

Destination retail

Chris LeTourneur and Andrew Fayn report on the growing trend of opening shopping malls and other retail facilities on airport sites.



Since the rise of commercial aviation during the mid-twentieth century, airports have become integral components of the economic activity of urban settings.

The contribution of airports to local economic activity was traditionally oriented around their gateway for people and products, but in the last decade, the pursuit of non-aeronautical revenues has resulted in many airports leveraging their property assets to generate commercial development activity.

Increasingly, airports are becoming more involved in the development of retail facilities on land not required for aviation use in order to recognise short and long-term revenues associated with such development.

Newer international airports such as at Denver, Edmonton and Athens were specifically located outside of their respective urban cores to take advantage of large tracts of available land that will ultimately accommodate not only traditional airside and terminal functions and expansions, but also to foster 'regional destination retail' and commercial development on and around the airport lands.

This activity has been accelerated by the global financial crisis, whereby retail and commercial developers have had difficulty relying on traditional equity and lending sources to finance their projects.

On the other hand, by the nature of most airports to maintain ownership of their lands and offer them through ground leases to developers or by building leases to end-user tenants, 'destination retail development' on airport lands has become attractive for traditional retail and commercial developers.

What makes this prospect particularly appealing is that airport authorities have the ability to service and contribute land, leverage their strong credit position and have access to competitive financing. The natural progression for airport authorities is to become active joint venture development partners in the planning, servicing, marketing, construction and operating of destination retail and commercial facilities on airport lands.

At Vancouver International Airport (YVR) in British Columbia, Canada,

the Vancouver Airport Authority is moving in this direction with the announcement of a planned destination retail project on its Russ Baker Way commercial corridor property.

Managed by the Airport Authority, the airport lands are the subject of a ground lease with the Federal Government (Transport Canada), as is the case at all major airports across Canada. As with its successful aeronautical development, Vancouver Airport Authority is taking a leadership position with the planned development of the Russ Baker Corridor.

Ray Segat, director of business and land development for Vancouver Airport Authority, is exploring the opportunities for the organisation to become an active joint venture partner in the development of the Russ Baker Corridor property.

"We see a compelling opportunity with our Russ Baker Way property to develop a destination retail, dining and entertainment centre that will be unique to Metro Vancouver," says Segat. "This new concept will invigorate the region's urban retail offerings, while it supports continued growth of Vancouver International Airport as the premier gateway to the Asia-Pacific region."

The Russ Baker Way property has already garnered the interest of many recognised North American developers, who are intrigued by the prospect of proximity to the airport, the destination appeal of such a regional site, the development deal structure approach and the fact that these lands represent some of the only undeveloped commercial properties within the Metro Vancouver urban area.

To facilitate commercial development adjacent to airport terminal buildings, airports have the ability to create land use and zoning legislation. Local governments have followed suit by adjusting zoning designations for airport proximate lands to complement the retail and commercial destinations evolving on airport lands.

In terms of the target market audiences for destination retail development on and around airport lands, there are two distinct groups.



The first group involves 'airport-related' customers directly associated with the airport community including passengers, tourists, airport hotel/conference guests and airport employees. The second group is oriented around the regional population base, which passes by airports on the highways and major road infrastructure at and around airports.

Destination retail development benefits from vehicle traffic, and access from this road system serves not only airports, but also the surrounding metropolitan regions. In many cases, airport retail developments are on the daily commuting routes, facilitating strong sales capture rates for shopping, dining and entertainment spending.

Grapevine Mills shopping centre, located just off airport lands north of Dallas-Fort Worth International Airport (DFW), is able to take advantage of vehicles travelling to and from the terminal along the International Parkway.

It features over 150,000 square metres of shopping and dining, anchored by the adjacent Bass Pro Shops store (outdoor recreation, hunting and fishing), which acts a destination hub attracting not only 'airport-related' customers, but also customers from around the Dallas-Fort Worth Metroplex trade area and beyond.

As well, a primary hotel cluster (including the Great Wolf Lodge Waterpark Resort Hotel and the 1,500 room Gaylord Convention Centre) has been built around Grapevine Mills to further establish this commercial development cluster as a regional destination for shopping, dining and entertainment, situated at the northern gateway to DFW.

Opened in 1997 and managed by Simon Property Group, Grapevine Mills takes advantage not only of the airport location, but also its access and visibility from the regional highway system that connects to DFW.

Similarly, furniture giant IKEA is a major destination retailer, which typically places only one or two stores within a metropolitan trade area, with a

preference to be at the centre of multiple trade areas. This location is typically the same place that airports are found. The available land at airports and ability of airports to offer 'made-to-suit zoning' and negotiate competitive site location offerings is very attractive for destination retailers such as Ikea.

