Florida Department of Transportation

Guidelines for Determining Market Value & Market Rent of Airport Property

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Executive Summary

The Florida Department of Transportation's (FDOT) Aviation Office has contracted the Center for Urban Transportation Research (CUTR) at the University of South Florida to provide assistance with developing guidelines for determining the market value (MV) of airport property. MV is defined as the most probable price, as of a specified date, in cash, or in terms equivalent to cash, or in other precisely revealed terms, for which the specified property rights should sell after reasonable exposure in a competitive market under all conditions requisite to a fair sale, with the buyer and seller each acting prudently, knowledgeably, and for self-interest, and assuming that neither is under undue duress. The annual rental value of property as of the date of the appraisal is often referred as market rent (MR).

Most of the funding for operations and capital improvement at both commercial and general aviation (GA) airports comes from user financing, while the federal and state governments are capable of providing only a fraction of the funding needs. The goal of any airport development grant is to make the airport as self-sustaining as possible and minimize the need for further assistance. Therefore, both federal and state grant assurances require grant-assisted airports to operate with the goal of being self-sustaining. That includes the obligation to charge MV for both selling and leasing airport property. However, airports often find the MV process to be confusing, subjective, and lacking consistency, and would like to have more guidance on the evaluation approach.

The purpose of this project is to research and document valuation methodologies for determining the MV of airport property and to develop thorough but easily understood lease or sale guidelines to serve as best practice that can be useful to airport managers and local elected officials. The research approach included both a thorough research of literature on the subject of market valuation of property, as well as consultations with aviation industry professionals and stakeholders. CUTR researchers participated in a series of meetings involving airport managers and fixed base operators (FBO). A total of 13 airport managers, representing airports from different parts of Florida, were interviewed. In addition, a separate meeting was held with the Federal Aviation Administration's (FAA) Orlando Airport District Office (ADO) staff, FDOT Aviation Office staff, as well as representatives from the real estate appraisal industry and other private industry stakeholders.

These meetings provided an opportunity to collect the intelligence, share ideas, and identify common MV methods, challenges and concerns. The recommendations that emerged from these discussions were documented in the guidelines presented in the current report. These guidelines are not intended to be mandatory, but rather aim to provide direction to the airport

managers, owners, and elected officials in the process of determining the MV of airport property.

There are three established approaches to determining property value:

1) Sales comparison approach
2) Cost approach
3) Income approach

Sales comparison approach is based on sales of comparable property, adjusted for differences in physical characteristics (location, size, condition, amenities, etc.) and local economic conditions. This approach is based on the principle of substitution, assuming that a prudent agent will not pay more for a given property than it would cost to purchase comparable property.

Cost approach hinges on what it would cost to reproduce the property with the same utility. This includes the cost of building a similar structure and adjusting it for loss of utility (depreciation).

Income approach is based on estimating the revenue that could be generated by the highest and best use of the property. This methodology is usually most appropriate for evaluating income-producing rental or commercial property.

Market Rent is defined as the rental income that a property would most probably command in the open market; indicated by the current rents paid and asked for comparable space, as of the date of the appraisal.

Each method has its limitations and the best method depends on the type of property being appraised and the available market data. Multiple factors, including the purpose of valuation, the common use and type of property, and the quality and quantity of data available for each approach, need to be considered in choosing the most appropriate estimation method. The sales comparison approach ignores the opportunity cost of the property and requires substantial market data that is not always available. Cost-based approach does not capture market realities and alternative use of the property. Income approach has limited use when the property is so unique that it cannot be converted into alternative use.

Discussions with the Florida aviation community and private industry professionals revealed that the sales comparison approach is by far the most widely used approach for valuing airport property in the state. The interviewed aviation professionals also revealed that the main difficulty for them with estimating MV is finding the basis for comparison.

When using the sales comparison approach, airports must clearly distinguish between aeronautical and non-aeronautical property as these two types of airport property require different bases for comparison. It is recommended that, for the purpose of determining MV, aeronautical property is compared to similar aeronautical property at other airports. MV of non-aeronautical property, on the other hand, should be determined by comparing it to other similar property, serving the same function, and located in the local community around the airport.

The major factors that should be used to identify comparable aeronautical properties for the purpose of determining MV include:

- size of the metropolitan area
- location of the airport
- airport's classification, size and function
- number of operations
- number of based aircraft
- fixed base operators and the services provided
- amount of fuel sales
- amenities at the airport
- size of the evaluated parcel
- property function
- highest and best use of property

For determining MV of non-aeronautical airport property, the following criteria of comparability are recommended:

- zoning designation and land use
- size of parcel
- highest and best use of property
- property function
- roadway and utility services access
- other amenities

The process of identifying comparable properties usually involves starting with a large list of potential comparables and proceeding with a step-by-step elimination of non-comparable parcels by applying the above factors.

It is not recommended to use "across-the-fence" comparison involving the comparison of aeronautical property to non-aeronautical property (regardless of it is located on or off the airport), as the resulting valuation is likely to be highly inaccurate. The practice of using tax-assessed value as a basis for determining the MV of airport property also leads to incorrect valuation and is not recommended. Since airport property is often exempt from local taxes, tax records are likely to be either inaccurate or non-existent.

It is important to keep in mind that MV is not a fixed boundary but is rather a benchmark that should be used as a basis for negotiation. While airports should always aim to get as close as possible to MV, they need to realize that it may not always be possible due to market realities and other factors.

Market valuation of special-use property, such as airport property, is a complex task, requiring specialized skills and experience. This task is best performed by professionals, and it is recommended that, whenever possible, airports should consider hiring an independent licensed appraiser to perform an appraisal of airport property. While the cost of professional appraiser services may be an obstacle for some smaller airports, the cost depends on the scope of work. Appraisers are usually flexible with the services they can offer, and a summary appraisal can cost significantly less than a self-contained appraisal.

It is hard to overemphasize the importance of accurate market valuation of airport property. Determining MR or MV for a property is not only a contractual obligation of the airport sponsor/owner, resulting from signing Federal and State grant assurances, but is also a good business practice that is the key to financial sustainability and economic success of the airport. Additionally, airports need to understand that charging less than MR or MV not only hurts the current airport's balance sheet, but also depresses the overall aviation property market, negatively affecting other airports in the area.

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1. Introduction

1.1. Background

Most of the funding for operations and capital improvements at U.S. airports comes from user financing, while the federal and state governments are capable of providing only a fraction of airports' development needs. This concept applies to both airports with commercial service as well as general aviation (GA) airports. The goal of any airport development grant, both federal and state, is to make the airport as self-sustaining as possible and minimize the need for further federal/state financial assistance. The diversion of airport revenue for non-aviation purposes limits the effectiveness of the scarce federal or state capital funding and jeopardizes the goal of financial sustainability. Thus, both federal and state aviation officials would like to ensure that airports maximize their revenue and use it to fund operations and capital development needs.

