The State of the Aviation Industry Post 9/11: The Boston Logan Experience

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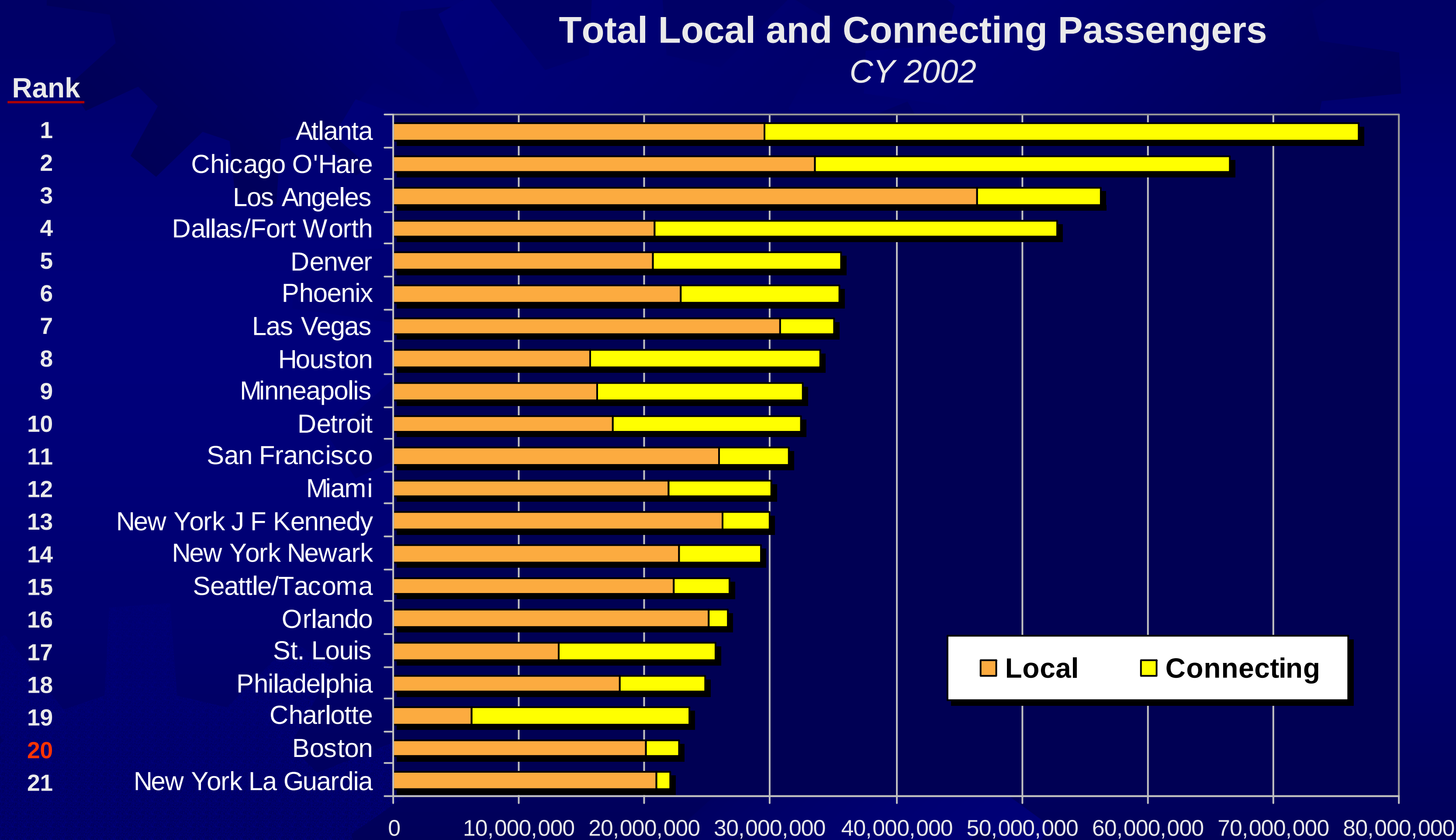
massport

I. Boston Logan Context

Boston Logan International Airport (2003)

