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The latest survey of airport real estate costs finds the space race isn't so expensive anymore

By Ed Riggins
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There is no question that the steep downturn that took hold in the United States economy last year took a heavy toll on air cargo-related businesses, as industries across the board began taking a closer look at their processes and making necessary cutbacks. One outcome was that many companies turned to cheaper methods of transport to reduce expenses, cutting sharply into demand for air transport services and into the businesses and operations that are built around expedited transport.

One consequence has been that demand for airport-area commercial real estate has softened in most markets, leading to increased availability, decreased rental rates, and more favorable and flexible terms through landlord rental abatements, concessions and sublease opportunities.

For air cargo businesses occupying space near airports, these changes offer outstanding opportunities to maximize real estate and cut related costs.

According to the CRESA's 2002 Airport-Area Rental Rate Survey, more than half of the 20 cities included in the survey saw a decline in average net rental rates since last year. The average national rental rate for airport-area space declined 6 percent, from $6.73 per square foot to $6.32 per square foot. Like last year's survey (*Air Cargo World*, March 2001), CRESA's data provides a snapshot of available office/warehouse properties located near the top 20 cargo airports in the United States.

In each city, three representative properties have been highlighted, and the net rental rates for these properties have been averaged to derive that city's comparative rental rate. The rental rates for the various cities are ranked from most to least expensive. Data was gathered during the fourth quarter, using criteria that is representative of facilities typically occupied by freight forwarders, airline parts suppliers, and others involved in expediting freight. Each property met the following criteria: The site had 5,000 to 50,000 square feet with an office area comprised of less than 50 percent of the total square footage, had dock-high truck loading, and was located within five miles of the airport. Exceptions to the five-mile limit were made for Denver and

Minneapolis due to local development patterns.

It should be noted that even within the survey's tight criteria, some differences in rental rates could emerge for any given city. Most of the differences have to do with two factors: building type and distance from the airport. The first factor, building type, comes into play because buildings that are shallow from front to back and designed to accommodate smaller tenants usually rent at a premium compared to deeper buildings that are built to attract larger tenants. Two buildings — one shallow and the other deep — could accommodate a 40,000 square-foot tenant and be within the square footage criteria and yet have significantly different rental rates. The second factor, distance from the airport, is particularly important in higher-rent cities such as Boston and Los Angeles, where a building two miles from the airport can command significantly higher rents than a similar building just four miles from the airport.

Like 2001, the 2002 survey still positions JFK, SFO, BOS, LAX, and SEA as the five most expensive airport areas, although Los Angeles, San Francisco, and Boston all experienced fairly significant declines in rental rates. This is understandable, considering the impact of the technology downfall and these cities' concentrations of technology, biotech, and new media companies. In the remainder of the survey, most mid-tier cities moved up or down but still hovered in the middle range of rents. However, nearly all cities reported softer markets, generally reflecting the slower economic conditions.

Over the course of the previous year, sublease space has become a factor in most markets throughout the United States. Sublease space, by definition, is space offered by a company that no longer needs the square footage for the remainder of the term; this could represent only a portion or all of the company's space. Of four randomly selected available airport area properties in Los Angeles, two were subleases. The Dallas airport area also reports significant availability of sublease space.

In the current softening market, companies offering space for sublease (sublessors) are finding it necessary to significantly discount their surplus space to motivate prospective tenants to select their space vs. competitive space offered directly from landlords. In this respect, the misfortune of downsizing companies can offer great opportunities to bargain-hunting tenants. Assuming the space in question meets the physical and location needs of a potential subtenant (sublessee), and assuming the space can be taken "as is" for the sublease term, there may be discounts of 20 percent to 50 percent off prevailing market rates.

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In addition to decreasing rental rates and sublease opportunities, the softening is yielding an increase in rental abatements and concessions offered by landlords. This type of free rent is commonly offered "outside the term." The amount of free rent varies with market conditions, but in a typical scenario, a tenant, who had otherwise intended to sign a 60-month lease, might commit to a 63-month term and pay no rent for the first three months. This represents a discount of almost 5 percent.

Why not simply discount the rental rate by 5 percent from perhaps $6.00 to $5.75 per square foot? There are two main reasons why free rent is more prevalent than simple rate discounting: From the point of view of most tenants, free rent is more attractive because it can boost cash flow for relocation costs. For landlords, free rent doesn't decrease the value of their property. Some investors value rental real estate using a capitalization, or "cap," rate, which is calculated by dividing the net cash flow by the purchase price. Thus, an investor wishing to purchase a property at a 10 percent cap rate would be willing to pay only $57 per square foot for a property rented at $5.70 per square foot against $60 per square foot for a property rented at $6.00 per square foot.

Above and beyond free rent, many landlords are offering concessions such as increased interior finish allowances, more flexible lease terms, and moving allowances, to increase the chances of attracting credit-worthy tenants to occupy their space. Clearly, business in general has become more challenging in recent months, but being a tenant, at least, seems to be getting easier than it once was as landlords in many markets get creative to fill their empty airport-area space.

