News

Partnership strategies boost airport property development

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Gateway Project Partners' Hans Pearson is leading the team into Australia-wide opportunities.

GATEWAY PROJECT PARTNERS, a subsidiary of Australian property funds management group Ray White Invest (itself part of property giant The Ray White Group), has evolved a partnership approach to airport commercial development through its work with Brisbane Airport Corporation (BAC) over the last four years.

The approach coincides with growing awareness of the benefits of commercial property development for airports of all sizes.

"Airports need to carefully consider the resourcing and expertise required, as well as the risk involved, when doing landside commercial property development," says Hans Pearson, Gateway's project director. "Few property development groups attempt to participate in all property sectors, so it is not unexpected that airports may not have the internal expertise required to take on all development themselves. In many cases, having considered all of that, it's entirely appropriate for an airport to undertake the development itself; but in some cases it may be appropriate for an airport to consider doing it in a partnership arrangement, outsourcing it entirely, or adopting a combination of arrangements.

"The last few years have seen local airports emerge as key business hubs and in the next 10 to 15 years that is going to strengthen dramatically. The key property drivers - infrastructure and location – strongly support airport property development and it really is an emerging hot spot in the property market. Not all airports will evolve to become fully fledged aerotropolis centres, but there are components of those concepts that are very relevant to all airports."

Pearson sees return on investment (ROI) as the main driver for many airports, even though they will have different key performance indicators. Spreading the risk and diversifying income is a way to both lift ROI and do it in the context of a certain risk profile.

Airport property has sometimes been left as an aside, viewed as a small component of the overall airport for a lot of airports, while the focus has been on the aviation infrastructure and regulatory environment. But over the last couple of years airport property has started to come to the fore, with airports realizing that they have quite a significant asset; and with a very rapidly growing commercial property industry here in Australia and NZ, property players are starting to turn their eyes onto airports and see these assets for what they are.

And there is no longer a problem with the fact that many airports are leasehold: "There is growing acceptance that leasehold property is a valid investment, whereas that wasn't the case five or 10 years ago," says Pearson. "The discount on investment yield has moved from 150 basis points down to as low as 25 basis points, or even as an exact par between freehold and leasehold property where those assets are well located.

"The traditional property characteristics remain. Not all airport property is valuable, you need location, you need good planning, exposure and infrastructure; but banks are quite accepting of leasehold security for anything from 30 years upwards. Some of the banks treat anything over 50 years as the same sort of lending profile as freehold, and some will even come lower than that."

The options confronting an airport that wishes to engage in commercial property development include internal funding, a traditional ground lease to a third party, an initial capital payment by a third party to establish a right to a lease, and a profit-sharing partnership. There's no one-size-fits-all solution. Using a combination of these options can help to manage risk and generate development momentum.

"An incentivised ground lease arrangement is where the developer and the airport corporation start to overlap a bit," says Hans Pearson. "The airport wants to be involved and is perhaps happy to take on some risk, or is just looking to strike some sort of profit-sharing deal. The airport is focused on both ground rent and the upside profit, but has little or moderate risk appetite and more control of the project. The developer is still focused on profit, but will pass some of the risk onto the airport if the opportunity arose.

"The Gateway Concept, that we have formulated through our work with BAC over the last four years, is where the parties overlap much more and there is a genuine partnership evolving. In this Concept, the airport corporation still has a low risk appetite - BAC didn't have Board approval to do speculative development at the time, and they took the view that this wasn't really their core expertise. Airports bring to the table the approvals process, and they are a good referral point for tenants. Airports often want to manage the end product so that they have quality control into the future. We and our specialist development partners bring construction, marketing and design expertise and experience in leasehold airport property development and the funding and the debt. Both parties are focused on a profit outcome, there's dual project control and a cross referral of leads.

Gateway Project Partners has partnered with Brisbane Airport Corporation on the Airport Drive development. (Gateway Project Partners)

"What worked for us with Brisbane Airport was a fully transparent development process, they had an on-line soft copy of our feasibility, they saw the construction contract and the marketing, they were involved in the design from the beginning. If issues arose, both parties were on the same side of the table."

Pearson and his team have successfully engaged with another major metropolitan airport in Australia (under confidentiality), are in advanced discussions with several metropolitan and regional airports, and are now eyeing opportunities throughout Australia and New Zealand.