It's long been known that operators spend more building stores and restaurants in airports than other venues. Several factors are converging that are likely to drive those costs even higher, at least over the next couple of years.

Costs have escalated between 3 percent and 6 percent in the past year, more in some areas, says Connie Gowder, president and CEO of Connico Inc., a construction consulting firm that specializes in cost-schedule programs and project management.

As the economy has improved over the past year, construction has made a strong comeback in many sectors. But sources say the available work force was decimated during the recent economic downturn with a lot of people leaving the industry for other professions. Couple the labor shortage with increasing materials costs and the continued existence of several challenges unique to the airport world, and it's a recipe for build-out sticker shock.

"It's hard to find an adequate skilled labor force," says Tom Theobald, principal with Fentress Architects. "At an airport, in a big program, you need a lot of people to get..."
Left to Right:
Paul Carolan, president of Brugger's Bagels, says he understands the need for stringent build-out guidelines but wishes airports would tier the minimum costs based on the type of establishment being built.

Ann Ferraguto, principal with AirProjects, says sometimes operators bid more than they have to—such as, for instance, using 20-year materials rather than 10-year, even when the latter is of good quality.

A construction labor shortage driven by people leaving the profession during the recent downturn is one of many factors pushing build-out costs up, says Connie Gowder, president and CEO of Connico.

Tom Theobald, principal with Fentress Architects, says operators can reduce costs by pre-fabricating as much as possible off-site and by talking with airports to make sure they'll have adequate times to perform construction tasks.

the work completed. Right now, there is a shortage.”

Estimated Costs

Build-out costs vary considerably from market to market, depending on many factors. AirProjects Inc. recently compiled for ARN some average build-out costs based on projects with which the company has been involved. The company estimates average retail build-outs to range from $380 per square foot for a store of greater than 500 square feet to $510 per square foot for smaller facilities. Food and beverage build-outs range between $530 per square foot for a full restaurant and $900 per square foot for a sandwich shop.

The figures are general averages based on actual construction costs or on proposal estimates. They can vary dramatically depending on the market and are affected by many factors within the project, such as whether restaurants need kitchens and how much seating space is included, says Ann Ferraguto, principal with AirProjects.

“Kitchens and counter areas, those are always more expensive,” she says.
What's consistent is that those costs are up substantially compared with what the company was seeing five to 10 years ago, when an average retail build-out cost roughly $200 to $250 per square foot and a food location might range from $250 to $350, depending on the location, Ferraguto says.

"The numbers we are typically seeing now greatly surpass those," she says.

How Airports Crunch Numbers

Just as costs vary between markets, so do each airport's method for calculating those minimums.

At Portland International (PDX), which conducted a request for proposals for 11 food and retail locations in 2014, the airport had not done a sizable concessions project since 2006. So staff looked at the costs associated with individual "one-off" build-outs from the past few years and created a realistic criteria for the minimum build-out costs for the project: $250 per square foot for retail and $400 for food and beverage, says Dave Pfeiffer, senior manager of concessions development.

From there, it was the responsibility of the bidding company to figure out what it needed to spend to create a competitive bid and to design a location that would be durable, attractive, sustainable and in line with requirements of the Port of Portland, the city and other jurisdictions.

"Realistically, I think they figure out quickly they aren’t going to spend $125 to $150 per square foot," he says. "That’s really what we want them to know is this is the minimum you can get by with."

PDX’s minimums are lower than some but still high compared to some other industries. With a heavy local presence in the airport, PDX officials try to mitigate the sticker shock ahead of time by conducting outreach meetings and visiting, in person, several hundred businesses in the months leading up to the bid. Those events are attended by not only airport executives, but the maintenance department, the Transportation Security Administration and others who will affect the operations of businesses that open at PDX.

"It’s a reality check to them," Pfeiffer says.

During recent RFPs at Phoenix Sky Harbor International (PHX), the food minimums were at $450 per square foot and retail was $350. That’s up from $200 for food and $250 for retail in the late 1990s, the last time those figures were revisited, says Paula Kucharski, terminal concessions manager for the city of Phoenix Aviation Department.

"Let’s be honest, everything in our world is more expensive than it was," she says. "That’s why we bumped it."

The requirements are largely built around the need to make sure the stores and restaurants look appealing, the brands translate properly and the finishes are durable enough to hold up in an airport environment.

"We understand construction is more expensive at the airport," she says. "We’re saying you need to spend the money to make these units represent the brand and look good for an extended period of time — and that the finishes themselves have to be able to withstand the airport environment."

Kucharski suspects the costs at PHX are somewhere around the mid-point for requirements across the industry. She does not think the build-out costs are a tremendous deterrent to getting brands into airports.