An added benefit of being located on airport lands is the direct proximity to the logistics network and supply chain that retailers rely on, allowing large volume retailers to have their logistics warehouse and primary retail outlet either together or in close proximity of one-other, thereby reducing transportation costs.

At Athens International Airport in Greece, a 25,000 square metre Ikea store is located in close proximity to the Main Terminal Building within an Airport Retail Park. This store has enjoyed strong sales since its opening.

The destination Airport Retail Park has continued to see successful performance, recording over 3.5 million visitors in 2009. Other components within the Park include Greek electronics giant Kotsovolos and do-it-yourself big box retail formats, as well as Factory Outlets, operating under the 'shop-in-a-shop' concept offering over 400 brands under one roof.

The Airport Retail Park has acted as an anchor for the gateway's 'airport city' concept, facilitating the amenity for other airport development projects including the Airport Hotel and Metropolitan Expo Exhibition Centre.

An emerging trend is the strategic placement of Factory Outlet Shops on or adjacent to airport lands in order to benefit from the regional population trade area capture, airport activity, tourists draw and highway locations that airport lands offer.

The Direct Factory Outlets (DFO) in the Airport Village at Brisbane International Airport in Australia is an excellent example of this trend. DFO offers over 100 brands and provides shoppers with free airport shuttle service to and from the Terminal Building.

To attract customers living within the Brisbane regional trade area, DFO pays for return train ticket fare on Brisbane's Airtrain rail transit line (which connects the airport with the urban area), allowing those without a vehicle to easily access this factory outlet shopping experience.

At Portland International Airport in Oregon, USA, the Cascade Station project has been very successful with the development of its 120-acre mixed-use development property with retail, office and accommodation along Airport Way (the major route to the Airport Terminal Building).

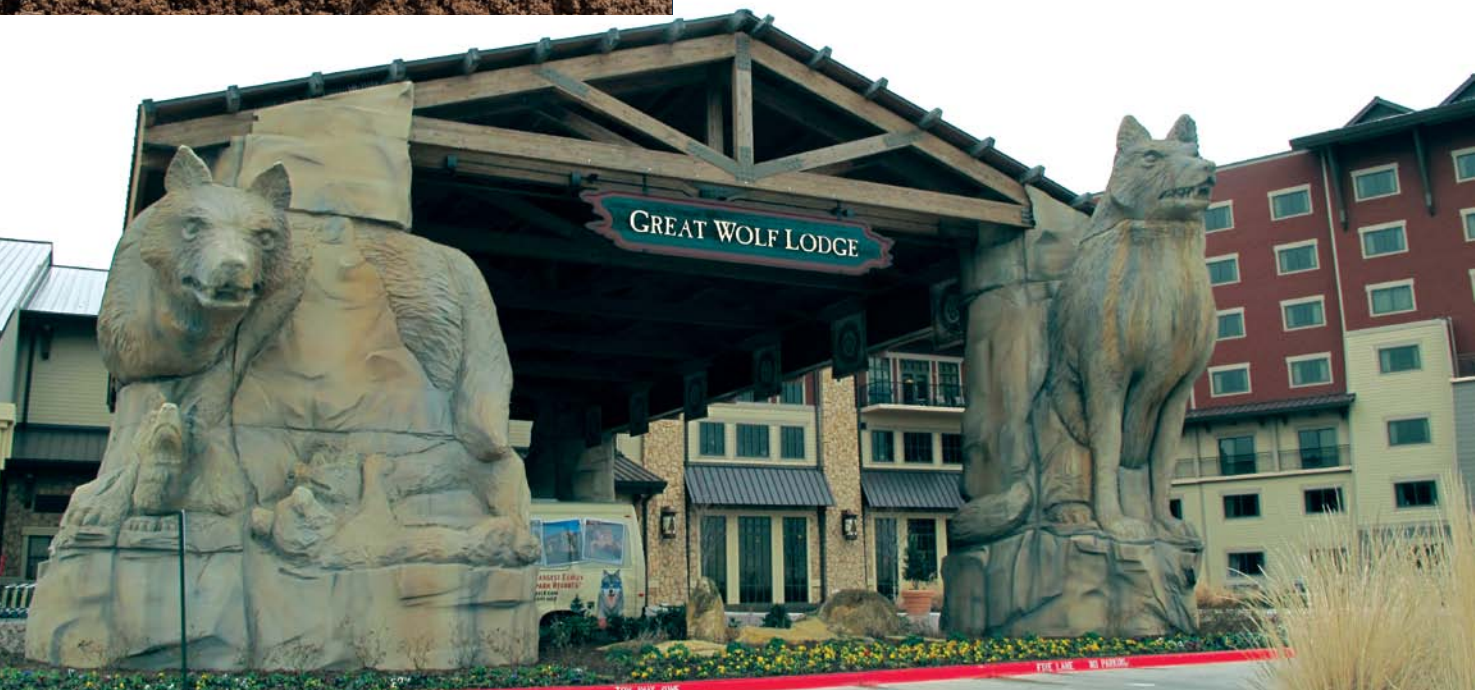
Anchored by IKEA, Best Buy Electronics Store and REI Sports, Cascade Station has a strong mix of tenants and restaurants that have allowed it to maintain a vacancy rate below 5% over the past two years, even during the financial crisis.

