

The post-recovery aviation industry and its implications for airport management and policy

Stephen D. Van Beek | 9 January 2021
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Steer is a global, employee-owned transportation and economic consultancy

Together with Fourth Economy, a North American economic developing consultancy, we have over 450 staff across 21 offices around the world specializing in airport, infrastructure, economic, design, and planning.

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Today's Agenda

Aviation
Recovery and
Traffic

1

Airports'
Position,
Goals and
Roles

2

Policy
Landscape
for 2022-2023

3

Discussion

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**Aviation
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Aviation and Airport SWOT: 2022

Strengths

- Federal aid!
- **US's global competitive position**
- Progress at living with variants
- Economic drivers, save oil prices, strong
- Domestic airline operational recovery
- Corporate aviation surge
- Air Cargo growth
- Cost of debt

Weaknesses

- Uncertainty of pandemic's trajectory
- Airline financial sustainability
- International traffic
- **System revenue (\$ per operation)**
- Small community air service
- Airport economic regulation
- Consolidation of FBOs
- Regional labor markets and wage inflation

Opportunities

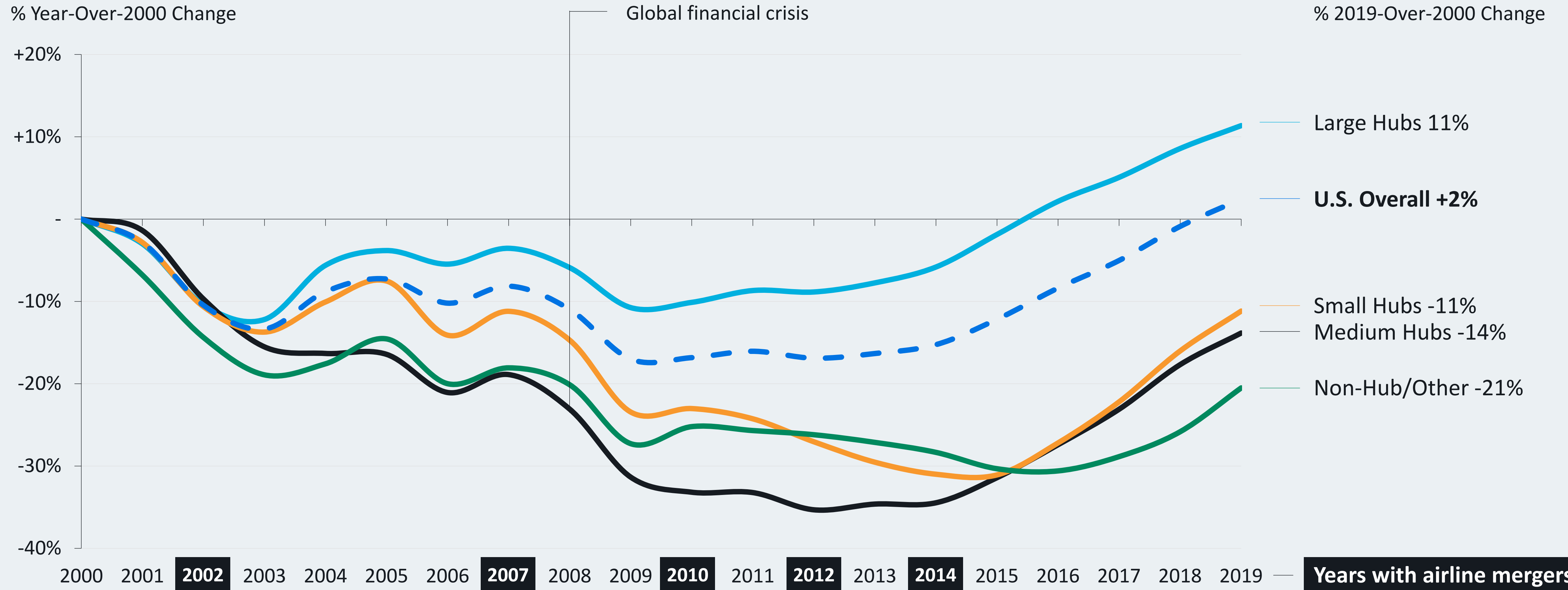
- Changing profile of NAS (general aviation, cargo, AAM/e-VTOL)
- FAA Reauthorization 2023
- Efficiency "bounce" post-recovery
- ULCC growth and new entrants
- **Digital economy and applications to customers and operations**
- Non-aero revenues (e.g., parking, lounges, business partnerships)
- Electric vehicles, hydrogen, SAF
- Private equity interest in airport assets

Threats

- Political instability
- **FAA funding (Airport and Airway Trust Fund)**
- Vaccination rates in developing nations
- Environmental pressures
- Consolidation of airlines (i.e., mergers and code shares)
- Public and private interests seeking to extract value without paying for it
- Price of oil and instability of markets
- Inflation

Since 2000, through to the pandemic, large hubs grew faster than other hubs

Departing Seat Capacity Growth of U.S. Hubs 2000-2019

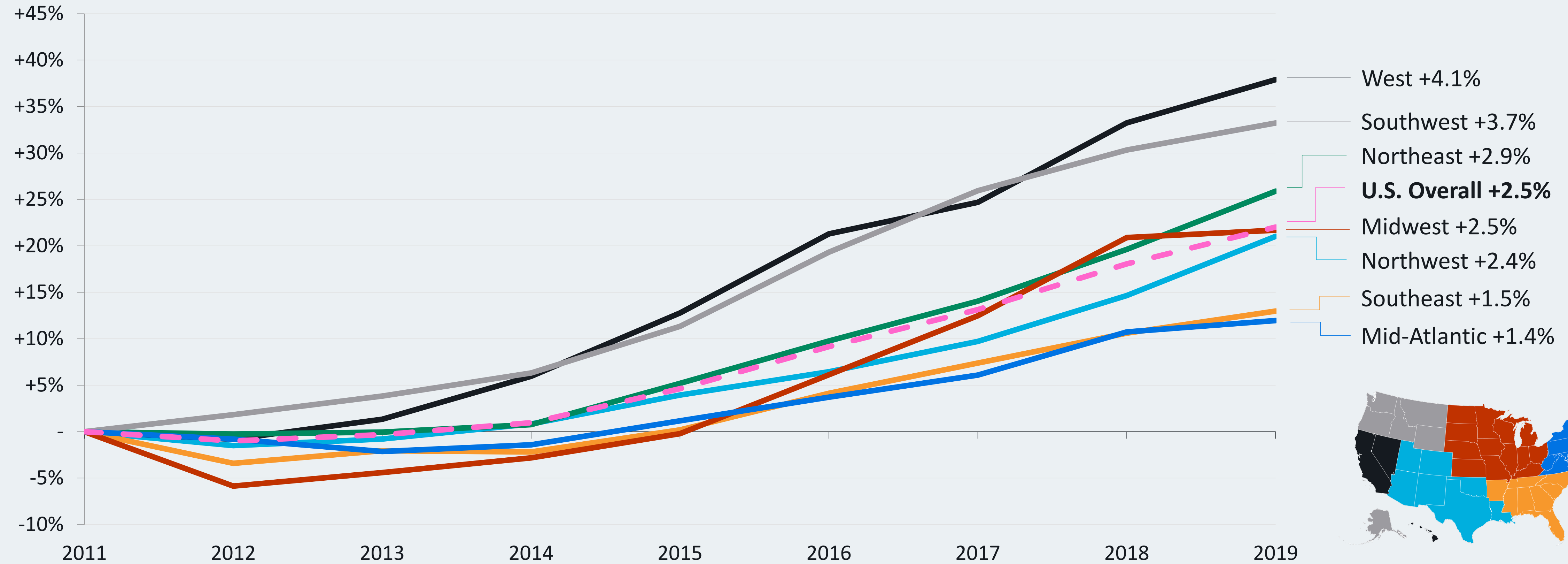


Source: Official Airline Guide data, U.S. Federal Aviation Administration data, Steer analysis