"Every airport is the biggest economic engine in the state," she says. "It’s like a Triple-A shopping center. You want the best of the best. If you want Starbucks, you have to put in the best Starbucks. If you want Sunglass Hut, or any national name brand, they need to be putting their Triple-A game here. That always costs more than if you are doing an outlet center or a center
most or all occasions because they often have the economies of scale to mitigate risk, there are still instances in which companies decline to participate.

As recently as last year, one of Kevin Kern’s retail clients declined to participate in a bid at Los Angeles International (LAX) because required costs made it impossible to make the financials work, says Kern, owner of Kern Consulting.

“It keeps us out of bidding in some opportunities,” he says.

Kern adds that one new cost he’s seeing is “charge backs,” or fees charged to operators not just on their own spaces but on upgrades to the general building as a whole.

“This is a new category of charges that is problematic,” he says.

The Argument For Flexibility

Industry veteran Paul Carolan agrees that the build-out cost requirements could be having a negative effect on what brands are willing to brave the challenges associated with opening at airports. Although he understands the need for high standards and the purpose behind requiring significant build-out costs, he also thinks airports have increased those costs dramatically and become much more rigid in their design standards in recent years.

Airport authorities don’t often tier or scale their requirements to the type of brands operators might bring in, says Carolan, who was recently promoted to president of Bruegger’s Bagels.

As an example, Carolan compared Bruegger’s and La Madeleine, a French casual restaurant. Both concepts are operated by Le Duff America Inc. and the company would like to open both in airports, but they have different operational needs. Those differences, and their associated cost structures, are recognized on the street, but not as effectively in airports, which often push costs high enough to where the company will not bid, he says.

“There are different equipment needs, different finishes because of what the brands are,” he says. “I don’t see that happening within the airport authority when they lay out the cost constraints they are putting on the concessionaires. I think it’s an unintentional consequence of what they are trying to prevent, which is shoddy work, which makes sense to me. You’re forcing somebody to figure out how to spend so much money and that pushes the [return on investment] the wrong way.”

Carolan emphasizes that he understands the need to set requirements that push operators to use good materials and finishes but wishes there was more flexibility in place for setting minimum costs. He says he thinks that if that were the case, there might be interest from more concepts to bid on space — perhaps even in different categories, such as fast casual, which is lacking right now industrywide.

“They don’t want poor construction, bad finishes and things of that nature,” Carolan says. “Conversely, they need to match with the kind of restaurant they have going into that space.”

He says he thinks there are opportunities to improve the current system, but he also understands the need for stringent standards to ensure quality builds.

“The piece that’s encouraging is that I do believe the customer is getting a better product, and that ultimately is the goal,” he says. “The reality in my opinion is 20 years ago we had other issues. There’s always something that is a current-day issue. Ultimately, the consumer is voting with their dollars.”

We’d like to hear your opinion about this article. Please direct all correspondence to Andrew Telljohn at andrew@airportrevenuenews.com.
in a middle market. It's that quality level."

Mid-terms are another issue. PHX requires operators to put a small percentage of sales each year into an account that will be used at the lease's mid-term for a refurbishment or reconcepting. If that money isn't spent, it's remitted to the airport.

"It's supposed to be spent," Kucharski says.

PDX contracts require up to half the initial build-out investment, but it will decrease the required spend at the mid-point of a contract if the stores or restaurants have been well maintained.

"The goal is to get the operators to build it right and maintain it so they don't have to do a large mid-term refurbishment," Pfeiffer says.

What To Do?

The airport industry is fraught with challenges unique to construction projects. Security concerns and the need to maintain passenger comforts to the highest degree possible create tight windows for product deliveries and the times during which work can be done.

Although costs in general aren't coming down anytime soon, there are steps operators can take to minimize their initial expenses. AirProjects' Ferraguto suggests some operators could decrease costs by using 10-year rather than 20-year materials when building, especially if there is a mid-term refurbishment requirement. Many of those materials are still high quality and attractive, she says.

Theobald recommends talking with airport partners to make sure they have reasonable timeframes during the day to do at least some of the construction work, as paying construction teams to work at night is more expensive.

They also can try to streamline the process for storing materials by making sure they can keep them located as close to the construction job as possible and by attempting to prefabricate as many of the pieces as possible offsite to minimize the amount of construction time actually needed inside the airport, he adds.

And they should work with their architect or designer to ensure that what they are building can be constructed quickly.

"I don't see a time coming up where it's going to slow down," he says. "Infrastructure needs are pretty great all around the country. Keeping up with the airport and passenger needs is going to create a constant churn."

Gowder adds that concessionaires need to make sure cost escalation is considered in their projects.

"Sometimes, airports are notorious for taking a 2010 estimate and saying that's the budget five years later," she says. "We see that more often than you would believe."

Costs Deter Bidders

Although many officials say the larger food and retail players are able to bid on