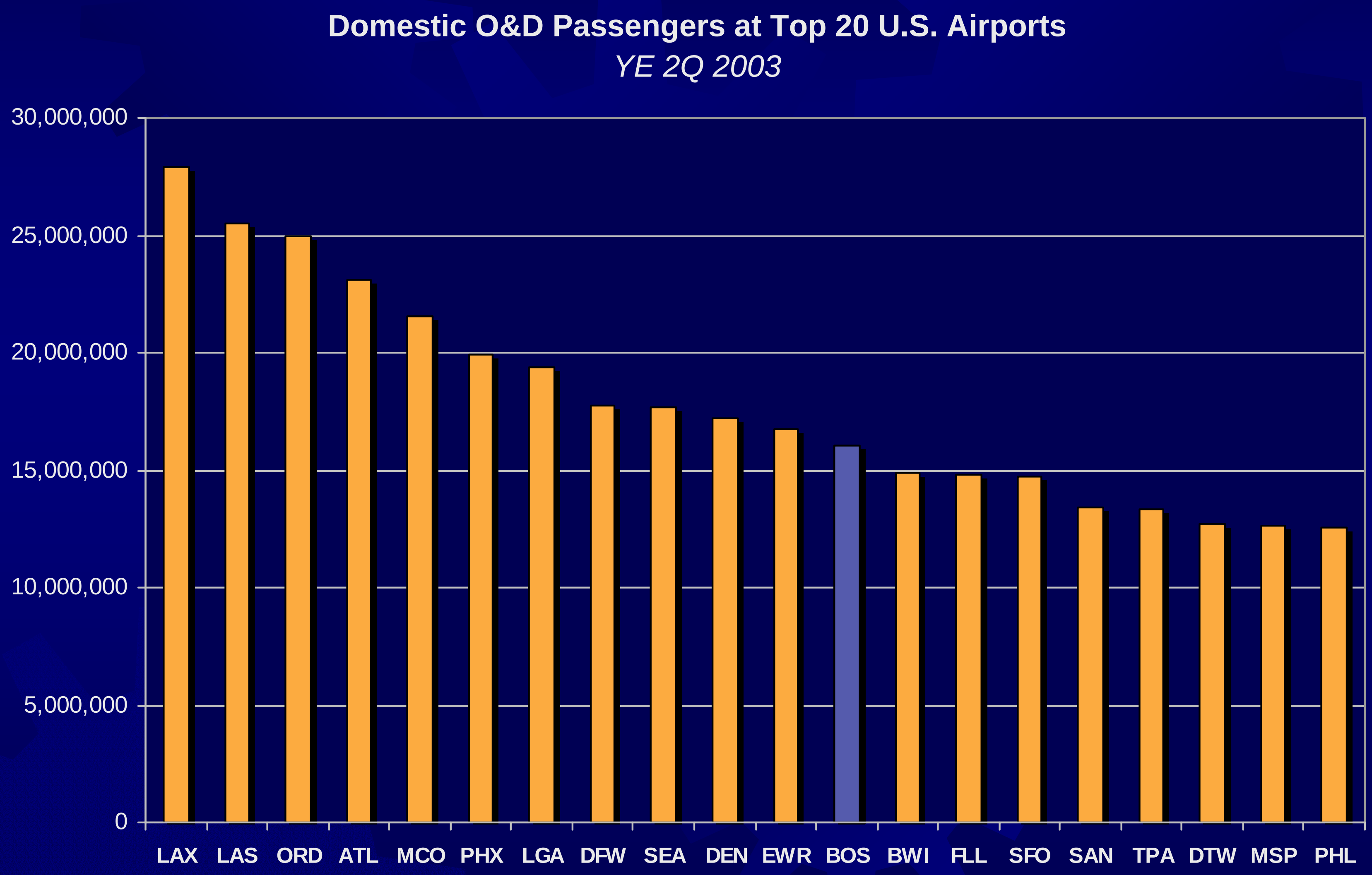
- Passengers 22.8M
- Operations 373K
  - 60% Jet
  - 30% RJ
  - 10% Prop
- O&D 90%
- Almost 60 Airlines
  - Served by all the Majors (except Southwest)
- $6B/Yr. in Economic Benefits, Supporting 100,000 Local Jobs

In 2002, Logan Was the 20th Busiest Airport in the U.S.



