial picture

An airport’s financial performance has ripple effects throughout the larger economy. Higher operating costs for the airport, measured as cost per enplaned passenger (CPE), translate to increased usage fees charged to airlines. Airlines will in turn pass that cost on to consumers through higher ticket prices. Consumers may then reduce the amount or destination of their travel, resulting in a blow to tourism income and tax revenues for the metro area served by the airport.

Airports typically focus on lowering their CPE by reducing traditional operational costs like facilities management and human resources expenses, or increasing advertising revenues. However, airports rarely fully capitalize on the significant income-generating assets right in their own backyard. By tapping into these revenue sources, be they traditional or non-traditional, airports can fully leverage all available sources of income, lowering their CPE and gaining a competitive edge in the market.

Start with a Commercial Development Plan

A comprehensive Commercial Development Plan will provide an airport with a blueprint for transforming underutilized real estate assets into significant revenue generators. It will outline the airport’s goals, objectives, and priority areas as they pertain to commercial development, and lay out an implementation strategy to best achieve those goals and objectives. A soundly developed plan will incorporate parking and concessions as well as traditional commercial development.

Such a plan should begin with an inventory of all potential land and facilities that could be available for commercial development and would also investigate ways to reconfigure and/or consolidate existing facilities to open up more property for development. Even land-locked, older, urban airports can free up available commercial space by analyzing their current facilities highest and best use resulting in a repositioned asset with increased value. Once optimal development parcels have been identified, various development scenarios are evaluated to call out those with the highest likelihood of success and are incorporated in to the airport’s revenue enhancement strategy.
Benchmarking acts as a valuable tool to evaluate the success of a particular airport’s commercial development strategy by providing an international best practices model for asset monetization strategies. Through evaluating the practices and successes of its peers through benchmarking, an airport can implement a development strategy with the confidence that it will meet or surpass the global trend in asset monetization, improving its overall financial health and creating a competitive advantage for the region.

Consider the Aerotropolis

The “airport city” concept, or Aerotropolis, is the future of Airport Commercial Development plans. Much like the relationship between an urban core and its suburbs, the Aerotropolis concept illustrates how airports serve as a Central Business District-like hub for economic activity that then extends to surrounding areas. To nurture on-airport development that will spread beyond to the larger community, an airport must work in close collaboration with one or more nearby municipalities, working toward goals that serve the area’s overall interests to enhance the region’s economic benefits. This requires a high degree of cooperation, often among cities and counties that may have previously competed for new development.

Look “outside the fence”

Many airports have auxiliary land, located “outside the fence,” that is not required for their core aeronautical business or ongoing operations. Oftentimes, this land was acquired in anticipation of future expansion, and sits empty in the meantime. This underutilized land represents a prime opportunity to generate revenue for airports and should be included in any asset monetization strategy. Available space can be used for logistics facilities, hotels, shopping complexes, gas stations, offices, warehouses, flight schools, even golf courses. One increasingly active niche is business headquarters or “branded” office buildings. Many companies desire not only the high visibility—including signage—of a near-airport headquarters, but also the access to major highways and hotels.

Proximity to air services is also a major incentive for industrial development of airport property, especially for exporters. Hong Kong International Airport has become the world’s busiest cargo gateway in tonnage shipped with the help of heavy industrial development of outside-the-fence airport property.

Core facility opportunities

Retail

In-terminal retail opportunities such as concessions and duty-free shops are nothing new, but they are a growth area that should be maximized to take advantage of the latest consumer trends and preferences. While many US Airports recognize the important role that in-terminal concessions play, revenue from this source is rarely maximized. This is primarily due to legacy terminal design constraints and a cumbersome procurement process which reduces the available concessionaire supply. For example, London’s Gatwick Airport, the busiest single-runway in the world, has invested heavily in its retail offerings, attracting top retail brands like Zara, Harrods and Lacoste to its South Terminal, helping to maximize its non-aeronautical revenues. US Airports have traditionally lost revenue opportunities due to legacy designs not allowing for the appropriate amount of retail concessions as well as a procurement process that dis-incentivizes competition for the “captive audience” that terminals garner.

