

THE CASE FOR

Continuity in Capital Planning and Program Execution During COVID-19 Crisis

BTY makes the case for continuity in airport infrastructure capital planning and budgeting during the coronavirus pandemic. We see a two-year window of opportunity with stable construction costs that has followed two previous major economic disruptions.



Covid-19's knock-on effects have hit the air travel sector especially hard with **unprecedented declines in demand** in a matter of weeks. Market capitalization has plunged by 44 per cent overall, with some companies shedding nearly 60 per cent of their value or more. The impact is estimated to be 5 to 6 times greater than that following 9/11.¹



Unprecedented Decline

¹ Covid-19 Briefing Materials, Global health and Crisis Response, McKinsey & Co, March 25, 2020

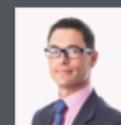
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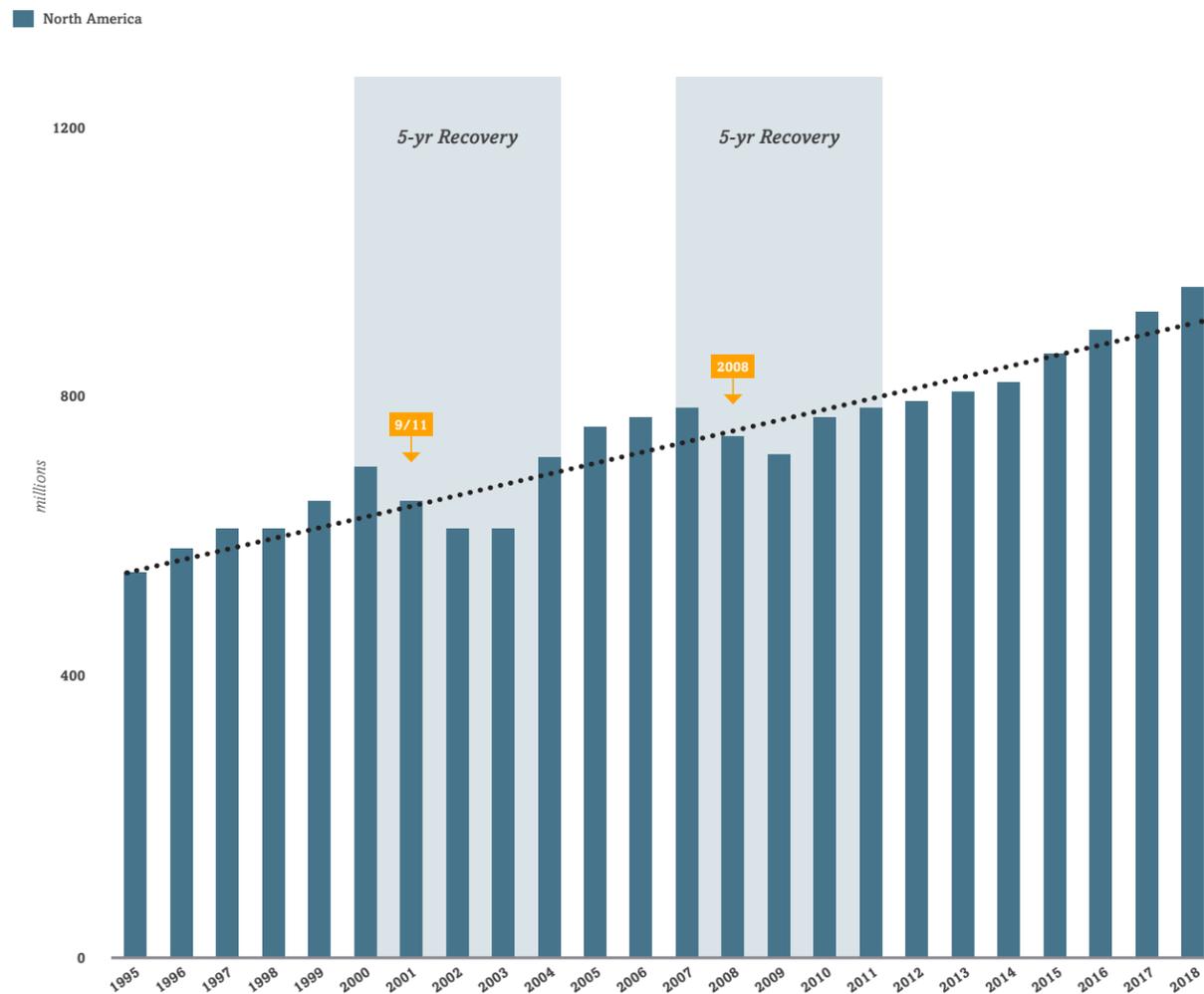