Airports in West, Southwest, and Northeast led seat growth since 2011

Departing Seat Capacity Growth of U.S. Hubs 2011-2019

% Year-Over-2011 Change

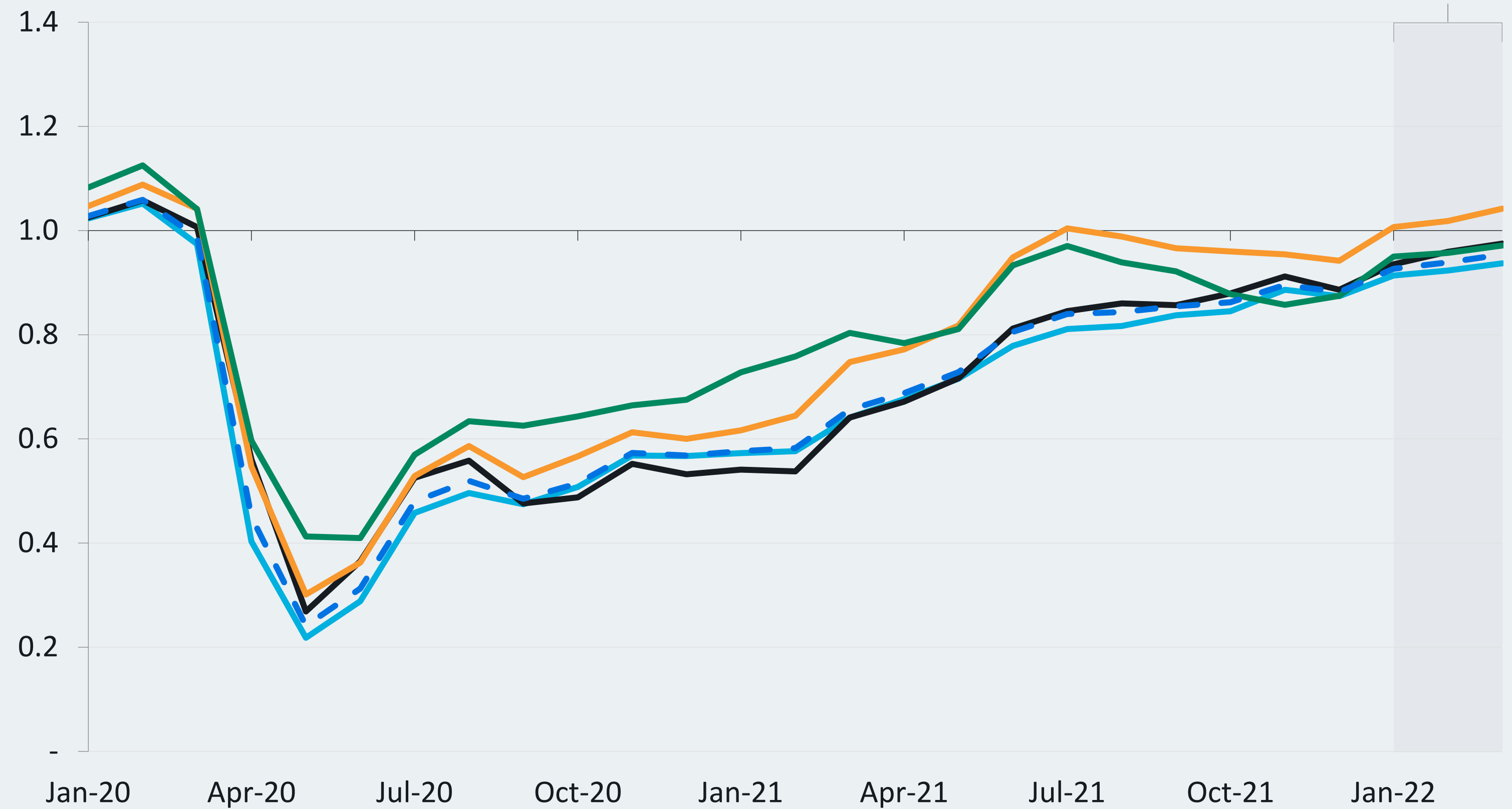


Source: Official Airline Guide data, U.S. Federal Aviation Administration data, Steer analysis

Large hubs show a slower recovery than the overall U.S. network

Departing Seats by Hub Airport January 2020-March 2021

Index relative to the same period in 2019 (=1.0)



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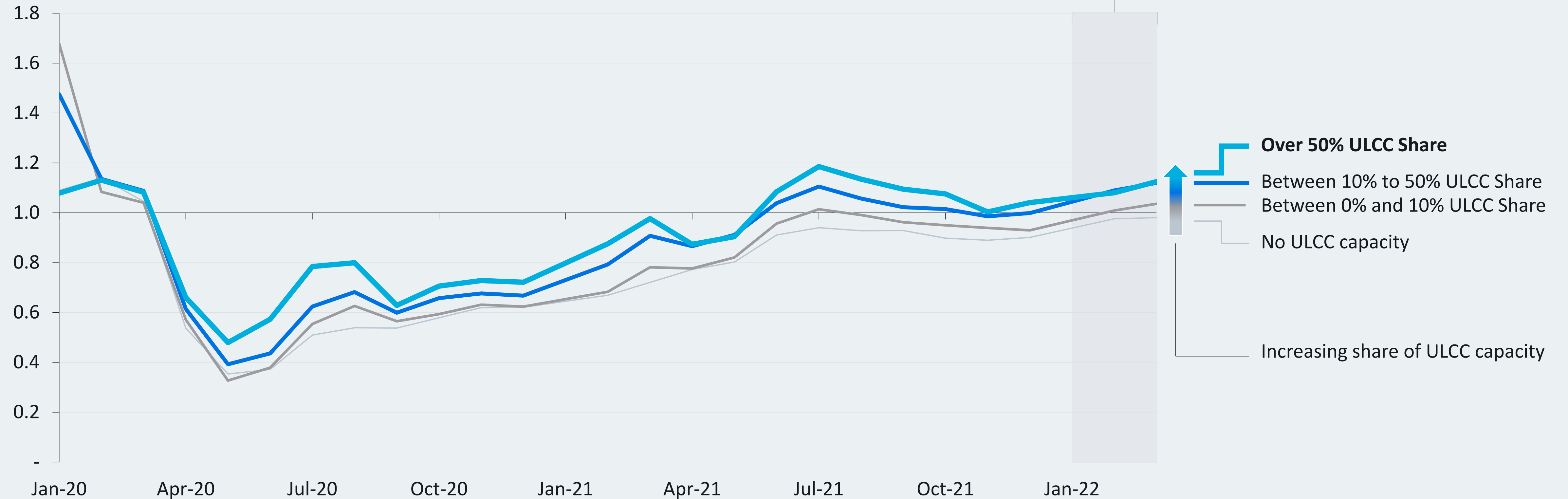
Hub Type	Dec-21	Mar-22
Small Hubs	0.94	1.04
Medium Hubs	0.89	0.98
Non-hubs/Other	0.87	0.97
U.S. Overall	0.88	0.95
Large Hubs	0.87	0.94

¹ Includes forward scheduled capacities and may be subject to further changes.
Source: Official Airline Guide data, Steer analysis

Recovery of small and non-hubs strongest where there is a ULCC¹ presence

Departing Seats by Share of ULCC Seat Capacity January 2020-March 2021

Index relative to the same period in 2019 (=1.0)



¹ ULCC or Ultra Low-Cost Carriers includes the following airlines: Allegiant Air, Avelo Airlines, Breeze Airways, Frontier Airlines, and Spirit Airlines.

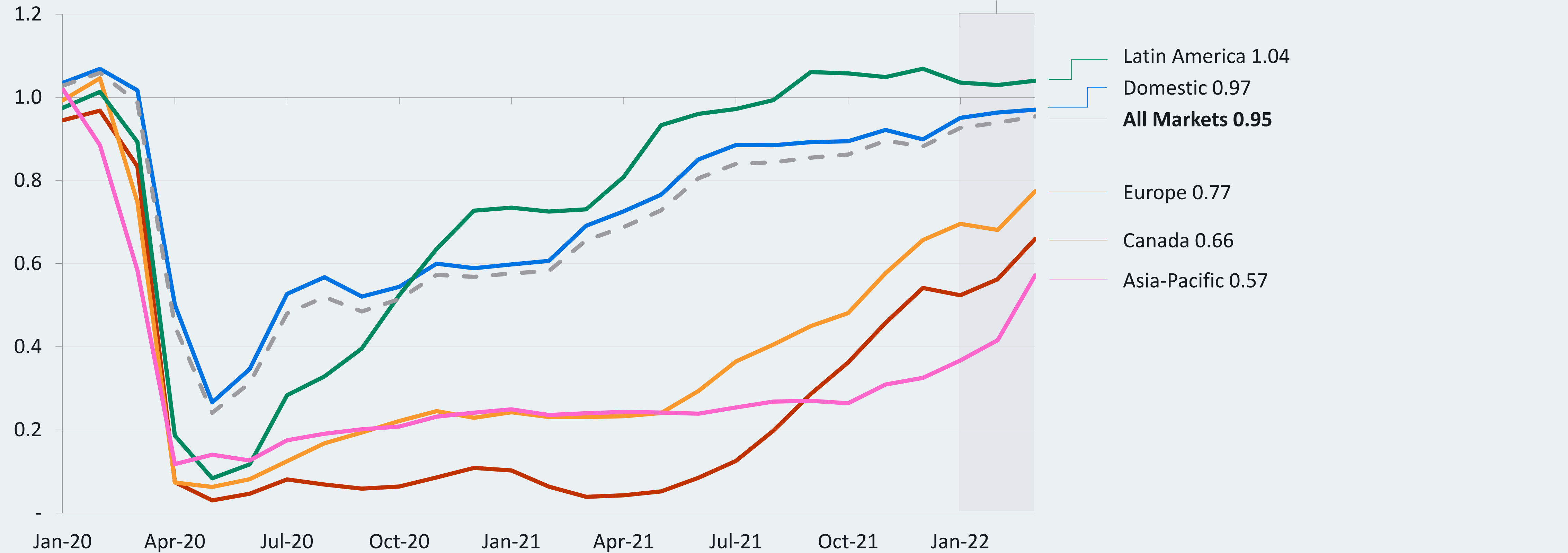
² Includes forward scheduled capacities and may be subject to further changes.

