

NOESIS INSIGHTS

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Airports and their Impact on the
Hospitality & Overall Economy



80 NEW AIRPORTS BY 2025

On 23rd March 2022, Civil aviation minister Jyotiraditya Scindia addressed the Lok Sabha requesting for grants to open 80 new airports in the country by 2025. Adding to the country's current 140 airports, it would bring the total tally to 220. The arguments he made during his speech were as follows:

1

3.82 lakh passengers flew daily in the past seven days (from the date of the speech)

2

In 2014, there were a total of 74 airports in the country and 66 new airports were added to the tally by 2021.

3

According to the Directorate General of Civil Aviation (DGCA) data, 8.38 crore people travelled on domestic flights in 2021, a jump from the 2020s 6.3 crores. The number of passengers increased from 6.70 crores in 2013-14 to 14.50 crores in 2018-19.

4

The market share of Indian Companies in international freight was limited to only 2% during the Covid-19 environment and has now reached 19%.

5

Of the planned ₹98,000 crores, ₹22,000 crores will be spent by the state-run AAI on building new terminals and other infrastructure at existing airports. ₹3,300 crore will be spent on greenfield airports in Itanagar and locations in Gujarat. The private sector is expected to spend ₹67,000 crores on the seven privately-run airports apart from the greenfield projects at Navi Mumbai, Goa and Greater Noida.

INTRODUCTION

The development of airports has a significant impact economic and social impacts. Beginning form, the location it's developed in, to economic markets close to it. The 'Ude Desh ka Aam Naagrik' scheme started by the prime minister of India is focused on taking advantage of the same. Through the construction process to the ultimate goal of a self-sustainable economy, airports mark the first stage of economic prosperity and linkage in the most regional of locations. They have the ability to raise the regions GDP and similarly enhance its visibility on a global level.

With this development also comes a multiplier effect especially in the travel and tourism industry. Even though it never a confirmed assurity that a new airport will automatically reflect all these economic and social changes, the do provide the location with the ability to further work to reach their true potential.



AIRPORTS & *The Economy*

In terms of transport, the traditional view was that appropriate transport was needed to allow for migration to take place. However, new theories treat it somewhat differently, by seeing it as a possible way for less developed areas to become more attractive to investors. At a macro level, it is difficult to assess whether investing in airports, or expanding existing ones, directly leads to economic development, or increase in GDP of a region but it can allow a region to fully exploit its true potential.

Upon studies undertaken across the globe, the local economic implications of investing in airport infrastructure can be divided into four types:

PRIMARY EFFECTS:

These are the short-term benefits to a region from the construction of an airport – the design of the facility, the building of the runways, the construction of the terminals and hangars, the installation of air traffic navigation systems and so on – and the resultant income and employment multipliers associated with this.

SECONDARY EFFECTS:

These are local economic benefits of running and operating the airport – employment in maintaining the facility, in handling the aircraft and passengers, in transporting people and cargo to and from the terminal and so on. These secondary effects can be extremely important for some local economies in terms of employment, income and, for local government, taxation revenue.

TERTIARY EFFECTS:

These stem from the stimulus to a local economy resulting from firms and individuals having air transport services at their disposal. These differ for those living in hub cities, compared to those on a spoke or having no major carrier. Hubs offer more direct flights favoured by business travellers. But the hub also benefits those on the spokes because without a hub-and-spoke structure many would find it difficult to travel long distances at all. Hubs allow interconnectivity.

PERPETUITY EFFECTS:

These reflect the fact that economic growth, once started in a region, becomes self-sustaining and may accelerate. An airport can change the entire economic structure of a region – it can shift its production function. This type of dynamic economic impact of an airport is the most abstract and the most difficult to quantify. It has been little researched but examples can be seen in the transformation of small agricultural island economies into tourist destinations and the growth of high-technology regions around major airports.

Although still difficult to get a good handle on the exact level of progress a region might have related to a new airport, the points above provide a good noted observation on the generic economic development that may take place and the stages it may occur in.



