

# Facing Facts 2: The Survival **and Revival** of Airport Shopping and Dining

Issued by: The Airport Restaurant and Retail Association (ARRA), July 2020.

## Fact #1

# It's a Partnership...and the Passenger Experience is at Stake

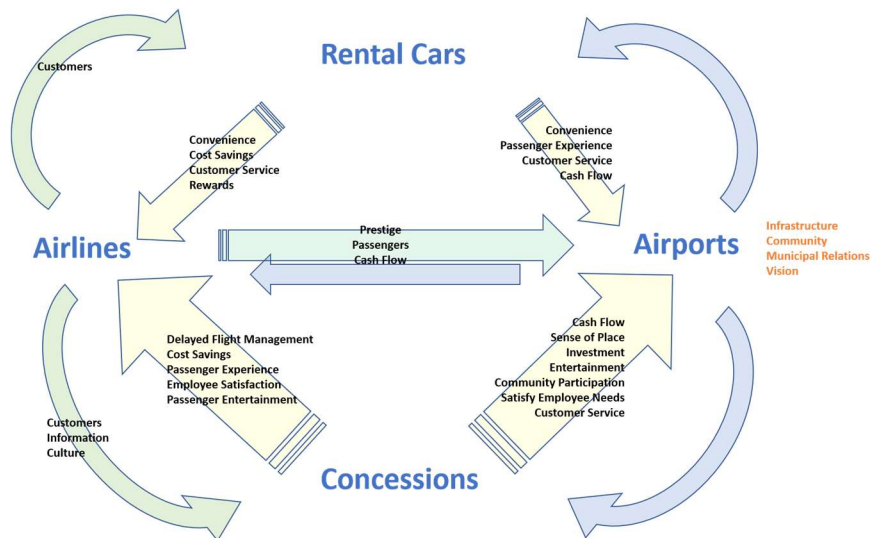
The American aviation system is the most advanced in the world. Domestic air travel in the U.S. is essential to our national economy, and airports are often the leading economic engines of their cities, counties, or states. The system is built on a structure in which airlines, airports and concession companies are deeply intertwined and interdependent - each contributing to an airport's overall operations and experience. Their combined contributions have enhanced the passenger experience many fold over the past several years. In the airport shopping and dining arena, for example, the passenger experience has evolved from no-name, limited, overpriced offerings to global brands, celebrity chefs, and local sense of place.

The entire system and all stakeholders are currently overwhelmed and under severe duress from the COVID-19 pandemic because when one is weakened, others are similarly impacted and weakened. It is critical that the challenges and pressure points of each stakeholder be acknowledged by the others and that interim steps be taken to assist one another in rebuilding the system as a whole. Our collective future depends upon it. Moreover, decisions that are made now will define the very experience offered to passengers for years to come.

As we turn the corner on the 4<sup>th</sup> month of the most destructive event that has ever hit the travel industry, we look back at the pre-COVID-19 era, with its diverse brands, products, and services that delivered a dynamic traveler experience. The selection of products, services, food, and retail were part of an innovative airport landscape that travelers enjoyed. Even then, the economics were challenging, characterized by high costs and slim margins. Behind the gleaming storefronts were companies, big and small, that had invested millions in human and financial capital to give travelers what they desired and what would elevate their experience.

But today, all of that has changed. All of it is in jeopardy. The COVID-19 pandemic has disproportionately impacted airport concessionaires because we as operators "live" in all sectors most devastated by the economic fallout – travel, restaurants, and retail. The sudden and dramatic decline of the airport concessions industry has consequences beyond our walls. It brings a deteriorated passenger experience. The current trajectory of the business impact means shuttered storefronts, limited selection, limited diversity, and little innovation. It will usher in a wave of permanent restaurant and retail closures that will turn bustling airports once pulsing with energy into "ghost towns" even after travel recovers. The airport shopping experience that reflected local culture, diversity, and inclusion will be a thing of the past.

During this unprecedented time, we must recognize that we are all in this together and need each other to deliver the best traveler experience. The term *partnership* implies that we are interconnected and interdependent. This is a time for communication and transparency, for pulling together in the interest of the whole. If we neglect to do so, the system and the passenger experience as we have come to know it will no longer exist. In the end, travelers are the ones who will lose.



## Fact #2

### Flights Are Not Passengers: Traffic Still Will Not Recover This Year

The U.S. Aviation industry faces a prolonged period of uncertainty. Even when travel restrictions are lifted, it could be some time before passengers feel confident to resume traveling. There is further uncertainty around whether corporate travel will rebound to pre-pandemic levels. The post-COVID aviation industry will likely be materially transformed, which in turn will influence the fundamental business structure.

