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Dallas/Fort Worth Airport hopes to make millions by developing land around it

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Dallas/Fort Worth International Airport is many things: the world's third-busiest airport, American Airlines Inc.'s biggest hub and the reason many Fortune 500 companies settle in North Texas.

Now it could be something different: a cash machine.

The 35-year-old airport plans to focus more of its efforts on developing 6,600 acres on the airport's edges, potentially generating nearly $300 million in fees, rents and sales tax to be split among the airport and surrounding cities.

"It could be many times that number," said D/FW chief executive Jeff Fegan. Market forces could mean more revenue faster, or it could take longer to reach $300 million – perhaps 10 years or more, he said.

But Fegan is convinced of the airport's potential: "People forget how big our land mass is."

With 18,000 acres, D/FW wants to turn its wealth of land into much more wealth. That includes increasing air service to bring money-spending passengers here and more commercial development to create jobs and sales tax revenue.

To that end, airport officials envision:

•More development parks such as the International Commerce Park, which the airport estimates has created 3,000 jobs.

•More entertainment and hospitality businesses, along with corporate headquarters for companies that are dependent on air travel.

•More corporate jets, drawn by $3 million worth of improved general aviation facilities.

•More airlines – especially international carriers – to be lured by bigger incentive programs that give carriers free rent for a year or more.

Besides raising cash for the airport and surrounding cities, the development plans could boost the region's underfunded convention and visitor bureaus if new sales tax dollars are shifted to marketing, as pondered by airport officials.

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TOM FOX/DMN
An American Airlines jet passes over semi-trailers in a commercial/warehouse district on Dallas/Fort Worth International Airport property north of Highway 114. 'People forget how big our land mass is,' says D/FW chief

North Texas finds itself outgunned by peer cities such as Atlanta and Phoenix when bidding for conventions and luring tourists; extra sales tax dollars from the airport could juice marketing.

"That is a struggle for the region and one where we'd like to help," Fegan said.

Compared with other major airports, D/FW is in fairly good financial shape, with the hope of an even brighter future.

executive Jeff Fegan. The airport's expansion goals include more business parks and more entertainment and hospitality businesses.

Of the top 40 major domestic airports, D/FW lost the fewest flights – 5 percent – in the last two years as airlines reduced their schedules in the face of rising fuel prices, followed by the longest recession since World War II.

While other airports have raised fees and rates to compensate, D/FW has only tightened its belt somewhat. The airport trimmed more than $52 million from its current fiscal year spending of about $640 million. The leaner budget keeps the airport's costs low, which in turn keeps the airlines' gate rentals and landing fees low and increases D/FW's appeal to the industry.

Along with having among the lowest costs for airlines, D/FW sports a cash balance of more than $1 billion and has been paid more than $200 million from selling natural gas drilling rights, with more to come each year on royalties.

Low natural gas prices will hold the annual royalty payments near $20 million for the time being, but the money is an important part of nonairline revenue, estimated at $400 million for the most recent fiscal year.

"D/FW's managing pretty well compared to other large hub airports in this environment," said Fitch Ratings' analyst Seth Lehman.

Higher costs elsewhere

Other airports that have seen steep traffic declines – St. Louis, Cincinnati, Pittsburgh among others – have lower credit ratings and face higher costs because fewer passengers come through to buy concessions, park and pay airport fees.

For example, Cincinnati, where Delta Air Lines Inc. has cut flying, lost 42 percent of its traffic in the last two years. St. Louis lost 21 percent.

Meanwhile, D/FW has given its air service marketing department the ability to offer two years free rent to carriers that want to come here, though none have taken up the latest offers.

It's also about to start spending as much as $3 billion refurbishing its older terminals to give them more concessions space so they can generate more cash.

The project aims to update the aging terminals with new air conditioning, heating, plumbing and other internal systems while adding bigger, brighter concession areas to generate more revenue from food and merchandise sales. The work will start in 2011 and finish in 2017.