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Impact of dramatic downturns and rebounds

The magnitude of the impact is unprecedented. But dramatic downturns – and subsequent rebounds – in air travel are not. The following chart from the World Development Indicators database illustrates the downturns and rebounds in air travel following 9/11 and the 2008/9 financial crisis in North America.

Airline Passengers 1998 to 2018



The pandemic will end; air travel will rebound



At this still early stage, it is difficult to project how long the preventive measures to interdict the spread of the coronavirus will remain in effect – or how soon air travel will begin to turn around.



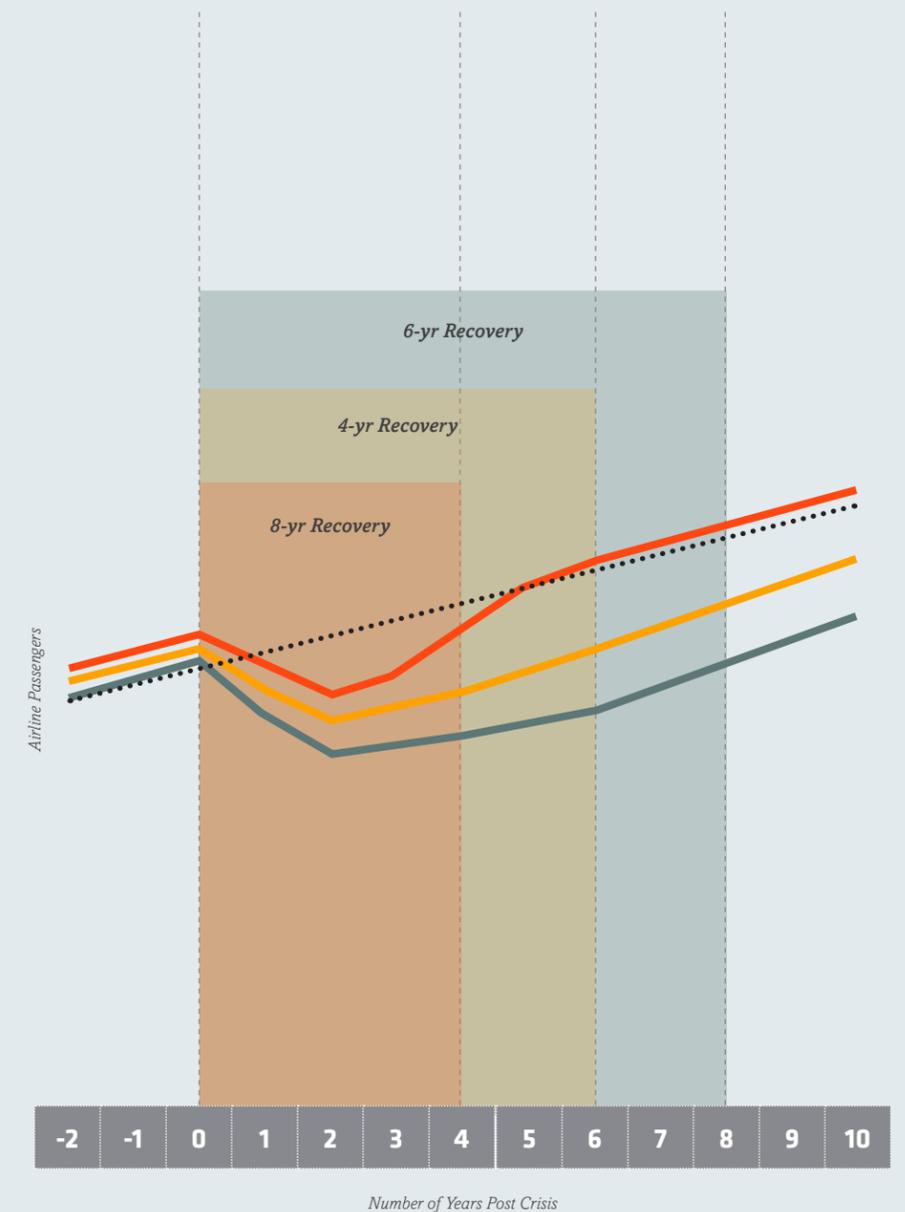
Recovery from “demand shocks” has historically taken about five years. Given the magnitude of the Covid-19 downturn, this recovery may take longer.



