# Airport Module

Full Description

**Module 1 of the Annex in Asset Recycling.**

Many airports are owned and operated by government bodies, such as ministries or state-owned enterprises. Airports are highly valuable assets, which serve not only passengers but also support the movement of cargo. In addition, the potential of commercial real estate assets in and around the airports attract investment capital from strategic, institutional, and financial investors, thus making airports a likely asset class for asset monetization and recycling.

This module sets out sector-specific asset recycling guidelines for airport sector, including sector-specific due diligence requirements, sample risk allocation matrix and sample terms of reference (TOR) for selection of transaction advisors. *Find more below, or visit the Guidelines for Implementing Asset Recycling Transactions section and Content Outline, or Download the Full Report.*

### Due Diligence for Airports

The Relevant Authority should undertake a due diligence study of the airport that is considered for asset recycling. This should form part of the asset recycling transaction preparation process. The due diligence process for an airport should include:

- Air traffic forecast and assessment of demand
- Assessment of current airport infrastructure and future capacity development
- Assessment of airport financial performance
- Legal due diligence
- Assessment of Environmental and Social (E&S) risks and climate risks

#### Air Traffic Forecast and Assessment of Demand

The Relevant Authority should consider the following aspects when conducting traffic forecast and an assessment of demand for the airport:

*Historical analysis*

- a macro-economic analysis of the air traffic trend, and the role the airport plays in the economic development of the surrounding region;

- historic enplaned passengers handled, air traffic movement (by category of aircraft), and cargo tonnage at the airport;
- existing non-aeronautical activities and potential of the airport;
- impact on passenger and air traffic movement due to the impact of COVID-19, including outlook for the recovery profile;
- impact of existing and foreseeable policy changes on the demand at the airport.

*Forecast*

- overview of key economic indicators of the catchment area of the airport, in terms of the population base and its location relative to other competing airports;
- project a baseline forecasts for growth in cargo and passenger volume and air transport movements for the period under consideration;
- impact on passenger and air traffic movement due to the impact of COVID-19, including outlook for the recovery profile;
- identify potential scenarios for both downside and upside growth;
- assess potential for business and development of non-aeronautical activities development.

#### Airport Infrastructure and Capacity Development

The Relevant Authority should undertake an assessment of airport to analyse whether the existing capacity meets current and future demand.

The analysis of the airport’s current conditions and future capacity should include:

- airside (airfield infrastructure including runways and taxiways, aprons);
- review airfield service compatibility with reference to aircraft demand types;
- current condition and number of parking stands (per aircraft type); including future gate requirements based on demand forecast;
- terminal complex; including details of:

    - Area size of building space, by terminal subsystem
    - Details of facilities to process passengers and baggage involved in commercial air traffic. These should include the major functions of arrival and departing passengers, including government border control facilities and security screening.
    - Historical data with respect to current number of enplaned passengers handled
    - Analysis to assess when capacity within terminal would be reached and the requirements for reconfiguration, operational changes or terminal expansion;
- Assessment of landside access including curb side and car parking facilities;
- Assessment of supporting infrastructure including utilities such as water, waste management and power.

A gap analysis report, including an assessment of the assets' condition, to determine the adequacy to provide required service levels should be prepared. The gap analysis should cover:

- Assessment of the remaining useful life of the airport assets;
- Potential replacement / overhaul / major maintenance required and the timing thereof;
- Overall performance against benchmark (KPIs local and international) with reference to the current capacity at the airport;
- Service specifications required to meet future needs; including adherence to IATA Service Standards and any target Airport Service Quality (ASQ) rating.

**Airport Financial Performance**

Due diligence should be undertaken of the airport's financial performance.

To this end, the due diligence process should cover a review of aeronautical revenues, non-aeronautical revenues, and operating expenses, presenting historical and projected EBITDA and EBITDA yield (i.e., per enplaned passenger).

The various components to be analysed are as follows:

*Aeronautical Revenues*

The due diligence process should cover the following aspects:

- Current structure of the relevant charges (aircraft landing, parking, passenger service charges, etc.) and the applicable fee adjustment mechanism/s:
    - Base charges detailing the prevailing charges and historical revenue therefrom;
    - Base charges growth rate detailing prevailing escalation or indexation regime and an assessment as to whether adjustments have been adequate to cover historical inflation;
- Forecast of all aeronautical revenues as well as revenue associated with other aeronautical activities, such as ramp handling, fuelling, in-flight catering, FBOs, MROs, cargo, etc.