Airport parking could serve as another easy revenue source for the airport, where parking rates lag those at similar-size airports.

The average daily rate for its terminal parking, $17, is nearly $4 below the average of large airports. D/FW will raise some of its rates by $1 beginning Oct. 1 in an effort to offset fewer passengers parking at the facility.

"It's not a question of upside for D/FW," said air service development consultant Mike Boyd of the Boyd Group in Evergreen, Colo. "It's a question of how much upside – there is no downside."

D/FW's peers in terms of potential include Atlanta's Hartsfield International Airport and Houston's Bush Intercontinental Airport, both featuring large network airlines with huge hubs feeding on local passengers, Boyd said.

Indeed, Houston may be in even better shape than D/FW, Boyd argues, because of its ability to attract international airline service. That said, D/FW and its peers are "only separated by small degrees," he said.

Sharing $10 million

Despite its healthy balance sheet, D/FW is not yet a big moneymaker for its owner cities, Dallas and Fort Worth, which shared about $10 million from development money last fiscal year.

By law, D/FW cannot share money that comes from aviation with Dallas and Fort Worth. That's where the commercial development gains appeal.

D/FW's prime land for development sits inside the city limits of Grapevine, Irving, Euless and Coppell.

D/FW has entered into a tax-sharing agreement with the cities, but its deal with Grapevine does not cover 1,100 acres of attractive land north of Highways 114 and 121.

Getting Grapevine to work with the airport on that land is a huge priority for airport staff.

A fully developed D/FW airport could produce an estimated $150 million a year in rents and sales percentage agreements for the airport.

That would be in addition to what's anticipated to be $143 million in tax revenue that would go to the cities. Dallas would see $24 million as it owns 7/11 of D/FW and Fort Worth, which owns the rest, would get $13 million. The remainder would go to schools and the cities where the development is located.

As far as what kind of development will go on the airport, Fegan said nearly anything goes except casinos, huge hotels and convention hotels.

"If we catch wind that some product is being considered within the cities, we probably don't go after those," he said.

Prime areas for development include the future transit stations at Belt Line Road to the east on the Dallas Area Rapid Transit line and the intersection of the DART line and Fort Worth's transit system north of the airport, with a spur that leads into the terminals.

Although commercial development has the most potential for new revenue, D/FW has smaller-scale plans as well, such as spending $3 million to improve its general aviation offerings.

The goal is to become the preferred stop for private jets coming to upcoming events such as the 2011 Super Bowl and the National Basketball Association's All-Star Game in 2010, as D/FW is the closest airport to the new Cowboys Stadium.

"I don't think people are going to move their hangars from Love Field or from Addison Airport to D/FW, but there will be events where we will become more attractive over time," Fegan said.

Key will be adding a road to let customers reach the new facility without having to go through the airport's parking system, which is a big part of the $3 million investment.

Finding new revenue at the airport presents an interesting situation for Dallas, which owns all of Dallas Love Field, where a new terminal is taking shape and flight restrictions will end in five years. Love Field is projected to nearly double its passenger traffic after its upgrades.

Fegan said the upgrade to D/FW aims to make his airport as appealing as the "new" Love Field will be, but he doesn't think Love will siphon off crucial local passengers or pose a threat to D/FW's revenue.

"Quite frankly, the way the region is growing, it appears to me that D/FW Airport is becoming more and more accessible and Love Field is not," Fegan said. "At the end of the day, North Texas will be well-served with two air carrier airports."

D/FW AIRPORT'S TO-DO LIST

•Reach a new lease with American Airlines and other airline tenants.

•Attract new carriers to put more passengers in the terminals to boost revenue.

•Develop more of its 6,600 acres of idle land to create rent income and tax revenue for cities.

•Start a terminal renovation program to update its 35-year-old facilities.

•Finish perimeter taxiway programs to increase the airport's capacity and cut delays.