US airports – hashtag flying too

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Everyone has an airport horror story and – curiously – many of them occur in America. For a First World nation that embraced flight early as the favoured mode of transport, it remains a curiosity that the user experience is so… Third World.

Flying into JFK earlier this year brought to mind its stark contrast with Karachi Airport circa 1986 where the facilities were sparkling and the experience delightful… apart from an overly-enthusiastic frisk-down that would warrant a hashtag these days.

The same could not be said of JFK in 2018 where one shuffles through penitentiary chic, welcomed by a horde of shysters haranguing you into premium-rate taxis as the travel-weary bottleneck their way into the Land of the Free.

However, this could all be about to change as US airports enter an age of modernisation thanks to the Federal Aviation Administration's reauthorization bill that – among other things – removes the cap on US airports that can be leased.

Since the revised bill was signed into law in early October – with support from Congress and the Administration – the door is wide open for state-owned airports to bring in the private sector to transform ageing aerodromes and jet them into the 21st Century.

The Airport Investment Partnership Program replaces the FAA's 1996 Airport Privatisation Pilot Program (APPP) that initially allowed for the lease of six facilities, increased to 10 in 2012.

A key differentiator from the 90s plan is that the revised bill stops the public sector from selling airports – dodging the "selling off the family silver" bullet – but is able to bring on board a partner… provided it meets administration requirements.

The old programme churned out one success story, a kind-of success story, and a stinker of monumental proportions:

- San Juan Airport – Puerto Rico – ASUR and Highstar Capital, FC February 2013
- Stewart Airport – New York – leased to National Express Corp, but returned to PANYNJ ownership in 2007
- Midway Airport – Chicago – oh my, that's awful!

And there you have it, a traditional PPP project in a US protectorate, a leasing agreement that reverted to public ownership when the Port Authority of New York and New Jersey bought it back for $80 million in 2007… and Midway, which was a disaster in 2007 and failed again in 2013.

The first time Midway came to market, the bid team – Citi Infrastructure Investors, John Hancock and Vancouver Airport Services – lost its shirt to the tune of $126 million when it failed to raise debt to support the $2.52 billion acquisition.

Many put the Midway collapse down to bad timing in the early days of the global financial crisis, but others claim it had more to do with over-paying and an overly-aggressive business plan.

In reality, the Citi-led team submitted its bid, taking the risk of syndicating part of the LP equity. They were hoping to attract co-investors from their own funds and third parties… but when they went out to market, it did a Hindenburg.

Had they been luckier with timing and come to market three months earlier, it would have been a very different (and much happier) story.

The second time, Rahm Emmanuel pulled the plug when the IFM team exited the process, leaving the MIRA-led Great Lakes Airport Alliance consortium sole bidder. The mayor scrapped it, citing lack of competition.

Blue-sky thinking

Talking this week to infrastructure specialists on the ground, they are bullish about the future of the biggest single aviation market in the world where the vast majority of airports are municipality owned, financed by tax-exempt bonds.

And there are a lot of assets to target. There are 5,136 public airports in the US (2016 figures), and the busiest of those handle impressive traffic. The top five last year (2017) by passenger numbers are:

- Hartsfield-Jackson Atlanta International Airport – 103.9 million
- Los Angeles International Airport – 84.6 million
- Chicago O'Hare – 79.8 million
- Dallas Fort Worth – 67.1 million
- Denver – 61.4 million

For now, all eyes are on St Louis Lambert International Airport in Missouri, for which an RFQ is slated early next year.

Lambert is sure to attract attention as the busiest airport in the state with more than 270 daily departures to 80-plus domestic and international locations. It handled 14.7 million passengers last year (2017) and is the largest US airport to fall into the classification of medium-sized primary hub.

The airport is a focus for Southwest Airlines and serves as a hub for Air Choice One and Cape Air. It was formerly a hub for Ozark Air Lines, Trans World Airlines and American Airlines.

Flying High

Airport leasing in the US has shot to the top of the agenda in the last month, having previously been dismissed at conferences where the same people said the same things about it year-after-year.

But it's not all talk. We are going to see organisations re-focus their strategies to target this space.

It came as no surprise that Ferrovial earlier this month opened an office in Austin, Texas, where the team has the sole focus of targeting activity in the airport industry – primarily P3s. It remains to be seen how long it will take for similar announcements to be made by its rivals.

While leasing of airports across the US is now firmly on the radar screens of big fund managers, they may be disappointed that the way will likely not be led by the massive international hubs.

Seemingly, it is the lower- to mid-tier where most people see opportunity and they are really keen to talk.

It matters little which airport serves as pathfinder, it is more important that the path is laid out... which, had Midway not fallen on its face in 2007 would have saved us from a fallow decade and made travelling around America a great deal less unpleasant (broadly speaking) than it is today.