



# Industry Update

## Downdraft or Game Change?

Colorado Airport Operators Association

June 2009

# Agenda

- Current Airline Situation
- Market Trends Impacting Airports
  - Commercial Service
  - General Aviation
- What will the Recovery Look Like?
- Airport Responses



# AIRLINE SITUATION

# Good Old Days



Pan American Martin Clipper flying boat

The 1930s transoceanic service offered the height of luxury — but at prices that would equal \$10,000 a ticket in today's dollars.



# Flying Today Just Isn't the Same



A380 First Commercial Flight

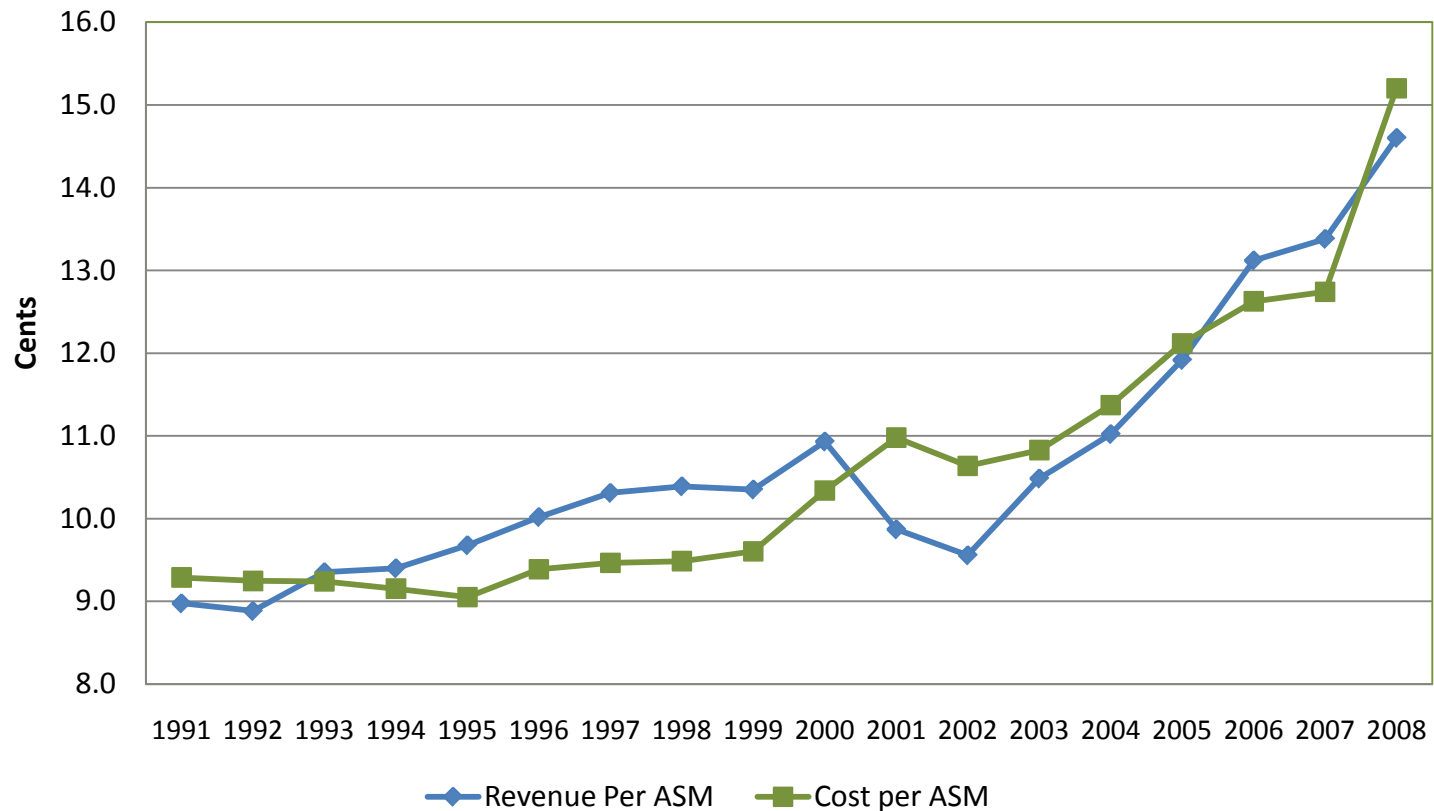
*Photo by Heiko Stolzke / EPA*

# Or is It?



Two Air Service Markets: Luxury and Commodity

# Hard for the Airlines to Make Money



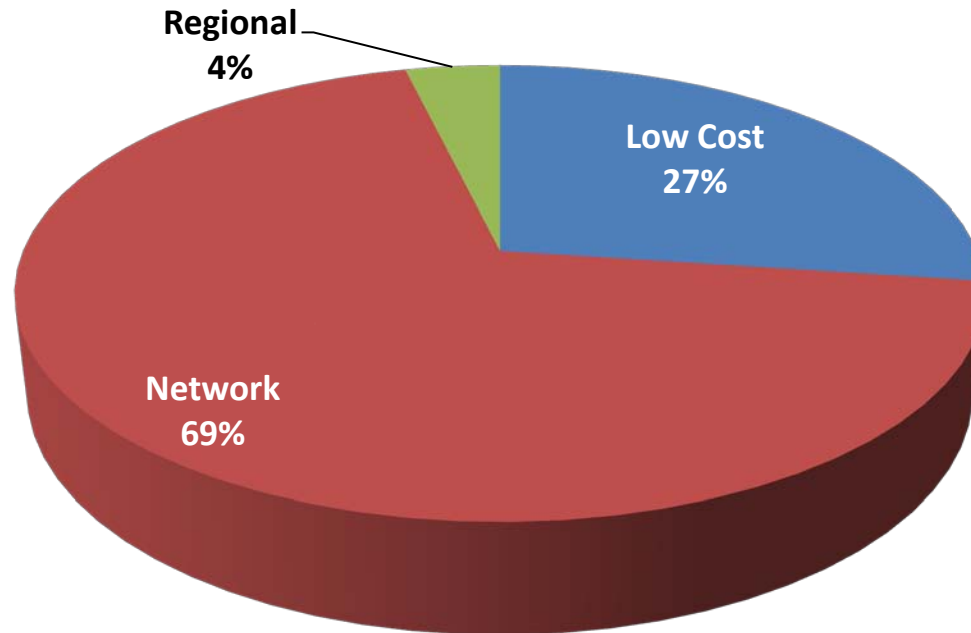
# List of Bankrupt Carriers is Long

May-79 New York Airways	Jan-85 Pompano Airways	Dec-90 Rocky Mountain Airways	May-00 Kitty Hawk
Nov-79 Aeroamerica	Feb-85 Far West Airlines	Jan-91 Pan Am World Airways	Sep-00 Pro Air
Jan-80 Florida Airlines	Mar-85 American Central	Jan-91 Pan Am Express	Sep-00 Fine Air Services
Mar-80 Indiana Airlines	Mar-85 Provincetown Boston	Jan-91 L'Express	Dec-00 Legend Airlines
Dec-80 Air Bahia	Mar-85 Sun West Airlines	Jan-91 Eastern Air Lines	Dec-00 National Airlines
Dec-80 Tejas Airlines	May-85 Wise Airlines	Jan-91 Bar Harbor Airlines	Dec-00 Allegiant Air
Mar-81 Mountain West	Aug-85 Cascade Airways	Jan-91 Virgin Island Seaplane	Jan-01 Trans World Airlines
Mar-81 LANICA	Oct-85 Wheeler Airlines	Jan-91 Northcoast Executive	Aug-01 Midway Airlines
Jul-81 Coral Air	Dec-85 Pride Air	Mar-91 Midway Airlines	Jan-02 Sun Country Airlines
Sep-81 Pacific Coast	Jan-86 Southern Express	Mar-91 Grand Airways	Jul-02 Vanguard Airlines
Sep-81 Swift Air Line	Jan-86 Imperial Airlines	Apr-91 Metro Airlines	Aug-02 US Airways
Oct-81 Golden Gate	Feb-86 Arrow Airways	May-91 Jet Express	Dec-02 United Airlines
Jan-82 Pinehurst Airlines	Apr-86 Sea Airmotive	May-91 Metro Airlines Northeast	Mar-03 Hawaiian Airlines
Mar-82 Silver State Airlines	Aug-86 Trans Air	Jun-91 America West Airlines	Oct-03 Midway Airlines
Mar-82 Air Pennsylvania	Aug-86 Frontier Airlines	Aug-91 Mohawk Airlines	Jan-04 Great Plains Airlines
Apr-82 Air South	Feb-87 Chicago Airlines	Nov-91 Midway Airlines	Jan-04 Atlas Air/Polar Air Cargo
Apr-82 Cochise Airlines	Feb-87 McClain Airlines	Dec-91 Flagship Express	Sep-04 US Airways
May-82 Braniff International	Feb-87 Rio Airways	Jan-92 Trans World Airlines	Oct-04 ATA Airlines
Jul-82 Astec Air East	Mar-87 Air Puerto Rico	Feb-92 L'Express	Dec-04 Southeast Airlines