The recovery from Covid-19 may take the form of strong pent-up demand for leisure-travel, but weaker business-travel due to the proliferation of online collaboration tools.

Airline Passengers Hypothetical Recovery Scenarios

4-yr Recovery 6-yr Recovery 8-yr Recovery Historic Trendline



The need for air travel infrastructure remains



The shock from COVID-19 does not reduce the need for air travel infrastructure; rather it makes it more urgent.



Over many decades the long-term demand for air travel, although it has experienced “bumps”, has consistently grown world-wide, driven by demographic trends, increasing levels of disposable income, and decreasing costs.



We feel confident that volumes and demand will increase after the pandemic is brought to heel.

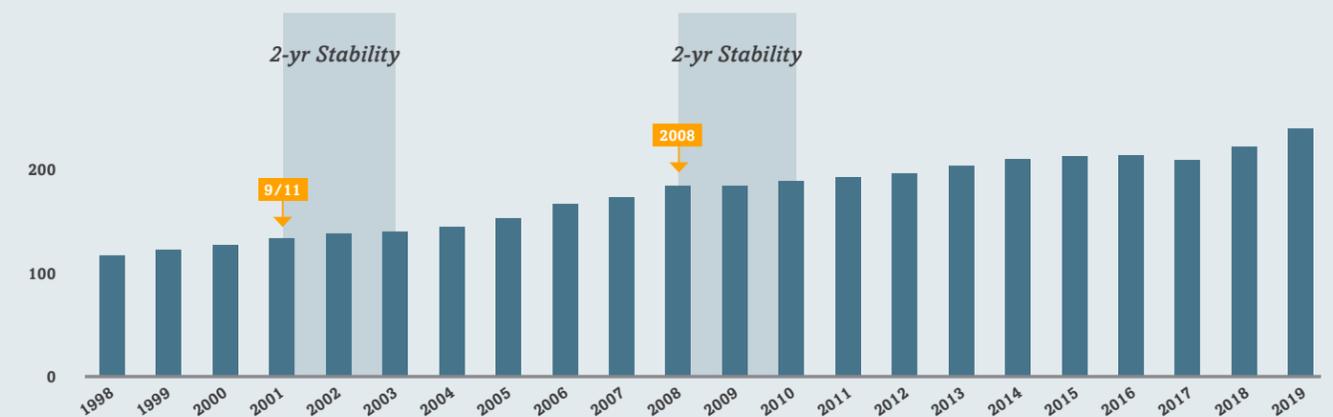


Suspending infrastructure programs in the short-term will widen existing gaps in the long-term.

Costs have stabilized momentarily following major past disruptions

Historic North American Cost Declines following Disruption

Historical Canadian Cost Indexes (1993=100) - not inflation adjusted



After the sharp declines caused by “9/11” and 2008/9, there was a two-year window when construction costs saw little or minimal increases.



After this period of stability, construction costs underwent significant upward spikes in both situations, 9 per cent in 2003 and in 2010, respectively.

Cost stabilization creates a window of opportunity



We see the conjunction of stable construction costs and continuing need for infrastructure development creating a window of opportunity.



Airports can use this time of low demand for air travel and stable costs to sustain program planning and budgets.



Using general project timelines, a capital project planned, budgeted and designed now will be ready for tendering in 1 to 2 years.

