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Rise in US airport concessions

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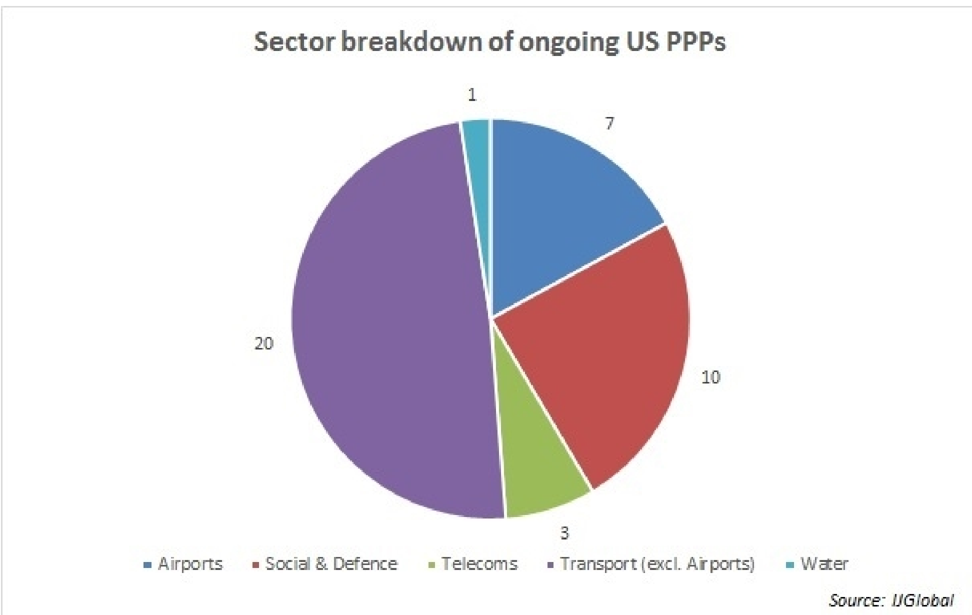
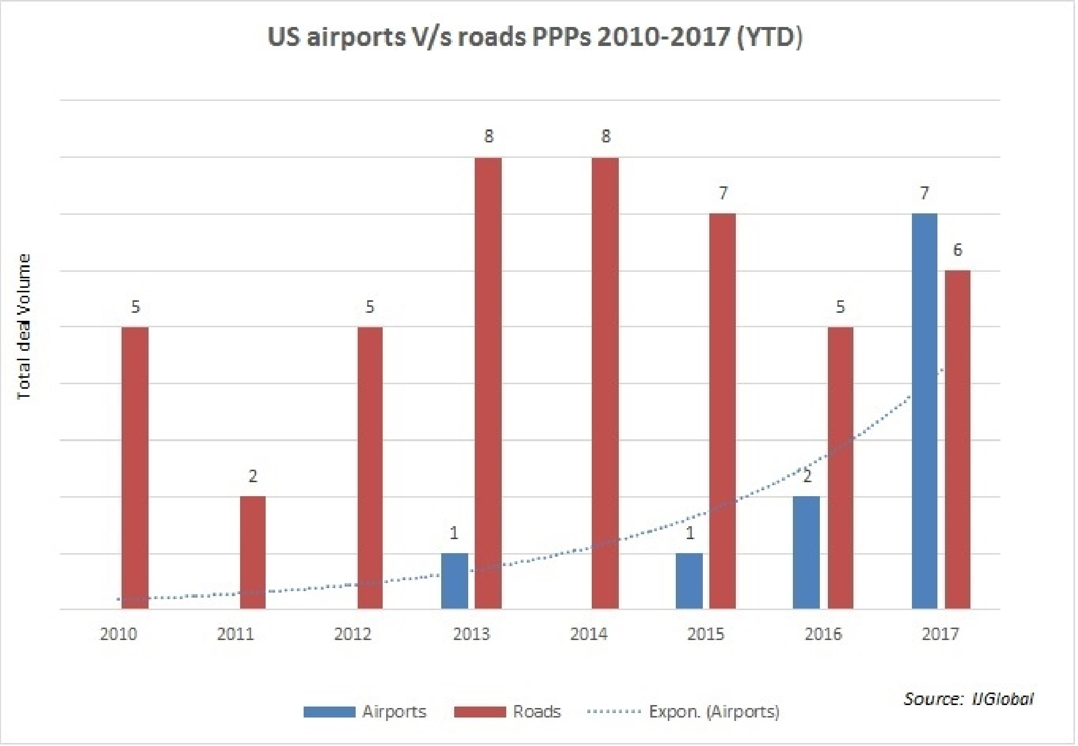
The US airport sector is witnessing a substantial increase in the number of long-term concessions and terminal redevelopment-type PPP projects put out to market. The number of ongoing airport PPP transactions in 2017 is more than double that seen in the previous four years combined, according to *IJGlobal* data.



The airport sector is the third most active in-terms of active PPP procurements in the US today, only behind other transport sub-sectors like roads, bridges and social infrastructure projects, where PPP project structures have become more common in recent years.



The $4 billion [LaGuardia Airport PPP project](), which reached financial close in 2016, is the largest airport PPP ever to reach financial close in the US, and is only the second such transaction to close to date in the US. The first notable airport lease deal to close in the US was Highstar Capital and Grupo Aeroportuario del Sureste's (ASUR) $615 million concession for the Luis Muñoz Marín International Airport in Puerto Rico, which closed back in 2013. While the expected slew of deals to follow on from the Puerto Rico project has not materialised, the sector does appear to be picking up pace now.

US airports are predominantly owned and operated by local city or county authorities in conjunction with their airline partners. And despite the incentives provided by the Federal Aviation Administration's airport privatisation pilot programme, which allows private companies to own, manage, lease and develop public airports, actual adoption has been very limited, as noted in a Fitch ratings report released in June 2017. State governments across the US have traditionally been more reluctant unlike their European counterparts to separate the control of airport operations to the private sector with limited exceptions for specific projects such as terminal redevelopment facilities.

"We continue to see more airport terminal rebuild type of concessions instead of pure privatisations as construction risk mitigation is a key reason for why local authorities have begun involving public sector," says a New York based senior project finance banker. "Unless the county has a compelling need for cash, they wouldn't opt for privatisation."

The city of Los Angeles, Denver and Kansas are all seeking private sector partners for long-term concessions involving terminal upgrades and airport redevelopment PPP projects. The Los Angeles' airport projects alone have a capital cost of nearly $3.5 billion. While Westchester county and the City St. Louis are potentially exploring a privatisation agreement in search of a private sector operator for the entire airport. Either way this is a step change from the past.

"We are now seeing a move away from tradition as local authorities are beginning to realise that the private sector could bring both value and flexibility, while balancing construction risk better than managing it by themselves," says Seth Lehman, senior director - global infrastructure and project finance group at Fitch Ratings in New York. "Airport owners are also very protective of their bond ratings, so a PPP type agreement might help them maintain that rating as they shift debt off their books by sharing risk with a third party developer or investor."

Even in the case of the LaGuardia transaction which is otherwise backed by a financially strong counterparty like the Port Authority of New York New Jersey, a PPP looked appealing as the authority was able to get fixed price contract and a delivery commitment, says Lehman. The project is under construction.