AIRPORT VALUATION

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Humans have transformed earth. 3% of the planet's land surface is under tarmac – an area the size of India.
THE CHANGING DYNAMICS OF AIRPORTS

- Airports have emerged as integral parts of the urban economy
- Airports move goods and people and serve as centres for jobs and services
- Globalization and technology have increased global connectivity and the need for access to cities around the world
- Airports move passengers and cargo through complex domestic and international flight networks
- International trade has made airplane transportation crucial to global distribution networks
AIRPORTS TAKE UP REAL ESTATE

• Airports are a vital component of every city or town and take up a significant amount of real estate.
• Vancouver International Airport for example covers approximately 1,340 hectares (3300 acres) of area on Sea Island, roughly 25 minutes from the downtown core.
• At raw industrial acreage values, land is worth $2 billion
AIRPORTS

- Come in all sizes for all uses
NORTHWEST REGIONAL AIRPORT
TERRACE-KITIMAT
• Canada’s airports are important generators of employment, government revenue, and economic activity
• Appraisers are called on to perform valuation services related to the activity at airports, most frequently land and building rents.
HIGHEST AND BEST USE

• The value of the land underlying an airport, based highest and best use in alternate use (in urban areas, often an industrial business park) can be very significant, in the billions of dollars for the largest airports.

• Airport operations - rentals, landing fees and so forth often do not provide a market return on the underlying asset.

• Yet it is rare to see a Canadian airport decommissioned and put to alternate use.
COMPETITION BETWEEN AIRPORTS

- Competitive forces can exist that influence the business of airports.

- The largest of Canada’s airports believe they compete with nearby American airports for some business lines. Smaller airports often compete with each other for tenants and airlines.

- For example, an airline contemplating expansion to more airports might call for proposals from potential airports, favouring those offering attractive terms, favourable rents, and potential synergies, such as the presence of smaller, feeder regional air services.
CHALLENGES

• Land use plans that govern uses

• Constitutional law

• General aviation uses are in decline at many airports because of the high cost of owning and operating private aircraft; this affects the demand for general aviation facilities, and the ability of existing tenants that service general aviation users to afford rising rents.

• Airports built for refueling long international flights see less traffic from increases in fuel efficiency
GROWTH

• Commercial aviation activity is increasing in Canada, with more flights involving more airports; for example, through subsidiary operations, both WestJet and Air Canada/Rouge are increasing service, particularly to smaller airports.

• New aircraft are increasingly efficient in fuel usage, which lowers operating costs per passenger mile and extends the range of aircraft.

• Air cargo is an increasingly attractive source of revenue for aircraft; a passenger aircraft can contain commercial cargo along with passengers and their luggage.
SUPPLY AND DEMAND OF LAND

- Demand for real estate is strong at the major airports
- Land supply is limited
- Land values are high, especially in trade centers
- Airports of interconnected (“necklace”)
  - Difficult to move commercial aviation activities to regional airports
- Growing demand for more and longer runways
- Land - lease v own
AIRPORTS SUPPORT BOTH COMMERCIAL AND GENERAL AVIATION ACTIVITY

- Commercial aviation activities range from international and domestic air passenger and freight transportation, carried out by the major airlines, to specialty functions such as flight training, crop dusting, or aerial photography.

- General aviation involves private aircraft such as corporate jets, single engine planes and ultra-light motorized hang gliders, and the sectors that support them.
INDUSTRIAL USES OF AIRPORTS

- Industrial related-uses remain the majority of Canadian airport’s non-passenger-related activity.
- Industrial users tied to distribution and logistics rely on the airport to provide access to regional and global shipping networks, while manufacturers - either at the beginning, middle or end of a product cycle - rely on airports to move goods along the supply chain.
CANADA’S AIRPORTS

- 26 airports part of the National Airports Policy (NAP)
- 726 certified airports
- 1,700 aerodromes
- 94% of all passengers and cargo use the 26 airports part of the NAP
AIRPORT DEVOLUTION

• Transferring management of Transport Canada airports to Local Airport Authorities (LLAs)
• First 4 transfers took place in 1992
  • Vancouver
  • Edmonton
  • Calgary
  • Montreal
• LLAs were operated by private sector community groups, leasing the airport from the Federal Government
• Operate the airport in the interests of the local community on a non-profit basis
NATIONAL AIRPORTS POLICY (NAP)

- Created in 1994 by the federal government
- Principles of the policies:
  - Airports should be operated on the basis of user pay.
  - The transfer of airports to local interests will lead to improved management and efficiencies.
- Local operators will be responsible for the financial and operation management of their airport
- Categorized into 6 tiers according to the size (number of passengers).
  - Tier 1 airports are Toronto and Vancouver as they have the largest number of passengers and Gander is the only Tier 6 airport, with the least amount of traffic.
The 26 significant airports that form the National Airports System (NAS) are to be owned by the federal government. Responsibility for the operation, management, and development of these airports is transferred to local airport authorities.

BC Airports in the NAS include Vancouver, Victoria, Kelowna and Prince George.
NAP AIRPORTS

• Calgary International Airport
• Charlottetown Airport
• Edmonton International Airport
• Greater Fredericton Airport
• Gander International Airport
• Halifax-Robert L. Stanfield International Airport
• Iqaluit Airport
• Kelowna International Airport
• London International Airport
• Greater Moncton International Airport
• (Montréal) Mirabel International Airport
• Montreal Pierre Elliott Trudeau International Airport
• Ottawa International Airport
• Prince George International Airport
• (Québec City) Jean Lesage International Airport
• Regina International Airport
• St. John’s International Airport
• Saint John Airport
• Saskatoon John G. Diefenbaker International Airport
• Thunder Bay International Airport
• (Toronto) Lester B. Pearson International Airport
• Vancouver International Airport
• Victoria International Airport
• Whitehorse International Airport
• Winnipeg James Armstrong Richardson International Airport
• Yellowknife International Airport
• Airports than handle fewer than 200,000 travelers a year, unless they serve a capital are considered regional/local airports. For these airports ownership and operation has been transferred to provincial, local or private sector interests. Transfers were of nominal value, such as Abbotsford for $10.