The economic impact of Constructing airports

A paper titled 'The economic impact of Chandigarh airport', published by OP Jindal university in India, showcased their findings of the effects that construction of the Chandigarh airports had on its economy. The results were as follows:

- The construction of the Chandigarh Airport increased the output of the national economy by Rs. 3,105 crores over the span of its construction
- Rs. 1,298 crores were added to the economy
- 57,200 jobs were created by the construction of the airport
- Similarly in an economic impact study of the Chhatrapati Shivaji International Airport in Mumbai published by National council of applied economic research had the following findings,
- The airport increased the output of the national economy by Rs. 32,960 crores,
- Added Rs 19,780 crores, and
- Generated 1,098,000 jobs during its construction phase.
- The size, scale and location of airports and their operations definitely have a relation to the impact they have. However, through the above extracted facts it is worth noting the impacts of even just the first stage of developing the airports do create jobs and add to the value and output on the region. These points end having a further multiplier effect taking them to the stage of a possible self-sustaining economy.



THE SOCIAL BENEFITS *of Airports*

The social benefits of airports are closely tied to the economic ones. Along with the advantages of a new mode of transportation, many benefits do arise because of a better economic scenario. With that, some social benefits that arise because of airports include:

- Improved quality of life by broadening people's leisure and cultural experiences. It provides a wide choice of holiday destinations around the world and an affordable means to visit distant friends and relatives.
- Improve living standards and alleviate poverty, for instance, through tourism.
- They may provide the only transportation means in remote areas, thus promoting social inclusion
- They promote sustainable development by facilitating tourism and trade, it generates economic growth, providing jobs, increasing revenues from taxes, and fostering the conservation of protected areas.
- The air transport network facilitates the delivery of emergency and humanitarian aid relief anywhere on earth and ensures the swift delivery of medical supplies and organs for transplantation
- Air transport has a stronger ability to recover their investment costs unlike roads and trains
- They can provide access to travellers from further destinations, i.e. international travellers
- Provide direct and indirect employment opportunities. For example in the IT industry
- Facilitating migration and inclusion



AIRPORTS &

Tourism Development

The factors revolving around what creates a tourist hub are vast but the first steps in locations being able to exploit their tourist potential always start with connectivity and accessibility. In the past, these were roadways and railways that spread across villages, towns, and cities but now, in our globalised world, air-transport is at the forefront of integration from regional to major hubs.

When talking about tourism there are typically two types of travellers, those who travel for business and those who travel for leisure. In India, regional locations being better connected to central hubs allows the scope for both types to increase.

Major cities, like Delhi and Bangalore, are prime examples of how connectivity led to an increase in business travellers. Large MNC's were on the lookout to reduce their bottom line by outsourcing their work to locations where it was more affordable. With it came travellers scouting the area, setting up new offices and regular business trips to evaluate their progress. A lot of their travelling is necessary and unavoidable for their peace of mind and healthy operations. Business travellers all around the world follow a similar pattern and due to their frequency and volume of travel form the first major category of travellers impacting the tourism industry. On a larger spectrum, they include corporate travellers, airline cabin workers, working professionals, government officials, etc.

Leisure travellers form the second major category. They are a bit varied in their demand as they include every not made for economic gains. They include all travellers for vacations, visiting friends and families, and all other various tourists.

Because their demand or desire to travel is not always considered necessary they require more incentives to travel to a location. The primary being ease of access, i.e., connectivity. The second being attractions and comfort and so on. The point here is that although leisure destinations may not instantly become tourist hotspots with the development of an airport it is the first and most important step in a location having that option.

The table below showcases the air passenger traffic in key airport cities of India. With the exception of the coronavirus pandemic, these figures show a steady increase. Major airports do often act simply as a transit to further close destinations but non the less travellers have increased. It leaves scope to attract customers and visitors to their markets and convert travellers to tourists.

Passenger traffic in key airport of India (in millions)

	Delhi	Mumbai	Bengaluru	Kolkata	Hyderabad	Chennai
FY 16	48.42	41.67	18.97	12.42	12.39	15.22
FY 17	57.70	45.15	22.88	15.82	15.10	18.36
FY 18	65.69	48.50	26.91	19.89	18.16	20.36
FY 19	69.23	48.82	33.31	16.89	21.40	22.54
FY 20	67.30	45.87	32.36	22.15	21.65	22.26
FY 21	22.5	11.0	10.9	7.72	8.04	5.49
FY 22	39.0	22.0	16.0	11.0	12.0	10.0

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The Hospitality Industry

Hotel development is more complex industry when looked at deeply. Yes, with the rise of tourists and tourism development, the number of rooms available for rent do increase, however, the manner in which they can occur requires a greater understanding of the industry's operations.