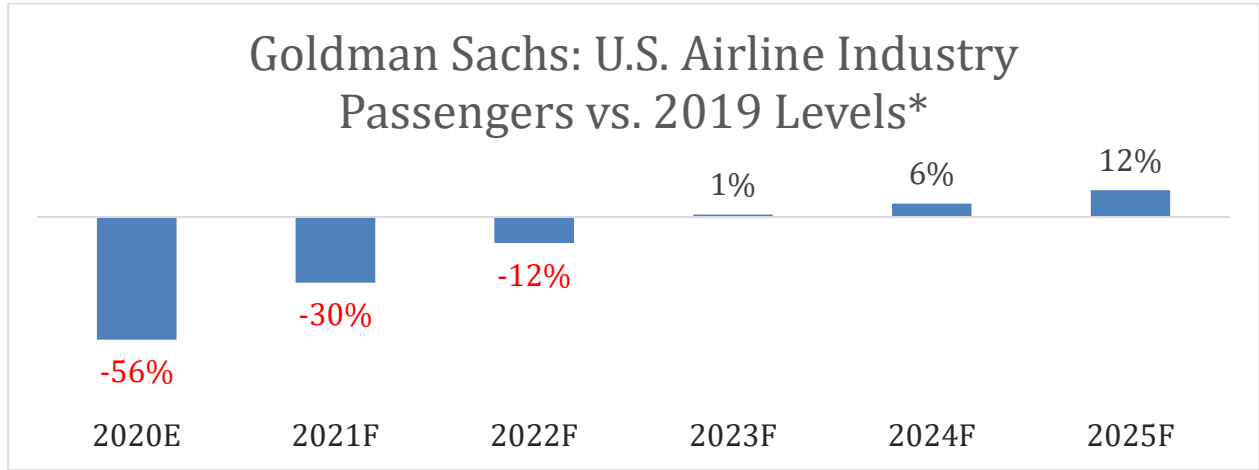
The depth of the problem is layered. The system was riding high and on a ten-year roll in terms of traffic growth. Now it is widely agreed that consumers need to feel not just safe with their experience, but again look forward to the travel experience. We need businesses to get back on their feet financially and renew the value of the face-to-face business experience. “People will be reluctant to travel – or even to book travel – until there is a strong degree of confidence that the health crisis and associated risks are behind us” (Airlines for America, “COVID Impact Update,” 7/10/2020). It will take the economy, businesses, airlines, and airports time to adjust.

“This crisis could have a very long shadow. Passengers are telling us that it will take time before they return to their old travel habits,” warns IATA Director General Alexandre de Juniac. “Many airlines are not planning for demand to return to 2019 levels until 2023 or 2024.” Indeed, IATA’s June 2020 public opinion research finds nearly half of those surveyed (45%) indicated that they would return to travel within a few months of the pandemic subsiding. But this is a significant drop from the 61% recorded in IATA’s April survey. Further, 66% said that they would travel less for leisure and business in the post-pandemic world.

At the end of June, airline flight capacity in U.S. airports was only 40% of the same period in 2019. TSA throughput was only 26%. Although “many airlines have retained significant capacity in their summer schedules, as each week goes by, they are withdrawing some of that capacity in the face of restricted flying and poor consumer demand” (OAG Blog, “When Will You Fly? Early Signs Reveal Mixed Messages,” 6/11/2020).

For U.S. Airlines, domestic flights are down 56% from last year, but passenger volume remains 71% below last year. Although airlines are ramping up their schedules, it remains to be seen if passengers will follow. The current uptick in travel is not yet a trend. The seasonal decline we usually see in the fall could be even worse this year if business travel remains low. Demand for future air travel plateaued in June and has trended down over the past week (Airlines for America, “COVID Impact Update,” 7/10/2020).

Consequently, forecasts of future activity are being reduced. For example, Goldman Sachs: “Current traffic trends are below what we had previously forecast ... and the resurgence of COVID-19 in some areas of the U.S. adds uncertainty around potential further travel restrictions. We are now incorporating a significantly less steep recovery to 2019 levels of demand, particularly for corporate/international markets. As such, we materially reduce our forecasts through 2022” (Goldman Sachs, “Expecting slower demand recovery, but positive on long-term industry profitability,” 6/28/2020).



