

Airport Property News

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FLY IN FLY OUT (FIFO) AN INLAND TSUNAMI!



The boom in Australia's resources economy is amongst the most significant economic and demographic shifts seen in recent decades, and is having a profound and direct impact upon airports as the gateway to resource assets across the country.

Already, regional and metropolitan airports in Western Australia and Queensland have seen a major impact in PAX growth through the direct transport of mining & gas executives, employees, and the early army FIFO workers. The flow-on effects to airports and their stakeholders and employees represent a significant challenge and an opportunity to underpin the long-term economic viability of these key community assets.

To date however, there seems to be lacking a co-ordinated response between the various levels of Government, mining & resource companies, airlines, and airport management. Some airports that are in the path of the FIFO industry are ill-equipped to fund the necessary improvements and to manage the asset going forward. How to fund the required infrastructure expansion, how to achieve minimum levels of management / service, and the co-ordination of heavy travel demands between metropolitan airports and remote aerodromes are just some of the challenges that are currently being considered within the industry. The Federal Parliament is presently undertaking an inquiry into the FIFO industry, which has recently closed to submissions (<http://www.apf.gov.au/house/committee/ra/fifodido/subs.htm>).

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MERGER NEWS: MACTAGGART & CO JOINS WITH GPP

GPP is pleased to announce its merger with Mactaggart & Co Advisory. GPP Directors Hans Pearson and Rob Mactaggart now bring a combined 18 years of airport real estate experience, having delivered on-airport projects valued >\$550m since 1998. Rob Mactaggart is a Member of the Australasian Airports Association ('AAA') Property Working Group, Convenor of the annual Australasian Airport Real Estate Conference, and formerly Head of Property at Brisbane Airport Corporation Limited (1998–2010).

We are both excited by this next evolution in our business and our expanded capability to offer value to our clients as Australia's leading specialist airport property business, and as a full service airport advisory firm.

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WHAT IS THE TRUE VALUE OF GENERAL AVIATION REVENUE BURDEN OR REVENUE OPPORTUNITY?

General Aviation ('GA') is a vexed issue for many regional airports. Being both a recreational pursuit and a low level commercial activity it has long historical ties, and for many airports is the only activity the airport supports. However for nearly all airports one characteristic is common and that is, GA generates little revenue return for the management and infrastructure that is required.

In our work with regional airports, we have seen a wide disparity in the rates charged to GA users. In many cases airport managers are not maximising the true value of their GA assets. Council-owned aerodromes often have a sense of community obligations and charge little for the service they offer.

For smaller regional and coastal airports, GA is an important source of revenue, often the only source.

Larger regional airports responding to increased RPT demands, may have a level of indifference to maintaining GA activity unless the revenue is on par or close to alternative uses. Ironically on the back of increased RPT demand they can offer GA users a higher level of facility in apron, hangars and associated facilities.

There is a wide range of fee charged for GA users. In our advisory work we are not seeing any consistency amongst peer groups. We are currently gathering this information and will provide updates (without identifying specific airports) as we proceed.

One other key issue is implied subsidisation, particularly for smaller regional airports. If these Airports are not receiving a fair return on the assets employed to cater for GA activities, it can be argued they (and their community) are subsidising the recreational pursuits of a very small part of the community. Is this understood by the community as a whole, is it agreed, and is it fair?



This subsidisation limits the potential revenue gathered by the airports. The rate of subsidy may be detrimental to regional airports that are required by external pressures to upgrade their facilities. This creates a pinch point for airports and paradoxically in some cases may lead them to replace GA with alternative higher revenue sources so as to protect their own long-term sustainability. Some alternative uses may be car rental storage or industrial land. It is important that airports are educated on the commercial revenue and risk benefits associated with utilising the land currently reserved for GA for other purposes. The challenge is the opportunity cost that exists; whether airports should maintain GA and lose profitability, or whether other potentially higher value uses should be implemented and GA limited on-airport.