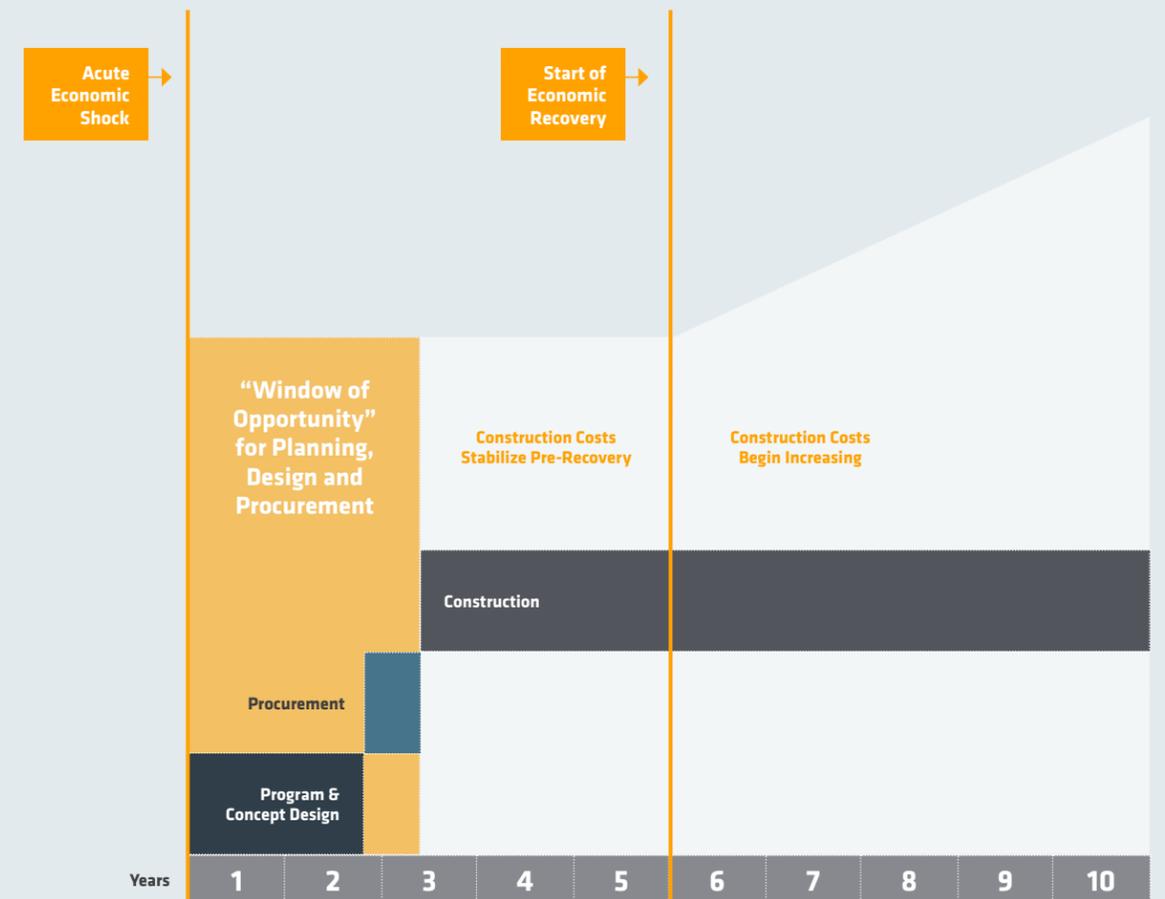


The project would likely benefit from stable or falling construction costs when it is ready to bid, and would be completed 5 to 7 years after the start of design.



This period has historically been the timespan after which demand returns to normal or greater levels.

“Window of Opportunity”



The Path Forward



Waiting for economic recovery to start projects may compound losses for airport operators, as projects will need to catch up on necessary planning and may miss the window of opportunity for stable costs.



Airport authorities and operators that delay planning and budgeting could miss this window of opportunity to reassess the capacity of their existing infrastructure and plan for the long term.



In our view, the path forward for airport authorities and operators with long-term vision is to use this opportunity to plan and profit from these exceptional circumstances.

Airport Project Briefing Note prepared by:



MICHAEL KENNEDY

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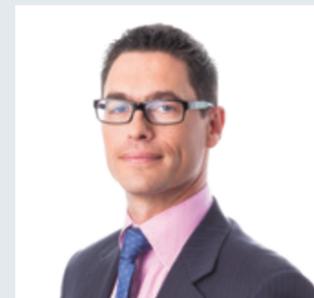
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