Airports

How Will Debt-Laden Airports Do in the Next Downturn?

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LaGuardia Airport

WASHINGTON—The world's economy is slowing, debt loads are rising, and fears of another U.S. downturn are growing. Airports have become more leveraged to fund infrastructure improvements—could they be burned in the next recession?

Probably not, according to two new reports from credit rating agencies.

"Historically, the U.S. airport sector has adapted well to financial pressures associated with the volatile airline industry, weak economic cycles and shocks to the aviation system," S&P Global Ratings said July 9. "This is because strong business positions and agreements with the airlines allow airport management to increase landing fees and terminal rentals even when airlines are operating in bankruptcy."

What is more, "in tough times, airport management has done what we would expect them to do to maintain credit quality by containing costs, increasing revenues, reducing capital spending, and restructuring debt."

According to an Aug. 6 report from Moody's Investors Service, the Airports and Ports debt sectors, comprising primarily U.S. municipal infrastructure securities, had "large" concentrations of A ratings. Obligations rated A are considered upper-medium-grade and are subject to low credit risk, the agency said.

"The sector has experienced the lowest level of rating volatility of any sector within corporate infrastructure and project finance," Moody's said. "Upgrades have outpaced downgrades in recent years, reflecting significant passenger growth in most regions due in part to the proliferation of low-cost airlines and a burgeoning middle class within emerging markets."

By comparison, Moody's said the roads sector it covers, which had 59% of securities issued by corporate and project finance entities, was concentrated in the A-Baa range and included a higher proportion of speculative-grade securities than airports.

To be sure, airports are far more leveraged now than before, according to S&P. The sector issued close to $17 billion in debt in 2018 alone, the most since 2010 when Build America Bonds were available.

The "vast majority" of large-hub airports that S&P rates have five-year capital improvement programs worth more than $1 billion. Combined, they total nearly $92 billion. According to the Airports Council International-North America (ACI-NA), more than $114 billion is needed for U.S. commercial-service facilities through 2023.

Times would be tougher in a downturn, for sure. As debt and leverage rise, airport operators will have less flexibility to increase airline fees across the fewer major airline tenants—due to airline consolidation—to compensate for declining passenger volumes. Meanwhile, concession revenue, which also is dependent on traffic, could suffer, too.

But airports have tools to weather downturns. During the most recent period that traffic volume declined—in 2008-2009 during the Great Recession and amid rising fuel prices—U.S. airlines reduced capacity and airport management responded "as anticipated with belt-tightening on operational costs and delayed capital spending," according to S&P.

In the end, the credit agencies believe airports will be fine. "U.S. airport operators have thus far prudently added capacity in response to growing demands, often at the request of their primary airline tenant," S&P said. "We expect airport operators' rate-setting flexibility to maintain steady finance performance."

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