Hotels are capital intensive and require a various sums of money depending on the category of service desired. Being a perishable item, rooms being sold become highly dependent on the real estate and location it is built on as they form a major segment of costs and revenue streams that the business can expect.

The positive effects that were discussed earlier that a location can occur with the development of an airport thus become two-fold for the hotel industry. On the one hand, accessibility and connectivity of a location make it better known and provides the best scope for a region to reach its potential as a tourism or business hub, But on the other hand the increase in demand can cause a surge in prices of hotel development such as the cost of real-estate, cost of construction, increased competition, etc. Historically, new airports increase the cost of land in nearby areas by 20-30%. This typically occurs as airports are usually built on the outskirts of the city where land is cheap and less population. It is however worth noting that busy airports tend to attract more commercial activities to them, such as hotels, taxi stands, food outlets and even airport staff accommodation, all causing a price rise.

Civil aviation minister Jyotiraditya Scindia argument's, as mentioned earlier, were focused on the development of the aviation industry, increasing employment, advancing technologies and women empowerment within the sector but his objective of increasing airports will have a substantial positive outcome for the overall travel and tourism industry of India, including hotels. The progress and introduction of new airports can help the economy get back to its pre-pandemic growth trajectory. It is however worth understanding and further observing the development progress of these airports before making any certain assumptions.



AIRPORT HOTELS

A different category

Hotels are classified into various segments based on different criteria such as services offered, the scale of operations and the location of the property. Diving deeper into the 'location' classification, hotels can fall under city hotels, suburban, motels, resorts, forest hotels, floatels and airport hotels. These divisions are created as hotels alter their service focus to cater to the larger demand falling in the location. For example, resort hotels are located on the outskirts of the city and attract the leisure market. They are spread across a larger area of land and marketed as a place of relaxation and get away with the highest level of service and product offering. City properties on the other hand are usually taller buildings focusing on MICE and business travellers. Their rates are more competitive and market different offerings like business centres and their location to all the prime locations within the city.

With larger and busier airports now being constructed on the outskirts of the city and air travel becoming a more preferred mode of transportation, airport hotels have managed to form a separate segment of their own by dividing the market catered to by city hotels. Due to their proximity to the airport, they offer many advantages to their guests such as saving road travel time, flexible schedules, and convenience in flight timings in addition to regular facilities offered by city properties. Hence, their target market and service offerings are focused on travellers who stay for shorter durations, have long layovers or inconvenient flights at the airport, airline crew and time-constrained business individuals.



STRENGTHS

- Location to the airport
- Can better leverage the growing demand in air travel
- The first option for international meetings due to airport connections
- First options for travellers with long layovers
- Highly differentiated hotel types

WEAKNESSES

- Difficult to appeal to other travel segments such as leisure travellers
- Competitive, both with its segment and city hotels
- Easier substitution in products

OPPORTUNITIES

- Increase in blended travellers by offering new services
- Developing economies forecast higher demand for air travellers
- Product differentiation and marketing

THREATS

- Innovative hotels located within the airport or closer to the terminal
- Change in preference for the next generation of travellers
- Demand is directly proportional and highly dependent on air travellers of the airport

In a competitive market segment such as airport hotels, the initial players can sometimes greatly benefit from what is the 'first and fast movers' advantage' in business. By being one of the first properties, they can capture the market early on and build a better relationship with their customers resulting in better brand loyalty, economies of scale and economies of scope. Additionally, airline crews make up a large segment of demand in this segment and initial properties have the advantage of forming these relations and contracts early in the game. Keeping in mind the level of services offered, 'first movers' could form and cement their positions in their respective markets and thus over the course of their operations have a stronger possibility of turning a profit and growing with the economy/airport.



Airports are a necessary development in any economy reaching their true potential, but they aren't a given assurance of whether a location will prosper just because they have an airport. They need to have a well laid road and rail infrastructure complimenting them as well along with various other factors to success. Their size and scale of operations similarly have different effects when studied better. Factors such as urbanisation, post development operations, landscape and other attractions all play an equal role in determining whether a location will be prosperous. It is the however, the first step in the right direction.