Aug-82 Will's Air	Mar-87 Gull Air	Jun-92 Markair	Dec-04 Aloha Airlines
Oct-82 Aero Sun International	Mar-87 Royal West Airlines	Jun-92 Hermans/Markair Express	Sep-05 Delta Air Lines
Oct-82 Aero Virgin Islands	Apr-87 Air Atlanta	Dec-92 States West Airlines	Sep-05 Comair
Nov-82 Altair	Jun-87 Air South	Sep-93 Evergreen International Aviation	Sep-05 Northwest Airlines
Dec-82 North American	Sep-87 Royale Airlines	Sep-93 Hawaiian Airlines	Sep-05 TransMeridian Airlines
Feb-83 Inland Empire	Jan-88 Sun Coast Airlines	May-93 Key Airlines	Oct-05 Mesaba Airlines
Feb-83 State Airlines	Jan-88 Air New Orleans	Mar-94 Resorts International	Nov-05 Atlantic Coast Airlines
Apr-83 Golden West	Jan-88 Air Virginia	Oct-94 Florida West Airlines	Dec-05 Era Aviation
Sep-83 Continental Airlines	Jan-88 Mid Pacific Airlines	Feb-95 Crescent Airways	Jan-06 Independence Air
Dec-83 National Florida	Mar-88 Exec Express	Apr-95 Markair	Feb-06 Florida Coastal Airlines
Jan-84 Air Vermont	May-88 Caribbean Express	Jun-95 Trans World Airlines	Oct-07 Kitty Hawk Aircargo
Feb-84 Pacific Express	May-88 Pocono Airlines	Dec-95 The Krystal Company	Dec-07 MAXjet Airways
Feb-84 Dolphin	Jun-88 Virgin Island Seaplane	Nov-95 Grand Airways	Jan-08 Big Sky
Apr-84 Combs Airways	Aug-88 Princeton Air Link	Jan-96 GP Express	Mar-08 Champion Air
Jul-84 Air Florida	Sep-88 Qwest Air	Jan-96 Business Express	Mar-08 Aloha Airlines
Jul-84 Excellair	Sep-88 Southern Jersey Airways	Jan-96 Conquest Airlines	Apr-08 ATA Airlines
Jul-84 American International	Mar-89 Eastern Air Lines	Sep-96 Kiwi International Airlines	Apr-08 Skybus Airlines
Aug-84 Emerald	Mar-89 Big Sky Airlines	Jul-97 Mahalo	Apr-08 Frontier Airlines
Aug-84 Hammonds Commuter	Jul-89 Air Kentucky	Aug-97 Air South	Apr-08 Eos Airlines
Sep-84 Air North	Sep-89 Braniff International	Oct-97 Western Pacific Airlines	May-08 Air Midwest
Sep-84 Wright Air Lines	Oct-89 Presidential Airways	Nov-97 Mountain Air Express	Jun-08 Gemini Air Cargo
Oct-84 Oceanair Lines	Nov-89 Resorts International	Feb-98 Pan American World Airways	Jul-08 Vintage Props & Jets
Oct-84 Atlantic Gulf	Nov-89 Resort Commuter	Jul-98 Euram Flight Centre	Aug-08 Gemini Air Cargo
Oct-84 Connectaire	Jan-90 Pocono Airlines	Mar-99 Kiwi International Airlines	Oct-08 Sun Country
Oct-84 Air One	May-90 SMB Stage Lines	Jun-99 Sunjet Int'l/Myrtle Beach Jet Express	Oct-08 Primaris Airlines
Nov-84 Capitol Air	Jul-90 CCAir	Sep-99 Eastwind Airlines	
Nov-84 Wien Air Alaska	Dec-90 Continental Airlines	Nov-99 Access Air	
Jan-85 Northeastern International	Dec-90 Britt Airways	Feb-00 Tower Air	