Source: Official Airline Guide data, Steer analysis

Latin America is leading the international recovery (driven by leisure markets)

Departing Seats by Destination Market January 2020-March 2022

Index relative to the same period in 2019 (=1.0)

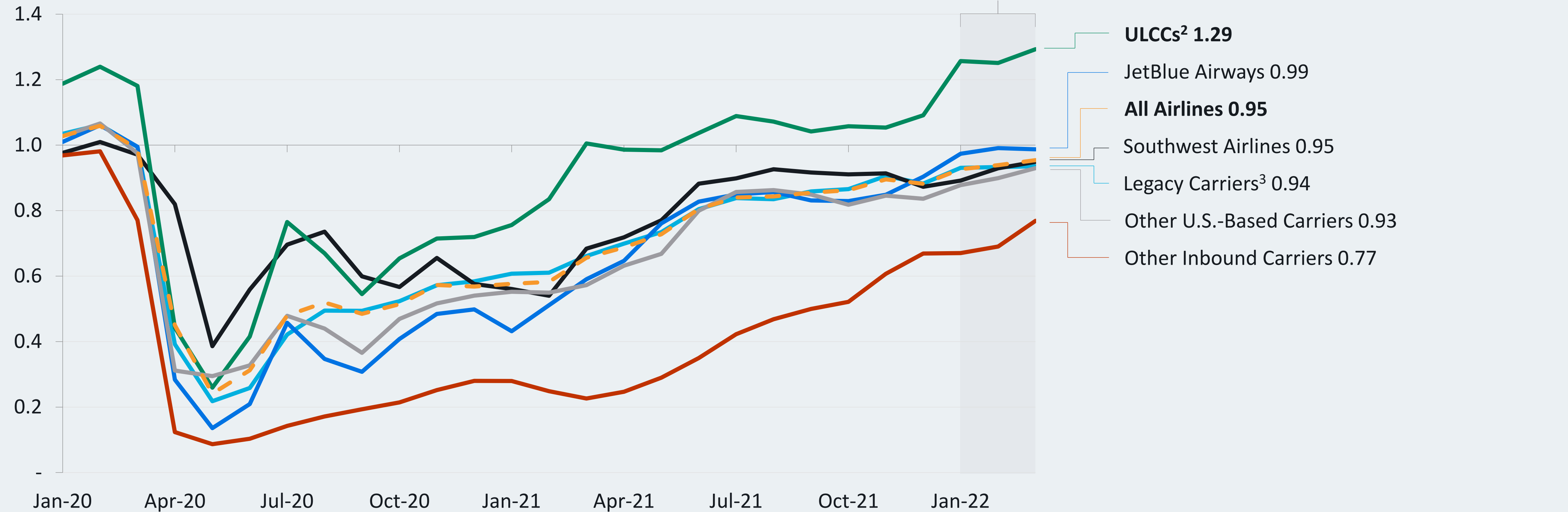


¹ Forecast includes forward scheduled capacities and may be subject to further changes.
Source: Official Airline Guide data, Steer analysis

ULCCs have already reached full recovery while legacies lag behind

Departing Seats by Airline Type January 2020-March 2022

Index relative to the same period in 2019 (=1.0)



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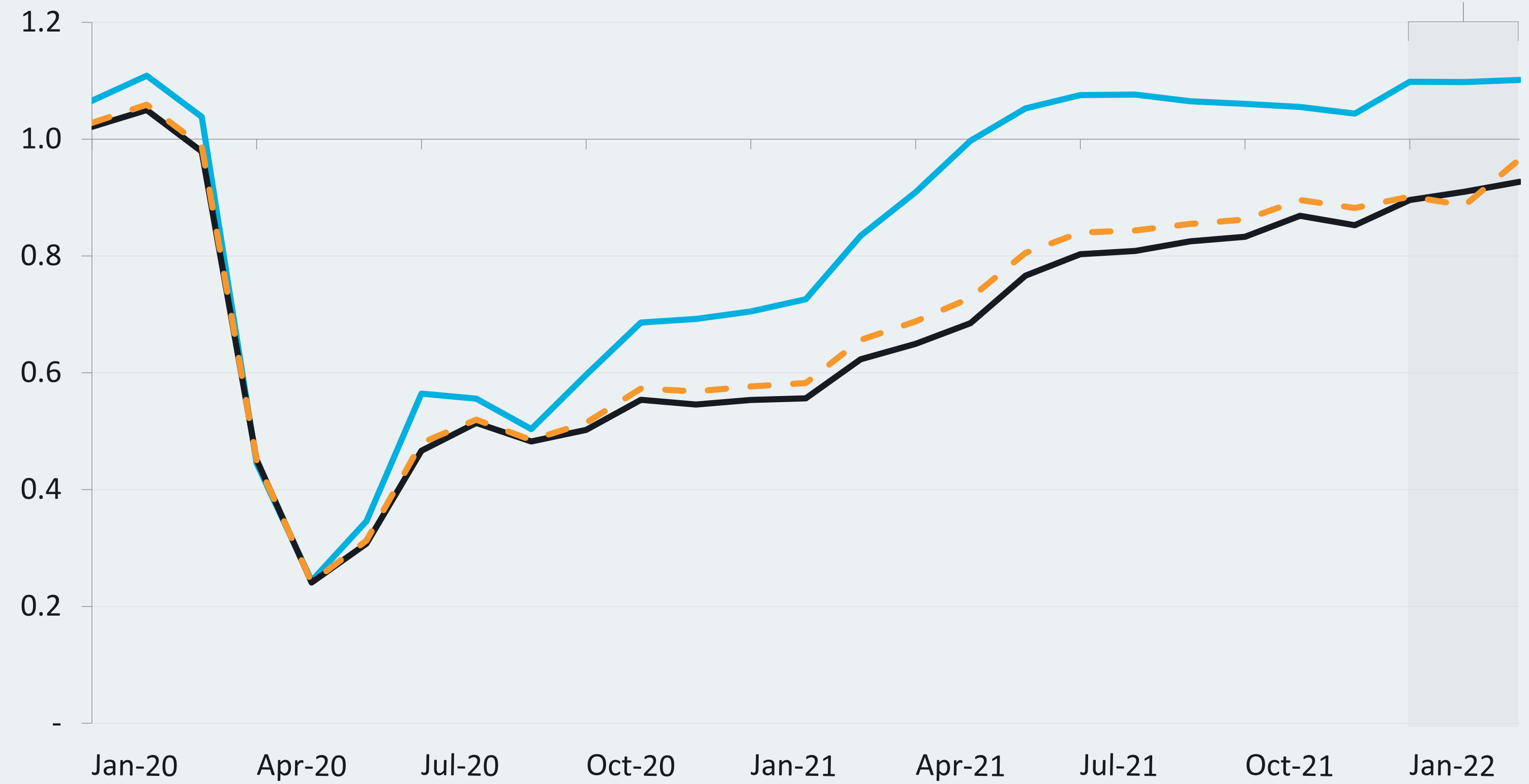
³ Legacy carriers include the following airlines: American Airlines, Delta Air Lines, and United Airlines.

Source: Official Airline Guide data, Steer analysis

“Holiday” travel very strong, leading recovery

Departing Seats by Destination Type January 2020 – March 2022

Index relative to the same period in 2019 (=1.0)



Index relative to the same period in 2019 (=1.0)

- Holiday Destinations 1.10
- All Destinations 0.97
- Non-Holiday Destinations 0.93

% Seat Capacity Share 2019



¹ Forecast includes forward scheduled capacities and may be subject to further changes.

