The four key success factors for developing airport areas

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Abstract

Developing the airport area is a priority for airports, and for the cities and nations that they serve. On the one hand, airports rely on landside real estate as a crucial source of non-aeronautical revenue, and as an insurance policy designed to mitigate risks inherent to the aviation industry. On the other hand, cities and regions promote airport-led urban development to achieve a broad range of social and economic development goals. Drawing on a global survey of more than 2,000 urban planners, policymakers, developers, and aviation professionals, the article identifies the four key drivers that fundamentally determine the success or failure of any airport area development project. Specifically, it highlights customer focus, site-specific development, effective governance, and project positioning as necessary preconditions for delivering a substantial return on investment and for moving efficiently from the concept stage to implementation.

Introduction: why do airport areas matter?

In recent decades, policymakers, planners, and leaders in the aviation industry have come to recognize airport area development as both an essential pillar of the airport business model, and as a key driver of urban, regional, and national economic growth (Schaafsma, Amkreutz, & Güller 2008; Freestone 2009; Hirsh 2016, Thierstein & Conventz 2018). To better understand the prominence of these airport-led urban development projects, it is important to begin with a simple – but often overlooked – question: why does developing the airport area matter for airports? Their primary mission, after all, is to move airplanes in and out of the airport, and to assist the passengers and goods aboard those planes with their onward journey. Casual observers might therefore assume that the airports' interests do not extend beyond the terminal and the airfield. So why, then, do many of the world's most successful hubs devote so much time and resources to developing the surrounding area?

The answer lies in the fact that Non-Aeronautical Revenue (NAR) has become an essential part of the airport business model: accounting for approximately 40% of an airport's overall income (ACI 2019: 23). At most airports, travel retail and car parking represent the top two sources of non-aeronautical income. Property development ranks third, accounting for 15% of an airport's overall NAR. However, in the aftermath of COVID-19, property development has taken on a more important role in generating NAR. Unlike travel retail and parking – which collapsed following the precipitous decline in air travellers – income derived from airport real estate is immune to sudden changes in passenger numbers. When travellers disappear, real estate keeps generating income for the airport. Following the outbreak of the pandemic, real estate was one of the only reliable money makers: a rising star at a time when nearly all other revenue sources plummeted. As airports seek to diversify their income streams, they have come to recognize that real estate is more than just an additional source of revenue. Property development functions as a countercyclical 'insurance policy' that enables airports to manage unavoidable risks in the aviation industry. By providing a reliable financial cushion, property development enhances an airport's financial and organizational resilience when unexpected disruptions – be it a public health crisis, a terror attack, a natural disaster, or an airline bankruptcy – wreak havoc on their core business.

Developing the airport area is also a priority for policymakers and planners at the local, regional, and national levels of government. Around the world, they have come to recognize that airports are essential drivers of economic development. Airports are typically one of the nation's largest employment centres, and one of the best connected places in the country. Successful cities such as Denver, Singapore, and Zurich have leveraged that connectivity to advance a broad range of social and economic development goals. Through airport-led projects, they use the airport as an anchor for expanding the city outward, and draw on the infrastructure that connects the airport to the CBD as the backbone for urban expansion and regional development. In so doing, they spread the benefits that typically accumulate in city centres – such as access to higher education and employment opportunities – to the wider urban region. At the same time, successful cities use airport-led urban development as a strategy to address common inner-city challenges, such as overtourism, a lack of affordable housing for young families, and a lack of affordable office space for early-stage companies. By building new research campuses, workspaces, tourism attractions, and residential areas in the airport area and along the airport corridor, policymakers thus aim to distribute economic opportunities and raise the attractiveness of the entire urban region as a place to live, work, and visit.