\*Goldman Sachs estimates  
 Source: Goldman Sachs, "Expecting slower demand recovery...", 6/28/2020  
 through Airlines for America, "COVID Impact Update," 7/10/2020

## Fact #3

### Industry Is Heading Towards an Impasse... We're Out of Money

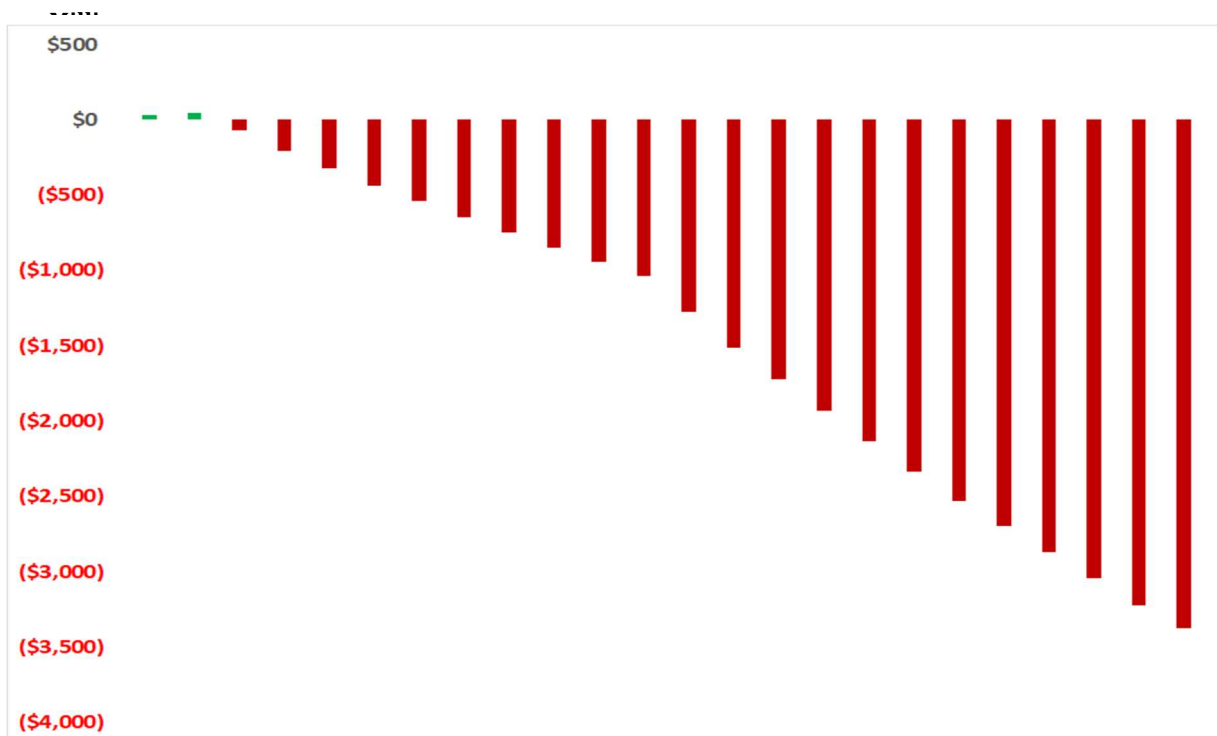
The challenge is real. In the aviation sector, all companies – food & beverage and retail operators, rental car companies, other concessionaires, and airlines – are running their businesses at significant losses. There is a bottom beyond which these companies will no longer be able to operate. However, the path by which they get there is quite different.

One often misunderstood aspect of the aviation business is that the various stakeholders do not all operate with the same financial pressure points or business structures. Their business models vary significantly as each transacts with its customers differently, and the impacts on P&Ls and profits are different. For example, under the “hub and spoke” travel model, airlines are able to subsidize many lower-profit routes with some highly profitable routes while maintaining a brand and network that serves a larger number of customers.

By contrast, airport restaurants and retail stores have a limited number of customers (those who are traveling at any given time) and make money on a much simpler model. In practice, each airport agreement is a standalone business, needing to profit on its own. They operate on very, very thin margins, such that when they begin losing cash, the large businesses are driven to borrow cash and sell stock. The smaller companies use every bit of cash they can, until there is no more.

As COVID-19 flows through July into August and is now looking more and more like fall and into winter, each of these businesses, regardless of size will quickly be facing solvency issues. As shown in the attached chart the accumulated losses of the airport restaurant and retail industry will continue to mount. Between now and the end of 2021, this industry will lose \$3.4 billion dollars. In just the next 18 months, this industry will lose more than three years of profits.

#### Restaurant and Retail Concessionaires Cumulative Loss Forecast 2020-2021



Source: ARRA Estimate

The magnitude of these losses – combined with the thin margins of the businesses – will require many years of normal profitability to recoup and retire debt accumulated during the pandemic. Many airports have extended some form of relief through 2021 and some into next year. But, given the slow and uncertain pace of recovery and the anticipated cumulative cash losses, it is clear that airport restaurant and retailer operators will not be in a position to pay Minimum Annual Guarantee (MAG) rent until full recovery is reached.