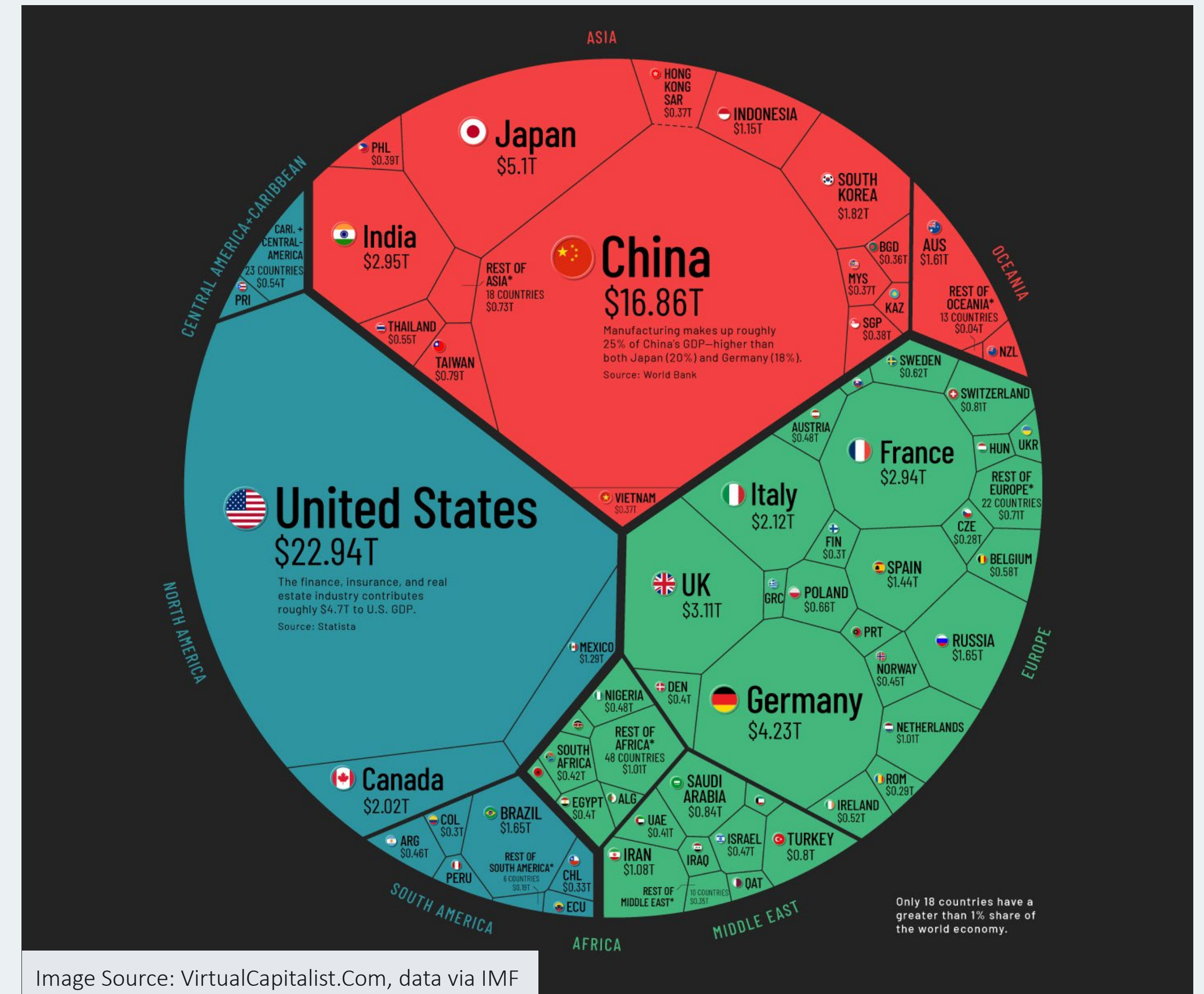
² Holiday destinations include airports in: Caribbean Islands, Florida, Hawaii, Las Vegas, Cancun (Mexico)..

Source: Official Airline Guide data, Steer analysis

U.S. global position and aviation demand

- Even with Covid-19 and the attendant decline in international travel, it is important to remember where future demand will originate and maturing markets, with middle classes increasing the propensity to fly, are likely to stimulate massive new flows of passengers and freight.
- Intraregional and interregional hubs will drive connectivity to many of these regions.
- Unclear to what degree virtual meetings will displace some of this of demand, but business connections are likely to drive the need for more in-person travel.
- The three megaregions (North America, Asia, and Europe) are being joined by fast-growing regions in the Middle East, Latin America, and Africa.

Key Takeaway: Air service negotiations and agreements remain vital, as does national/international regulation of foreign investment, global alliances, and codeshare agreements.



What is happening in National Airport System and what is its future?

Supersonic returns?

?/\$



Cargo



Advanced Air Mobility?

?/\$





High-End
General Aviation



Image Sources: Courtesy Boom, GSP International Airport, Kitty Hawk and Cirrus

Issues for the post-recovery (or 'new') aviation industry

	ULCCs?	ULCCs growing markets and market share, but how much will stick?
	Upgauging	Upgauging from 50- and 70-seaters will challenge small communities and lead to reduced frequencies at hubs.
	New Entrants	New entrants are offering increased options in individual markets, but competition unlikely to offset increased codeshares and partnerships of majors.
	COVID-19?	Growth of national economies likely to drive international air service depending on variants, vaccination rates and policies.
	Business return?	High-yield traffic down at least temporarily—will there be a reset of business travel and/or new market segmentations (e.g., premium economy)?
	Changing airline strategies	Air carriers are increasingly opportunistic and flexible, important not to impute too much from market schedules changes since March 2020.

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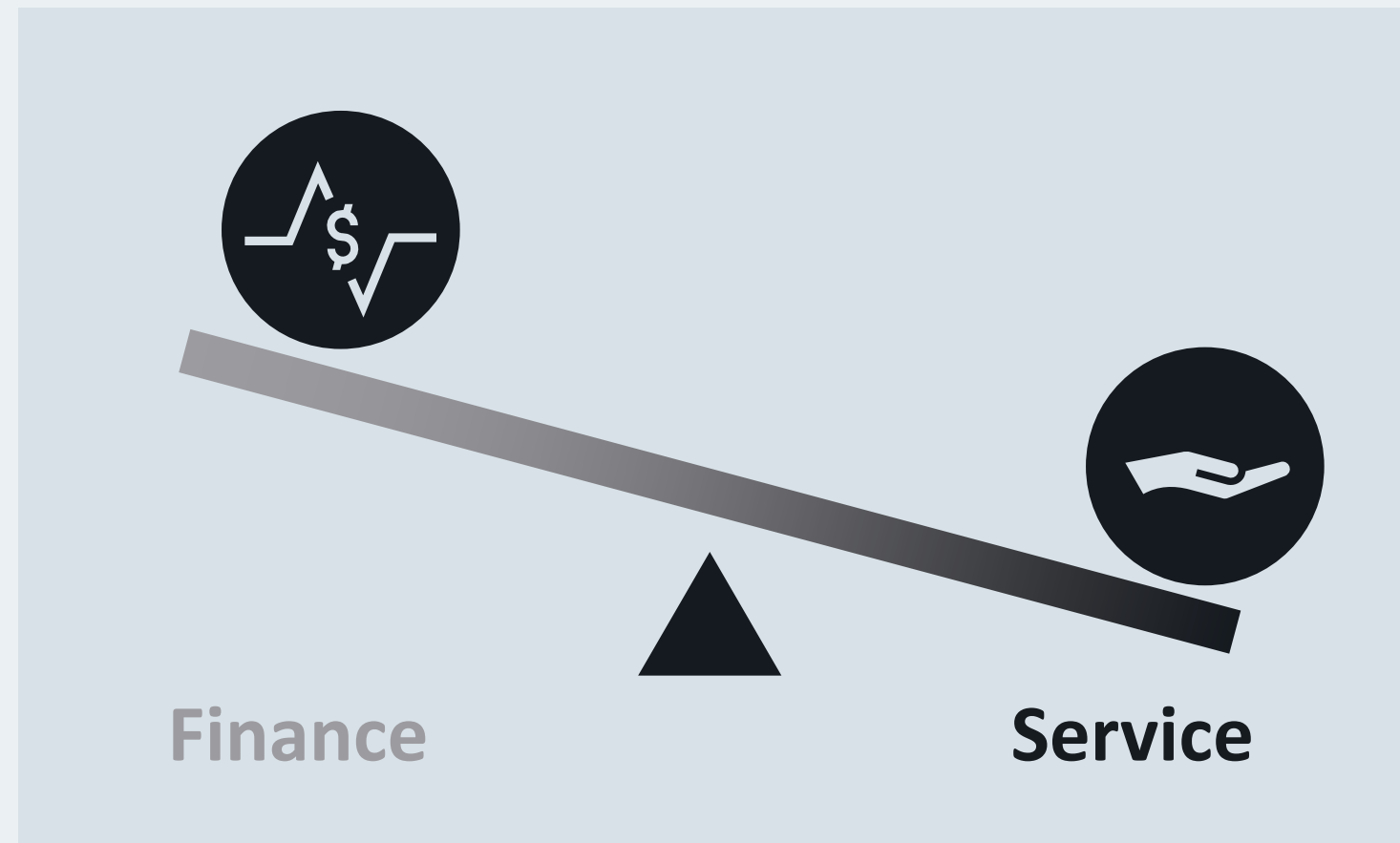
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The pandemic realigned airport balancing of service and finance risks