Similar to the Brisbane DFO, Cascade Station is serviced by the MAX local light-rail transit line, which runs between Portland's urban core and the International Airport Terminal, with ridership of approximately 6,000 per week.

In addition to the retail development at Cascade Station, there will also be 120,000 square meters of Office Park uses and three hotels, including a new Starwood Aloft Hotel, which recently opened.

Cascade Station went through a lengthy planning process, taking close to eight years before construction began. This leading edge project was developed through a joint venture public/private partnership between the Cascade Development Company (Bechtel Corp, Trammell Crow and CenterCal) along with the Port of Portland, City of Portland and Portland Development Commission.

Cascade Station finally opened near the start of the global economic crisis but was able to succeed due to its strong mix of tenants, excellent access from the airport terminal, along with offering tax free shopping for nearby Washington State residents and airport travellers, since the State of Oregon does not charge sales tax.



Elsewhere, Edmonton International Airport (EIA) in Alberta, Canada, occupies a significant property of over 7,000 acres, of which an approximate one-third is not required for the current or future airside system or terminal, and therefore is available for commercial development.

Accordingly, EIA is breaking the traditional piecemeal approach to airport lands commercial development by becoming actively involved in the preparation of integrated development and servicing strategies for these strategic lands.

In addition to an aggressive terminal expansion involving a dramatic new office tower with a control tower above woven into the terminal building, EIA is planning the development of a 400-acre tract of its Highway Commercial lands, spanning between two highway interchanges.

MXD Development Strategists and Stantec are assisting EIA in preparing the Commercial Development Strategy to establish this property as a regional commercial destination at the gateway to EIA and the Northern Alberta Petroleum and Energy Region. This project enjoys one kilometre of frontage along the QE2 Highway Canamex Corridor, which connects the region with the USA and Mexico for the movement of goods, information and people.

EIA is taking a proactive role in the zoning and servicing of this property to attract international development and tenant interest and to foster new economic sectors for the region. The development will involve destination retail, entertainment, hotel, meeting space, office and commercial park activities.

"EIA's Master Plan and Development Strategy provides a prescriptive road map to ensure that development today does not preclude future aeronautical options and commercial development opportunities" enthuses Myron Keehn, EIA's Vice president of commercial development. "On an on-going basis, EIA consults its stakeholders and the commercial development community to leverage the airport's role as the primary economic catalyst for the region."

A specific emphasis of EIA's highway commercial project will be to foster sustainability and leverage opportunities for renewable energy, a key theme for the project. By measuring its risks to rewards, EIA has recognised there is considerable short and long-term revenue potential by becoming a more active participant in the planning, marketing, development and management of its non-airside commercial lands.

Major shopping centre developers, investors and operators have also taken a keen interest in destination retail development near airports. In 2008, for example, the Al-Hokair Group opened the 261,000 square metre Mall of Arabia adjacent to King Abdulaziz International Airport, in Jeddah, Saudi Arabia.

Located along the major interchange that directs traffic towards this airport's main terminal building, the Mall of Arabia is currently the first development encountered when arriving to or leaving the airport. Like Grapevine Mills at DFW, the prime location of the Mall of Arabia is situated at the geographic and fast-developing centre of the Jeddah metropolitan region.

Anchored by Hyper Panda Supermarket, Debenhams and Marks & Spencer, the Mall of Arabia has become one of the most popular destinations for the citizens of Jeddah, as well as for many of the tourists who use the airport as a gateway to Mecca and Medina to perform the Hajj pilgrimage.

Similarly, Chelsea Japan Co is planning a 200,000 square meter shopping mall near Narita International Airport, which is 60 kilometres east of Tokyo. The mall, which is planned to open in 2013, will be targeting the increasing number of Chinese tourists that have been travelling to Japan since the easing of Japanese immigration visa requirements.

Destination retail development on and around airport lands has come a long way from the obligatory fast food restaurants and fuel stations.

Airports are fast becoming active participants in the development of destination retail facilities on land not required for aviation use. In so doing, the most progressive airport authorities are recognising the significant non-aeronautical revenues that can flow from destination retail development on their lands.

As well, airport authorities' unique ability to facilitate 'made-to-suit' zoning, service and contribute land, ground lease, leverage their strong credit position, access competitive financing and willingness to become development partners has become very attractive for commercial developers, retailers and investors.

Accordingly, the development of destination retail development on airport lands is a significant contributor to airports' roles as gateways, catalysts and hubs for regional economic development.

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About the authors

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