*No Bankruptcies since Oct 08*

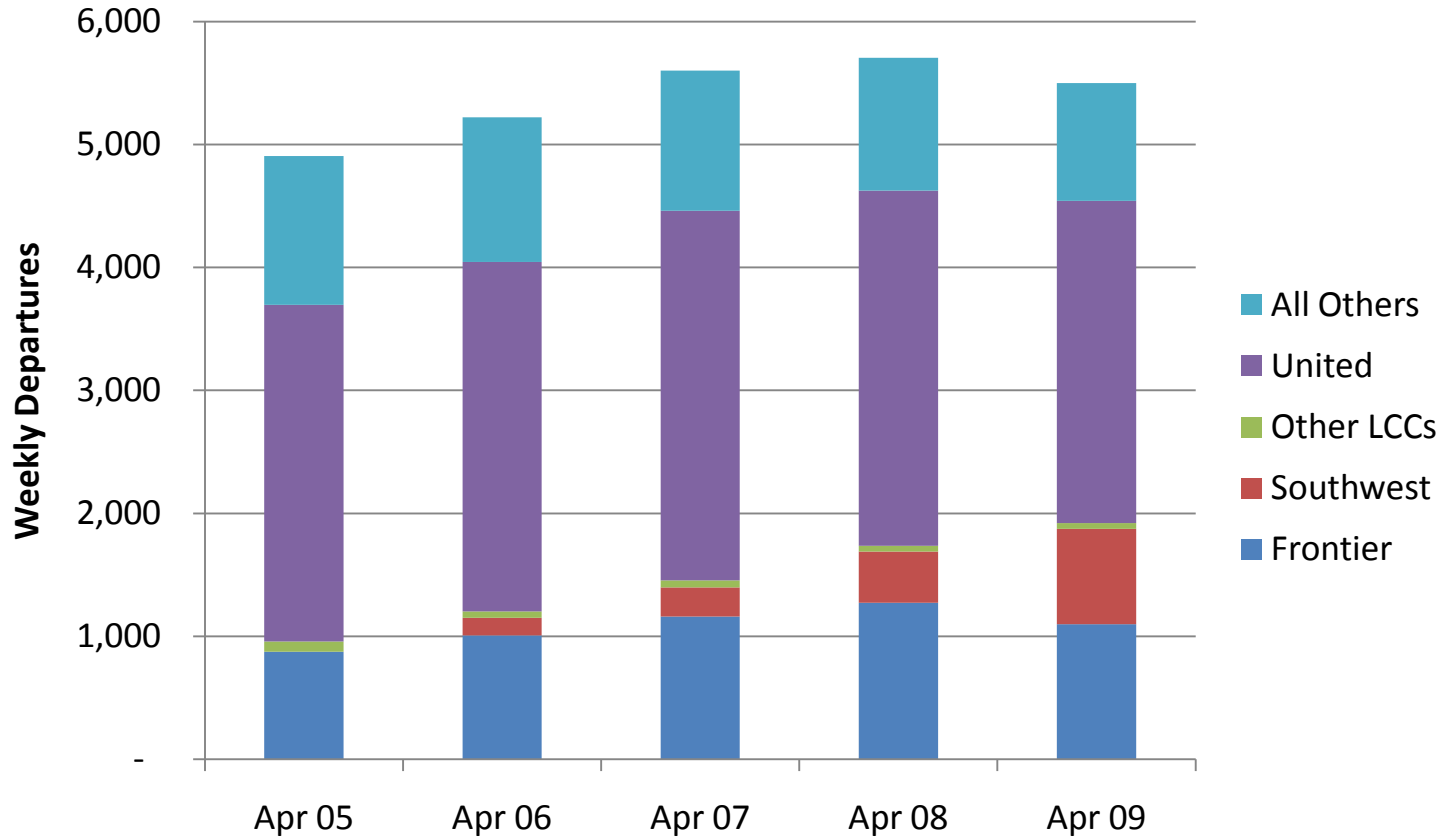


# Low Cost Carriers are Price Setters



Top 10 Airlines, ranked by January-December 2008  
Scheduled Domestic and International Enplanements