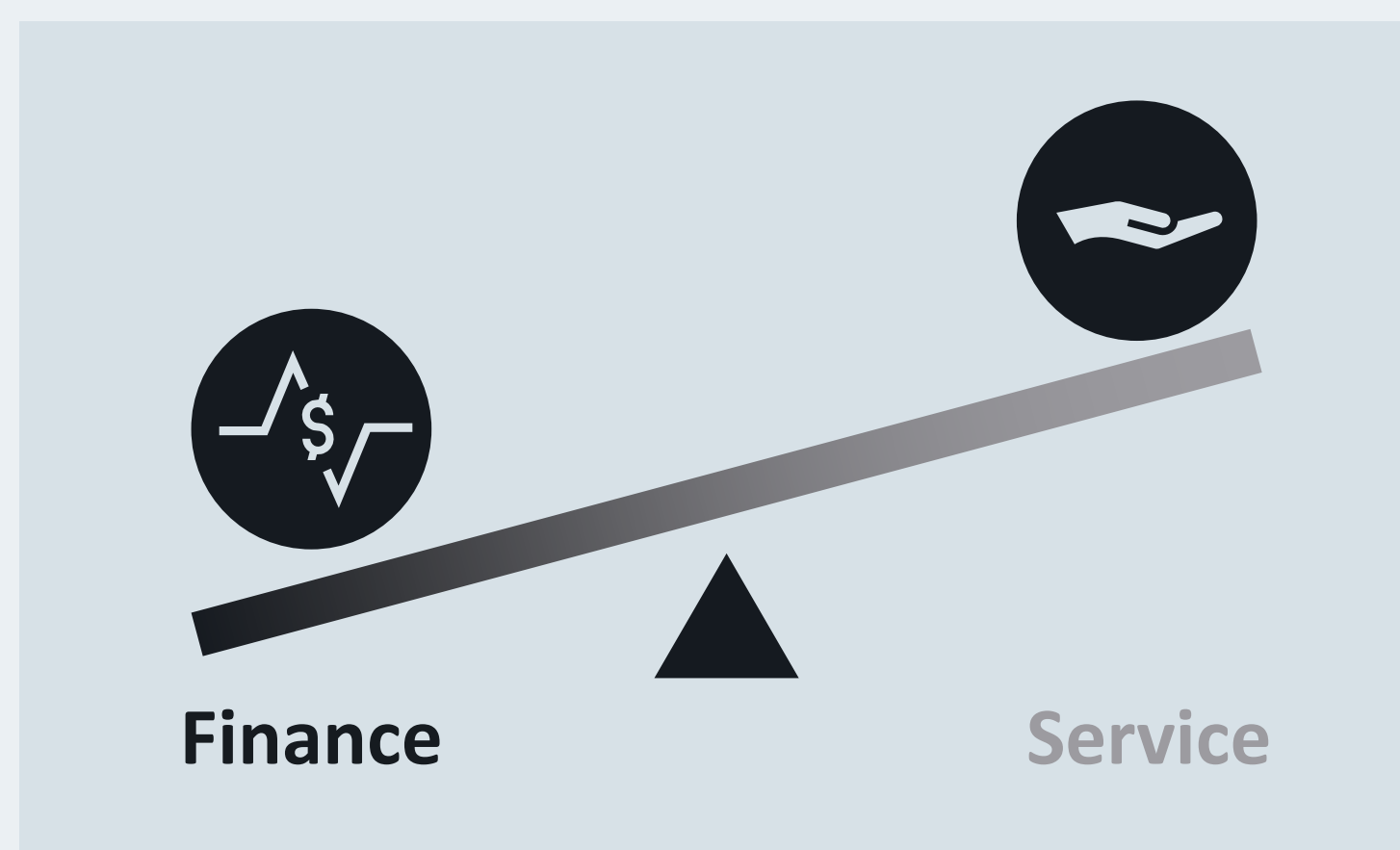
Reexamining the risk teeter totter is important for decisionmakers

Service Risk



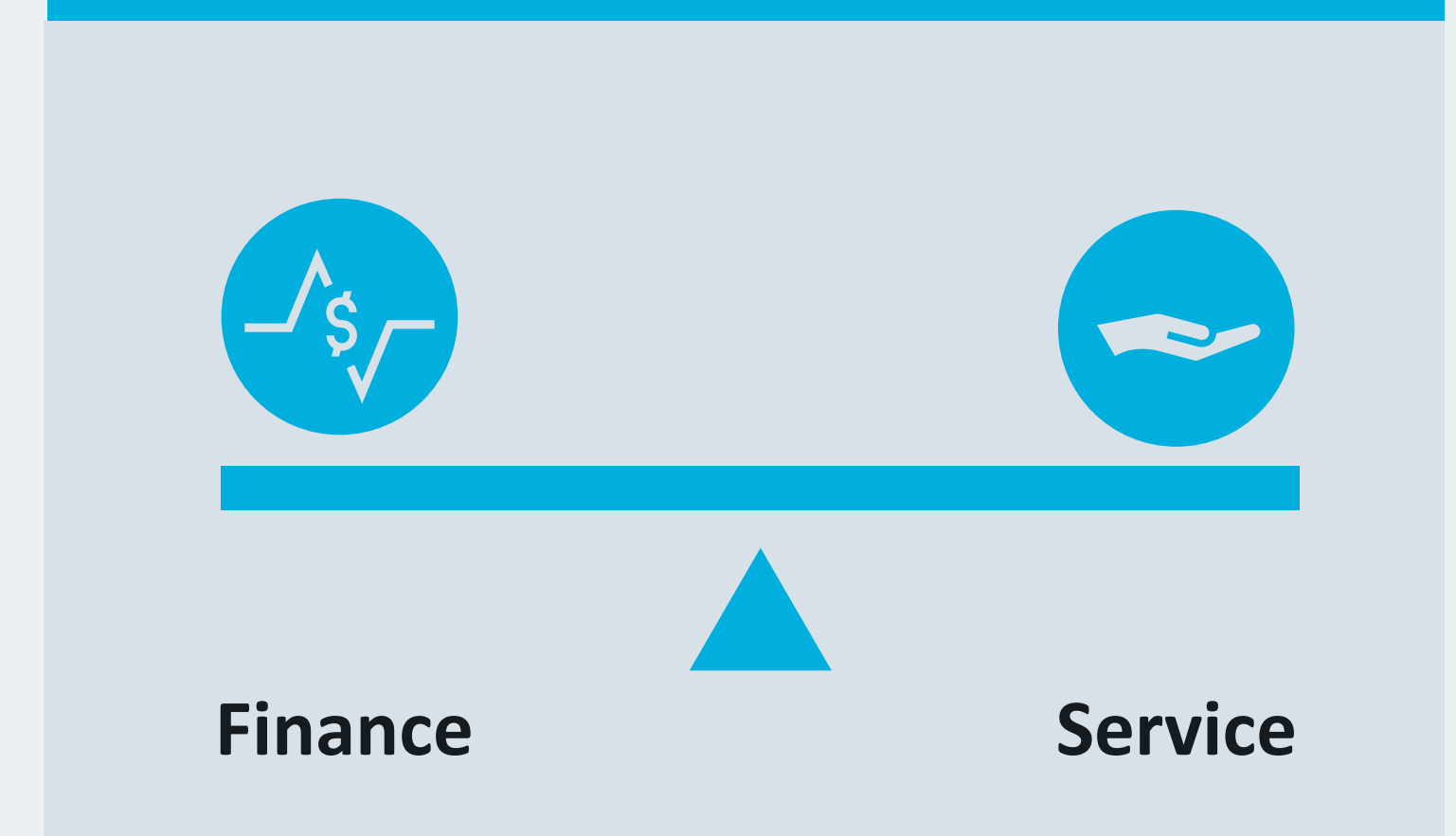
- During the last decade, many airports experienced unceasing growth, challenging their service levels
- The challenge was keeping up and traffic and revenue forecasts supported investments
- The AATF ran a surplus and supported steady airport capital needs