Hotels

Inside-the-fence hotels are another major revenue opportunity for airports. Dallas-Fort Worth Airport has two hotels located within its terminals, both of which are significantly outperforming the larger Dallas-Fort Worth hotels market. These hotels supply 1,100 rooms to travelers who may then enjoy the airport’s retail and dining amenities, generating revenue for the airport and contributing tax dollars to surrounding communities.
Cargo / logistics
Airports should make sure they are getting the most out of their cargo operations and related logistics business development opportunities. Airports that are located near major highway or rail corridors can take advantage of the role that these linkages provide in attracting cargo operators and distributors like FedEx, Amazon, and UPS. For example, Oakland International Airport, which has a lower passenger share than nearby San Francisco International Airport (4.9M enplanements in 2012 versus 21M, respectively), enjoys a larger share of cargo shipping and services (1.3M tons of landed weight in 2012 versus 600K tons, respectively) due primarily to its proximity to Interstate 5, and therefore, large portions of California’s population.

Public/Private Partnerships
Most airports cannot by law convey their properties on a fee simple basis. They must structure some form of public/private partnership (PPP). Public/Private Partnerships offer a balance of risk and reward to each party and encompass a variety of structures that can be utilized depending on the specific goals, objectives, and risk profile of a particular airport. PPP deal structure examples include:

Ground lease
In a ground lease scenario, the land owner maintains ownership of the property while a lessee develops the property during the lease term, after which the land and all improvements are turned back to the lessor. As ground leases typically have very long terms, they can be attractive to hotel, retail, office and other types of developers who would like to avoid the burden and risk of land acquisition, while increasing their returns during the first few years of operation, and allowing them to extract significant value from any improvements that they may build on the land. Length of term is a critical component in deal structuring as land owners must balance their risk profile against their return requirements when identifying the ideal term length of a ground lease. Exurban airports, typically located in areas where competing developable land is abundant and inexpensive, can further emphasize the near-airport convenience and amenities, as well as financially advantageous PPP ground lease structure, to tip the balance in favor of developing on airport land.

Ground lease with participation
In a ground lease with participation, the lessor may share in the property’s equity benefits like operating cash flow or appreciation value. This mutually beneficial deal structure shifts risk from the lessee (developer) to the lessor (Airport Authority). As such, the lessor shares in the income streams generated through development, often increasingly so as deals see success.
**Joint venture**

Joint ventures shift additional risk onto the lessor, as compared to the above ground lease options. In this scenario, the airport would retain approval rights for any capital changes or demolitions and would participate in capital improvements on the site, as appropriate. The operator would be responsible for all maintenance and general repairs. This type of agreement would be structured so that the airport could share in any upside the master lessor realized at the property, while the operator would pay any brokerage fees that arose through leasing. As the lessor takes a larger speculative position on the potential development and puts up additional capital for infrastructure, revenues share becomes more equitable between the lessor and the lessee.

**Bottom line**

Airports have, and always will, continue to serve as the key economic engine in which they serve. Focusing on real estate planning and development increases airport revenue, which gives airports the ability to lower their cost of doing business. This increases competitiveness and generates economic benefit such as tax revenue, job creation, tourism and private capital inflows.

Globally, airport revenue profiles have shifted away from primarily relying on airline revenues towards leveraging commercial real estate assets, some airports seeing over 60% of their revenue derived from non-airline revenue. This has come in the form of leveraging commercial land use such as logistics and hotel parcels as well as a focused effort on terminal concessions optimization.

An experienced consultant such as Jones Lang LaSalle can help airport executives look at development options based on market and financial feasibility, as well as use location intelligence as part of an objective, holistic toolbox to quickly evaluate how their real estate assets would stack up as candidates for various forms of revenue enhancement. This not only helps develop a realistic strategic plan that meets the airport’s goals and objectives, it provides quantifiable data in marketing airport properties to prospects.

**For more information on Jones Lang LaSalle’s airport real estate services, contact:**

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2. Source: [www.faa.gov](http://www.faa.gov) (‘Enplanements at all Commercial Airports (by Rank)’ and ‘Qualifying Cargo Airports, Rank Order, and Percent Change from 2011’)

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