## Fact #4

### We Must Reopen Smartly

The recent uptick in passenger volumes – and prospect for increased leisure travel through the remainder of the summer (until schools begin reopening in mid-August) – while encouraging, must be tempered. Although concessionaires share airports’ desire to reopen and serve the traveling public, reopening too soon is a recipe for financial disaster. Indeed, reopening now will increase the financial damage suffered by concessionaires. This is potentially worse than being closed at extremely low passenger volume as costs that can be eliminated when stores and restaurants are closed, are now incurred, and grow at a faster rate than the underlying sales. For example, minimum labor would be required to operate a restaurant to brand standards even though sales are insufficient to support the labor.

Expanding on the pro forma profit & loss statements presented in ARRA’s “Facing Facts: the Survival of Airport Shopping and Dining,” (6/2/2020), we present here pro forma profit & loss statements for restaurants and retail stores at various sales levels ranging from 30% of full sales – or just above our current level - to 90% of full sales, as well as fully recovered sales. As you see, restaurants do not return to profitability until a recovery of 85% to 90% of full sales is reached. The situation in the retail sector is similar.

#### Representative Annual P&Ls of Food and Retail Operations at Various Levels of Sales Recovery

F&B: \$10M	100%	90%	80%	70%	60%	50%	40%	30%
Sales	\$10,000	\$9,000	\$8,000	\$7,000	\$6,000	\$5,000	\$4,000	\$3,000
COGS	\$2,530	\$2,316	\$2,093	\$1,890	\$1,648	\$1,396	\$1,120	\$854
Total Labor	\$3,103	\$2,986	\$2,774	\$2,543	\$2,291	\$1,938	\$1,639	\$1,391
Total Rent & Occupancy	\$1,780	\$1,610	\$1,466	\$1,461	\$1,456	\$1,451	\$1,446	\$1,441
Royalties	\$350	\$315	\$280	\$245	\$210	\$175	\$140	\$105
Operating Costs	\$653	\$617	\$579	\$540	\$500	\$458	\$415	\$370
Total Costs	\$8,416	\$7,844	\$7,193	\$6,679	\$6,104	\$5,419	\$4,760	\$4,162
EBITDA	\$1,584	\$1,156	\$807	\$321	(\$104)	(\$419)	(\$760)	(\$1,162)
Annual Financing	\$1,126	\$1,126	\$1,126	\$1,126	\$1,126	\$1,126	\$1,126	\$1,126
Pre-Tax Cash Flow	\$458	\$30	(\$319)	(\$806)	(\$1,231)	(\$1,545)	(\$1,886)	(\$2,288)

F&B: \$2M	100%	90%	80%	70%	60%	50%	40%	30%
Sales	\$2,000	\$1,800	\$1,600	\$1,400	\$1,200	\$1,000	\$800	\$600
COGS	\$520	\$480	\$437	\$392	\$344	\$294	\$241	\$185
Total Labor	\$656	\$577	\$560	\$538	\$432	\$396	\$353	\$301
Total Rent & Occupancy	\$340	\$308	\$281	\$280	\$279	\$278	\$277	\$276
Royalties	\$70	\$63	\$56	\$49	\$42	\$35	\$28	\$21
Operating Costs	\$161	\$154	\$146	\$138	\$130	\$122	\$113	\$104
Total Costs	\$1,747	\$1,582	\$1,481	\$1,397	\$1,227	\$1,126	\$1,013	\$888
EBITDA	\$253	\$218	\$119	\$3	(\$27)	(\$126)	(\$213)	(\$288)
Annual Financing	\$225	\$225	\$225	\$225	\$225	\$225	\$225	\$225
Pre-Tax Cash Flow	\$28	(\$7)	(\$106)	(\$223)	(\$253)	(\$351)	(\$438)	(\$513)

Retail: \$10M	100%	90%	80%	70%	60%	50%	40%	30%
Sales	\$10,000	\$9,000	\$8,000	\$7,000	\$6,000	\$5,000	\$4,000	\$3,000
COGS	\$3,920	\$3,537	\$3,153	\$2,766	\$2,377	\$1,986	\$1,593	\$1,198