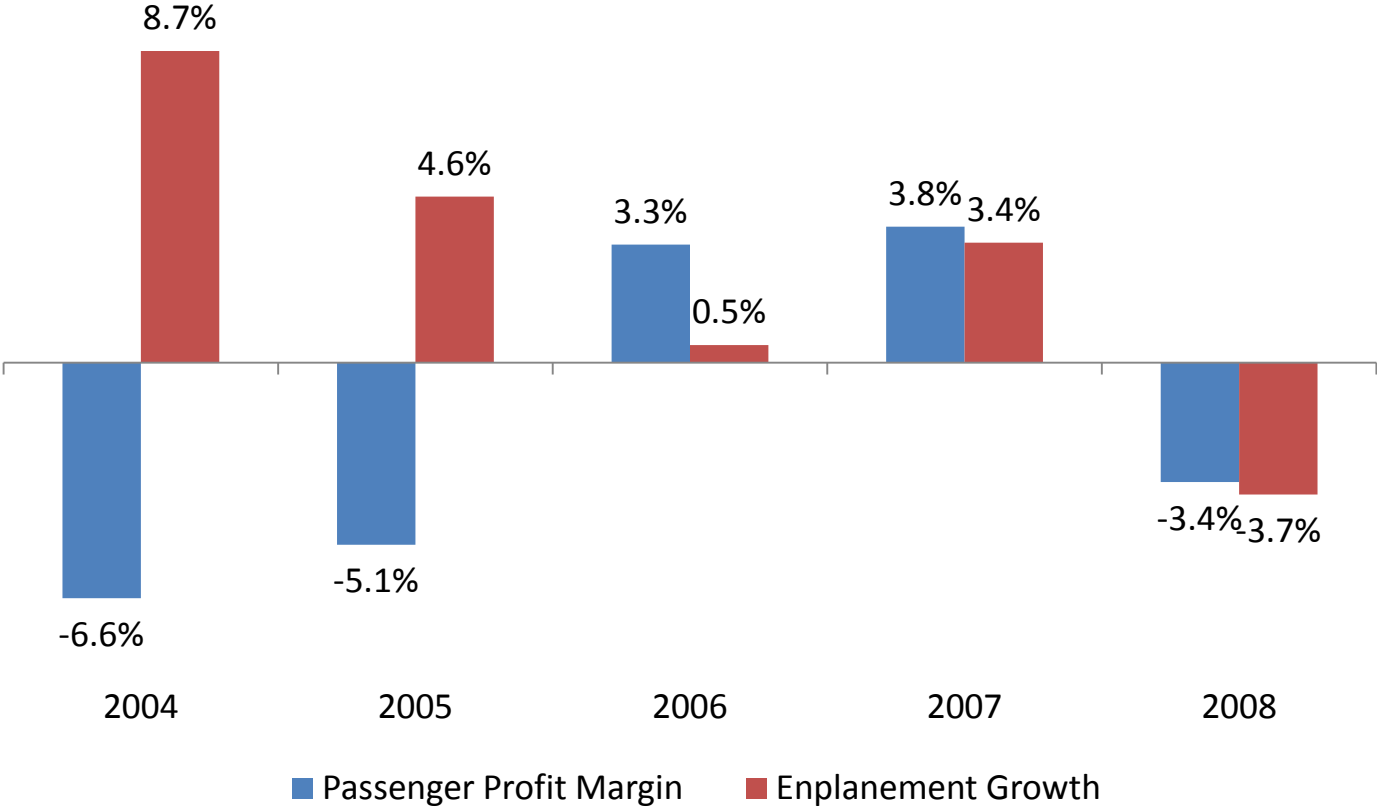
# LCCs 30% of Denver





# TRENDS – COMMERCIAL SERVICE

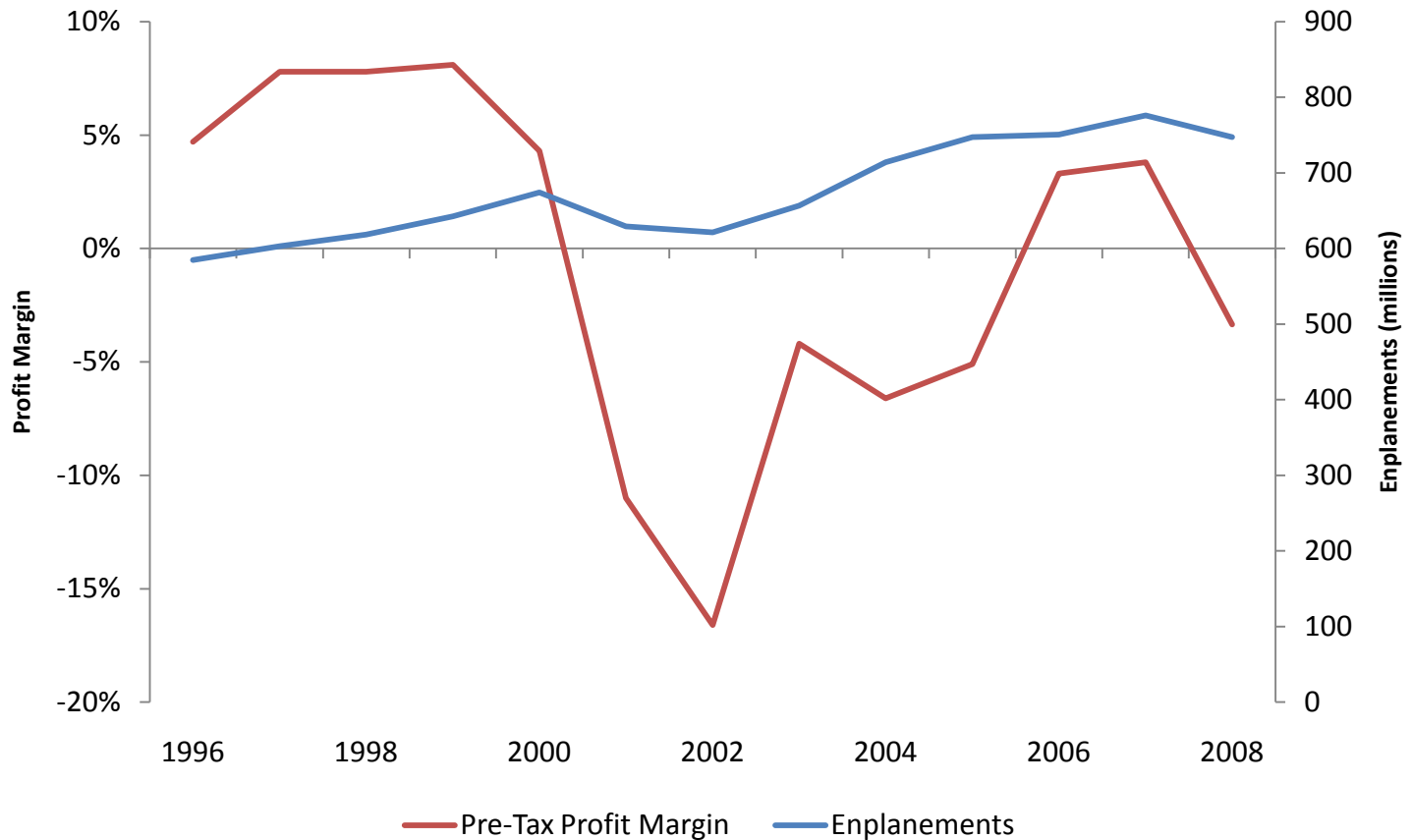
# Good Years for Airports & Airlines Do Not Always Coincide



Adapted from Oliver Wyman, inc.

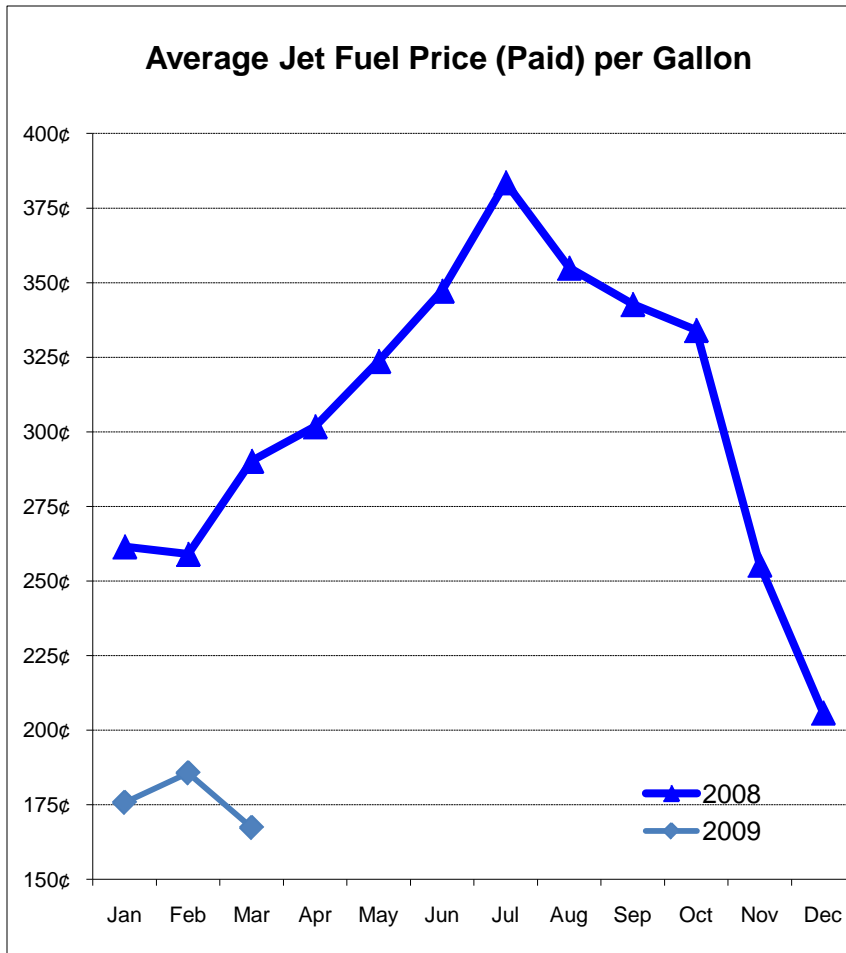
*Different measures of success*

# Enplanements Steady/Airline Profits Volatile



Adapted from Oliver Wyman, inc.

