

Over the past few years, commercial real estate appraisers have seen a significant uptick in the need for appraisal services across a host of aviation-related properties. The confluence of reinvigorated passenger traffic coupled with billions in funding from infrastructure legislation has ignited a spike in demand for expert valuations throughout the United States. Extending well beyond the traditional aircraft hangar, the aviation sector is brimming with a myriad of property sub-types seeking professional assessment. These include fixed base operator facilities (FBOs), on- and off-site parking, storage, commercial/office buildings and suites, rental car facilities, logistics operations and easements, as well as right of way acquisitions for a growing number of airport expansions, including aviation easements and runways protection zones.

JLL's infrastructure appraisal specialty practice group is led by David R. Dominy, MAI, CRE, FRICS, who, himself, has been a licensed pilot and aviation enthusiast for over 40 years. Drawing from his personal immersion in the sector and substantial tenure as an industry-leading appraiser, Dominy's team has plied intimate experience and prescient appraisal methodology into scores of valuations across numerous airports from coast to coast, including Half Moon Bay (CA), Jacksonville International (FL), Cecil Airport (FL), Love Field (TX), Fort Worth Meacham International (TX), Palo Alto (CA), San Carlos Airport (CA), Skagit Regional (WA), Boulder Municipal (CO), San Antonio International (TX), Brownsville International (TX), El Paso International (TX), Reading Regional Airport (PA) and numerous others.

Client requests for valuation needs range from public entities hoping to better understand the market lease value of their existing or hypothetical asset, to private entities seeking the value of their leasehold interest.

The appraisal of aviation assets is a distinctive assignment influenced by a variety of factors. Firstly, compared to other property types, airport properties are routinely individualistic and comprise a very small percentage of the overall real property market. As a result, from airport to airport, there is typically a lack of congruent features and amenities, with even less direct comparable sub-uses and survey inventory. Moreover, unlike other most other end uses (for which there are typically multiple nodes within a given market from which to potentially harvest information), in aviation, an appraiser may be confronted with the nearest comparable facility being hundreds of miles away and located in a separate and distinct market. In such a scenario, not only will different airports yield a bespoke ecosystem of infrastructures, features and synergy but also a specific set of locational and supply/demand factors, which could further muddy the appraisal waters.



Aviation Valuation Challenges

Issues in an ever-changing industry



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In the event suitable comparable information is discovered, the appraiser must also have a keen understanding of the appraisal problem, and the rights associated therewith. In a vast number of scenarios, the fee simple rights to the underlying land at an airport — along with potential access rights to its runway(s)/helipad(s) — are owned by a public entity (e.g., city, county or transportation authority) with no inclination in relinquishing complete ownership. In order to generate a cash flow but not part with the property, these entities rely on the ground leasing their lands to tenants who then shoulder the responsibility of constructing — at their own expense — the improvements that technically, at the conclusion of the lease term, will be the reversionary property of the lessor. Historically, most ground leases and the improvements constructed thereupon have been commonly occupied by the lessee.

Fast-forward to present, economic trends are becoming markedly different. Due to accumulating demand that is far outpacing supply (for available physical space and construction), JLL is finding that many ground leases are being improved by the ground lease tenant for which only the improvement itself is then sub-leased to a leaseholder as an investment. Accordingly, what was mostly a one-step nest between landlord and lessee/user has quickly transformed into a three-way relationship between landlord, ground lessee and leaseholder. Depending upon the length of the ground lease to the ground lessee, the economic value of a given improvement built and subsequently occupied by the lessee would typically extinguish such improvement's economic value from start to finish, rendering any incongruence in time and value of the improvement against the ground lease term a moot point. In a leasehold scenario, especially when considering an existing improvement, the appraiser must balance the remaining duration of the ground lease against the duration of the sublease deal and the remaining value of the improvements to determine potential value to the leasehold position.



In many cases certain components of value must be extracted, such as underlying land value, ground lease rate or capitalization rate, which can be a tenuous practice. Further, the aviation space is a tight-knit and exclusive community that is adept at keeping information close to the vest. When information is available, the appraiser must be careful to understand conditions behind a comparable agreement. It is not uncommon for deals to be brokered between related parties, contain extemporaneous provisions that influence value or be based on factors not easily identifiable to outside appraisers.

Valuations for a New Era of Exploration

In addition to providing appraisal and consulting work for public and private aviation, IRWA Region 2, Jacob R. Andrews from Chapter 8, our colleague Robert S. Wells, ASA, and I lead a special-use practice at JLL to perform value investigations for NASA's assets. Unique assignments include the valuation of rocket launch sites at Kennedy Space Center (FL), rocket engine test stands at Stennis Space Center (MS), the entirety of Wallops Island (VA), the Super Guppy hangar at El Paso International Airport (TX), the Altitude Combustion Stand at Glenn Research Center (OH) and the Vibration and Acoustic Test Facility at Johnson Space Center (TX), to name a few.

NASA's desire to seek valuations for select assets stems from the emergence of the commercial space industry, which has initiated an entirely new era of exploration and competition. Interest in not only achieving their lofty goals but also outshining the competition, entities such as Space X, Virgin Galactic and Blue Origin have found that leasing existing NASA facilities are entering into long-term ground leases for site-specific developments in place are both timesaving and financially beneficial practices. Being located on NASA grounds allows the lessor a bevy of privileges, which includes access to existing production facilities, connectivity to existing high-capacity utilities, seclusion, security, fire protection and perhaps most important, the opportunity to synergize with NASA employees and civilian contractors.

At Stennis Space Center along the Mississippi Gulf Coast, for example, rocket test stands, standing hundreds of feet tall, originally constructed for the Apollo program of the 1960s, languish basically untouched. Considering the amount of time and money to construct a new test stand, the private sector has been motivated to consider leasing an existing test stand.

Valuing such assets reveal a particular set of nuanced challenges due to their one-of-a-kind construction — each is like none other in the world. The asset's age of over 60 years-old, ambiguous historical use and connectivity to super-adequate utilities cause particular challenges when estimating depreciation and remaining useful life. Finally, the location itself is unique. Stennis Space Center is located in the very rural Mississippi Gulf Coast in an area that can accommodate safely testing rockets at all hours, day and night, due to an extensive 125,000-acre vacant-land buffer zone halo. Add to that extraordinarily finite, but growing, market supply and demand characteristics, and the appraisal problem is stout. Trying to neatly quantify values for such exceptional assets with such exclusive uses and monumental histories is a unique challenge for the team.



On a personal note, my father joined NASA shortly after the Apollo 1 tragedy, where three astronauts were killed in a fire during a training exercise. The motto for Mission Control after the incident was “tough and competent,” ensuring that a tragedy like Apollo 1 would never happen again. A few years later, he happened to be on console when Apollo 13 exploded. He and his colleagues lived up to the challenge, managing to find a way for the stranded astronauts to return safely back to earth. My colleagues and I have been very fortunate to meet with some of current NASA civil servants during our site inspections, and it is great to see that these words still ring true all these years later.

In all, our appraisers view the NASA actions, despite their many challenges, to be fulfilling, as the future leases will ultimately help propel the NASA mission “to explore space and the unknown, innovate for the benefit of humanity, and inspire the world through discovery,” as well as benefit those entities who find themselves as tenants. ✨



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