<b>Total Labor</b>	\$2,249	\$2,215	\$2,085	\$2,011	\$1,756	\$1,550	\$1,312	\$1,113
<b>Total Rent &amp; Occupancy</b>	\$1,850	\$1,670	\$1,518	\$1,513	\$1,508	\$1,503	\$1,498	\$1,493
<b>Royalties</b>	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
<b>Operating Costs</b>	\$596	\$559	\$522	\$483	\$443	\$402	\$360	\$316
<b>Total Costs</b>	\$8,615	\$7,982	\$7,277	\$6,773	\$6,084	\$5,442	\$4,763	\$4,120
<b>EBITDA</b>	\$1,385	\$1,018	\$723	\$227	(\$84)	(\$442)	(\$763)	(\$1,120)
<b>Annual Financing</b>	\$901	\$901	\$901	\$901	\$901	\$901	\$901	\$901
<b>Pre-Tax Cash Flow</b>	\$484	\$117	(\$178)	(\$674)	(\$985)	(\$1,343)	(\$1,664)	(\$2,021)
<b>Retail: \$2M</b>	100%	90%	80%	70%	60%	50%	40%	30%
<b>Sales</b>	\$2,000	\$1,800	\$1,600	\$1,400	\$1,200	\$1,000	\$800	\$600
<b>COGS</b>	\$788	\$711	\$634	\$557	\$478	\$400	\$321	\$241
<b>Total Labor</b>	\$516	\$495	\$470	\$443	\$335	\$301	\$265	\$224
<b>Total Rent &amp; Occupancy</b>	\$340	\$308	\$281	\$280	\$279	\$278	\$277	\$276
<b>Royalties</b>	\$0	\$0	\$0	\$0	\$0	\$0	\$0	\$0
<b>Operating Costs</b>	\$149	\$142	\$135	\$128	\$120	\$113	\$105	\$97
<b>Total Costs</b>	\$1,793	\$1,656	\$1,520	\$1,407	\$1,213	\$1,092	\$967	\$838
<b>EBITDA</b>	\$207	\$144	\$80	(\$7)	(\$13)	(\$92)	(\$167)	(\$238)
<b>Annual Financing</b>	\$180	\$180	\$180	\$180	\$180	\$180	\$180	\$180
<b>Pre-Tax Cash Flow</b>	\$27	(\$36)	(\$101)	(\$188)	(\$193)	(\$272)	(\$348)	(\$418)

Source: ARRA

As a fundamental matter of fiscal responsibility, it is important that stores be reopened at a measured pace. Commensurate with the growth of exposed enplanements at agreed upon thresholds, this will assure profitability for each store or restaurant as it reopens. Remember, “recovery will be a marathon, not a sprint” (ACI-NA, “Guidance for Reopening Airport Commercial Programs,” June 2020). Equally important, stores that more directly meet travel needs (e.g., travel convenience, coffee, and quick service, followed by bars and full-service restaurants) should reopen first.

#### Reopening should follow these general principles and procedures:

1. Airport Concessions/Properties executives engage with concessionaires in developing comprehensive reopening plans.
2. Focus on right-sizing the number of stores and restaurants in the program based upon exposed enplanements rather than requiring or requesting all units to open.
3. For the right-sizing analysis, use planning metrics as would have been used for the overall pre-COVID programming of the terminals.
4. Permit stores and restaurants to re-close as the summer ends if passenger traffic does not continue to increase or even declines in the typically slower fall travel season.
5. The reopening process must be based on passenger numbers, not calendar timelines.
6. Airlines should not dictate service levels in the absence of quantifiable passenger enplanements, flights, and proximate gate utilization that warrants such service.
7. Allow adequate time to recall staff and perform other re-opening tasks such as reactivating security badging, implementing social distancing, cleaning and sanitization, and governmental inspections.
8. No reopening plan should proceed without consistent, regularly available data and other information as set forth in Fact # 7 below.



