ACRP Problem No. 12-01-14

Property Management Strategies for Airports

ACRP Staff Comments: This is follow-on research identified in ACRP Synthesis Project S03-06, Adaptive Reuse of Vacated On-Airport Facilities.

TRB Aviation Group Committees Comments: AVIATION ECONOMICS AND FORECASTING CMTE - While the committee can't speak to the need for this research, if selected, it may be worthwhile to look outside the airport world for ways of identifying and planning for many types of tenant risk. While many airport tenants are pretty specifically tied to aviation and airport applications, the problem of tenant risk is a universal one in commercial real estate, so it seems natural to look for guidance in that broader environment.
AIRPORT TERMINALS AND GROUND ACCESS CMTE - We do not recommend funding. Airport business managers have considerable experience dealing with bankruptcies, mergers, acquisitions, and vacancies. Leases and concession agreements are already structured to anticipate and deal with these occurrences. There is already related published research on airline agreements and airport contracting.

Review Panel Comments: Not recommended — The research would be difficult as each airport operates differently--every state and jurisdiction is different. A simpler guide that would highlight best practices among airports to avoid the risks associated with tenant business failures would be better. The title doesn't reflect the research objectives which are more tied to business risk analysis.

AOC Disposition: No funds allocated. No discussion.
I. PROBLEM TITLE

Property Management Strategies for Airports

II. RESEARCH PROBLEM STATEMENT

As the airline industry continues to consolidate and strives to achieve greater efficiencies and lower costs, airports are responding to an environment where demand (and rent) for facilities is not only less predictable, but can disappear, sometimes at short notice. Bankruptcies, mergers and capacity cuts have resulted in reduced occupancy of terminals and concourses and in terminated leases on a variety of buildings including maintenance and cargo facilities, hangars, catering kitchens and other support centers.

The challenges associated with vacant aeronautical properties can be vexing. When an airline or other service provider vacates a property, particularly during a bankruptcy, an airport may unexpectedly become responsible for closing the facility, remediating hazardous conditions left by the tenant, providing additional security resources to the property, and implementing a reuse strategy. Usually these tasks are unbudgeted expenses for the airport. The loss of revenue from the property can also have a significant impact.

The incidence of aeronautical vacancy is not widely reported beyond individual airports. Reuse strategies for these types of facilities elicit a broad spectrum of airport responses. If bankruptcy is involved, it will often take time to resolve ownership and financial obligations on a property. Properties can stay vacant for years. Airports may pursue a strategy to find replacement tenants, renovate a facility for an alternate use, or demolish a facility for redevelopment.

III. OBJECTIVE

The objective of this project is to develop a toolbox of strategies for airport managers to lease properties with adequate protection to collect rent due, to protect the airport in the event that a lease is rejected during bankruptcy proceedings, to make provisions for end-of-lease clean-up, remediation and/or demolition, and to put in place an annual review of properties that identifies at risk tenants and measures to address potential vacancies.

IV. RESEARCH PROPOSED

The research proposed comes directly from ACRP Synthesis 03-06 which investigated ten case studies of aviation facilities that became either underutilized or vacant. The Panel and Principal Investigator recommended that further research be accomplished that would include development of a toolbox of strategies for airport property managers to address the following issues:

- Lease provisions that protect the airport in the event of tenant bankruptcies or sudden termination of lease
- Letters of credit naming the airport as sole beneficiary (and enforcement of provisions over time) to guarantee funds are available for reuse or demolition of a property
- Analysis of the tradeoffs (pros and cons) between higher rent and end of lease security provisions
- Risk assessment methods for airport properties and/or tenants
- Exit strategies
- Worksheets to evaluate the cost of maintaining a vacant or underutilized property over time versus demolition
Environmental and safety considerations with vacant and underutilized properties
Financing sources for demolition in the event that airport operating funds (and AIP) are unavailable.

V. ESTIMATE OF THE PROBLEM FUNDING AND RESEARCH PERIOD

Recommended Funding: $350,000
Research Period: 18 months

VI. URGENCY AND PAYOFF POTENTIAL

This project applies to airports of all sizes and missions. The problem of airport vacancies appears widespread, although uneven across the National System of Airports. Some connecting airports in the U.S. such as JFK, Charlotte and Denver continue to experience strong passenger growth; while others, such as Pittsburgh, Cincinnati, and St. Louis, have experienced the opposite. Vacancies originate for a variety of reasons including:

- Functional obsolescence of a building
- Changes in passenger demand (up or down)
- Consolidated or merged airline operations
- Loss of connecting hub status
- Outsourcing of services and functions
- Tenant bankruptcy

Each of these reasons influences the timing and likelihood of the vacancy and the subsequent role of the airport sponsor. Given the history of rapid growth of air travel, airports are more accustomed to addressing obsolescence in the context of expansion rather than in the context of no growth or decline in airport activity. The most challenging vacancies for an airport arise when an airline de-hubs or when an airline or other major tenant rejects a lease in bankruptcy. In these instances the property is often highly specialized or in poor condition and the bankrupt entity doesn’t need it anymore. These properties usually revert to and become the responsibility of the airport sponsor. Rarely does an airport sponsor receive a property that is both in high demand and excellent shape. Most reversion situations require (and inspire) airports to institute a review of options that range from a decision to maintain a facility for future reuse, find a replacement tenant, or tear down the building. Given the time and cost it takes to find a replacement tenant, this project seeks to put in place remediation strategies at the time of the lease is negotiated and to anticipate vacancy issues through annual reviews and risk assessment.

VII. RELATED RESEARCH

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<th>ACRP Number</th>
<th>Project Title</th>
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<tr>
<td>Legal Research Digest 6</td>
<td>The Impact of Airline Bankruptcies on Airports</td>
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<td>Project 01-08</td>
<td>Guidebook on Best Management Practices for Leasing and Developing Airport Property</td>
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<td>Project 01-16</td>
<td>Asset &amp; Infrastructure Management at Airports</td>
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<td>Project 01-18</td>
<td>Application of Enterprise Risk Management at Airports</td>
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<td>Report 16</td>
<td>Guidebook for Managing Small Airports</td>
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<td>Report 20</td>
<td>Guidebook for Strategic Planning in the Airport Industry</td>
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<td>Report 27</td>
<td>Enhancing Airport Land Use Compatibility, Volumes 1 and 2</td>
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<td>Report 36</td>
<td>Airport/Airline Agreements and Rate Methodologies-Practices and Characteristics</td>
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<tr>
<td>S03-06</td>
<td>Reuse of Vacant and Underutilized Airport Facilities</td>
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VIII. PERSON(S) DEVELOPING THE PROBLEM

ACRP S03-06 Panel
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IX. PROCESS USED TO DEVELOP PROBLEM STATEMENT

KRAMER aerotek is the principal investigator for ACRP S03-06. The Panel for this synthesis reviewed and recommended this further research

X. DATE AND SUBMITTED BY

March 14, 2011 by Lois Kramer