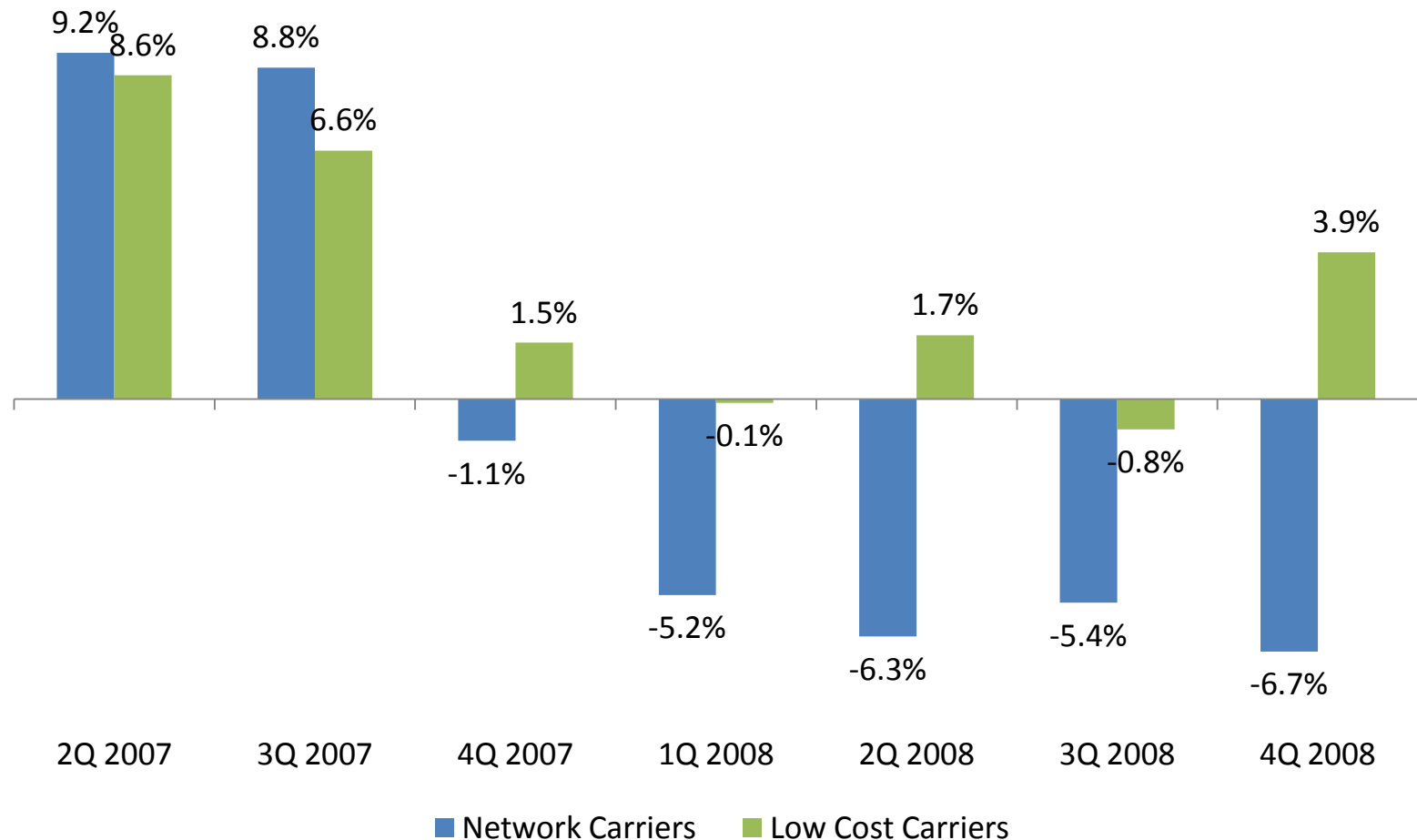
# Troubles Began with Fuel



- Airlines cut capacity
- Focus on higher fare passengers
- Hardest Hit
  - Small Markets
  - Leisure Markets
  - Secondary hubs
  - Smaller Point-to-Point
  - Northeast and Midwest

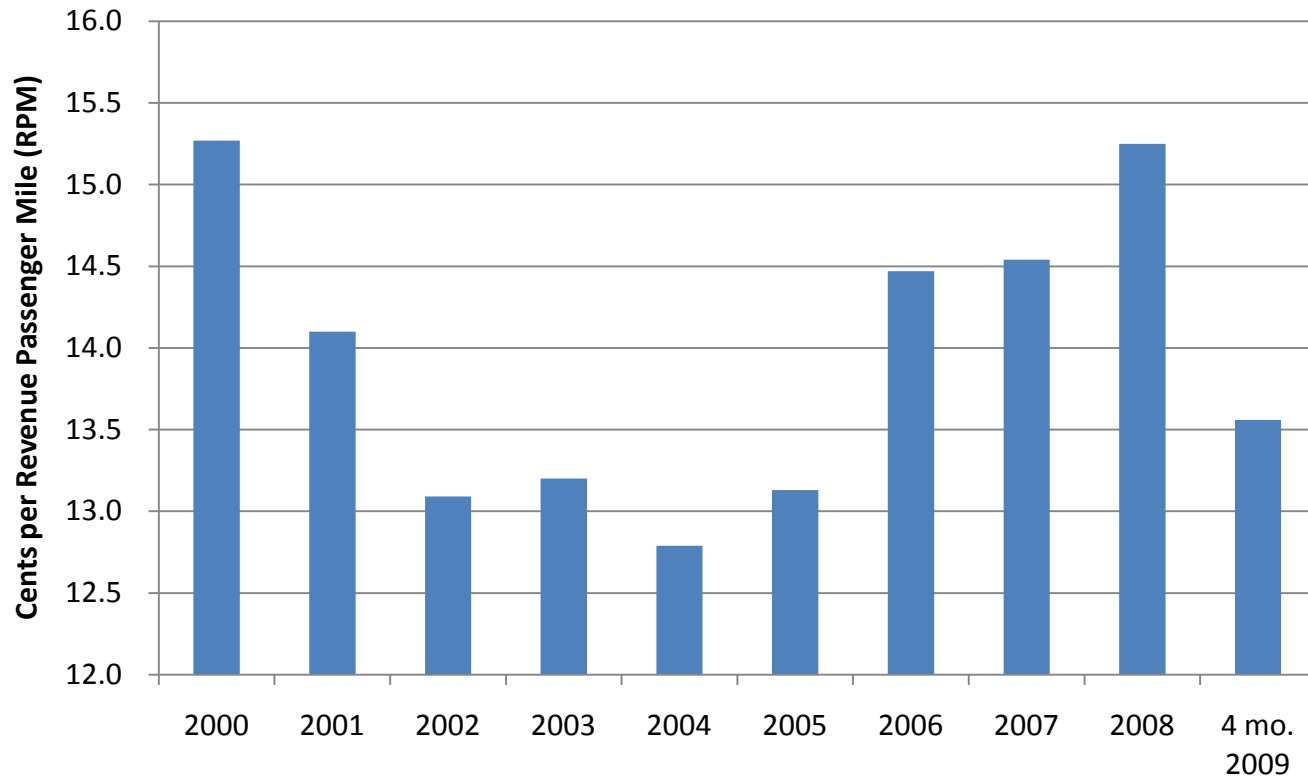
# Airline Profits Went South 4Q 2007

Quarterly Operating Profit/Loss Margin (in Percent)



# Higher Yields Have Not Held

## Domestic Yields

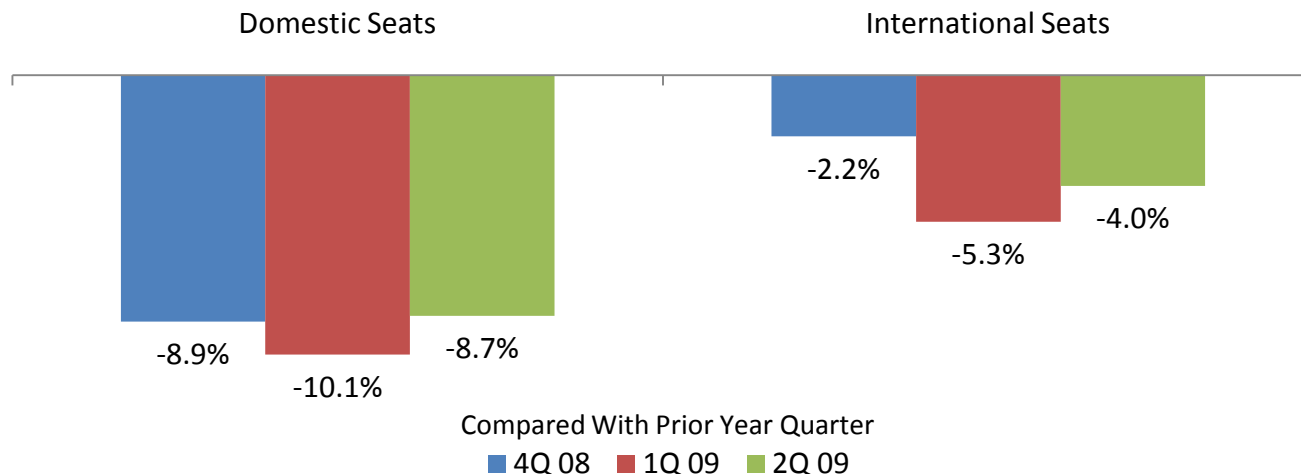


*Weakness in business and premium demand*



# Airlines Continue to Slash Capacity

- Removed 800 aircraft from active fleet.
- Reduced seats, 9% - 22 million seats!
- Big shift from aircraft with  $\leq 50$  seats to 51 to 99 seat aircraft.