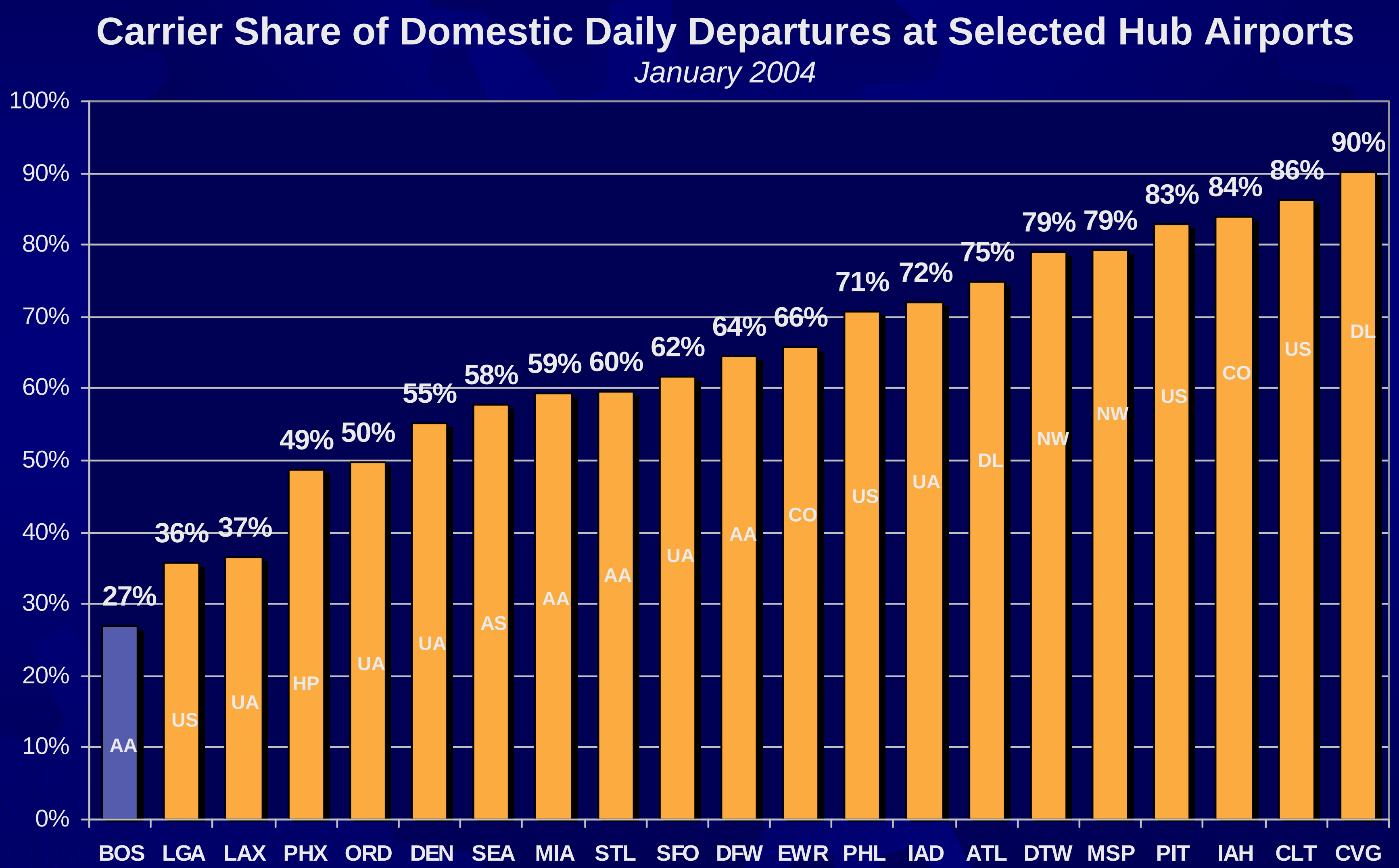
Source: ACI; Airport Records; Salomon Smith Barney 2002 Hub Fact Book; US DOT O&D Survey

BOS is the 12th Largest O&D Market in the United States, With Over 16 Million Domestic O&D Passengers



Source: US DOT, O&D Survey

A Key Strength of Boston is that it is Dependent on No Single Carrier



Source: OAG Schedule Tapes

Boston is also a Strong International Market (12th Largest International Gateway in the U.S.)

Weekly International Nonstop Service

March 2004

Seat Rank	Gateway	Weekly Dept's	Weekly Seats	Percent of Total Dept's	Percent of Total Seats
1	Miami	1,333	208,578	10.9%	11.9%
2	New York Kennedy	838	202,725	6.9%	11.5%
3	Los Angeles	827	184,915	6.8%	10.5%
4	Chicago O'Hare	716	120,539	5.9%	6.9%
5	New York Newark	649	104,192	5.3%	5.9%
6	San Francisco	352	82,916	2.9%	4.7%
7	Houston Inter.	671	81,323	5.5%	4.6%
8	Atlanta	535	80,863	4.4%	4.6%
9	Dallas/Fort Worth	396	57,562	3.2%	3.3%
10	Washington Dulles	305	55,341	2.5%	3.1%
11	Philadelphia	368	49,475	3.0%	2.8%
12	**Boston**	**333**	**44,699**	**2.7%**	**2.5%**
13	Detroit	262	39,283	2.1%	2.2%
14	Fort Lauderdale	503	31,115	4.1%	1.8%
15	Seattle/Tacoma	341	30,501	2.8%	1.7%
16	Minneapolis	230	29,573	1.9%	1.7%
17	Charlotte	181	23,289	1.5%	1.3%
18	Orlando	132	21,708	1.1%	1.2%
19	Phoenix	177	21,097	1.4%	1.2%
20	New York La Guardia	231	20,189	1.9%	1.1%
21	Denver	144	17,935	1.2%	1.0%
22	Las Vegas	77	12,600	0.6%	0.7%
23	Cincinnati	132	12,011	1.1%	0.7%
24	Baltimore	71	8,159	0.6%	0.5%
25	Pittsburgh	90	6,155	0.7%	0.4%
	Total US	12,216	1,758,450	100.0%	100.0%