The Federal Aviation Administration (FAA) requires any public airport developed with federal grant assistance to operate with the goal of being self-sustaining. This includes the obligation of the airport sponsor to charge market rent for the lease of airport property and to determine the market value for the sale of airport property (both structures and land). Airport Improvement Program (AIP) grant assurance #31 requires grant-assisted airports to charge market rent for leasing airport property as well as to determine the market value for the disposal of property that is no longer needed for airport purposes. Charging lower than the market rent or market value may be viewed as a revenue diversion by the Federal or State agency providing the grant and may result in the requirement to repay the grant, financial penalties, and the loss of an airport's eligibility to receive grants in the future. FAA gives vague direction to the airports in how to determine market value, leaving room for subjective interpretation and causing confusion among airport sponsors.

Occasionally, even well intentioned airport managers and local public officials may lack the knowledge of the grant assurance details or the business expertise to fully comply with the fair market valuation requirements. Airport management and local elected policy-makers need to be knowledgeable of how to determine market value of airport property in order to fully honor their grant-recipient obligations.

The FDOT's Aviation Office administers a state aviation program worth over $120 million per year, with a large portion of the funding in the form of direct grants to the airports. FDOT Aviation Program assurances #D(10)(b) and #D(22)(f) (listed in the Exhibit "C" section of a typical grant agreement) closely mirror federal grant assurances regarding charging market rent or determining market value for the airport property and are designed to maximize the effectiveness of the state aviation grant program.

1.2. Goals of the Project

The purpose of this project is to research and document methodologies and best practices for determining market rent or market value of airport property, including both sale and rental arrangements, and to develop thorough but easily understood guidelines that can be used to educate airport managers and elected officials on the common approaches to estimate market rent or market value. These guidelines aim to provide direction to the airport professionals in the business decisions involving leases and sales of airport property and are intended to assist airport managers, owners, and elected public officials in complying with the terms of grant agreements.

The FDOT Aviation Office has elected to engage the services of the Center for Urban Transportation Research at the University of South Florida (CUTR) to develop the guidelines for determining the MV and MR of airport property. CUTR has the requisite experience and background to provide the required services.

2. Research Approach

First, a thorough literature review regarding the common methodologies of estimating MV was conducted. The search was not limited only to the airport application. Different property valuation approaches used for valuing other types of real estate property were also examined and summarized.

After the literature search was done, CUTR researchers reached out to professionals in the aviation community to get their perspective on the issue of determining MV of airport property. FDOT Aviation Office staff helped to organize a productive meeting with a group of airports during the Continuing Florida Aviation System Planning Process (CFASPP) meeting in Tampa. During this meeting, CUTR researchers had a chance to inform the airports about the MV study and engage them in a conversation regarding various aspects of the MV process. The airports had an opportunity to reflect on their experiences with valuing airport property, express concerns and provide comments and suggestions to the study.

In the process of the study, the researchers also involved private industry stakeholders, including aviation appraisers and developers, to gain their expertise and insight in the process of market valuation. A meeting with independent private appraisers, aviation developers (FBOs), and FDOT Aviation Office personnel, as well as FDOT district staff, was held in Orlando. All the participants had a chance to provide their comments to the MV process, and actively participated in the discussion.

After the meetings with airport professionals and private industry stakeholders, CUTR researchers also held a meeting with FAA representatives from the Orlando Aviation District Office (ADO), and select FDOT Aviation Office staff. This meeting sought to learn FAA's opinion on various aspects of determining MV of airport property, including clarification of rules and requirements, FAA position on the MV process, agency's expectations, concerns and suggestions.

CUTR researchers, together with the FDOT Project Manager, further identified 13 GA airports in the state for one-on-one interviews regarding their MV practices. The airports were chosen from different geographic regions of the state in order to ensure adequate representation from all parts of Florida. The following airports were chosen for the interviews:

- Apalachicola Regional Airport
- Crystal River Airport/Inverness Airport
- Hernando County Airport
- Craig Municipal Airport
- Lake City Municipal Airport
- Ocala International – Jim Taylor Field

- Opa-locka Executive Airport
- Executive Airport
- Palatka Municipal – Lt. Kay Larkin Field
- Pompano Beach Airpark
- Sebring Regional Airport
- St. Lucie County International Airport
- Venice Municipal Airport

Most of the interviews were performed in person with a few via teleconference. Airport managers were encouraged to invite their FBOs to the meeting. These discussions covered a wide variety of issues related to MV, including current practices used by the airports, previous experience and lessons learned from challenges and concerns, as well as suggestions on how to improve the MV valuation process.

Finally, the issues of MV determination were also discussed with select real estate professionals, specializing in aviation appraisals, and with the representatives from the Florida Aviation Trades Association (FATA), who expressed interest in the study.

In the process of these meetings, CUTR researchers documented the views of a wide spectrum of the aviation community regarding the advantages, limitations, and concerns associated with the use of various methodologies to evaluate market value of airport property. The practices and methodologies that emerged from these numerous discussions in the process of the study were assembled in the form of guidelines that are presented in the current report. These guidelines are intended to assist airport managers and educate public elected officials on the appropriate methodologies of estimating MV of airport property.

3. Guidelines for Determining MV

3.1. What is Market Value?

Market Value - Is defined as the most probable price, as of a specified date, in cash, or in terms equivalent to cash, or in other precisely revealed terms, for which the specified property rights should sell after reasonable exposure in a competitive market under all conditions requisite to a fair sale, with the buyer and seller each acting prudently, knowledgeably, and for self-interest, and assuming that neither is under undue duress.[1]

Market Rent – Is defined as the rental income that a property would most probably command in the open market; indicated by the current rents paid and asked for comparable space as of the date of the appraisal.[2]

Since airport property rarely sells, but is rather leased long-term, market rent is probably more relevant to the airports than determining market value.

It is important to understand that market value is not a fixed boundary but is rather a basis for negotiation. The airport may not be able to receive MV for its property due to business realities or other reasons that will be discussed later. Market forces, such as supply and demand, with all their imperfections, often dictate the ultimate price that property can sell/rent for in a particular market and/or time period. The final outcome can be higher, lower, or equal to property's MV. In such cases, the purpose of MV is to provide proper baseline for market negotiations.

3.2. Why Determine MR or MV?

There are two major reasons why airports need to charge MV for their property: a) obligation to the grantor agencies, and b) sound business practice. These two reasons are explained in more detail in the following discussion.

A. Obligation to the grantor agency

Grant obligated airports are required to operate with the goal of being self-sustaining. That includes the obligation to determine MR or MV for airport property. Charging MR for the lease or determining MV for the sale of airport property is one of the conditions of the grant being provided by the federal or state agencies. By receiving federal or state financial assistance, the airport signs a binding contract with a granting agency agreeing to the terms of the grant, and is expected to honor this binding agreement. Violating grant assurances can result in financial penalties and loss of eligibility for future grants. To put it in other words, it is illegal to charge less than MV for airport property since this would violate the contractual agreement with the granting agency signed by the airport.