*"Of course, you get two bags of peanuts."*

# Extra Charges Have Remained. *A New Untaxed Revenue Source.*

Extra Charge	Fee
Reservation by Phone	\$10-\$35
1st Checked Bag Fee	\$10-\$25
2nd Checked Bag Fee	\$25-\$50
Overweight Bag Fee	\$29-\$150
Extra Leg Room	\$5-\$109
Meal	\$3-\$11
Alcohol	\$1-\$7
Travel with Pets	\$25-\$359
Unaccompanied Minors	\$75-\$100
Non-Refundable Ticket Change Fee	\$20-\$150

Source: Data provided by farecompare.com



# TRENDS – GENERAL AVIATION

# General Aviation

## Current Weakness/Structural Changes

### Recession/High Fuel

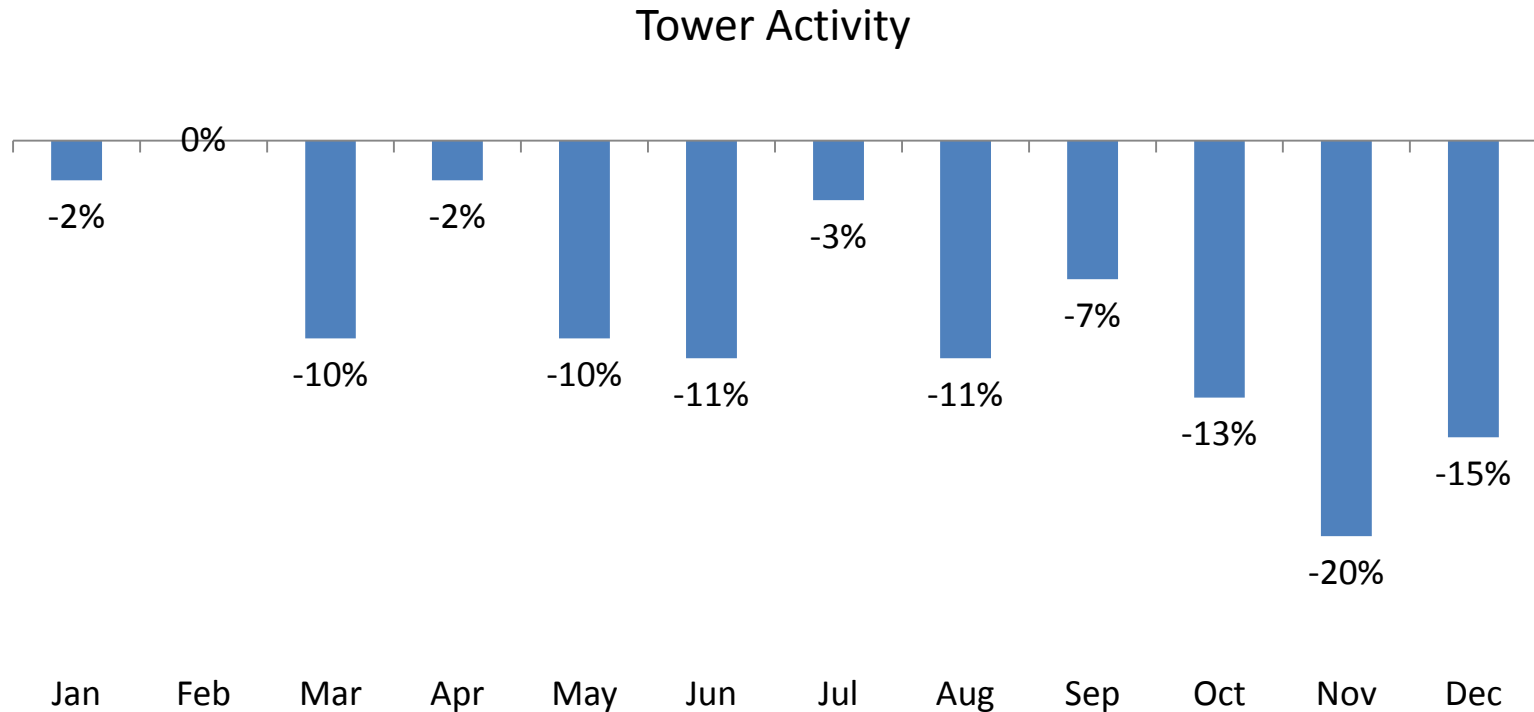
- Lower fuel sales
- Operations falling
- Bad rap on business flying
- VLJs off to a slow start
- On-demand services haven't worked yet

### Structural Changes

- Is the next generation flying?
- Aging fleet/fewer hours flown
- Aging pilots
- Students decreased by 4%
- Regulatory Changes
  - User Fees
  - Security Requirements