To do so, urban planners and commercial real estate developers apply a variety of programming and land use strategies to the airport area. Broadly speaking, the most common strategies fall into six categories:

- passenger services, e.g. airport hotels, parking garages, and car rental facilities,
- business services, e.g. office parks and MICE facilities,
- consumer services, e.g. retail, entertainment & leisure, tourism attractions,
- cargo infrastructure, e.g. warehouses and logistics centres,
- social infrastructure, e.g. university campuses, medical services, sports facilities,
- energy infrastructure, e.g. solar farms and airport microgrids.

Given their shared interest in developing the airport area, hundreds of airports, cities, and national governments around the world have launched ambitious airport-led development projects, often branded as an 'airport city', 'airport corridor', or 'aerotropolis'. However, despite their best intentions, many of these have projects have failed to deliver a significant return on investment. Still others struggle to move from the concept stage to implementation. To a large degree, these shortcomings are due to the fact that scholars and planners have focused primarily on the airport area's spatial layout and underlying economic framework (Gueller & Gueller 2002; Freestone & Baker 2011; Appold & Kasarda 2013). As M. van Wijk et al. note: '[Planners] mainly focus on the development of an urban model of the airport area and less on the interactions with the surrounding metropolitan environment. In addition, they tend to neglect the institutional organization or the implementation of these models

through concrete plans and projects' (van Wijk, van Bueren & te Brömmelstroet 2014: 140).

Less attention has been paid to key factors such as the airport area's governance, land ownership structure, property development model, and existing market demand, all of which crucially determine how feasible it is to implement an airport-area development plan and deliver a positive return on investment. Research conducted by the author indicates that insufficient awareness of these factors among decision makers is the most common barrier to success in airport areas (Hirsh 2019). Moreover, a lack of experience in real estate development, poor coordination between the key development parties, and an unclear understanding of the project's target customers prevent many airport-area development programmes from moving forward.

Key success factors: the "4 Ps"

What, then, are the key factors that fundamentally determine the success or failure of any airport-area development project? To answer that question, I launched a global survey of more than 2,000 professionals involved in the development of airport areas. The survey was divided into an extensive and intensive research phase. In the extensive phase, an online questionnaire was distributed to 3,200 professionals via LinkedIn, Facebook, WeChat, and direct mail. Drawing on their own experience developing airport areas, respondents were asked to identify the primary drivers of, and barriers to, implementation. The survey groups included airport CEOs, commercial directors, and project managers; airport-area planning consultants; commercial developers, tenants, and investors; and urban planners and

The Key Drivers of Success: The "Four Ps"

People

Place

Partnerships

Positioning

economic development policymakers. The questionnaire achieved a response rate of 63%, yielding a total of 2,070 responses. In the intensive research phase that followed, 48 of the respondents were selected for one-hour, long-form interviews, conducted either in person or by phone.

These data provide a global overview of airport-area development trends viewed from the perspective of key development parties in both the public and private sector. An analysis of the survey results points to four key drivers of success, which can be summarized as the "4 Ps" (Figure 1).

People

First and foremost, successful airport areas begin the development process by focusing on *people*: specifically, the people who live, work, and run businesses in the airport area. They initiate the concept development stage by identifying the types of customers that the project can potentially attract. That includes people already present in the area–such as passengers, airport employees, and local residents–as well as target customers in the wider region such as business owners and potential new inhabitants. Next, successful airport areas investigate the unique needs and desires of each of these target customer groups, and identify which of those needs are currently not being met. Allowing customer focus to drive the concept development stage empowers planners and developers to pinpoint specific services, facilities, and land uses that respond to those unmet demands. While successful airport areas differ considerably in terms of their ownership structure, economic agenda, and land use strategy, they are united by an unwavering attention to the needs and desires of their target customers. That customer-focused development approach is known as *airport urbanism* (Hirsh 2016, 2017).

Less successful airport areas, on the other hand, depend on a product-driven approach to property development. They begin the process with a predetermined set of building types – for example, an office park or a logistics hub – and then look for potential customers to fill those buildings. In so doing, they ignore the actual needs of the local business community, and overlook innovative opportunities to capture new sources of revenue. Not surprisingly, these generic business districts often duplicate existing facilities in the surrounding area, leading to high vacancy rates and a poor return on investment.