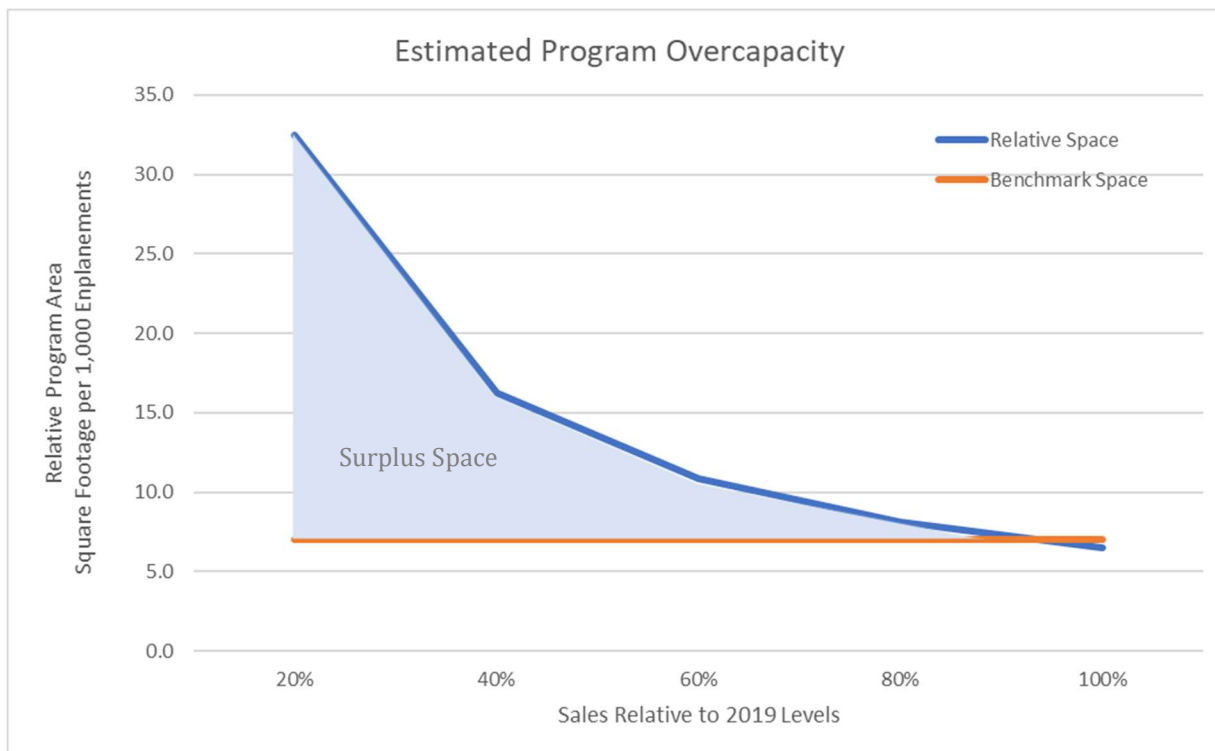
## Fact #5

### The Industry Has an Over-capacity Problem

Re-opening smartly implies that many stores and restaurants remain closed until there is sufficient passenger traffic to support economic operations. In fact, the reality is that most programs are oversized for current and future traffic, likely for three to four years. Concessions programs developed over the past decade were sized during a period of high enplanements and tremendous anticipated traffic growth for planning periods that extended well into the future. Current leases were proposed and negotiated in anticipation of this growth. The result is that there is too much space, or that space is improperly allocated as airlines consolidate operations, gate assignments change, and traffic shifts. The industry will struggle with this until we reach full post-COVID recovery.

The ENORMOUS challenge in front of us as partners is what to do with the likely surplus of stores and restaurants in the near-to medium-term. The surplus can be significant. In the Transportation Research Board’s ACRP Report 54, “Resource Manual for Airport In-Terminal Concessions,” the lead researchers suggest that average programs at large or medium hub airport have approximately 7.0 square feet per 1,000 enplanements (shown as the orange line in the nearby chart). In 2019, the 25 best-performing U.S. airports averaged approximately 6.5 square feet per 1,000 enplanements. At our current 25% traffic level, nearly 75% of current program space can be considered surplus. As traffic returns, the surplus shrinks, but remains substantial. Not until traffic recovers to 95% of 2019 levels – not until 2023 under the Goldman Sachs forecast cited in Fact #2 – will programs be balanced.

Commercial programs were built for the volume of passengers that we had pre-COVID-19. Hopefully, the system will get to 35% of 2019 traffic this summer and 50% before the end of 2020. However, with only 35% of passengers, concessionaires would not be able to withstand having every shop open as sales would be one-third of the prior year. As seen in Fact #4, those sales will not support the cost of employees, goods, rent and debt service. On the other hand, if an airport reopens smartly, the same one-third of prior year sales would be earned by an appropriate number of stores – say, one-third – and thus have a chance at covering their costs. However, two-thirds of the stores that remain closed represent temporary over-capacity and will face significant challenges. Even with MAG waivers until reopening, they would still have to manage debt service.