B. Sound Business Practice

Charging market value for leased or sold property is the only path for being self-sustaining and not depending on government grants. If airports were run like businesses they would always charge MR for leasing, and determine MV for selling, their assets. Charging MR or selling at MV are sound business practices that are essential for economic success, and thus, is in the best interest of the airport.

3.3. Additional Considerations

Airports sometimes find themselves in situations where they are not able or are not willing to charge MR for their property. While this practice is not endorsed by federal or state granting agencies, FAA and FDOT may be sensitive to some airport circumstances.

Common reasons to charge less than MR involve strategic business decisions or community use considerations.

A. Business decision

Sometimes airports may be unable to receive MR due to the lack of demand for their property. In other cases, airports may be consciously willing to discount their property in order to provide incentives to an important tenant. Such incentives are often intended to attract/retain tenants that make large investment in the airport property, create jobs, provide vital services, or are otherwise essential to the long-term success of the airport. Yet in other cases, an airport may choose to forego larger profits in the short-term in order to gain large benefits in the long-term. In all these cases an airport can make a business decision to charge less than MR. It is important to stress that this decision to sell/rent property at a discount does not necessarily decrease the property's market value. It simply reflects a business decision of the airport to provide an incentive. Therefore, it is still important to know the MR of the airport property in order to have the baseline for making such decisions.

B. Community use exception

In some cases FAA may allow charging less than MR or selling at less than MV for non-aeronautical property if sufficient evidence exists that such property serves a special purpose to the community, provided that the property is not needed for aeronautical purpose, is not producing airport revenue, and that the local community will use the land in a way that will enhance the community's acceptance and positive image of the airport. In addition, the community use should not preclude reuse of the property for airport purposes (if such need arises), and the sponsor may not subsidize capital or operating costs of community use with airport revenue. A more detailed list of requirements for community use exemption from the MV rule is presented in the FAA Airport Compliance Manual.

The aforementioned exceptions are not guaranteed, and can only be granted on a case-by-case basis, given that sufficient evidence of extraordinary circumstances is provided by the airport to justify the exception. It is the responsibility of the airport to provide justification to the granting agencies for the exception to the MV rule, while the granting agencies will decide whether the provided evidence is sufficient. Except for very few legitimate reasons, neither FAA nor FDOT encourage or permit exceptions from the MV rule.

Airports also need to understand that the effects of charging less than MR or selling less than MV often span beyond the financial statements of a particular airport. Accepting less than market rent or market value for the airport property, effectively depresses the overall property market, and decreases the value that other airports in the area can receive for selling or leasing their assets.

3.4. Property Appraisal

Proper valuation of airport property may be rather complicated requiring the knowledge of specialized techniques and availability of extensive data. This task can be best performed by an independent licensed appraiser. Therefore, whenever economically feasible, the airports are strongly recommended to hire a professional appraiser to determine the MV of airport property.

A. Choosing the right appraiser

Choosing an appraiser with proper qualifications is crucial for the quality and reliability of the assessment. The following criteria should be considered by the airports when seeking to hire an appraiser to determine the MV of airport property:

1. Certification – Federal Aviation Administration (FAA) requires that all the airport appraisals be performed by licensed professionals. Florida requires a real estate appraiser to be state-licensed. While Member of Appraisal Institute (MAI) certification is a plus, it is not required.

2. Aviation experience – While not an FAA requirement, it is recommended to consider the appraisers that have previous experience with valuing airport property. Aviation property is very unique and often dissimilar to typical real estate, making it difficult to evaluate. Thus, airports are encouraged to enquire prospective appraisers about their previous experience with valuing airport property, and are recommended to check references from previous customers.

The airport should provide all the information to the appraiser that will be crucial for the valuation, including property characteristics, property rights that are being leased, restrictions, permissible use, etc. It is essential that these nuances are clearly understood by the appraiser and are reflected in the appraised value.

3. Local area knowledge – Some airports prefer an appraiser that has the knowledge of the local area. While there is no requirement for the appraiser to be local, some knowledge of the local market is certainly a plus, especially when appraising non-aeronautical property.

4. Cost – Cost is a significant factor for many airports when it comes to appraisals. A professional appraisal can be rather expensive, to the point of being unaffordable to some smaller airports. While some airports feel they do not have the financial resources to hire an experienced appraiser, the cost of the service is highly dependent on the scope of work. Airports may not always need a full appraisal report, but may rather request a more restricted appraisal report, that is less detailed and can cost significantly less.

B. Choosing the type of appraisal

When hiring an appraiser, the airport needs to know the scope of work in the report, and the appraising company will produce the appraisal that will fit the client's needs and budget. The airports need to consider the economics of performing a full-scale appraisal for a particular property parcel. It may be justified to perform a full-scale appraisal to determine market value of a large-size parcel (or piece of property) that is leased long-term. But for relatively small property parcels and/or short-term leases a less detailed (and less costly) appraisal assessment may be more appropriate. In other words, the airports need to consider benefits and costs of performing a particular appraisal before deciding on the type of the appraisal.

3.5. Determine MV without a Professional Appraiser

While the use of a professional appraiser is recommended whenever possible, the airports could have someone on staff with the knowledge and the necessary tools to determine market value or market rent without any outside help. The knowledge of common methodologies and approaches for determining MR or MV can bring more clarity to the property valuation process, and will ultimately assist the airport managers to better manage their assets, regardless of whether a professional appraiser is involved.

Even if the airport is able and willing to use professional appraiser services, having the knowledge of property valuation methodologies will help airport managers and sponsors to better understand appraisal work products prepared by professional appraisers.

A. Major Property Valuation Approaches

There are three established approaches to determining property values: the sales comparison approach, the cost approach and the income (or income capitalization) approach. No determination can be made that one approach is always superior to another. Multiple factors, including the purpose of valuation, the common use and type of property, and the quality and quantity of data available for each approach, need to be considered in choosing the most

appropriate valuation method. As noted, appraisals usually include multiple approaches to determining the value.

The challenge of determining market value of airport property includes understanding the unique attributes of an airport, its purpose, business model, sponsor obligations, allowable uses of property and restrictions. Regardless of the valuation method, any restriction of the use of property, that may be present at the airport, can have a profound effect on its value. Restricting the use of airside property to aviation purposes, imposing security requirements, limiting height of the development, controlling smoke/emissions standards, landfill activities, and any other allowable use restrictions can lower the value of airport property because these use restrictions can reduce the market demand for the property.[3]

1. Sales Comparison Approach

The sales comparison approach is based on the sales of comparable property. This approach hinges on the principle of substitution, assuming that a prudent person will pay no more for property than it would cost to purchase a comparable property. In order to determine the value of the property, an up-to-date database of recent real estate transactions (including the description and prices of the properties that have sold) has to be maintained. The current market price of comparable properties is adjusted for differences in physical characteristics (location, size, condition, amenities, etc.), and market conditions to provide the estimate of the property value in question. The closer and more similar the comparable property to that of the subject, the more likely it is to reflect market value of the property.