Financial Risk



- Today, however, many airports are below 2019 levels with the uncertainty generated by variants and airline recovery
- While operational recovery, driven by holiday and leisure traffic is strong, business traffic has yet to recover
- Federal aid has mitigated some risk, but uncertainties remain

Goal: Equilibrium

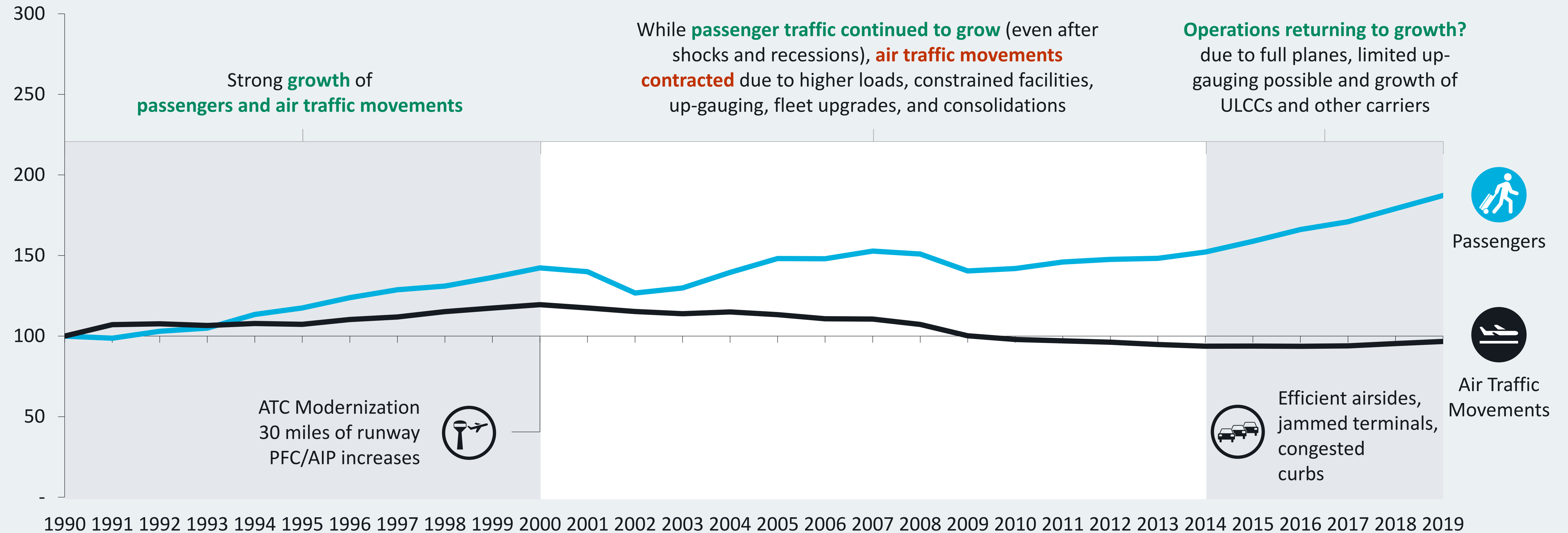


- Steady growth and healthy airlines and airports create an environment where investment decisions can be made prudently without elevated risk
- Capital programs and new commercial activities require investment and adaptations to operating models

How did we get here? Evolution of U.S. aviation since 1990

U.S. Passengers and Air Traffic Movements 2000-2019

Index relative 1990 (=100)

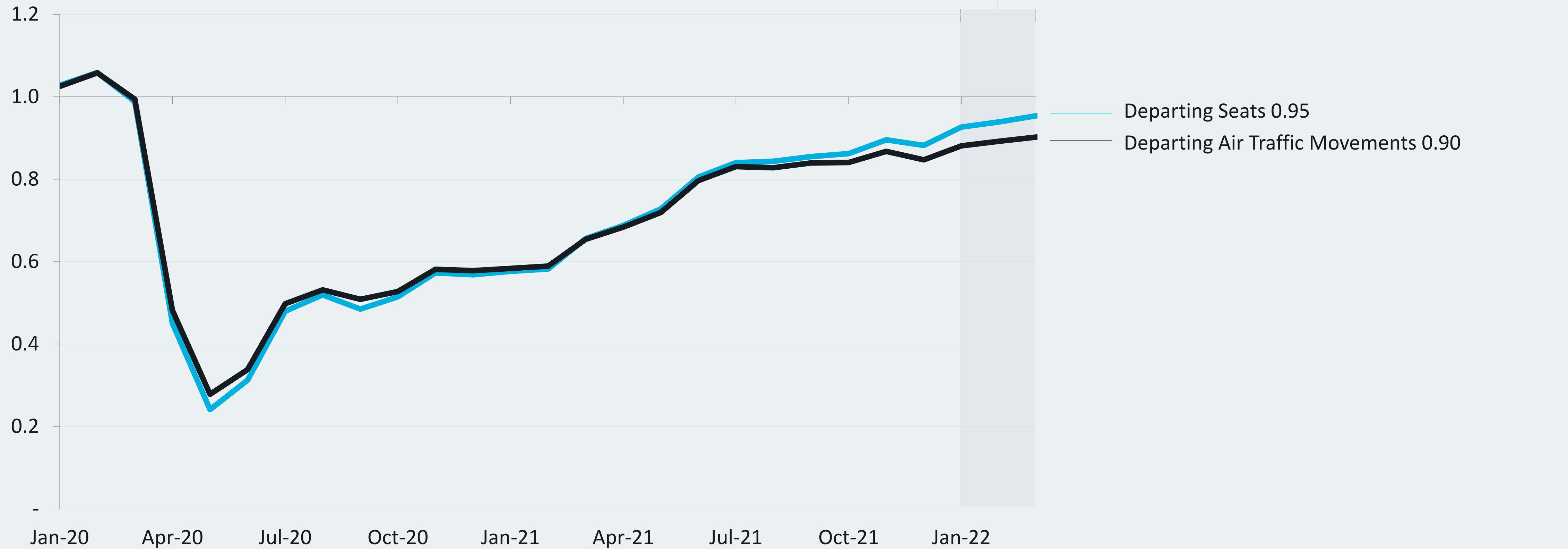


Source: U.S. Federal Aviation Administration *Terminal Area Forecast* data, Steer analysis

Seat capacity continues to grow relative to aircraft movements

U.S. Seat Capacity and Departing Air Traffic Movements January 2020-March 2022

Index relative to the same period in 2019 (=1.0)