*Non-aeronautical Revenues*

- Review historical non-aeronautical revenues. Non-aeronautical revenue streams include passenger related products and services, or commercial activity not directly related to airlines (or other aeronautical operations) and will encompass the following major categories:
    - commercial and retail
        - food and beverage
        - merchandise/ specialist retail/ tax and duty free
    - services (e.g., automatic teller machines, advertising, airport lounges)
    - car parking and commercial ground transportation
    - rental car
    - airport city facilities and land rentals;
- Assess non-aeronautical revenue growth and review revenue mix and opportunities for revenue maximization.

*Operating Expenses*

- Review operations and maintenance expenses comprising staff and non-staff costs;

- Review total operating cost per enplaned passenger and benchmark it against the median average of comparable benchmarked airports (i.e., regional airports).

*Capital Expenditure*

- Assess projected capital investment in new airport infrastructure and replacement and heavy maintenance costs and detail any required expenditure plans (for improvement of service levels, technological upgrade or increasing capacity) to meet expected growth in air traffic demand of the airport over the term of the concession agreement.

#### Legal Due Diligence

The Relevant Authority should consider the following points when conducting its legal due diligence of an airport asset:

- Institutional, legal and regulatory framework for operating airports:
  - Duration of the Project (Term) (as above);
  - Specific laws and regulations relating to operating airports;
  - Key licenses required.
- Determining which services will be retained by Relevant Authority as Relevant Authority's responsibilities/functions:
  - For example: air traffic control, customs, immigration and quarantine, security, emergency services,
  - Setting out how the Operator's services and the areas operated by the Operator will interface with these services retained by Relevant Authority;
- Land handover/site risks, including:
  - Whether to grant the Operator a lease or a right to use over the Airport assets;
  - Whether Relevant Authority can provide a "clean" site with no title issues, no contamination or other issues;
- Performance monitoring:

- What level of output specifications the Operator needs to comply with (KPIs);
- What are the consequences for failure to comply with the KPIs (liquidated damages/ payment deductions);

- The level of Force Majeure / Change in Law protection granted to the Operator;
- Managing the risk to operations of competing activities being developed in the vicinity of the Airport;
- Employees, and obligation to take-over existing employees of Relevant Authority;
- Termination rights of the parties and consequences of termination;
- Permitted transfer/assignment and sell-downs.

#### E&S and Climate Resilience Due Diligence

The Relevant Authority should consider the following issues when conducting its E&S due diligence of an airport asset:

- identify gaps between national applicable law and GIIP/Lenders requirements and way to bridge them with related timeline for implementation;
- key E&S risks may include, but not limited to: land acquisition and/or clearing, resettlement, impact on livelihood, presence of sensitive receptors in the project area of influence with potential limitation in access to residential and commercial activities and increase in noise levels, air emissions, pollution, dust, wastewater and storm water management, waste management, and hazardous material/waste handling, presence and close proximity of the alignment with key biodiversity areas, legacy issue (if any);
- applicable E&S permitting and E&S studies to be developed and to be considered in the risks allocation between the government contracting party and the private sector.

The Climate Resilience Due Diligence should include at least:

- assessment of GHG emissions baseline of the airport asset;
- historical climate data and natural disaster events affecting the airport asset;

- review of climate and natural disasters risks of the airport asset (e.g. flood risks to airports due to increased precipitation and/or sea-level rise; temperature change; increased intensity of storms disrupting operations; changing icing conditions; changing winds; desertification; lift of aircraft reduced due to higher temperatures; increasing wildlife-strike risks due to changes in the local ecosystem);

- assessment of the Disaster Risk Management plan or Emergency Preparedness and Response plan (if any in place); and (v) assessment of integration of climate resilience concepts in maintenances regimes.

**Airport Module Tools and References**

Find a quick view of sample risk allocation matrix and sample terms of reference (TOR) for selecting transaction advisors for airports below, or visit the *Asset Recycling Tools and References* section of this guide to find out more.

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*The Guidelines have not been prepared with any specific transaction in mind and are meant to serve only as general guidance. It is therefore critical that the Guidelines be reviewed and adapted for specific transactions To find more, visit the Guidelines to Implementing Asset Recycling Transactions Section Overview and Content Outline, or Download the Full Report.*