Source: OAG Schedules

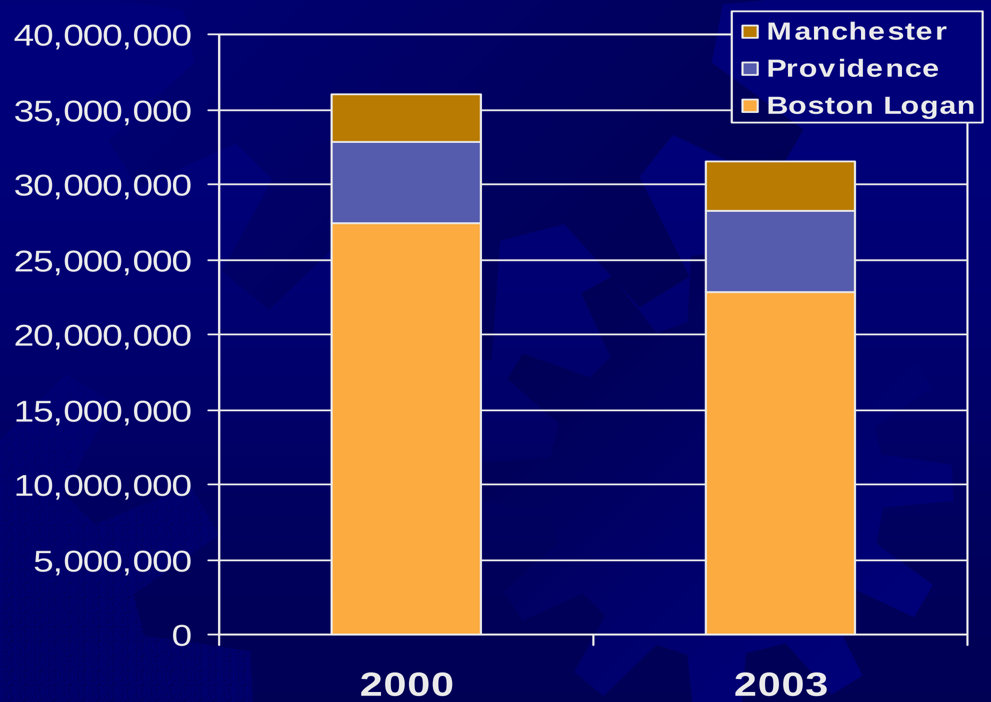
The Boston Metro Region has a Highly Diversified Economy that is Travel Intensive

- High Technology
- Biotechnology
- Health Care Services
- Financial Service
- Higher Education
- Tourism
- About 55% Logan Trips are Business Related

II. Impacts of 9/11 and Economic Downturn

As a Result of 9/11 & the Economic Downturn, the Greater Boston Region has Lost Almost 5 Million Air Pax Trips