Various data files regarding the sale of property in the area, including physical characteristics and the selling price, are available from the local tax assessor's office as part of public record. What cannot be obtained from the tax records, however, is time on the market data, which, sometimes, can make a significant difference in the final selling price (the longer the time on the market, the more willing the owner may be to accept a lower selling price). Also, determining market value of commercial property is different than determining market value of residential property. One of the issues with valuation of commercial property is that it tends to be unique and it may not always be possible to find recent comparable sales.

Choosing comparable land and facilities at airports of similar size is the key for the accurate valuation of property. The major factors that make airports suitable for comparison include the population of the community, proximity to other modes of transportation (highways, rail, public transportation, etc.), number of based aircraft, types of commercial activity at the airport, level of service (number of enplanements), and others. The compared airports should also have similar level of amenities, such as, air traffic control, instrument approach, lighting, security

improvements, hours of operations, etc., as these factors affect the value of the property located on the airport.

To be comparable for the valuation purposes, the property at a different airport has to be capable of accommodating the same type of activity. For example, the smaller T-hangar cannot be used for storing corporate jets, and thus cannot be used as a basis for comparing the lease prices for large hangars. A hangar that can accommodate large business aircraft will typically have greater value than a hangar capable of storing only smaller aircraft, at least because the replacement cost is greater. So, in the case of a hangar, the door height, the clear span within the facility, the weight capacity of the hangar floor and adjacent movement areas will have an effect on the value of the development per square foot.

It has to be kept in mind that, while the price the property sells for can be used to help determine the market value, they are not the same. Price may not always represent the property's market value. Price may sometimes be influenced by special relationships between buyer and seller, different subjective valuation of property, economies of scale, or simply the lack of knowledge by one of the parties of what the property's market value is. Market value is always an opinion. Price is the actual amount paid for a property in a given market, and can be higher, lower, or equal to the MV opinion established by the appraiser.

2. Cost Approach

The cost approach (replacement or reproduction) focuses on what it would cost to construct the property. This includes cost for building and site improvements, with consideration for depreciation. The cost of underlying land must be given consideration as well. The use of the cost approach for the valuation of the property is based on a fundamental presumption that the property can be replaced or reproduced.

Except in those cases when historic preservation is the goal, replacement cost is typically calculated under the assumption that modern design, materials, tools, and technology will be used to build the replacement property. The cost approach methodology, in a way, is a hybrid of the cost and sales comparison approaches. While the replacement cost of buildings can be determined by adding labor, materials, and other construction costs, land values and depreciation are derived from comparable sales data.

The cost approach is considered most reliable when used to assess the value of newer structures, while becoming less reliable when applied to older properties. In addition, the replacement cost technique is typically employed when there are few comparable properties, which makes the sales comparison approach less effective.[4]

3. Income Approach

This method is preferred when evaluating income-producing rental and commercial property, or when the property can be most valuable as a rental property. The income method of appraisal links the value of property to the income that it's likely to produce. Consideration is also given to operating expenses, taxes, property insurance, maintenance costs and the return or profit that could be reasonably expected from the property. The income potential can be estimated by researching the current rents paid for comparable (i.e. having the same highest and best use) property.

In general, the value of the income producing property can be determined as the net income produced by the property divided by the capitalization rate.[5] The mathematical relationship is:

$$Property\ Market\ Value = \frac{Net\ Income}{CAP\ Rate}$$

Where, Capitalization Rate is a market determined rate of return that would attract individuals to invest in the property, considering all the risks and benefits that could be realized.

For example, if the investor receives a net income of $20,000 per year from the property and desires a 10% return on investment, the investor would be willing to pay $200,000 ($20,000/0.1 = $200,000) for such property, which is the property's market value based upon this analysis. With this approach, the estimated market value of the property is calculated from the expected return that's typically being generated by similar investment properties in the area. Therefore, this valuation method can be most effective where sufficient market data exists.

Using the basic relationship outlined in the formula above, it is possible to express the market value of the property as a function of property rental income, operating expenses, and capitalization rate.

$$Market\ Value\ = \frac{Gross\ Rental\ Income - Operating\ Expenses}{CAP\ Rate}$$

The capitalization rate is simply the relationship between net income that is expected to be generated by a property and the sale price of a property.

The most reliable method of estimating the CAP rate is extracting the CAP rate from sales of comparable properties that are leased at the time of sale. For example, a property that is reasonably expected to produce a net income of $100,000 in the upcoming year, sells for $1,000,000 produces a CAP rate of 10%, ($100,000 Net Income / $1,000,000 Sale Price). The 10% CAP rate is the rate of return expected by buyers and sellers on the investment of $1,000,000. There is an inverse relationship between value and the CAP rate, as the CAP rate increases, value decreases and as CAP rates decrease, value increases.

CAP rates are typically in the range of 6% to 12% per year and can vary depending on the type of the development and the market that exists for certain types of development, especially in the case of non-aeronautical development. As a general rule, the CAP rates for non-aeronautical airport development are typically lower than for aeronautical airport development projects. Therefore, airport's non-aeronautical development may require longer lease terms to recoup the investment. The lease term length must balance the reasonable amortization of investment and the market conditions that affect CAP rates and project competitiveness.

The components determining the rental value of the property can change from year to year. Market value of the property, property taxes, the discount rate and, thus, capitalization rate are all subject to change. It might not be practical though to recalculate market rent every time one of those factors change. It is prudent, however, to build in an escalation factor in multi-year ground leases. Airports can use periodic market adjustments to their rental charge based on the changes in Consumer Price Index (CPI). CPI is an index published by the United States Bureau of Labor Statistics (BLS) that measures the weighted average of prices of a specified set of goods and services purchased by consumers.[6] The changes in CPI track the price change of a specified basket of consumer goods from one period to another, and provide a measure of inflation between the periods.

Thus, airports can put a periodic market adjustment clause in their lease agreement with the tenants that would provide for CPI adjustments to the rent every 3 to 5 years (or other frequency desired by the airport). The new airport leases will still need to be calculated using the data on the property value, taxes and discount rate at the time of the calculation, but the existing rates on multi-year leases can be adjusted using the changes in CPI.

B. Determining Market Rent

The most common method in determining market rent for the subject is to analyze similar properties with the same highest and best use and that are currently rented. As in the sales comparison approach, adjustments to the rental comparables should be made to address dissimilarities.

Another method for determining market rent is to estimate the market value of the property and apply an appropriate rate of return. This rate of return is market derived and reflects investors return on the investment (the ratio of income to the value of the property). This method is usually used in determining market rent for vacant land.

C. What Valuation Method is the Best?

Each method has its limitations and cannot be applied equally in all circumstances. The sales comparison approach ignores the opportunity cost of the property and requires substantial market data that is not always available. The cost-based approach, while justified for insurance purposes, does not account for market realities and alternative use of the property. The income approach has limited use when the property is so unique that it can't be converted into alternative use. Thus, no "absolute" approach to property valuation exists. The determination of a particular valuation approach to be used by the appraiser is typically developed in the scope of work, in consultation with the client/airport.