Source: ARRA

Resolving this overcapacity is the most significant challenge facing airport shopping and dining operators and their airport partners. There will be insufficient customer demand over the next three years to allow all concessions units to be self-sufficient. The shopping and dining industry needs support from airports. Potential options include:

1. Allow units to be deactivated until passenger traffic returns to an appropriate level. The lease is suspended – including payment of MAG – for the portion of the premises that are closed until deactivated units are ready to reopen. At that time, the lease and rent simply restart for the balance of the term. Although this approach has many benefits, it does leave operators with the need to renegotiate or otherwise manage their debt.
2. Airports buy out leases (or portions of leases) through purchase of concessionaire assets. The affected units close and the lease and MAG terminate for those units. The airport can then re-offer the space in a future RFP when demand warrants. The concessionaire loses its future profits but receives cash to pay off remaining debt. A variation is to preserve the lease and allow the concessionaire to rebuy the space prior to offering to the market.
3. A concessionaire gives back space to the airport with no penalty, no questions asked. The lease as it relates to surrendered units is canceled and all obligations to the airport end. Although a “clean” resolution, the tenant writes off assets, loses future profits, and has debt to pay – still with no income.
4. A do-nothing, Darwinian option is just ugly and scary. Airports demand restaurants and retailers open all of their stores, over-capacity and low sales overwhelm each operator, and they run themselves into bankruptcy. Alternatively, airports allow stores and restaurants to remain closed, but demand MAG payments; without sales, these closed stores continue to lose money until forced into bankruptcy.

## Fact #6

# ACDBEs Face Daunting Financial Obligations and Will Soon Reach an Inflection Point

The aviation industry has reached an inflection point in a bedrock aspect of the business. Today it is well within the realm of possibility that the Airport Concessions Disadvantaged Business Enterprise (ACDBE) program could be the first major casualty of the COVID-19 pandemic. This program, created in 1987 as an outgrowth of the Department of Transportation's DBE Program, is designed to create a level playing field upon which socially and economically disadvantaged business owners could compete for concessions contracts. In the thirty-plus years since its inception, airports have seen the program evolve into a major cornerstone of the industry - involving thousands of companies and represented by its own trade organization, the Airport Minority Advisory Council (AMAC). Through airports' efforts to actively and aggressively solicit ACDBEs and small local businesses to invest in airport concessions, there are now some 3,500 ACDBEs participating in these programs, over 80% of whom are in joint ventures with prime operators.

These companies have invested millions of dollars of capital in airport infrastructure (stores and restaurants) only to now face extreme risk of losing their businesses. A recent AMAC Coronavirus Impact Survey found that over two-thirds of minority-owned airport businesses have experienced a 75% to 100% drop in revenue due to the pandemic with 77% of respondents describing the impact as "severe." Revenue losses also equate to thousands of job losses. Moreover, many ACDBE operators have mortgaged homes or collateralized other assets to secure loans. Now with daunting levels of debt service and no income, bankruptcy may be the only path.

As U.S. airports consider options to save the concessions industry so as to continue providing service at levels passengers have come to expect, they should consider the impact various options will have on their ACDBE partners. For example, when an airport decides to simply "take back excess space with no recourse to the tenant," as is being considered by some airports, where does that leave the ACDBE? Debt service obligations remain pressing and without an infusion of capital to cover unamortized investment, they may be doomed to fail. **This will have the dramatic effect of not only cratering the entire ACDBE program, but also financially crippling every individual who had the courage to participate.**

The ACDBE program has indeed reached an inflection point. As the FAA has recently noted, "small disadvantaged firms are particularly vulnerable during these uncertain times." It will take all parties working together to save this decades-old federally mandated program as we rebuild our industry.

## Fact #7

### Data are Essential...Facts Not Fluff

As traffic slowly returns and the industry contemplates a phased-in recovery, calls from airports to assess reopening scenarios will begin to mount. Such assessments require operators large and small to confront crucial decisions such as whether or when to continue operations and at what level; whether to retain, furlough, or terminate employees; if and when to invest in new build outs; how to right-size administrative and corporate support functions; or, how to plan and manage future inventory levels. Such decisions cannot be made without current, verifiable information and statistics. No meaningful consideration of “revival” can be undertaken without data. If ever there was a time for full transparency and true partnership between airports and concession operators, it is now.

To engage in a conversation about recovery, full and frequent sharing of data is immediately needed from every airport. Flights, enplanements, and gate locations continue to be fluid and impacted by a great many factors. Businesses are making decisions each day that threaten their very existence. The industry is desperate for a level of fact-based information on a consistent daily and weekly basis as indicated below:

- Enplanements by airport, terminal, concourse, and zone (daily)
- Airline gate usage/assignments (weekly)
- Airline load factors (daily)
- Traffic forecasts updates (daily)
- Updates on openings and closings of concession outlets by location
- TSA counts by check point (daily)
- International passenger counts by destination, terminal/ gate location (daily)
- Communications received from airlines regarding operations (daily)
- Records of “phantom flights” (flights scheduled but subsequently withdrawn from airline schedules prior to original departure dates).