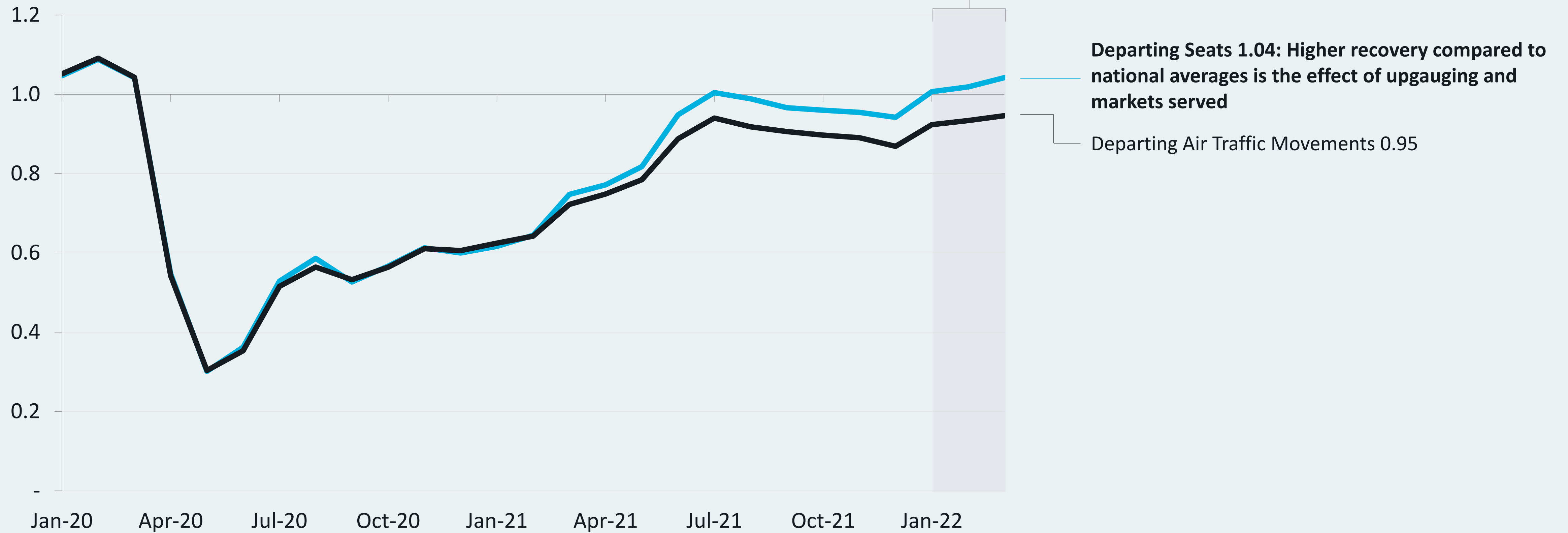


¹ Forecast includes forward scheduled capacities and may be subject to further changes.
Source: Official Airline Guide data, Steer analysis

When the focus is on small hubs, the difference is even more noticeable

U.S. Seat Capacity and Departing Air Traffic Movements January 2020-March 2022

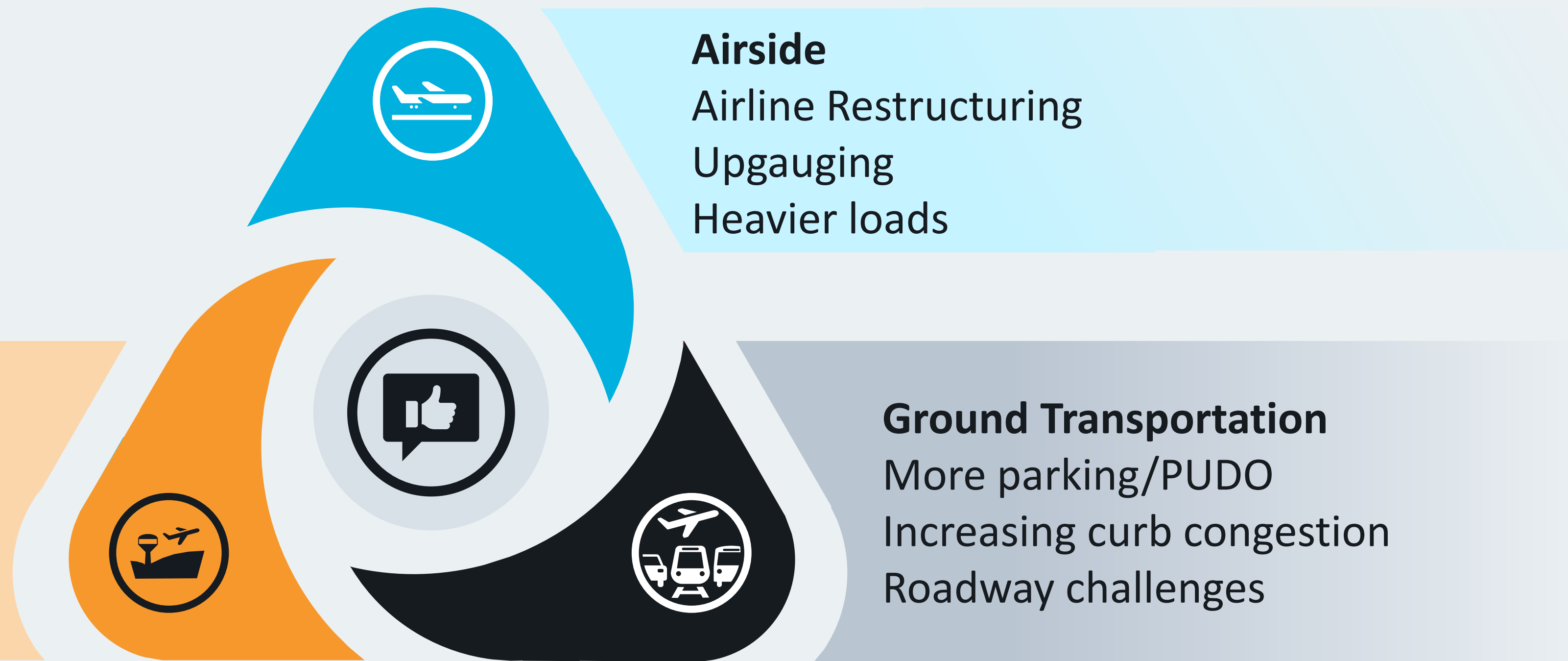
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Source: Official Airline Guide data, Steer analysis

The continuous challenge of balancing different parts of the airport

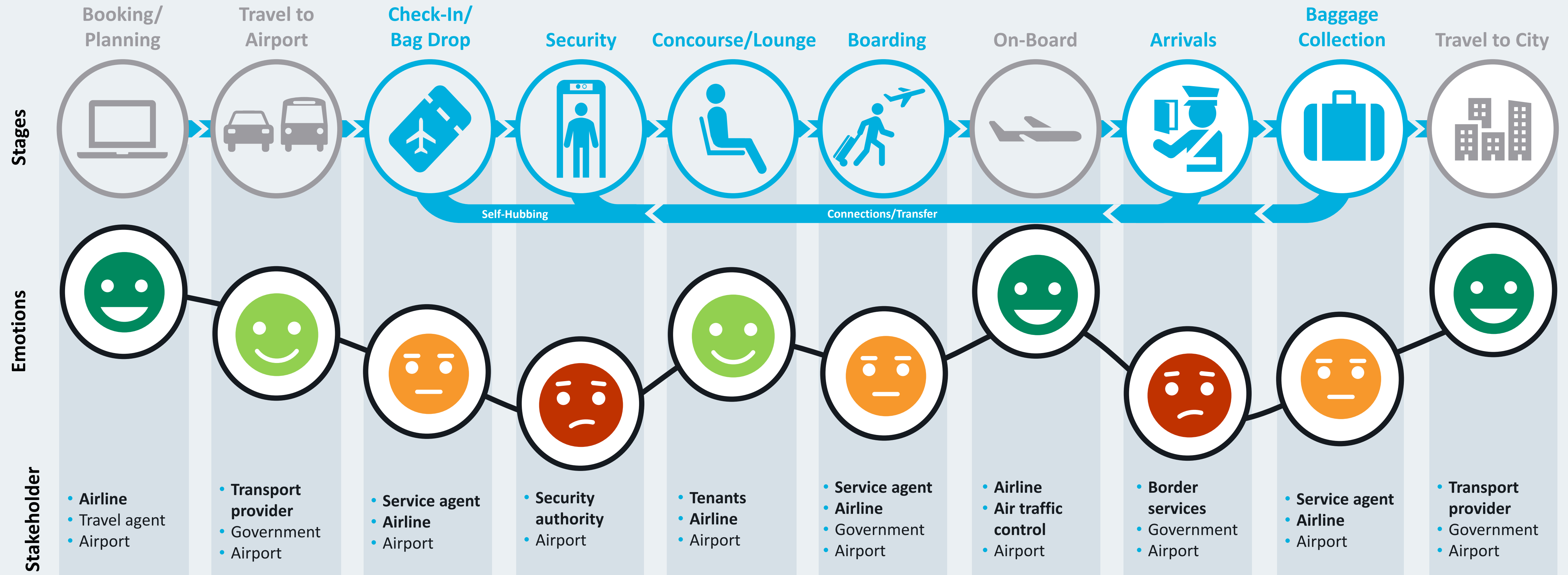
Balance will evolve into more traditional challenges as we plan for 100% recovery



Source: Steer

Customer experience: Integrating service centers is complex

Airport Customer Experience Scope ● On-Airport Processes ● Off-Airport Processes



Source: Steer

Airport issue set: current and future challenges

Summary

	Summary	Description
	Trajectory of recovery, managing service and investment risks	FAA reauthorization, capital and economic regulation
	Environmental/Energy: tackling climate change, emissions and energy costs	“License to build” and new energy sources -- hydrogen, electric, SAF (airport roles and support?)
	Human resources and the labor market—aligning staff capacity with the ‘new’ industry	Costs and regional competition
	Digital economy and the opportunity of CRM to support operations and tailor customer offers	Growing non-aero revenue by obtaining data from service providers, role as airport data hub
	Equity and inclusion	Sharing the economic benefits, enriching ideas and participation by underrepresented groups