Place

The second driver of success is *place*. Successful airport areas create place-based strategies that leverage the airport's unique geographic advantages and engage with market gaps in the airport's catchment area. To do so, they focus on two critical spatial considerations: 1) local connectivity in the airport area and 2) distance to the CBD.
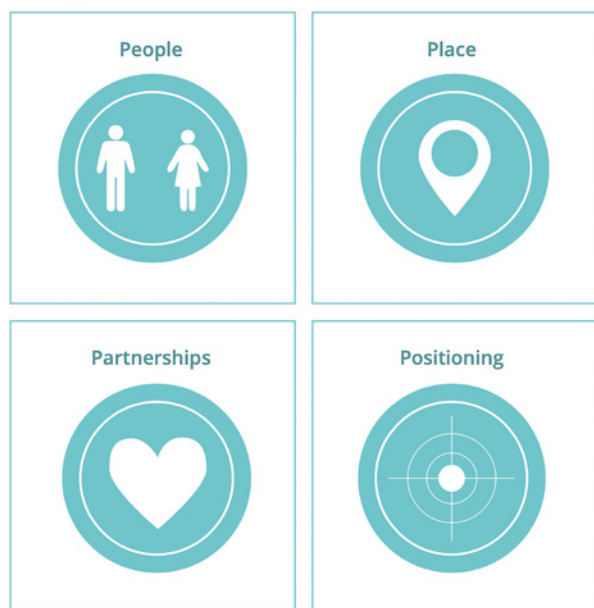
Airports have excellent long-distance connections to a range of domestic and international destinations. But airport areas are often characterized by poor local connectivity. Public transportation can be limited, and walkability is a common challenge: leading to what transport planners refer to as the last-mile problem. The airport itself may be an attractive place to do business: but an office park or shopping centre located even just a few hundred metres from the terminal will struggle to attract customers in the absence of dedicated walkways and convenient ground transportation options. Successful projects avoid these challenges by developing a coherent mobility concept for the entire airport area.

Successful airport areas also acknowledge the importance of place by evaluating their airport's locational advantages in the context of the wider urban region. A key consideration is how far the airport is from the CBD and other major population centres – and that's a distance that customers measure in minutes, not in kilometres. Some types of development, such as facilities for business meetings, depend on quick access to the city centre. Other land uses, such as industrial activities and energy production, fare better in more remote locations. Focusing on these two place-based factors – local connectivity in the airport area and relative distance to major population centres – empowers successful airport areas to pinpoint specific services, facilities, and land uses that are most appropriate to their unique spatial context.

Partnerships

Airport-led urban development projects involve a wide range of people and organizations with an interest in their evolution. It is only by having a clear understanding of each stakeholder's short-term and long-term priorities that a consensus can be achieved to enable meaningful change to occur. With that in mind, successful airports coordinate what is being built on the airside, landside, and beyond the perimeter fence in order to advance development strategies that complement, rather than compete with, each other.

To do so, they create strategic partnerships with key development parties in the airport area. While institutional arrangements vary from airport area to airport area, the most important development partners typically include the airport authority, local municipalities, provincial/regional authorities, private developers, and the national transportation ministry. Economic development agencies, landowners, investors, tenants, and citizens' groups also play an important role, as does the largest municipality in the airport's catchment area. The most successful partnerships have five things in common:
– a shared vision for the airport area, expressed through a well-defined set of short-term and long-term goals,

– a willingness to look beyond each partner's own institutional boundaries in order to optimize the airport area's economic potential and strengthen regional competitiveness,
– a clear division of labour based on each partner's area of expertise,
– a shared financial interest in the success of the project, and
– regular face-to-face meetings.