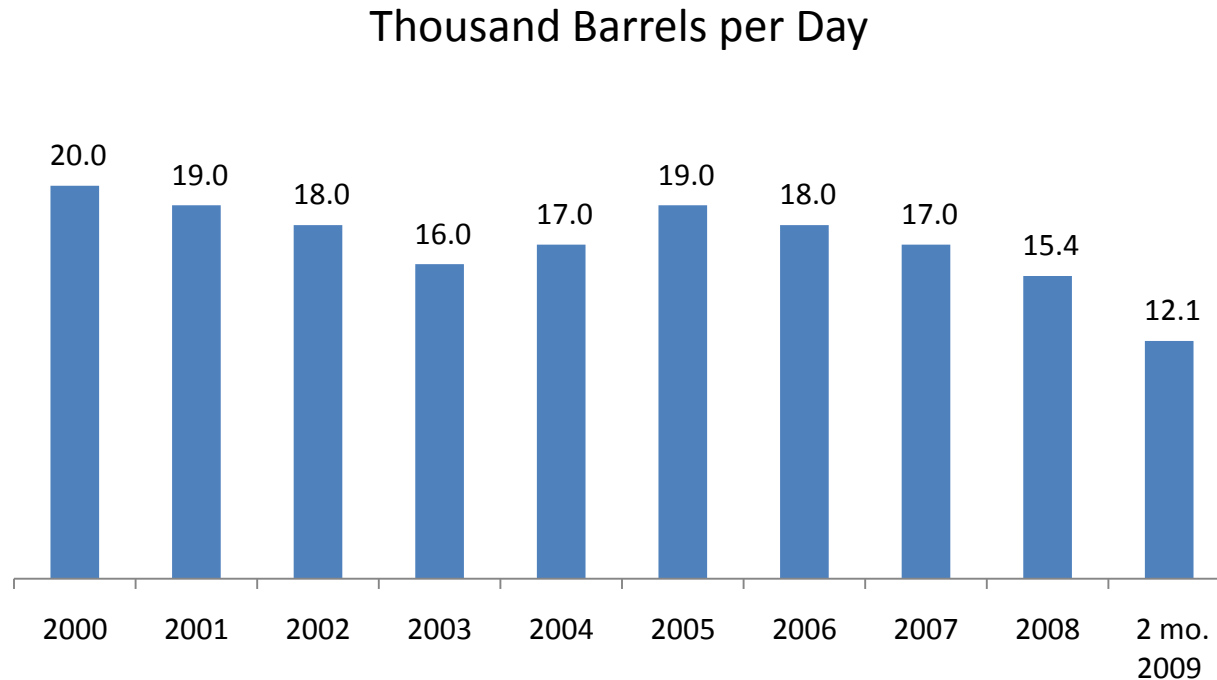


# Changes in GA Operations Year-Over-Year 2007-2008



Source: FAA

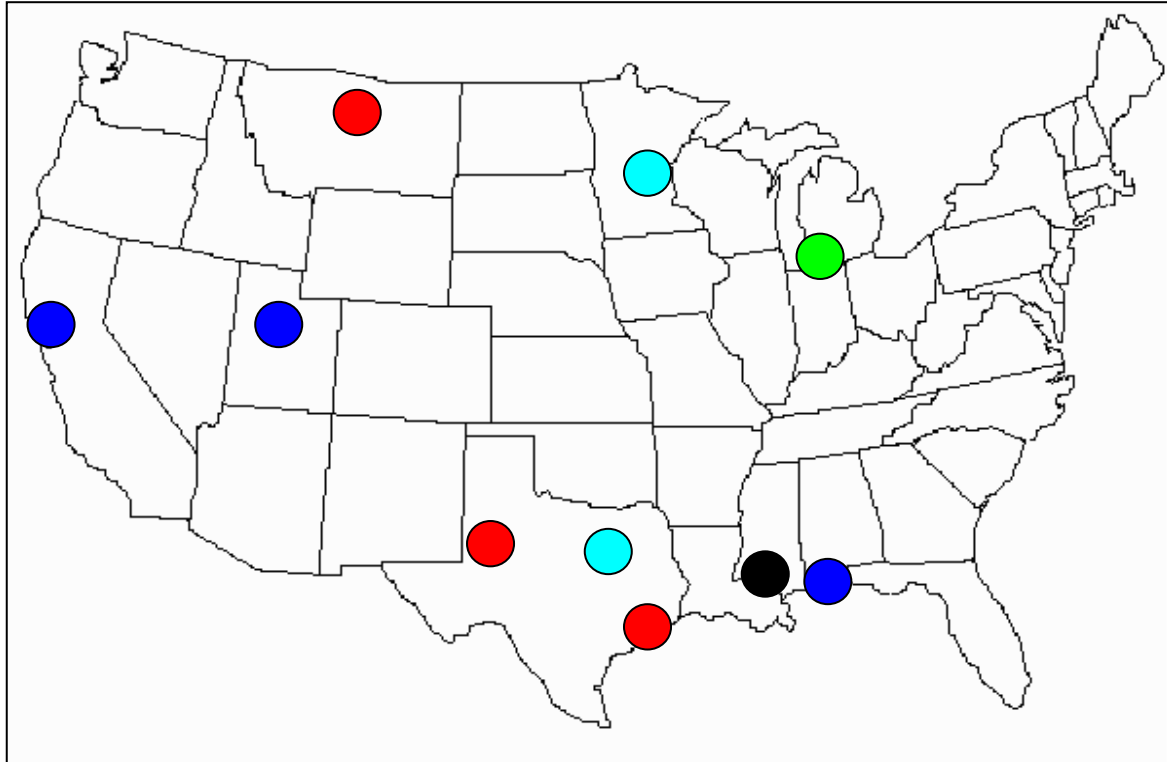
# AvGas Average Monthly U.S. Demand



**Market is small.** 7-8 truckloads per day. One truckload of avgas = 200 barrels.  
Rocky Mountain Region (MT, UT, WY, CO, ID) = 300-400 barrels per day.

Source : Petroleum Product Marketing and Consulting

# Only 10 AvGas Producers



● BP    ● Chevron    ● Exxon    ● Phillips 66    ● Merchant Refiner

*Courtesy of Conoco-Phillips*

# Colorado Fuel Trends

Gross Gallons - 8 months Year-to-Date (Jul–Feb)

	<b>FY07-08</b>	<b>FY08-09</b>	<b>% Change</b>
AvGas	3,403,596	3,325,567	-2%
Jet Fuel	189,280,423	146,324,192	-23%

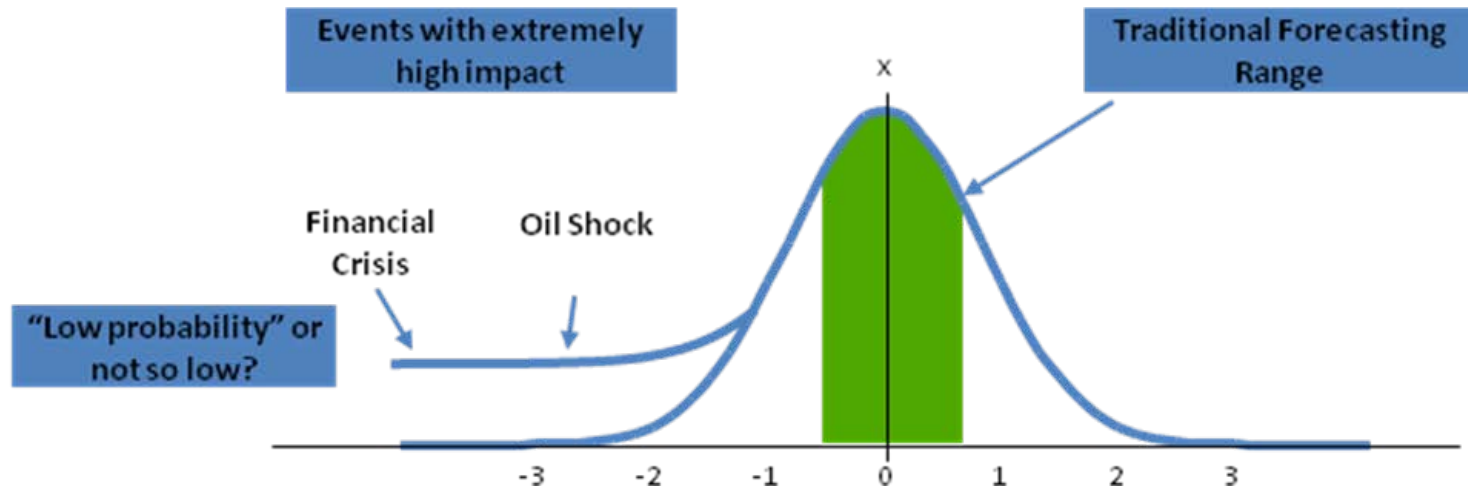
Source: Colorado Department of Revenue





WHAT WILL THE RECOVERY LOOK LIKE?