Many GA airports survey other airports and comparable business establishments to determine appropriate rates to charge for ground leases. While this is a valid approach for determining the current market rent, it hinges on the availability of data on rentals/sales at other airports/business establishments. When there is no active market for the property, or the market is very limited due to the unique features of the property, depreciated replacement cost methodology can be employed to determine the value of an airport asset. When the property is used to produce income for the airport, the income capitalization approach for determining market value, commonly used in real estate appraisals, is suggested.

Finally, if all three estimation methods are equally practical, it is possible to use a weighted average of the three estimates, obtained by different approaches. A weighted average puts different weight/emphasis on different estimation approaches, that appear to produce the most reliable results and accounting for strengths and weaknesses of different valuation approaches, to arrive at the final estimate of the market value of the assessed property. The goal of the appraisal, the type of property, and the adequacy and reliability of data used in each of the three approaches will influence the weight that is given to each approach.

D. Basis for Comparison

The sales comparison approach is by far the most popular method for property valuation at Florida airports. It is the most straight forward approach to estimate market value since it captures the interaction of the fundamental market forces, such as supply and demand, that ultimately determine the value that the asset can command on the market.

Picking appropriate comparables is the key to accurate property valuation. There are two distinct types of airport property: aeronautical and non-aeronautical, and the valuation process is slightly different for each property type.

Aeronautical property is defined by FAA as all property comprising the land, airspace, improvements, and facilities used or intended to be used for any operational purposes related to, in support of, or complimentary to the flight of aircraft to or from the airfield. It includes areas occupied by runways, taxiways, parking aprons, as well as other property normally required by those activities that are complimentary to flight activity, such as convenience concessions which service the public including shelter, ground transportation, food and personal services.[7] This type of property is also referred to as aviation property.

Non-aeronautical property is the airport property that is not needed and/or used for supporting or complimenting the aviation functions of the airport. This type of property is often referred to as non-aviation property. The main purpose of such property is generating revenue for the airport.

The value of property is directly related to its use. Permitted uses for these two types of property vary significantly, with aeronautical property typically having more restrictions on its use compared to non-aeronautical property. FAA requires that aeronautical property may only be used for aeronautical-related purposes, while non-aeronautical property can be used for any purpose that is not incompatible with the on-airport operations. In other words, the permissible use of aeronautical property is much more restricted than the permissible use of non-aeronautical property. Therefore, these two types of property require the use of two different bases for comparison for the purpose of determining MV.

It is recommended that, for the purpose of determining MV rates, aeronautical property is compared to other aeronautical property serving the same function at similar airports throughout the region/state. Market value or market rent of non-aeronautical property, on the other hand, can be determined by comparison to any other property with similar use, located in the local area around the airport (in the local community). The different basis for comparison of aeronautical and non-aeronautical property is the result of the different markets for these two types of property. Airports typically compete with other airports in the region for aeronautical activity/clients. For non-aviation business, the closest competition to the airport property comes from industrial parks, commercial and retail developments, storage space, etc. in the local community.

3.6. Choosing Comparable Properties

Choosing the right properties for appropriate comparison is probably the hardest part of any appraisal assignment. Most of the surveyed Florida GA airports indicated that they find it much

harder to evaluate and compare aeronautical property than non-aeronautical. This is mainly due to the fact that aeronautical use is so unique and dependant on many factors that are hard even to identify, not to mention, account. The current report will identify and recommend the factors that need to be considered while comparing both aeronautical and non-aeronautical airport property for the purpose of determining MV.

A. Aeronautical Property

While all airports are unique in many respects and it is hard to find two like facilities, it is still possible to identify specific factors that make the airports similar for the purposes of property value comparison. The airports are encouraged to survey other similar airports in their region (or even in the whole state, depending on the type of property being assessed) regarding their property rental rates. The following are the major factors that should be used to identify comparable properties for the purpose of determining MV of aeronautical airport property:

1. Size of the metropolitan area and population – Both the size of the metropolitan area, where the airport is located, and the size of the population are significant drivers of the property value. Larger cities with their larger population size are often associated with higher per-capita income and higher level of business activity. These factors make the area more attractive to businesses increasing the demand for property, which directly translates into higher property values. Therefore, comparing the value of property, located in or near a large metropolitan area, to similar property, that is located in a smaller rural area, may not produce a valid market value analysis. As a general rule, property in or near a large metropolitan area with a large population is always worth more than otherwise similar property that is located in a smaller geographic area.

2. Location of the airport – Airport location plays a vital role in its attractiveness to businesses that choose to host their operations at the airport. The key elements that characterize the attractiveness of a particular location include: accessibility, proximity to suppliers and/or customers, infrastructure on and around the airport, neighborhood demographics, and economic development of the surrounding area, including hotels, restaurants, mass transit, nearby offices and industrial parks. All these factors are known to create demand for commuter, regional and general air transportation, and make airport property more attractive to prospective tenants.

Businesses typically prefer to locate near major highways, with potential access to rail and other modes of transportation, close to suppliers or business partners, and with easy access to distribution facilities and customers. They also want to locate in the areas that are convenient for their employees, and provide adequate infrastructure to perform business activities, including water, sewer, natural gas, power, phone lines, etc. The locations/airports that have

these characteristics typically have higher property values, which should be accounted for in the process of determining the MV.

3. Airport classification, size and function – Several factors can be used as a proxy for the size of the airport, including length of runways, Airplane Design Group (ADG) category, that determines the size of the aircraft that can land at the airport, the airport classification (hub size), as identified in the National Plan of Integrated Airport Systems (NPIAS), and other factors. These factors determine the types and sizes of aircraft that serve the airport and hence the associated demand for aeronautical property. Larger airports with longer runways, that are capable of accommodating larger aircraft, typically, have more demand for aeronautical activity and have higher value of aeronautical property. Whether an airport has commercial service or general aviation (GA) status also affects the value of airport property. For proper comparison, it is recommended to pick the airports that can serve the aircraft of the same size and/or are similarly classified in terms of type of service (commercial vs. GA) and hub status.

4. Number of operations and other activity statistics – The number of operations statistics reflects the level of aeronautical activity of the airport and is tied to the airport property value. Busier airports, typically, enjoy higher demand for aeronautical property and tend to receive higher value for their property. In addition, airports with significant jet traffic, typically, enjoy higher value of airport property, as operations by jet aircraft are often an indicator of higher business/corporate travel. It is recommended to use the airports of the similar activity level, and account for the type of operations (particularly, jet operations), for the purpose of determining the most comparable sales to use in the valuation process.

Other measures of the actual or potential aviation activity at the airport may include passenger or cargo enplanements, runway or taxiway capacity, terminal area, parking lot size, apron, gate, and airspace capacity.[8]

5. Number of based aircraft – The number of based aircraft is considered an important measure of airport activity. Based aircraft serve as a catalyst for various types of aeronautical activity, including aircraft maintenance, aircraft repair, and fueling services, and also create demand for hangars and other aircraft storage space. Thus, the airports with larger number of based aircraft, typically, have higher demand for aeronautical property, and, as a result of that, higher property values. When performing appraisals of airport property, it is recommended to look at the airports that have a similar number of based aircraft. While the number of aircraft does not have to be exactly the same, it has to be within a reasonable range making two airports relatively comparable.