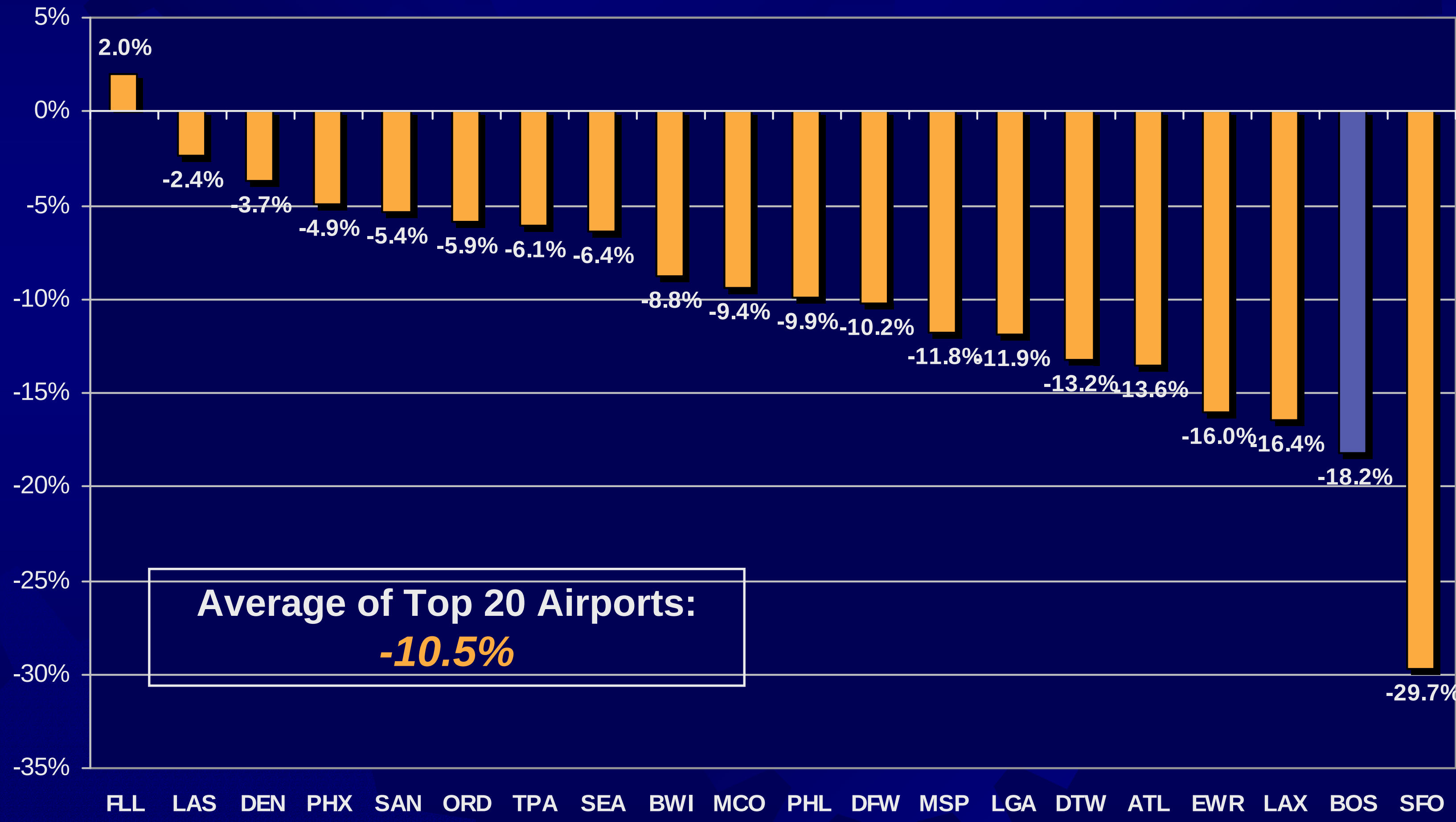
Logan	2000	2003	% Change	Change
Total Pax	27,726,833	22,791,169	-18%	(4,935,664)
Operations	487,996	373,304	-24%	(114,692)
Cargo	852,347,154	744,838,287	-13%	(62,737,146)



Since 9/11, Boston Has Exhibited the 2nd Largest Decline in O&D Passengers of the Top 20 U.S. Airports

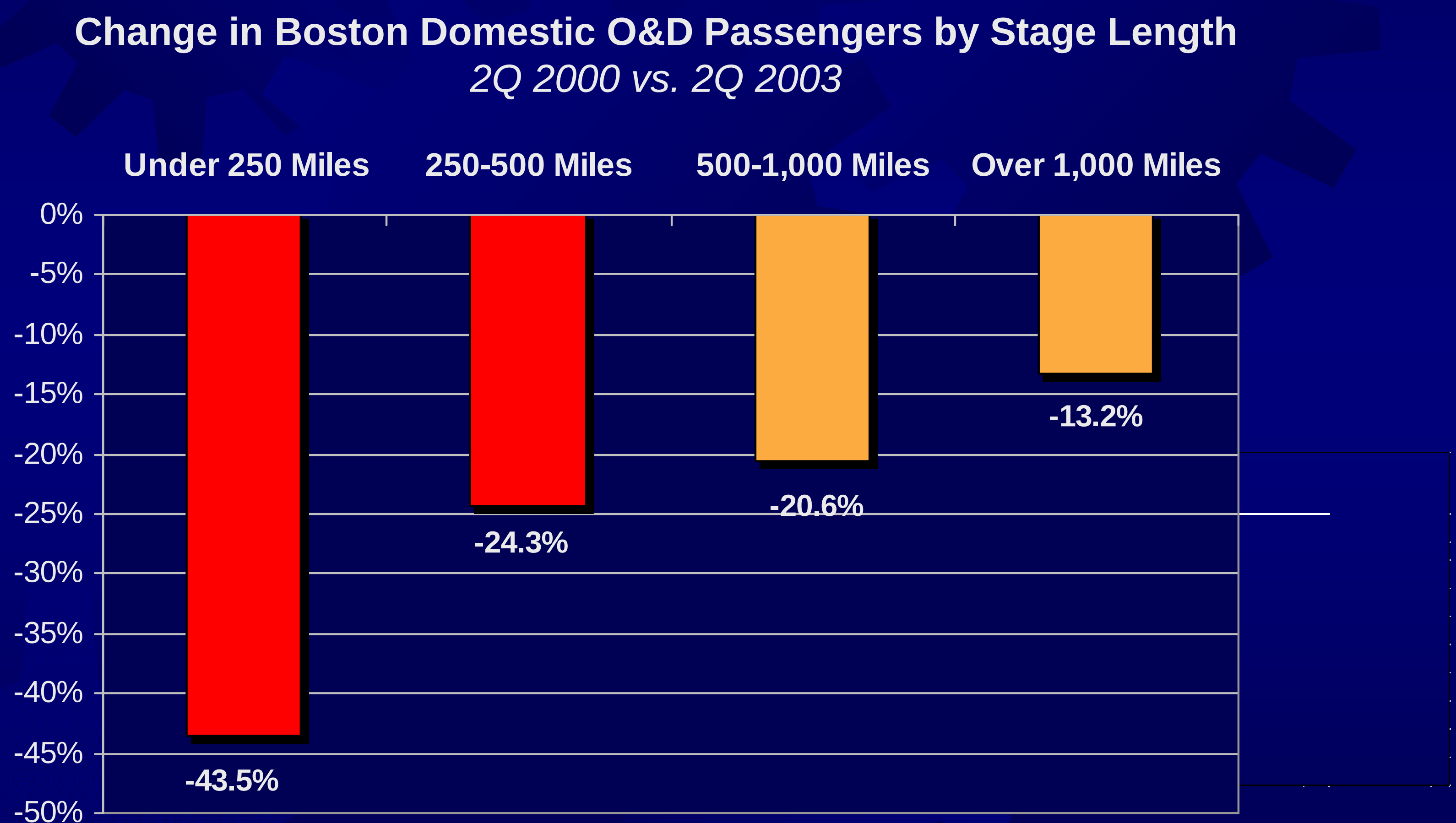
Change in Domestic O&D Passengers - Top 20 U.S. Airports