## Fact #8

### Health and Safety are Essential, but There is a Cost

Health and safety are paramount for the future success of airport shopping and dining. The health and safety of our employees. The health and safety of our customers. Each group must have a high degree of comfort to engage with commercial operations at the airport.

However, it is also essential to recognize that providing – and demonstrating – health and safety have costs that can significantly alter the concessions financial model, particularly at low sales levels. Indeed, health and safety measures add to a concessionaire’s financial distress and further delay financially feasible reopening.

There are many elements to safe reopening that increase costs or have potential to negatively affect revenues:

- Capital costs related to the installation of protective shields and other personal protective equipment (PPE)
- Costs related to the reconfiguration of workstations to maintain social distancing (especially in restaurants)
- Capital costs to implement touchless transactions
- Operating costs for masks, gloves, and other PPE supplies
- Operating costs for increased cleaning and sanitization supplies
- Increased labor for the cleaning and sanitization of stores and restaurants, as well as common areas such as food court seating
- Increased labor or other costs for gate delivery
- The impact of social distancing on customer queuing, as well as the potential effect of queues on customer behavior
- The impact of social distancing and capacity constraints on the sales productivity of restaurants and bars
- Limitations on self-ordering kiosks

The impact of these costs on a concessionaire’s financial model can be substantial and may warrant adjustments in percentage rent rates. Airports and concessionaires have a shared interest in health and safety of passengers and employees. We encourage airports to work with concessionaires to sustain the revival of airport shopping and dining by sharing the costs – and benefits – of protecting passengers and employees.

## Fact #9

### What Can Airports Do Now?

There are several immediate steps that airports can take to assist concessions operators, enabling them to survive the historic drop in traffic and have a reasonable chance to resume service as traffic returns:

- Take a realistic view of traffic patterns and in formulating rent relief proposals, plan for the worst-case scenario – whether or not it turns out to be the case.
- Grant immediate relief from minimum guaranteed rent (MAG). This fixed cost is one of the most crippling to concessionaires. Until the system has recovered, use a portion of \$10 billion CARES Act grant, which was enacted to offset lost revenue, to support rent abatement for concessionaires.
- Initiate variable percentage rent rates until the system has recovered to a minimum of 90% of 2019 enplanements.
- Grant extensions of existing agreements for a minimum of two years to allow operators to re-amortize existing debt and provide the opportunity to earn additional sales in the future once traffic has returned to 2019 levels.
- Engage all airport stakeholders in the discussions of concessions survival and revival.
- Consider using unrestricted reserve funds to meet other budgetary requirements, thereby freeing up cash to assist concessionaires.
- Share the financial relief airports were given under the CARES Act, and any future relief, with concessionaires through MAG waivers and rent abatement consistent with the FAA’s recent letter to Airport Sponsors entitled “*FAA Encourages Airport Sponsors to Help Mitigate Impact on Airport Tenants During National Health Emergency.*”
- Defer capital investment in new concessions development projects.
- Suspend all storage rents, utilities, CAM, Marketing Fund, and parking fees.
- Suspend all scheduled mid-term refurbishment.
- Suspend any pending RFPs/RFQs.
- Develop a measured and rational store reopening plan in collaboration with concession operators which is based on traffic, flights, and gate usage data. Utilize industry standard metrics for space planning and recalibrate MAG and percentage rents.
- Provide rent allowances to support the added costs of implementing health and safety measures.

## Fact #10

# COVID-19 has Changed Many, Many things in the World. What Will Change in the Aviation Concessions Industry?

The pandemic has and will continue to cause change in every section of our society. There are many components of this, but perhaps the most challenging and unknown is how long it will last and how long it will take to recover. But, no matter how long the recovery takes, the severity of the downturn raises questions:

- Is it logical that restaurant and retail operators – as well as other service providers – assume all financial risk in the face of severe fluctuations in passenger traffic?
- Is the notion of a Minimum Annual Guarantee outdated?
- How can America finance the overall aviation system during this downturn?
- Is there a financial instrument that can help us effectively hit pause on things and then enable a “kick start” of the business?
- How should restaurants and retailers meet their passenger service responsibility when passenger numbers are too low to sustain the financial viability of the business that is providing the service?
- While we are making substantial changes to the marketplace are there others that should be considered as well?

The entire aviation financial eco-system is in demand of a reset. But this reset is not zero sum where an entity succeeds at others' expense. Everyone has felt pain. Everyone needs to work together to sort how we can work our way through to financial survival. If we contemplate that U.S. aviation traffic may not recover for three years, we must also contemplate structural revisions to the industry. The system needs help to support the services and experience our customers have come to expect. We need to think through as partners how that will work. It's time to begin the conversation.