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2002 CRESA Partners Airport-Area Office-Warehouse Rental Rate Survey

2002 Rank	City	2002 Avg. Net Rent	Sample Properties (Size & annual rate/sq. ft.)	2001 Rank	2001 Avg. Net Rent	Typical Tx. Ins. Maint.	Comments
1	**NEW YORK** (JFK)	$15.48	11,385 @ $14.96; 11,083 @ $14.50; up to 530K @ $17.00	1	$13.83	$2.50 to $3.00	Market continues to be strong, but some softening in rents. Some new development underway.
2	**LOS ANGELES** (LAX)	$9.86	25,700 @ $10.03; 6,305 @ $10.56; 20,740 @ $9.00	4	$10.36	$0.72 to $1.44	Market still relatively tight, but several subleases available. Rates quoted per s.f. per month, and have been adjusted accordingly.
3	**SAN FRANCISCO** (SFO)	$9.52	37,071 @ $10.20; 53,264 @ $8.16; 11,600 @ $10.20	2	$12.80	$0.93 to $1.75	Rates have dropped significantly with some increase in availability.
4	**BOSTON** (BOS)	$9.41	15,004 @ $10.00; 48,470 @ $7.75; 26,434 @ $10.50	3	$12.00	$1.50 to $2.00	Market fairly tight.
5	**SEATTLE** (SEA)	$8.24	11,101 @ $7.44; 25,500 @ $8.40; 23,000 @ $8.88	5	$7.67	$1.20 to $1.50	Market softening and rates falling, particularly for large blocks of space.
6	**CHICAGO** (ORD)	$6.53	27,190 @ $6.25; 20,704 @ $6.35; 30,659 @ $7.00	6	$7.17	$1.00 to $1.60	Overall market slow, but small freight spaces of 10,000 to 35,000 still leasing well. Particularly attractive deals offered for credit tenants with 5+ year lease terms.
7	**OAKLAND** (OAK)	$6.20	27,600 @ $6.48; 24,480 @ $5.64; 36,127 @ $6.48	7	$6.43	$1.00 to $1.55	Soft market with reasonable availability.
8	**MIAMI** (MIA)	$5.75	45,000 @ $4.75; up to 200K @ $6.50; 49,000 @ $6.00	9	$5.81	$1.25 to $1.60	Small users still providing healthy demand for space. Vacancy up somewhat, but still relatively tight market.
9	**PHILADELPHIA** (PHL)	$5.48	49,000 @ $5.50; 44,177 @ $6.00; 20,000 @ $4.95	14	$4.92	$1.50 to $1.75	Vacancy rate approximately 14%. City and Navy aggressively marketing 1,000-acre former Navy yard two miles north of airport as mixed use office/industrial park with tax incentives and abatements. At least 10 new speculative properties proposed.
10	**DALLAS/ FT. WORTH** (DFD)	$5.45	10,800 @ $4.60; 25,000 @ $7.25; 14,969 @ $4.50	8	$6.02	$0.90 to $2.88	Landlords becoming more flexible, offering some rental abatements and shorter lease terms.
11	**ATLANTA** (ATL)	$5.40	8,753 @ $5.45; up to 35K @ $5.25; up to 37,714 @ $5.50	12	$5.15	$0.60 to $1.35	Relatively slow, soft market, but changes expected as property acquisitions for airport expansion get underway.
12	**DETROIT** (DTW)	$5.25	25,000 @ $4.75; 37,500 @ $5.50; 15,000 @ $5.50	10	$5.42	$0.80 to $1.20	Slow overall market tied to challenges in automotive industry. Landlords offering concessions to lease up inventory. Significant inventory of sublease space available.
13	**NEWARK** (EWR)	$5.25	40,000 @ $5.00; 12,000 @ $6.50; 15,000 @ $4.25	19	$4.20	$2.00 to $2.25	Tight strong market around airport. Airport undergoing major expansion. Limited inventory of functional, lower-cost product. Some companies have elected to raise roofs on older buildings to overcome functional obsolescence.
14	**DENVER** (DIA)	$4.90	50,000 @ $4.50; 16,080 @ $6.25; up to 69,367 @ 3.95	17	$4.58	$1.20 to $1.80	On-airport property also available at rates in the $9.00 range with additional expenses of $4.00.
15	**MINNEAPOLIS/ ST. PAUL** (MSP)	$4.79	16,440 @ $5.32; 15,000 @ $4.21; 17,000 @ $4.84	20	$4.17	$2.40 Eagan, $1.54 Inver Grv Hts, $2.75 Bloomington. *(diff. tx. & age of bldgs)*	No designated freight forwarding zone near the airport, which has residential property on two sides, river on the third side and office and retail on the fourth. Market has softened significantly in the last year. Industrial vacancy rates in these areas have risen to 12 percent in the past 12 months.
16	**CINCINNATI** (CVG)	$4.40	23,200 @ $4.80; 49,400 @ $3.95; 25,000 @ $4.20	11	$5.20	$0.60 to $0.80	Average rate for market is lower than last year, which is a reflection of larger blocks of available space leasing at lower per s.f. rates.
17	**INDIANAPOLIS** (IND)	$3.95	12,000 @ $4.30; 36,000 @ $4.55; 22,850 @ $3.00	16	$4.68	$1.23 to $1.50	Substantially lower rates available as size increases above 50,000 s.f.
18	**HOUSTON** (IAH)	$3.60	7,400 @ $4.32; 15,868 @ $3.00; up to 27,000 @ $3.48	15	$4.87	$1.40 to $1.80	Tropical storm Allison had a significant impact in airport area, particularly on dock-high buildings. Most companies have recovered, but market is still relatively tight.
19	**LOUISVILLE** (SDF)	$3.53	20,000 @ $3.50; 12,240 @ $4.25; 80,000 @ 2.85	18	$4.36	$0.45 to $0.55	Softening market.
20	**MEMPHIS** (MEM)	$3.33	40,000 @ $2.50; 11,000 @ $3.75; 7,556 @ $3.75	13	$5.01	$0.53 to $1.32	Lower rates compared to last year reflect available properties with lower office percentages.
NATIONAL AVERAGE			**$6.32**		**$6.73**		