YE 2Q 2001 vs. YE 2Q 2003



Source: US DOT, O&D Survey

Boston Traffic Declines Have Been Most Severe in Short Haul Markets Due to Air Carrier Cuts, Increase use of RJs, Diversion to Alternate Modes and Teleconferencing Technology



Source: US DOT, O&D Survey

Reflecting Industry Actions to Cut Capacity, Aircraft Size and Load Factors Have Both Risen at Boston Logan

Airline Operating Statistics at Boston

CY 1998 – YE 3Q 2003

Year	Seats Per Departure	Load Factor	Passengers Per Departure
1998	93	63.0%	59
1999	100	61.0%	61
2000	103	61.2%	63
2001	100	57.7%	58
2002	101	62.6%	63
2003	101	66.3%	67

Source: OAG Schedule Tapes, USDOT T100 Databank.

Reasons for the Disproportionate Drop in Boston Logan Traffic

- **Economy/Industry Already Weak Before 9/11**
- **Airline Cuts in Capacity**
- **Economic Downturn**
  - Two sectors hardest hit are critical to the local economy (High Tech and Financial Services)
- **Business Travel Disproportionate Share**
- **Minimum Low Cost Carrier Presence**
- **Ongoing Construction**
  - Big Dig
  - Logan Modernization

Recent Passenger Traffic Data Suggests Logan is Beginning to Rebound

	Change from Previous Year
Last Six Months (Sept-Feb)	+ 6.7%
Last Quarter 2003	+ 4.5%
January 2004	+ 8.5%
February 2004 (Estimate net extra day & patriots)	+ 14.4%

- The Economy is Improving
- Increase Presence of Low Cost Carriers
- Dramatically Improved Access to Logan
- New Airport Facilities Improving Customer Experience

III. Boston Logan Priorities for the Future

- **Continue to Enhance Security**
- **Complete Logan Capital Program**
- **Respond to Evolving Air Carrier Business Models** (Legacy and Low Cost Carriers)
- **Reduce Operating Costs and Increase Alternative Sources of Revenues**
- **Focus on Customer Service**

Re-Inventing Security

- $146 Million in-line baggage screening
- TSA Staffing
- New Technology
- Security Perimeter
- Screening Cargo
- BPR Training