6. Fixed base operators and the services provided – The presence of one or more FBOs at the airport, as well as the services provided by them, have significant influence on the value of the airport's property to potential tenants/users.

7. Fuel sales – The amount of fuel sold at the airport is a key indicator of the aviation activity that directly translates to airport property value. Fuel sales are associated with the amount of operations at the airport that, in turn, create demand for aeronautical property raising the value of airport property. Fuel sales can be measured by the number of gallons sold per month/year, or can be indirectly inferred from the amount of fuel flowage fees collected by the airport, if the information on gallons sold is not available. For the purposes of determining MV of aeronautical property, it is recommended to survey similar airports with comparable fuel sales figures.

8. Amenities at the airport – Amenities characterize the level of development of property and may include pavement, drainage, parking, as well as structures (buildings), water, sewer, power, etc. The more amenities are available for a particular property parcel, the more value this property has on the market. A property parcel with concrete pavement, parking lot, with water, sewer and power infrastructure in place will always be valued more than raw land. In addition, such factors as tower service at the airport, instrument approach and hours of operation, also play a vital role in the value of airport property. To ensure proper MV evaluation, airports are recommended to identify comparable properties at other airports with similar levels of amenities and infrastructure in place.

9. Size of the property parcel in question – In some cases the size of the property parcel can directly affect the value that property can command on the market. Larger parcels can accommodate larger-scale operations and may be more valuable to a potential tenant than smaller property. While this is not always the case, larger parcels often have higher market value, on a per-square-foot basis, than smaller pieces of property. Therefore, airports are recommended to account for the size of property that is being compared for the purpose of determining MV, in order to ensure "apples-to-apples" comparison.

10. Property function – Different uses of property may have an influence on its value. For example, the value of property may be different depending whether it is used for FBO, SASO, corporate hangar, storage space, etc.

11. Highest and best use of property – Highest and best use of property is the reasonably probable and legal use of property that is physically possible, financially feasible, and resulting in the highest value of property. For proper analysis, airports used in comparison should have a similar highest and best use as the subject.

B. Non-Aeronautical Property

Airport property that is not used for aeronautical activity, in many respects, is no different than similar property located in the local area around the airport. In the case of non-aeronautical property, airports compete with industrial parks, commercial, and retail space, located in the local community around the airport. If non-aeronautical tenants, currently located at the airport, could not be there, they would occupy similar property in the local community around the airport. Thus, when determining MV of non-aeronautical property, airports should compare to the rental rates asked and paid for the similar property in the local community around the airport. Unlike aeronautical property, the comparison to other airports may not be as relevant as the comparison to similar property in the surrounding community. Certain adjustments may be necessary to account for the restrictions that are specific to being located on the airport. The following are the major factors that should be used to identify comparable properties in the local community for the purpose of appraising of non-aeronautical property:

1. Zoning designation and land use (legal encumbrances) – Zoning is a practice of designating permitted uses of land between different development types. The primary purpose of zoning is to segregate property uses that are thought to be incompatible. Zoning is an important factor that can influence property's market value. Due to different restrictions and/or rules imposed on differently zoned property, some zoning designations may be more valuable to developers than others. For example, commercial property is typically more valuable than industrial property (partly because it is often in a better location than industrial property). When determining market value of non-aeronautical property, airports are recommended to look at the rates of similarly zoned pieces of property located in the local community around the airport.

2. Size of parcel – Just as with aeronautical property, size of the parcel often plays a role in the valuation of non-aeronautical property. Since larger property parcels can accommodate larger development, they are typically valued higher, on a per-square-foot basis, although, the relationship between size and value is not always straight forward. For proper MV analysis, airports need to compare their non-aeronautical property in question to property parcels of similar size, located in the community around the airport.

3. Highest and best use of property - Highest and best use of property refers to the reasonably probable, legal use of property that is physically possible, financially feasible, and that results in the highest value. Just as with aeronautical property, highest and best use of property needs to be considered while estimating MV of non-aeronautical property. Airports should always attempt to compare to property that is being put to its highest and best use at other airports.

4. Property function – The most appropriate comparison can be performed between properties that serve similar function and are similarly zoned. Zoning rules rely more on the form and size

of the operation taking place in a given zone, rather than specific uses of property. For example, property that is zoned as "light industrial" can be used by warehouses, wholesale sales, laboratories, small equipment manufacturers, etc. For the purpose of the appraisal, it is recommended that the airports compare their non-aeronautical property to other property located in the local community around the airport and having similar use.

5. Roadway and utility services access – Easy access to utilities and major highways are vital for the success of a business located on the airport property. Therefore, these factors play an important role in determining the value of airport property, and its attractiveness to a potential tenant.

6. Other amenities – Just as with aeronautical property, amenities add significantly to the value of non-aeronautical property as well. The more amenities are available for a particular property parcel, the more value this property has on the market. When performing appraisals of non-aeronautical property, airports are recommended to compare to similar properties, located in the local community and having identical levels of amenities and infrastructure in place.

7. Construction method and longevity – Construction methods and materials used directly affect the length of time the structure will last without a need for major repairs. The higher building quality and the longer physical life of the structure, usually results in a higher value for the property.

3.7. Land Lease Considerations

Land leases are the most common types of airport leases. The value of leased land may depend on multiple factors including the location on the airport, permitted use, and possibly the length of the lease term. The site for an FBO may have greater value than the site for privately owned hangars because the revenue generation potential is much greater at the FBO site. On the other hand, FBOs that are subject to minimum standards and the requirement to provide a variety of services to the public should, perhaps, pay lower rates than an end user (e.g. corporate hangar) that does not provide any benefit to the public.

The typical airport lease term is within the range of 20 to 30 years, with the provision that at the termination of the lease all improvements revert to the airport.

Many lease agreements include provisions governing the tenant's ability to sublease (sublet) all or a portion of the unused leased property. In cases when the tenant subleases the property for the amount greater than the lease paid to the airport, it is not uncommon for the airport sponsor to receive a percentage of the profit in accordance with the terms of the lease agreement.

Funding development projects at public-use airports involve additional risks for the lenders due to specific restrictions on the use of property located on or around the airport. In traditional real estate development, the lender has the ability to place a lien on the property as collateral against the default of the borrower. Public airports are typically unable to provide this type of security to the lender as they are prohibited to allow claims (such as liens) to be placed against airport property. In case of the developer defaulting on the loan, the lender is left with improvements on the property and the remaining lease or sublease to collateralize the debt.

The developer's and lender's risk depends heavily on the ease of replacing the tenant/subtenant after the initial lessee defaults. As a general rule, the more specialized the facility or more restrictive the allowable use of property, the smaller is the market for the developer to lease the property to a different tenant, and the greater is the risk to the developer/lender. Greater risk may require compensation with longer lease terms and a higher rate or return on investment. Such funding challenges are one of the reasons why incentives or grants are used for airport development projects.

