Airports need to diversify to thrive

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AIRPORTS SHOULD BE aiming to diversify their businesses in order to be less dependent on aeronautical revenues, given that the airline sector is encountering grave risk globally right now. And while clearly one of the available steams is property, even that is in greater risk territory at the moment. All property risks have been magnified in calendar year 2008 and specialist property businesses have been avoiding speculative projects and sticking to their core businesses.

"We are starting to see yields softening out again, really only protected for leasehold properties at airports by the quality of the infrastructure that airports have in place and the point of difference that that makes in a competitive market," says Hans Pearson, project director at Gateway Project Partners, a company that has been closely involved with several significant developments at Brisbane Airport and has recently announced the signing of a new project at Melbourne Airport. "Equity is scarce and development is a tougher game than it was a year ago. But over the last 12 months we have started to see the emergence of landside commercial property development at airports in Australia. The regulatory environment is starting to settle down, low cost carriers have become a fact of life and when the current round of masterplans are complete, we are expecting to see the next generation of activity from the Australian airport property sector."

Airport property teams need to establish where property sits in the board's priorities. What is its contribution to the business as a percentage of revenue, or profit or capital investment? And also, does the property team have the resources to tackle retail, industrial, commercial, hotel, self-storage, childcare etc? Few pure property companies try such a spread of specialist projects.

"The alternative consideration is partnering with external groups where you can get a high level of return for the same level of risk," says Pearson. "In such a case what does the airport bring to the table? It brings all the work that you are doing on a daily basis, the masterplanning, the infrastructure, the regulatory environment that you sit within, tenant demand etc. That is all worth something, and it can be more than a straight ground lease."

Development options include internal funding and delivery by the airport, a traditional ground lease to a third party, an initial capital payment by a third party where you just sell the leasehold for an up-front capital payment, or a profit-sharing partnership. All four of those have got their merits and all are appropriate in many instances, but it is important to assess which one is the right situation for each individual airport.

"Perhaps the ideal partnership to extract maximum value from a given site for a given investment involves a third-party developer who has the expertise in construction, marketing, and design, preferably experience in leasehold airport property development, and has funding capacity to deliver that project with external capital," Hans Pearson suggests. "The airport brings to the table its approvals process, the tenant enquiry, the property team experience it has and the land. This means a genuine alignment of interest with both parties focused on the property outcome.

"The airport's take out of such a deal is its fixed ground rent plus its profit share, so with no further investment or risk exposure it takes more money off the table."

Both small and large airports can benefit from property development partnerships. (Gateway)

Airports are clearly not immune to the current economic challenges, and there is competition for capital both externally and internally. It is also obvious that airports are just one of the sectors at the table looking for the infrastructure spend. Some measure of partnering would seem to a logical way to approach property development at such uncertain times.