Overall, we believe that GA is an undervalued revenue source, and that airports should proactively explore the potential for increasing GA income. There may however be cases where the cost of GA is far outstripping any likely revenue and the airport is best advised to remove GA. The community may well still prefer GA be available, but the reality is that, like all non-essential Council services, the consumer must pay.

There are many sides to this argument and it can become quite emotive. In this newsletter and in future issues we will investigate various arguments such as:

- 1) GA is an important part of an airports role;
- 2) A healthy GA community creates spin offs for the airport and its wider community;
- 3) GA charges are too low and do not reflect a fair return on the assets employed;
- 4) GA is enjoying a higher level of subsidisation than other community recreational pursuits;
- 5) Participation in GA in Australia is on the decline and is thinly dispersed geographically; and
- 6) Are GA users in danger of being forced off airports unless they pay more?

We would welcome your views on the matter and encourage you to email us at robm@airportproperty.com.au or taylorl@airportproperty.com.au



CONGRATULATIONS

We congratulate Gladstone Regional Airport, Winner AAA Australian Regional Airport of the Year. We are proud to have worked with the team over the past year and we are sure they will continue to meet the many challenges ahead as the LNG boom in Gladstone gathers further speed.

FIFO: AN INLAND TSUNAMI!

continued from page 1

In Queensland alone, FIFO reports reveal that the majority of workers will be required through the initial/construction phases in the:

- Development of the gas fields in the Bowen and Surat basins;
- Construction of the 520km gas pipeline from the gas fields to the Curtis Island LNG facility; and
- Construction of the LNG facility on Curtis Island. (8,000 – 10,000 workers)
- Construction of Wiggins Island Coal Export Terminal (800 jobs)
- Construction of Gas Fired Power Station in the Gladstone State Development Area (one of two power stations creating 1,000 jobs)

Gladstone Regional Council alone is expecting a FIFO workforce of 8,000. One specific company expects a workforce 1000 people strong to complete some of these works, adopting the breakdown illustrated in Figure 1 above.

So, while FIFO itself is not new, the scale of the movements over the coming years is significant. Over 50% of the Western Australian resources workforce has chosen the FIFO option.

FIFO travel is driving changes at both ends of the journey. For metropolitan and coastal airports, where the majority of workers are — or will choose to be — based, the challenges include:

- fast processing of FIFO workers; and
- providing associated infrastructure such as training facilities, commercial offices, parking;
- higher traffic movements bringing forward infrastructure investment requirements.

How airports respond to these challenges will determine their share of this growing revenue stream. But interestingly, it is also the response of airports at the other end of the FIFO journey that will be partly determinative of their success — for

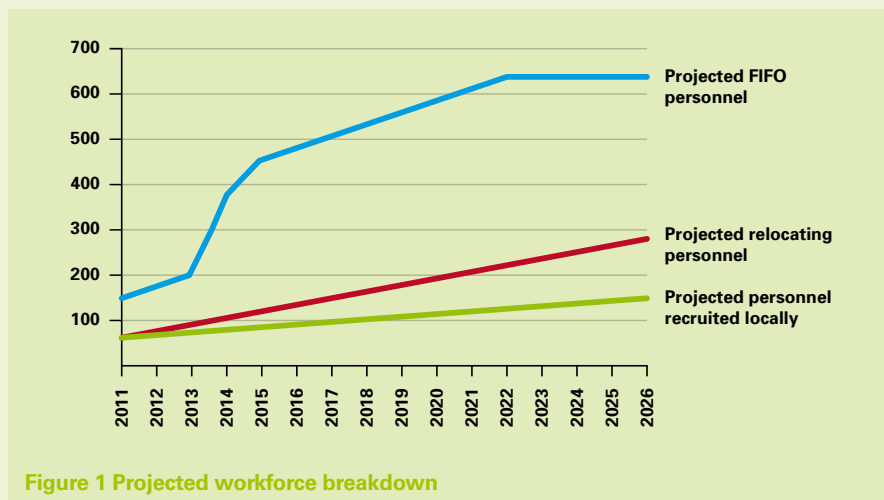


Figure 1 Projected workforce breakdown

example, larger infrastructure capacity at regional and remote airports means larger aircraft capacity and fewer aircraft movements which in turns creates less pressure on capacity constraints at the major airports.