3.8. Best Practices

A recommended best practice is to develop a standard airport leasing policy that would, at a minimum, address land lease rates (differentiated by area), hangar lease rates (differentiated by the size and construction cost of the hangar), building and facility lease rates, Fixed Base Operator/Special Aviation Service Operations (FBO/SASO) lease requirements (consistent with the airport's minimum standards), subleasing policy, and the process for adjusting lease rates and fees. It is wise to periodically review lease rates and adjust them for inflation. The most common form of rent escalation is the increase every 3 to 5 years, where the escalation coefficient is tied to the changes in the CPI, published by the U.S. Department of Labor.

A more precise approach involves an appraisal of property, but performing an appraisal every 3-5 years for each property parcel may not be feasible or even justified. Airports need to balance the financial gain from the higher accuracy of the valuation with the incremental cost of performing a professional appraisal. As a general rule, performing an appraisal to adjust lease rates may be justified for large and/or high-value property parcels with long lease terms, and when there is sufficient reason to believe that the market lease rates have increased significantly since the previous market rent analysis was made. In other cases, CPI adjustment can work best to provide automatic escalation of lease rates with little or no costs to the airport. A compromise approach may be to alternate between CPI and appraisals every 3-5 years.

While many leases can be uniformly applied to multiple tenants using such policy, some leases may be rather unique and may warrant special considerations. The airport sponsor should determine whether the circumstances of a specific lease are unique enough to justify the deviation from the standard leasing policy or that consistency is more important than accommodating few (or one) tenants.

If the lease rates are based on comparable facilities at surrounding airports, it is good practice to track the rates at the same comparable airports over time. This will help in establishing the baseline market rates that may be adjusted for the unique circumstances of a particular airport. While the FAA recommends that the airport sponsor maintains airport rental rates that maximize revenue, the airport may decide to set lease rates below established baseline rates if the tenant provides additional airport revenue through other sources, such as fuel sales, percentage of gross revenue, etc. Such practice may be deemed acceptable as long as there is transparency in how the rates were established and the airport sponsor can clearly outline the rationale to justify the lower rates and charges.

There are four broad areas that the airport sponsor should pay attention to in order to maintain compliance with federal and state grant assurances:

1. Lease term – FAA advises against longer lease terms for land that has actual or potential aeronautical use and considers any lease longer than 50 years a de-facto disposal of land. Consequently, FAA may require the payment of market rent from the airport sponsor for such transaction. In general, the lease of aeronautical property by local governments is limited to 30 years in Florida Statutes.[9] However, counties, under certain circumstances, are allowed to lease airport property for a longer term.[10] In addition, Florida Statutes do not impose a term limit for leasing non-aeronautical property by local governments.[11] A more detailed discussion of relevant Florida Statutes and the explanation of the allowable airport property lease terms were provided in the previous Advisory Legal Opinions issued by the Florida Attorney General.[12,13]

2. Economic nondiscrimination – all tenants must be treated equitably when determining lease rates, fees, and terms.

3. Airport sustainability – airport should charge MR for airport property and maintain a fee structure that would maximize the revenue for the airport.

4. Exclusive rights – no exclusive right could be granted to any tenant by the airport.

3.9. Practices that Are NOT Recommended for Determining MV

Industry professionals do not recommend using the following practices in the process of determining MV of airport property:

A. Use tax assessed value. Airports may be tempted to use local tax collector assessments as a basis for determining MV. This practice is more common for the cases when the MV assessment is performed by the local government body that owns the airport (city or county), rather than a professional appraiser. The main rationale for using tax-assessed value for MV determination is the fact that tax records are public and easily available. In addition, the assessments performed by county/city tax assessor may be viewed as "defendable".

Despite these perceived benefits, airports should resist the temptation to use tax-assessed value as a basis for determining MV of airport property. County tax appraisers usually have very limited expertise in assessing special-use property, such as airport property. In addition, since airport property is often exempt from local taxes, tax records are likely to be either inaccurate or non-existent. Industry professionals agree that using tax assessment as a basis for appraising airport property will most likely result in an inaccurate estimate. It is highly recommended that the airport property is appraised by an independent professional appraiser, rather than local government entities (e.g. tax collectors, attorneys, etc).

B. Across-the-board comparison. When airports do not provide clear distinction between aeronautical and non-aeronautical property in their valuation process, the resulting appraisal will likely not reflect the true market value of property. These two types of airport property are characterized by different allowable uses and restrictions, and have totally different markets. Therefore, the comparison of aeronautical property to non-aeronautical property at the airport is often meaningless and will not result in a proper valuation. It is recommended, that aeronautical property be only compared to similar aeronautical property at other airport, while non-aeronautical property should be compared to non-aeronautical property, located either in the local community around the airport or at another airport.

3.10. Other Considerations and Caveats

Not all types of tenants are equal

Significant differences in the value of airport property may exist depending on the type of tenant who occupies the airport property. For example, it may be impossible for a fixed base operator (FBO) to pay the same rates for leasing airport property as an end user like a corporate flight department might be willing to pay. Unlike a corporate flight department, an FBO is subject to minimum standards which require a variety of services to be provided to the public. The obligations to provide service impose certain financial burdens, that are not

applicable to corporate flight departments, and the airports need to take that into consideration while developing lease rates for different tenants. The ability of a particular user to pay a given land/building rent is often dependent on the type of business the user is in and the type of product offered to the public.

Businesses, such as air cargo and airline-related services, have a broader customer base and are usually in a better position financially than the airport users solely dependent on aviation related revenue (e.g. FBO). In view of the above, the highest and best use of airport property is not simply determined by the market, but also depends on the parameters of the airport layout plan, the type of airport users, the political situation regarding any airport facility, and other factors. [14]

Fixed base operators have a specialized function at the airport, and their relationship to airport property is somewhat unique. Understanding FBO's business model is important for negotiating successful lease rates. It is important to keep in mind that airside property is only valuable to an FBO as long as it provides the ability to make a profit at a given location. While FBOs are very diverse in regards to their financial standing, some generalizations explaining the aviation-based business can be noted.

Of all types of airside businesses an FBO may be involved in, aircraft maintenance is capable of generate the most profit. High-end, heavy maintenance facilities can enjoy profit margins of up to 35%.[15] Aircraft charter operations are also characterized by high profitability, with turbo prop and turbo jet airplanes typically providing higher profit margins than smaller piston-engine aircraft, regardless of the fact that jet charter operations are governed by more stringent Part 135 standards. Due to intense competition in densely populated areas, profit margins can be lower at airports located in higher density areas. Because the market for used and new aircraft is a nationwide market, FBOs located on smaller uncontrolled airports can successfully compete with larger dealers located on larger established airports.

The profitability of fuel sales is largely dependent on volume and the ability of the airport to attract based and transient turbine aircraft. FBOs with sales volume exceeding 1 million gallons per year tend to sell Jet A fuel and Avgas at an approximate ratio of 5 to 1. Fuel sales profit margins have been decreasing steadily over the years due to a static margin between the wholesale and retail cost of fuel and escalating rent, labor, and insurance costs. It is typical for a flight instruction business (i.e. flight school) to barely break even or produce a profit margin less than 5 percent, at best.