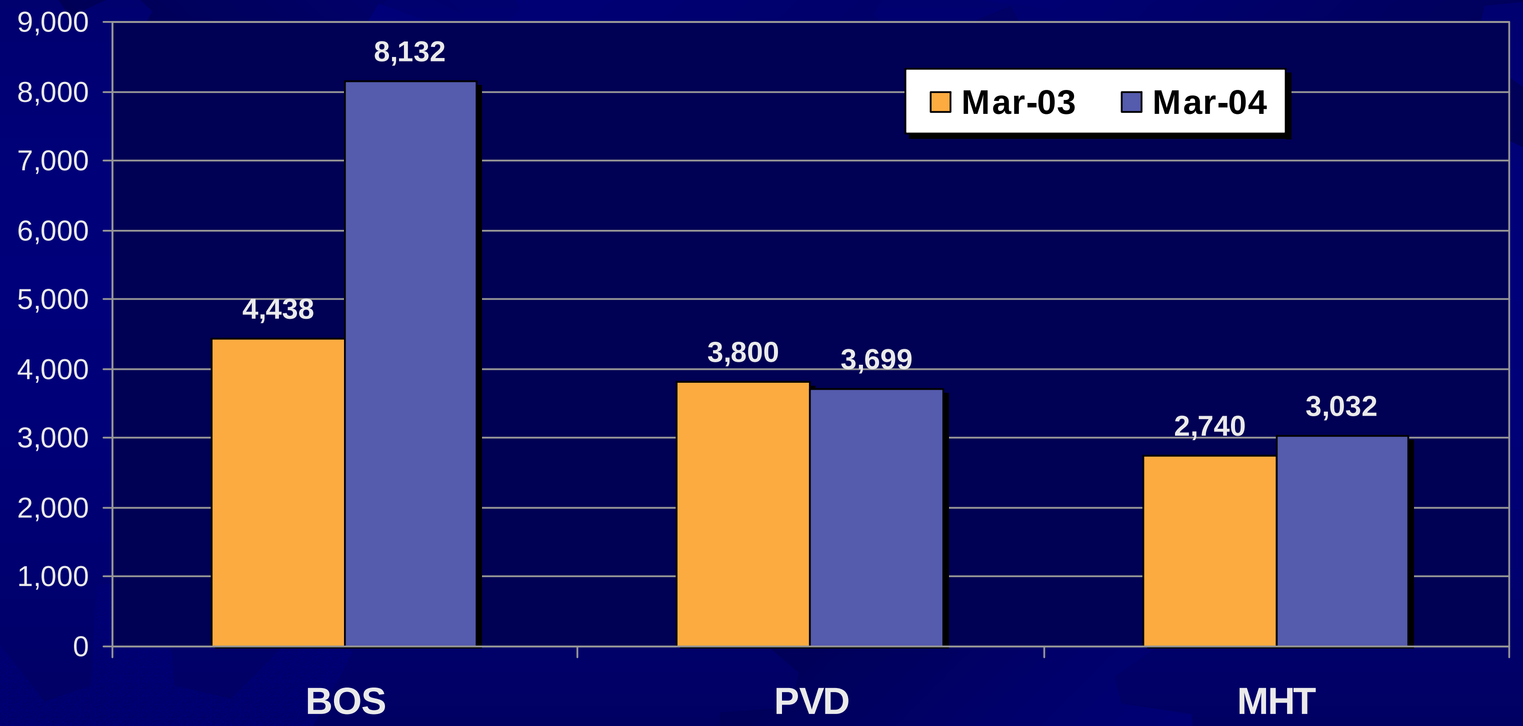
Over $4 billion in Private/Public Investments Underway

- **Upgrade and Expand International Terminal**
- **Delta New Terminal A**
- **US Airways Terminal B**
- **Expansion of Central Garage**
- **New Walkways**
- **New Hotel**
- **New Roadways/Tunnel**
- **New Fuel Distribution System/Other Utilities**
- **Airfield Improvements**

Low Cost Carriers jetBlue and America West Have Substantially Increased the Low-Fare Presence at Boston

