FACILITATING PUBLIC-PRIVATE PARTNERSHIPS FOR AIR CARGO FACILITY DEVELOPMENT

Ray Brimble - Lynxs
Mike Minear - Aeroterm
Dan Muscatello – L&B

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Our Structure Today

- Brief Introduction – Why this Panel now?
- Panel Q&A
- Audience Q&A
Global air cargo volumes have recovered from, and surpassed, pre-recession levels (2007-2008).

At many airports and regions demand has not materialized as anticipated. Global air cargo volumes averaged growth of 1.2% per year between 2007 and 2013, less than a quarter of the 20-year annual growth rate projected by Boeing prior to the recession.

The Asia Pacific and North American markets remain dominant accounting for 39% and 29% of global air cargo volumes, respectively.

Air cargo growth rates at Middle East airports have been particularly robust reflecting organic growth and market share capture.
While air cargo volumes have increased worldwide between 2007 and 2013, the rate of growth has in many cases not met forecast or stakeholder expectations.

In 2013, tonnage handled at airports around the world was 7% below volumes projected in 2011. The comparisons are below – the blue was the projected growth.

None of the regions exceeded the projected growth rates through 2013. However, the end of 2014 was stronger and has put the industry back on track.


A Perfect Storm for Cargo Development

- Increased passenger demand is requiring more airport funds and allocation decisions
- The cost of money is reasonable
- Financing dollars are available
- Developers are knowledgeable
- Cargo is growing, driven by:
  - Cheaper fuel
  - All–in rates
  - Dock strike
  - Asian holidays
DEVELOPMENT CONCEPTS
Class A and A1
Adjacent Aircraft Ramp
Class B
Airside Access via Restricted Service Road
Class C
Cross Dock Operation
Class D
Basic Warehouse
Two-tier Concept for Constrained Airports
Hong Kong – Multi Story
WHO OWNS THE CARGO HANDLING FACILITIES ON THE AIRPORT?
Ownership Models

- Public Ownership
- Public Private Partnership (PPP)
- Third Party Development
- Privatization (Long Term Concession)
- Private Ownership
Leasing Models

- Single-tenant - Historically developed by carriers but have largely fallen out of favor due to carrier strategies to take real estate off their books. Today, most such single-tenant facilities are utilized by the integrated carriers.

- Multi-tenant – Houses multiple airlines and supporting businesses. Typically built by an independent third party or on a limited basis by a carrier (or carrier consortium).

- Common-use – This facility has a single lessor – usually a handling company or third-party developer. While the handler may serve multiple carriers, the airlines don't lease space and the cargo is processed in a common area.
WHAT ADVANTAGES DOES A THIRD PARTY DEVELOPER BRING TO AN AIRPORT?
### Developer – Airport Risk Comparison

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<tr>
<th>Airport Development</th>
<th>Private Development</th>
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<tr>
<td>Significant vacancy risk</td>
<td>Some vacancy risk</td>
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<td>Balance sheet exposure</td>
<td>No exposure</td>
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<td>Initial cash outlay</td>
<td>Lower revenues</td>
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<td>Completion risk</td>
<td>Developer credit risk</td>
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<td>Liability issues</td>
<td>(ground rent)</td>
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<td>Operating costs</td>
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<td>Marketing costs</td>
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<td>Relocation costs</td>
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<td>Environmental costs</td>
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<td>Potential delays</td>
<td>Securing financing</td>
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<td>Changing cost of money</td>
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Role of a Third Party Developer

- **Capital**: Provide Capital to Support Airport Growth
- **Planning**: Assist in Producing Airport Master Plan
- **Design**: Specialize in Designing Airport Properties
- **Construction**: Manage the Entire Construction Process
- **Leasing & Marketing**: Attract Tenants and Actively Market the Airport
- **Management**: Keep Stakeholders Satisfied and Maintain Facilities
HOW CAN A THIRD PARTY COMPETE WITH AN AIRPORT ON COST?
The private sector estimates that its costs to build a cargo facility are **20% less** than the public sector’s!

Construction hard costs:

- Construction soft costs: 4 – 7%
- Professional fees: 5 - 7%
- O&M costs: 2%
- Financing costs: 5 – 7%
- Soft cost contingency: 2 – 4%
Concept for Vienna Development
MY CARGO BUILDINGS ARE OVER 25 YEARS OLD. HOW ARE THEY DIFFERENT FROM MODERN FACILITIES AND ARE THEY STILL USABLE?
Cargo Facilities - 1993
THERE IS A LOT OF UNDERUTILIZED SPACE ON MY AIRPORT. CAN AND SHOULD IT BE REDEVELOPED FOR FREIGHT FORWARDERS AND EXPEDITED CARRIERS?
Freight Forwarder On Airport
DHL Global Forwarding - ORD
A Strategic Concept
Integrating Manufacturing
Integrated Manufacturing Concept
Conceptualized Air Logistics Park (Cargo Village)
WHY WOULD I WANT MY COMPANY ON THE AIRPORT IF WE DON’T OWN ANY AIRCRAFT AND THE COSTS ARE HIGHER?
Advantages – On-Airport Location

- Reduced operating costs - reduces double handling and increases throughput
- Increased security and tracking capability
- Proximity to business partners
- Improved time and certainty factors including extended cut off times
- Reduced trucking costs
- In some instances, a higher “prestige” and marketing factor
Throughput and Leasing Expense in Relation to Class of Air Cargo Buildings

- Class A
- Class B
- Class C & D

Airside Throughput Velocity vs. Leasing Expense
WILL PERISHABLES AND SPECIAL HANDLING FACILITIES ATTRACT MORE CARGO TO MY AIRPORT?
Centurion - MIA - 150,000 FT² Cooler
American Airlines at PHL

Pharmaceutical handling facility - 10,000 FT² Cooler

- Dedicated cooler
- Compressor-driven refrigeration ULDs
- ULD charging stations
- Advanced monitoring technologies
- Emergency power backup for the facility
AirLogistix USA Perishables Facilities - IAH
HOW IS TRUCK ACCESSIBILITY BALANCED WITH AIRCRAFT ACCESSIBILITY IN HANDLING FACILITIES?
Landside Access & Operations
DO ALL-CARGO AIRPORTS WORK, AND IF SO WHAT ADVANTAGES AND DISADVANTAGES DO THEY BRING?
Contact Information

- **Raymond J. Brimble, Founder and CEO Lynxs Group LLC**
  - Office: (512)—539-2205  Mobile: (512)-698-2584
  - Email: ray.brimble@lynxs.com

- **Michael L. Minear, Executive Vice President, Eastern Region AEROTERM**
  - Office: (410) 216-6128  Mobile: (410) 507-7068
  - Email: mminear@aeroterm.com

- **Daniel Muscatello, Managing Director, Cargo & Logistics, Landrum & Brown**
  - Office: (812) 923-6318  Mobile: (502) 552-7112
  - Email: dmuscatello@landrum-brown.com