The ability to negotiate reasonable market rents for the airport's real estate is a significant factor for the financial success of an FBO. As a general rule, on-going real estate-related

expenses of the most profitable FBOs typically do not exceed 5 percent of their annual gross sales.

3.11. Sources of Information for MR & MV Determination

In determining lease rates and comparable sales analysis between different airports, it is first required to identify the competing airports with similar infrastructure and services. There are several industry directories that can be used to pick the airports with comparable characteristics. The Aircraft Owners and Pilots Association (AOPA) publishes the AOPA's Airport Directory biannually that provides an excellent summary of relevant airport infrastructure, services, and neighborhood characteristics. Additional information regarding airport characteristics can also be obtained from Federal Aviation Administration's directory, as well as from the Florida Aviation Database (FAD), maintained by the FDOT's aviation office.

The data on comparable lease rates and sales of airport property can be obtained from a variety of sources, including national and local multiple-listing sales databases, local brokers specializing in renting/selling such property type, assessors/appraisers, and recorders offices. Additional field research may be necessary when these data sources are not able to provide adequate information on market rates. Reviewing aircraft bulletin boards, aviation magazines, as well as surveying comparable airports, may be necessary to ensure the collection of accurate up-to-date information on lease rates. It is recommended to compare the data collected from different sources for the purpose of verifying its accuracy.

3.12. Reference Materials for Questions Related to MV

The following sources/links can be referred to for further questions related to MV of airport property:

A. FAA Airport Compliance Manual
http://www.faa.gov/airports/resources/publications/orders/compliance_5190_6/media/5190_6b.pdf

B. FAA Policies and Procedures Concerning the Use of Airport Revenue

http://www.faa.gov/airports/resources/publications/orders/compliance_5190_6/media/5190_6b_appE.pdf

C. AOPA's Guide to FAA Airport Compliance

http://www.aopa.org/asn/airport_compliance.pdf

D. FDOT Revenue Use Guide

http://www.dot.state.fl.us/aviation/pdfs/Florida%20Public%20Airport%20Revenue%20%20Use%20Guide.pdf

E. FAA Southern Region – Orlando, Florida - Airports District Office (ADO)

Address: 5950 Hazeltine National Dr., Suite 400

Orlando, FL 32822-5024

Phone: (407) 812-6331

Fax: (407) 812-6978

Orlando ADO staff directory:
http://directory.faa.gov/appspub/National/EmployeeDirectory/FAADIR.nsf/%28ConverttoList%29?OpenAgent&4/AOA-001/ARP-001/ASO-600/ASO-ORL-ADO&ZV=I12

F. The Appraisal of Real Estate, Thirteenth Edition, Appraisal Institute

http://www.appraisalinstitute.org

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4. Conclusions and Recommendations

Federal and state grant assurances require grant-assisted airports to operate with the goal of being self-sustaining. That includes the obligation to charge no less than MR or MV for selling or leasing airport property. Charging less than MR or determining less than MV, without justification, may be viewed as revenue diversion and may result in hefty financial penalties and loss of an airport's eligibility to receive future grants. In addition, charging reasonable market rate for airport assets is a sound business practice that is essential to the airport's economic success.

There are three established approaches to determining property value: 1) sales comparison approach, 2) cost approach, and 3) income approach. Sales comparison or market approach is based on sales of comparable property, adjusted for differences in physical characteristics (location, size, condition, amenities, etc.), and change of market conditions. This approach is based on the principle of substitution, assuming that a prudent agent will not pay for a given property more than it would cost to purchase a substitute property. Cost approach hinges on what it would cost to recreate the property with the same utility. This includes the cost of building the structure with the same utility, adjusting it for lost value (depreciation). Income approach is based on estimating the revenue that could be generated by the highest and best use of property. This methodology is appropriate for evaluating income-producing rental or commercial property.

No determination can be made that one approach is always superior to another. Each method has its limitations and cannot be applied to all circumstances. The sales comparison approach ignores the opportunity cost of the property and requires substantial market data that is not always available (or even does not exist). Cost-based approach, does not account for market realities and alternative use of the property. Income approach has limited use when the property is so unique that it can't be converted into alternative use. Thus, no "absolute" approach to property valuation exists. The determination of a particular valuation approach to be used by the appraiser is typically developed in the scope of work, in consultation with the client/airport.

Discussions with aviation community and private industry professionals revealed that the sales comparison approach is by far the most widely used approach for valuing airport property in Florida. The interviewed aviation professionals also revealed that the main difficulty for them with estimating MV is finding the basis for comparison.

When using the sales comparison approach, airports must clearly distinguish between aeronautical and non-aeronautical property as these two types of airport property require different bases for comparison. It is recommended that, for the purpose of determining MR &

MV, aeronautical property is compared to similar aeronautical property at other airports. MR & MV of non-aeronautical property, on the other hand, should be determined by comparing it to other similar property, serving the same function, and located in the local community around the airport.

The major factors that should be used to identify comparable aeronautical properties for the purpose of determining MR or MV include: size of the metropolitan area, location of the airport, airport's size and function, number of operations, number of based aircraft, presence/absence of fixed base operators and services provided, amount of fuel sales, amenities at the airport, size of the evaluated parcel, and highest and best use of property. For appraisals of non-aeronautical airport property, the following criteria of comparability are recommended: zoning designation, size of parcel, highest and best use of property, property function, roadways and utility access, and other amenities.

Market valuation of special-use property, such as airport property, is a complex task, requiring specialized skills and experience. This task can be better performed by the professionals. It is recommended that, whenever possible, airports should consider hiring an independent licensed appraiser to perform appraisals of airport property. While the cost of professional appraiser services may be an obstacle to some smaller airport, the cost depends on the scope of work. Appraisers are flexible with services they can offer, and a summary or restricted appraisal can be much more affordable than a more detailed self-contained appraisal.

It is important to keep in mind that MR & MV estimates are not a fixed boundary but are rather a benchmark that should be used as a basis for negotiation. The value estimate is the appraiser's opinion, based on the application of experience and judgment to assembled data. While airports should always aim to get as close as possible to MR & MV, they need to realize that it may not always be possible due to market realities and other factors. Occasionally, a tenant may be willing to pay more than MR for a specific property at a specific time.

Finally, FDOT has been highly recommended to consider further steps to circulate the results of the current study focusing on educating the aviation community and public elected officials. To maximize effectiveness, this education effort should include a multitude of approaches, including printed educational materials, website postings, seminars, presentations at various industry forums, and presentations to governing bodies (city councils, boards of directors) of airports. Educating the industry professionals, stakeholders and decision-makers is essential to ensure that the developed guidelines reach the intended audience, and add value to the aviation community in the state.

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[10] Title XI, Ch. 125.35(1)(a) Florida Statutes.

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[12] Attorney General Advisory Legal Opinion - AGO 2007-46.

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