• Subsidies
• Land tenure
• Conversion to non airport use
TRANSPORT CANADA RESPONSIBILITIES:

• Property and lease management functions for airports transferred to locally-based airport authorities
• Administration of the Airports Capital Assistance Program (ACAP)
• Support to Transport Canada regional staff for the management of regional/local and remote airports
• Monitoring the ongoing performance of the Canadian airport industry
• Negotiating the transfer of regional/local airports owned and operated by Transport Canada
AIRPORT APPRAISAL

- Employment, economy contributions, landing fees, terminal fees, parking fees, leases to airplane companies such as Air Canada and WestJet, etc. are all important factors for an appraisal.
RENTAL CAR SERVICING
DISTRIBUTION
HANGAR
YVR LAND
YVR - VANCOUVER

- Federal Government of Canada owns the 1,340 hectares of land and since 1992 it has leased it to the Vancouver International Airport Authority (YVRAA).
- YVRAA operates the airport and lease portions of land to a number of companies such as Air Canada, WestJet, several seaplane companies, and major couriers (UPS, FedEx, and Purolator).
- Other fees and charges determined by YVRAA include landing fees, general terminal fees, aircraft parking fees, airport improvement fees, security fees, turn-around fees, annual exclusive rental rates, and common use facility fees and charges.
YVR

- Home to 160 shops, services and restaurants
- Airport contributed $1.9 billion to the local economy directly, and $5.3 indirectly (estimates)
WINNIPEG

- Winnipeg James Armstrong Richardson International Airport (also known as Winnipeg International Airport) is the 8th busiest airport in Canada by passenger traffic.
- Operated by the Winnipeg Airport Authority (WAA) and is one of the 26 significant airports in the NAP.
- Control of the airport was transferred from the federal government to WAA on January 1, 1997.
An appraisal of the airport would include an analysis of the land, current leases, aircraft tariff and aviation fees, government services such as the military that share the land, and Centre-port Canada’s 20,000 acres of developable land.

- WAA operates the airport and leases out airport space to restaurants, shops, car rentals, gas stations, Greyhound, and courier companies such as FedEx and Purolator.
- Ground lease examples: Stevenson Aviation and Aerospace Training Center.
GANDER INTERNATIONAL AIRPORT

- Located in Gander, Newfoundland and Labrador and has been run by the Gander International Airport Authority since 2001
- Occupies 11,278 acres of land
- Remains the home of Gander Control, one of the two air traffic controls which direct the high-level airways of the North Atlantic.
GANDER

- Earns revenue from leasing land to car rentals, restaurants, and other airport service businesses, aerospace firms such as CHC Composites, Briggs Aero and Gander Aerospace Training Centre, and training, fabrication, repair, warehousing and distribution companies.
- Leases land at $3/square meter and allows the tenants to build their own building and improvements.
- Leases 64.5 acres of land to the Canadian military which holds the Canadian Forces Base Gander at a rate less than $3 psm.
- Additional sources of revenue come from airlines such as Air Canada renting counter space in the terminal, landing fees, terminal fees, aviation fuel fees, concessions, rentals, miscellaneous, interest income, and airport improvement fees.
YXX - ABBOTSFORD INTERNATIONAL

- A regional/local airport – non NAP
- Served 475,223 passengers in 2011
- In 1997, ownership was officially transferred from the Department of Transport to the City of Abbotsford for the sum of $10
• YXX would request an appraisal for lease negotiation purposes for estimates of the market rent for the counter space, office space, common use baggage make-up area and restaurant space.
• Aeronautical fees also have to be set by the airport such as landing fees, parking fees, general terminal fees, ground transportation fees, and vehicle parking fees.
APPRAISAL DATA RESEARCH

- Rents and lease rates charged by comparable airports
- Income statements and rent rolls
- Market evidence from the local real estate board, land title office transactions, real estate agents, and vendors and purchasers active in the market
- Development plans of the airport and area
- Zoning bylaws and restrictions
- An inspection of the airport terminal buildings and land
DEVELOPMENT OF LAND RENT

• Public Works Canada
• Appraisal methods to develop market rents:
  • Direct comparison with other leases at the airport
  • “Rate times Value”, or the income approach, whereby $I = V \times R$
  • Direct comparison with land leases having similar uses (industrial)
DEVELOPMENT OF IMPROVED RENT

• Improvement rent, for example, for a hanger, can be determined through comparison with other similar leases;
• Airports often assign a ground rent to the site, and a separate rent to the building
• Comparison rents will exist at larger airports
• “Rate times value” based on depreciated replacement cost is also an option.
• Expertise is required in the costing and depreciation of airport facilities
DEVELOPMENT OF TERMINAL RENTS

• Rental car offices, restaurants, convenience stores.
• Concession rents, for business monopoly entities
• Competitive bidding, or through comparison
CONCLUSION

• Canada’s airports involve substantial real estate holdings; the largest can represent economic activity in the hundreds of millions if not billions of dollars in a year.

• Valuation work at the airports is made interesting due to the unique characteristics of airports and some of the management practices and appraiser might encounter.
QUESTIONS?