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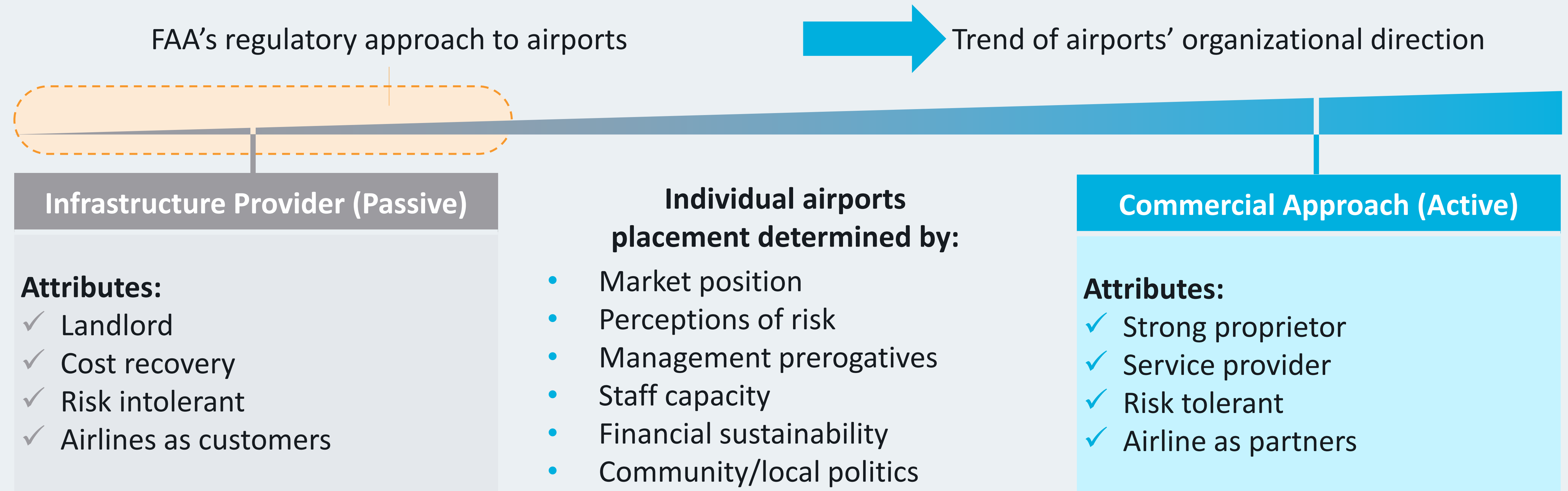
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Airports' market position, roles and future management



Discussion: Is it possible (and/or desirable) to align the FAA's regulatory approach to the organizational direction of many airports? If so, what are the elements?

Three global trends on airport economic regulation relevant to us

Summary	Description
 <p data-bbox="393 559 1036 690">Airport “Market Power” Generally Not a Concern</p>	<ul data-bbox="1159 484 3082 759" style="list-style-type: none">• Given the service ethic and the generation of non-aeronautical revenues, airports have no incentive to withhold capacity (like a monopolist does)• Market power, at airports, are held by airlines, reinforced by U.S. administration of slots
 <p data-bbox="393 906 1069 1112">Light Handed/Facilitation- Based Regulation Commonplace</p>	<ul data-bbox="1159 877 3115 1153" style="list-style-type: none">• Among airports and their users• Regulators and stakeholders recognize that that the cost of capital and the increasing entrepreneurialism of airports makes the old focus on cost-plus frameworks (residual/single till) and economic regulation obsolete
 <p data-bbox="393 1300 959 1506">Prioritizing Public Resources to Airports Requiring Them–</p>	<ul data-bbox="1159 1300 3148 1506" style="list-style-type: none">• Help fund remote, rural, smaller and less profitable airports• Provide commercially self-sufficient airports with more tools to raise capital (passenger service fees and PPPs/Privatization)

Airports' capital funding sources: issues and areas for improvement

Airport Improvement Program



- AATF unstable absent reform
- Airfield, smaller airport lifeblood
- Airline acquiescence (unless AATF/tax reform)
- Limited eligibility
- Ties grant assurances to airports

Passenger Facility Charge



- Traffic risk all on airport
- Fixed ceiling diminishes value
- No airport-rate setting flexibility (unlike Canadian AIF)
- Eligibilities cumbersome for non-airfield projects
- Challenge for connecting spokes

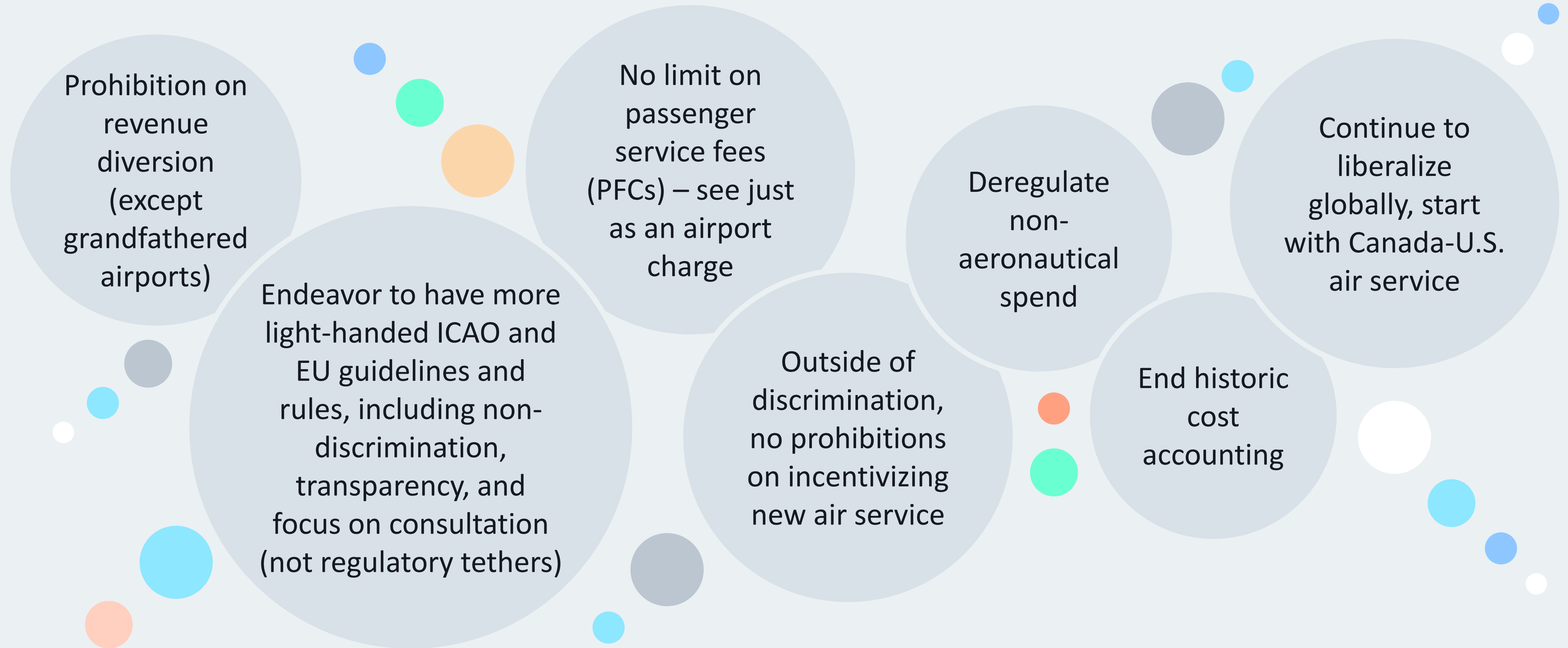
Aeronautical Revenues



- In theory lower traffic risk but as post-pandemic period illustrates, airports insulate airline risks
- Airlines exert political power with public boards, airport markets
- Aero revenues strictly regulated

Recent precedents of “any lawful purpose” and PFC eligibility for federally funded terminal projects offer potential opportunities.

Seven principles to encourage policy/regulatory alignment with airport goals



The uncertain political environment dictates a flexible FAA bill approach

Democratic Congress
2023-2024

Republican Congress
2023-2024

Translation of
interests into a
dynamic, flexible
agenda



Issues potentially impacted:

- Capital funding
- Airport economic deregulation
- Small community air service
- Environment
- DBE/Equity and inclusion
- Others

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Thank you

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