# A World of Higher Risk

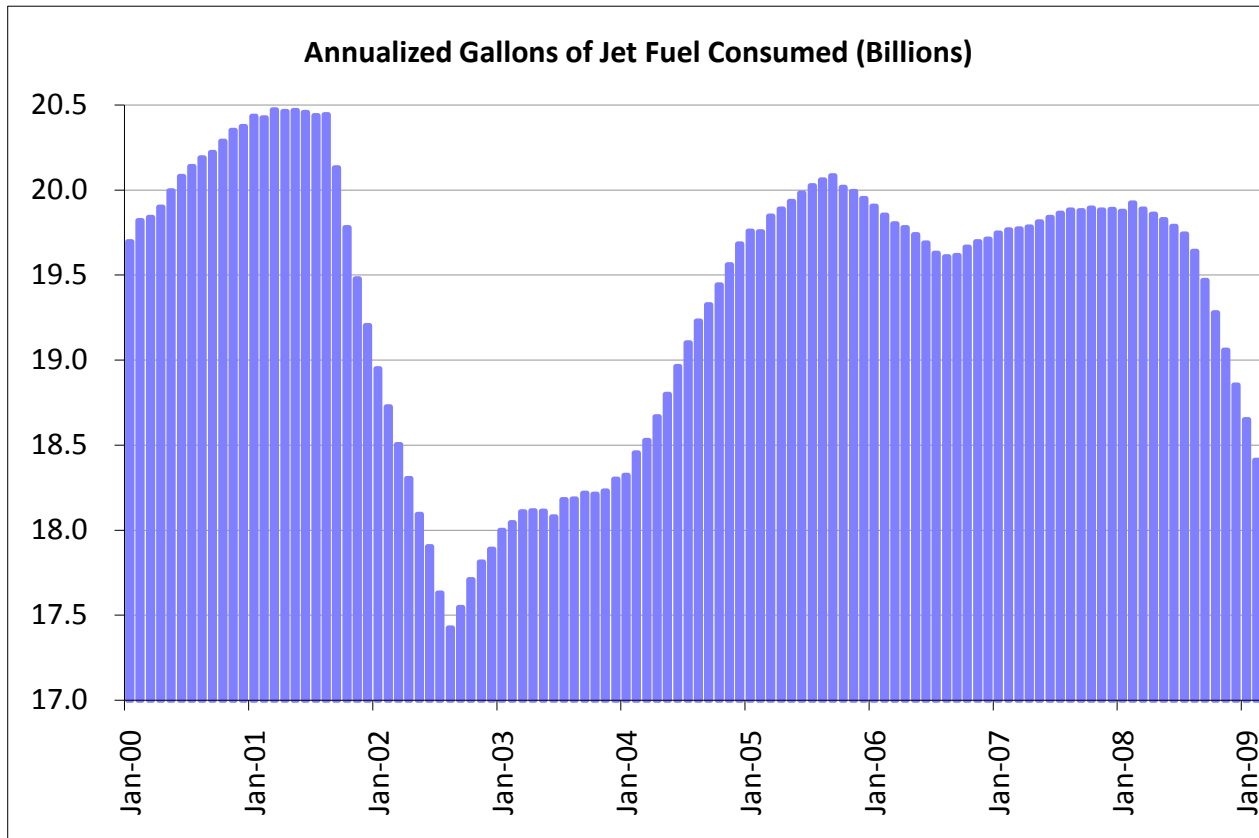


*Forecasts Just Got a Lot More Complicated*

- Event-based
- Scenario modeling
- Sensitivity analysis
- Assessing and prioritizing risks
- Developing mitigation strategies

Source: Adapted from Oliver Wyman, Inc.

# Airlines Reluctant to Assume Lower Fuel Prices are Here to Stay



Source: Air Transport Association

# When Economy Stabilizes

- Airlines will prefer to maintain low capacity
- Grounded aircraft are not returning
- New aircraft orders mostly replacements
- Employment will come back slowly
- Total cost to fly will increase (FARES + FEES)
- Business aviation the main growth story for GA airports...record aircraft available, stuck until credit eases, corporate profits improve.

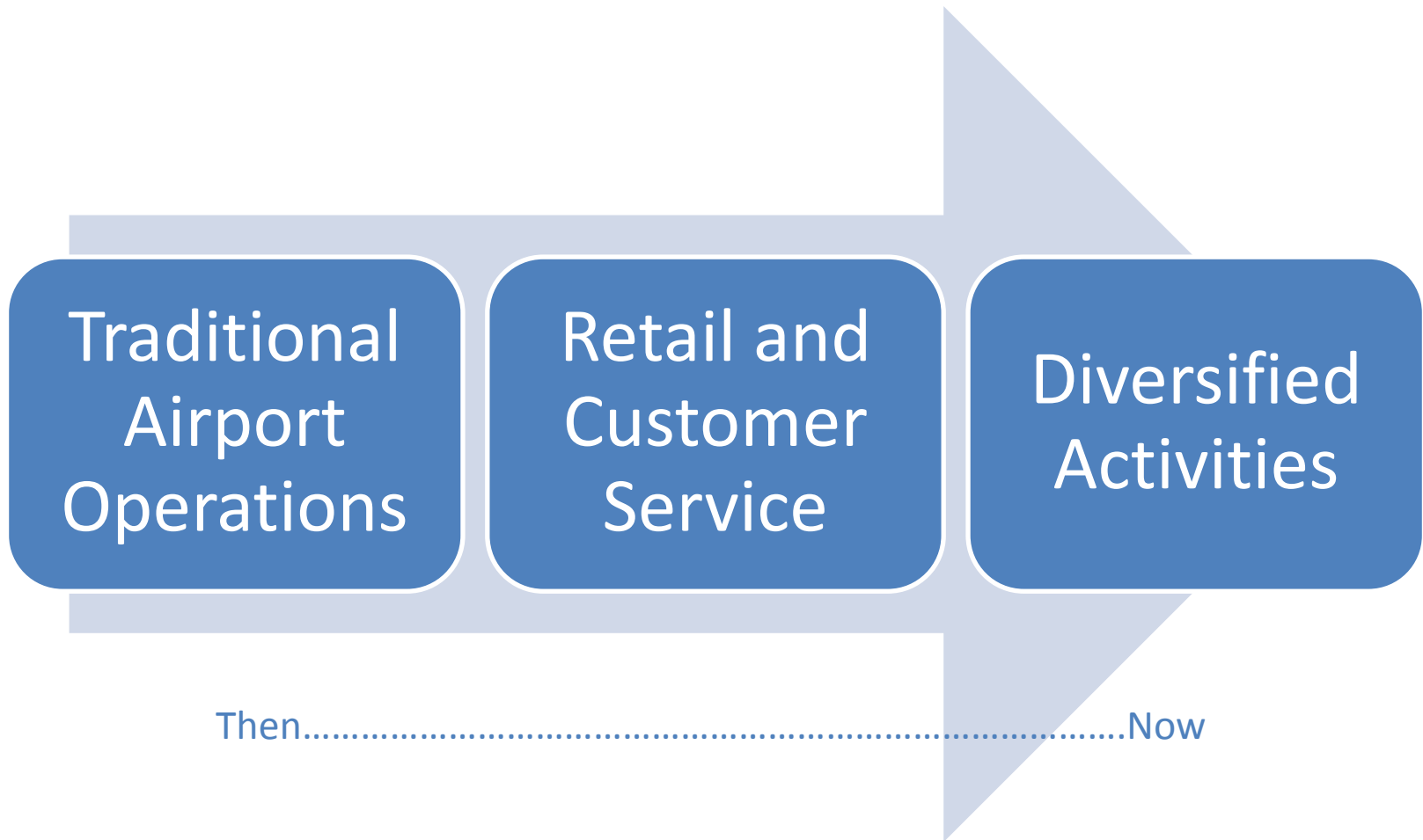


# AIRPORT RESPONSES

# Airport Strategies

- Delay or cancel capital projects
- Hiring or pay freeze
- Staff layoffs
- Reductions in training, travel, & overtime
- Increases in airline fees and non-airline rents
- Increases in parking fees & car rental surcharges
- FOCUS ON PREMIUM PASSENGERS
- DIVERSIFY AIRPORT REVENUES

# Airport Revenue Sources



# Revenue Diversification

- Renewable energy
  - solar, geothermal, wind, biofuels
- Mineral development
- Low impact complements
  - entertainment, utilities, test farms, rights of way, advertising, etc.
- Temporary uses
- Airport support services
- Recruitment of other airport tenants



# Revenue/Expense Sharing

- Joint use agreements and partnerships
  - ATC
  - ARFF
  - Utilities development and roads
  - Security
  - Land acquisitions and exchanges
  - Property management

*What is your airport doing?*

*Questions, Conversations, Comments?*



# NAVIGATING THE NEW ECONOMY WITH FRESH IDEAS

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