Large-scale airport-led development projects frequently involve multiple landowners and developers, and they often cut across countless administrative boundaries: towns and provinces on the one hand, and government ministries and regional planning authorities on the other. The more actors that are involved, the harder it becomes to implement a coherent long-term vision. Successful airport areas address that challenge head-on by establishing a governing body that brings the key development parties to the table, and where binding decisions can be made. By contrast, single-handed attempts to develop the airport area – without the cooperation of external partners – are more likely to lead to unrealistic development plans. They are also more likely to suffer from inadequate access to capital, and from protracted disputes that can delay or even derail the entire project.

Governing the airport area is a complex undertaking that depends on the local juridical landscape, landownership structure, and real estate development practices. There is no one-size-fits-all solution that can be applied to every airport area. However, a global survey of airport areas reveals three common governance approaches:
– **state-led:** the national government designates the airport area as a special zone of national importance administered directly by a special-purpose development agency. Local regulations and land-use policies are superseded in order to expedite the development and expropriation process. While this top-down model streamlines public-sector inefficiencies in the permitting and approval process – a common challenge for airport areas – it is less adept at surveying actual market demand and incorporating the perspective of the private sector.
– **market-driven:** a voluntary association brings together cities, counties, and companies with a shared interest in developing the airport area. The association prioritizes the needs of the local business community, and seeks to align individual investors' objectives with the job creation and economic competitiveness goals of local municipalities. This is a more flexible approach to governance that allows the spatial and programmatic scope of airport-area development to grow and change according to market demand. However,

with the association's members and physical planning boundaries in a constant state of flux, implementing a long-term vision and coherent urban plan for the airport area can be challenging.

– **state plus market:** one or more public institutions – e.g. a ministry, airport authority, and/or municipality – establish a private company to plan, develop, market, and manage large-scale development projects in the airport area. The strength of this model lies in its ability to combine political and administrative support from the public sector with the organizational flexibility and corporate governance practices native to the private sector. The model's weakness lies in the potential for collusion between elected officials and private developers, distorting the market and harming public-sector transparency (van Wijk, van Bueren & te Brömmelstroet 2014). Rigorous monitoring procedures are therefore essential to guarantee long-term success.

Positioning

The final P – positioning – addresses one of the biggest challenges that every airport area project faces: how to build momentum, and how to build the support that is needed to drive development forward. Less successful projects fail to get off the ground due to a lack of momentum. In many instances, plans to develop the airport area have been discussed for a decade or longer. After prolonged periods with few tangible results, investors, stakeholders, and the general public quickly lose faith in the project's viability.

By contrast, successful airport areas position their project to build both *internal* support – that is, among the key development parties – as well as *external* support among investors, tenants, government officials, and decision makers in aviation-related industries. To do so, they publicize a project vision that offers compelling answers to five key questions:

– How does the project advance the airport's strategic goals?
– How does the project advance the city's/nation's development goals?
– What benefits will the project bring to the community?
– Why does this project need to be built *right now*?
– What will happen if the project *doesn't* get built?

Successful airport areas can answer these questions confidently and persuasively; less successful ones can't.

Planning for success

Developing any airport area requires creativity and patience, along with an ability to set realistic goals that can be achieved within a reasonable timeframe. It also requires a deep understanding of each development party's strategic priorities – and an ability to adapt when those priorities change. To do so, successful airport areas focus on *people*: investigating the needs and desires of their target customers in order to drive the concept development process. Drawing on those customer insights, they propose *place*-based land use and urban design strategies that leverage the airport's unique geographic advantages. Through *partnerships*, they establish a governance framework to implement those strategies in an efficient and mutually beneficial manner. Lastly, by leveraging the power of *positioning*, successful airport areas build support for the project by highlighting its value, timeliness, and relevance. Focusing on the four Ps – people, place, partnerships, and positioning – empowers planners to deliver a sustainable return on investment to the key development parties, and to transform the airport area into an attractive place to live, work, and visit.

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