Daily Low-Fare Carrier Capacity

March 2003 vs. March 2004



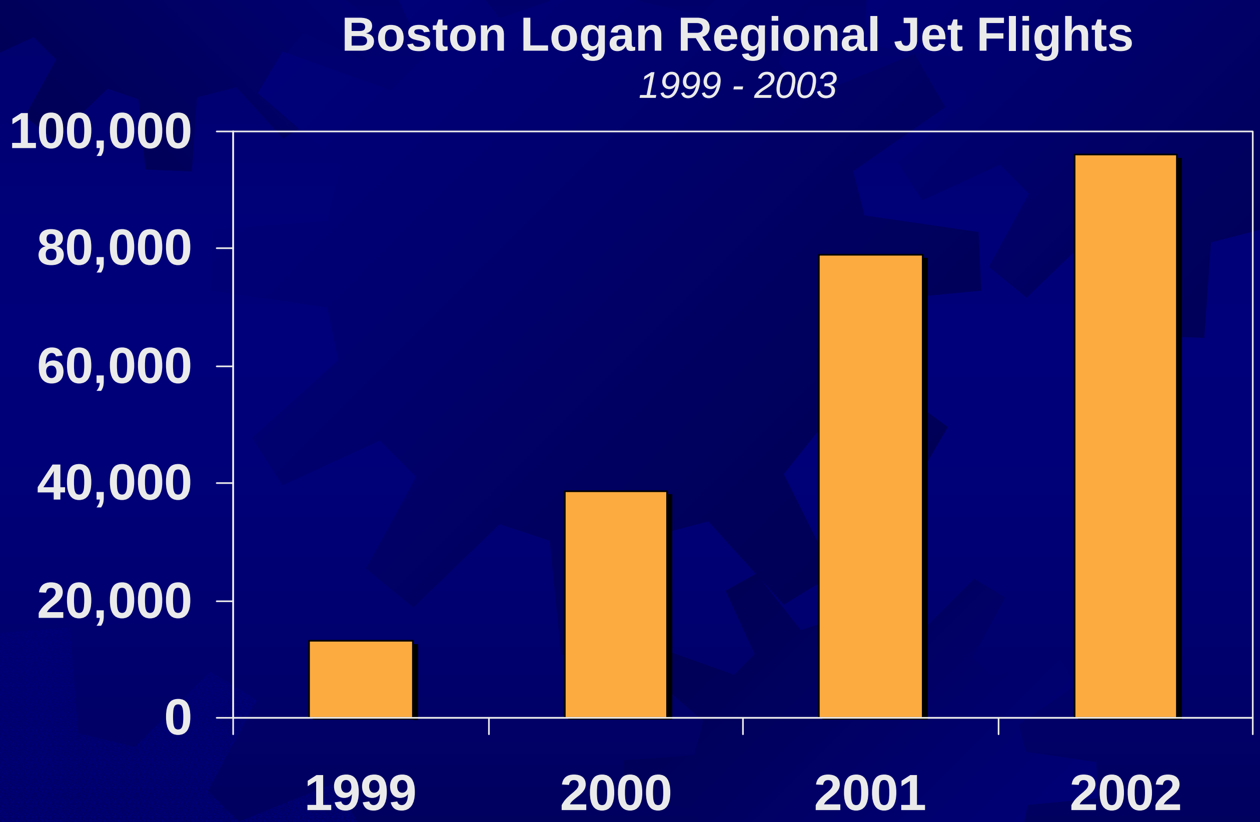
Boston Now Has More Low-Fare Seats Than Providence and Manchester Combined

Source: OAG Schedules

Boston Continues to be Well Positioned for Significant Low-Fare Carrier Growth

- Large Local Market
- Below Average Low-Fare Presence
- No One Carrier Dominates the Boston Market
- Available Facilities in the Near Future
- The Absence of Southwest Airlines Makes Boston More Attractive to Other Major Low-Fare Carriers

Regional Jet Traffic has Increased from 13,000 Flights Annually in 1999 to Almost 100,000 Flights Today



Source: ACAS Fleet Database.

Challenge of Managing Regional Jet Usage…

Encourage

- New domestic point-to-point services
- Customer Service
- Feeder Service
- Competitive Entry to
  - Decreased Fares
  - Increased Frequency
- Off-Peak Scheduling
- New RJ Service at Regional Airports

Discourage

- Additional Inefficient Flights to Already Congested Hubs
- Repetitive Service from Regional Airports
- Scheduling of Commuter Aircraft Conflicting with Mainline Service
- Stress on Local Facilities

IV. Industry Trends and Boston Logan Airport

Near Term Uncertainties versus Long Term Fundamentals

Short Term

- Uncertainty of Economic Recovery
- Security Costs
- War/Terrorist Threats
  - Domestic & International
- Airline Consolidation and Bankruptcies

Long Term

- Economic Recovery
- Lower Fares
- Rebound of Legacy Carriers
- Continued Growth of Low Cost Carriers
- Enhanced Customer Service

The Future at Logan

- **The network carriers continue to struggle**
  - One (or more) major carrier may fail
- **A major carrier failure would produce some shrinkage in seat capacity, both nationally and at Boston**
- **Strong growth by low-fare carriers will continue at Boston**
  - Potential to increase from 14% of domestic pax traffic to over 30% (consistent with national trend)
- **Boston's network carriers will respond aggressively, and both capacity increases and reduced fares are expected**

The Future at Logan, *Cont'd.*

- **Expect further growth in Transatlantic services and new participation in the Asian and Latin American markets**
- **Completion of capital investment program will make Logan a dependable, customer friendly airport**
  - Improved Access
  - New Facilities (Terminals, Garage, Roadways)
  - Airfield Improvements
- **Improvements in security procedures and new technologies will reduce security processing**
  - Risk of under-funding TSA

The Future at Logan, *Cont'd.*

- **Increase use of regional jets and more point to point service will stress airfield facilities and airspace**
- **Cost of environmental impacts will re-surface**
  - Air Quality (NOx)
  - Noise (Stage 4)
- **Implement flexible management tools to direct highest and best use of airport facilities**
  - Demand Management
  - Security responsibility and checkpoint staffing
  - Gate use requirements
  - Airfield Apron utilization

The Future at Logan, *Cont'd.*

- **Keep airport competitive**
  - Continue to focus on customer service
  - Expand alternative sources of revenues
  - Control operating and capital costs
  - Maintain first class facilities
- **With ever thinner margins, air carriers are demanding that airports reduce costs**
- **Air travelers are demanding better/low cost service from air carriers and airports**
  - Choices of airports and alternative modes