For regional airports / aerodromes, the challenges include:

- how to deliver quickly and effectively the terminal, runway, car rental, parking and other infrastructure required to handle large increases in traffic in a way that is economically sustainable; and
- how to recruit / train management to effectively manage the expanded asset (what are the minimum standards that can be expected and how can these be measured).

Hence this is a whole of industry issue that requires a co-ordinated response between all levels of Government, airlines, mining and gas companies, and airport stakeholders. The risk of a poor response is lost economic opportunity on a national scale; the opportunity is generational transformation of our airport infrastructure that will generate enduring community benefit.

For example of how to respond to FIFO we can look to the AAA Regional Airport of the Year Gladstone Regional Airport. By

implementing a highly responsive, strategic and commercially minded management framework, Gladstone Regional Council have successfully delivered a \$75m runway and terminal upgrade and a masterplan ahead of the spike in pax demand. Successful long term planning by the airport, combined with effective applications for funding, have now greatly enhanced the town of Gladstone's ability to meet the resources challenge and derive enduring benefits.

In our view nothing less than a co-ordinated response is required to help regional airports and to enable Australia to benefit as a whole. Key initiatives should include:

- Establishing (and monitoring) minimum standards for infrastructure and management;
- Sharing the funding burden between the Government and private sectors; and
- A regional airport and aerodrome taskforce to provide guidance to the smaller players.

We are involved in discussions with various stakeholders and we remain confident that the industry will rise to this challenge. We will keep you posted as we learn more about this issue and its impacts on regional and metropolitan airports.

RECENT APPOINTMENTS

Q4, 2011



Roma Regional Airport, Queensland

Maranoah Shire Council is undertaking a major upgrade of Roma Airport in response to resources sector demand. As part of this work, Council has engaged GPP to undertake a full service airport advisory role covering masterplanning, commercial feasibility analysis, transaction management, project management review and implementation. This covers the terminal expansion, apron works, adjoining land use planning and development (including temporary accommodation). Roma Regional Airport currently handles 48,000 pax, a 29% average annual growth over the past 3 years. The Airport services the Surat Basin which is undergoing a significant CSG mining boom. This work will be undertaken with Aviation Projects.



Precinct 8, Brisbane Airport

GPP is developing a major new commercial office precinct within Airport Village at Brisbane Airport. Known as Precinct 8, the site is 1.25ha in area and can accommodate up to 35,000m² of commercial offices ranging from 3 to 8 levels in height. With a potential end value of >\$125m, this represents a significant fringe office project for Brisbane and will add to the 14,000m² of office tenants already in Airport Village. We look forward to formally launching the project in Q1 2012.

STAFF APPOINTMENTS

Taylor Gailey joined GPP earlier in 2011 as an Analyst. Taylor is in her final year of studies at QUT, completing a Degree in Bachelor of Urban Development with Majors in Property Economics, Urban & Regional Planning and Management. Taylor is completing research for us and contributing to advisory mandates for regional airports. Taylor can be contacted at taylorg@airportproperty.com.au or +61 433 718 696.



Gateway Project Partners would like to thank all of our clients and colleagues for your support in 2011.

We wish you and your families a safe and happy holiday season and look forward to seeing you again in 2012!

About Us

Gateway Project Partners ('GPP') is a specialist full service airport advisory firm. We focus on creating the highest commercial returns from airports that best meets the needs of its users and community. We specialise in the masterplanning and development of airport property, and we work collaboratively with our airside partners to provide a seamless 'whole of airport' solution. We undertake land use planning, financial analysis and structuring,

development management and principal or joint venture development. GPP offers a point of difference in its ability to deliver pragmatic advice which is based on a track record of principal and joint venture development at airports over many years. Our overriding principle is to provide advice that can be practically implemented.

Visit us at www.airportproperty.com.au



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