If the civil aviation minister Mr Jyotiraditya Scindia achieves his intentions of opening 80 new airports 2025, the travel demand will certainly notice a shift. Connectivity & accessibility puts a location on the global map, leading it to further growth in related sectors such as the tourism and hospitality to ultimately becoming a self-sustaining and self-reliant economy with sufficient jobs, disposable income, and social benefits. Not all destinations grow to become tourist hubs but

historically the opening of an airport has shown an increase in travel and hotels bookings.

With a growth in travel and tourism, new hotels will have to come up around these airports to capture the new demand and so investors and brands will have to act fast to fully utilise these new prospects and acquire the land before the investment becomes infeasible.

The hospitality industry is a competitive one with large capital requirements and so all advantages need to be understood to ensure the maximum profitability of the asset. Hence, the first and fast movers' advantage can make a significant impact and must be critically considered on the observation of all new developments in the country.

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List Of Upcoming Airports In India

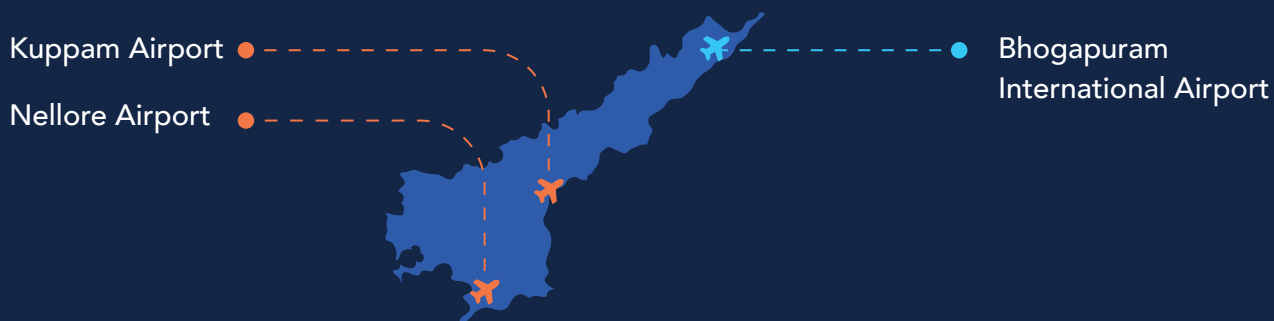
ANDHRA PRADESH



International Airport



Domestic Airport



ARUNACHAL PRADESH



ASSAM



HIMACHAL PRADESH



GOA



BIHAR



PUDUCHERRY



List Of Upcoming Airports In India

GUJARAT



International Airport



Domestic Airport



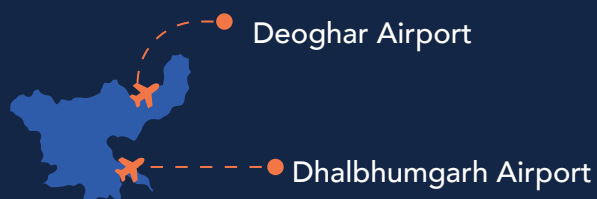
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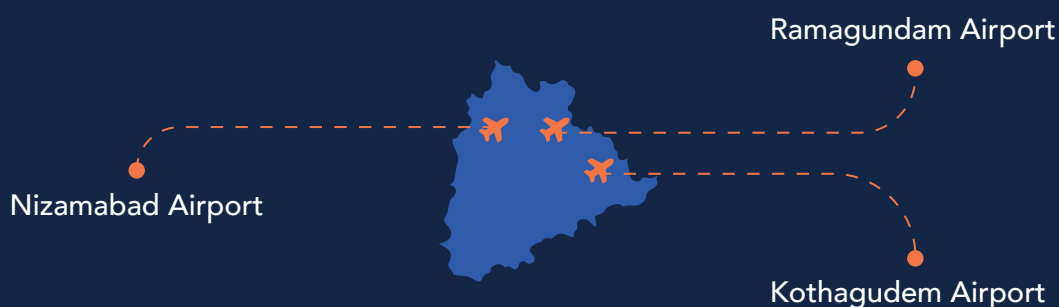
JHARKHAND



UTTARAKHAND



TELANGANA



List Of Upcoming Airports In India

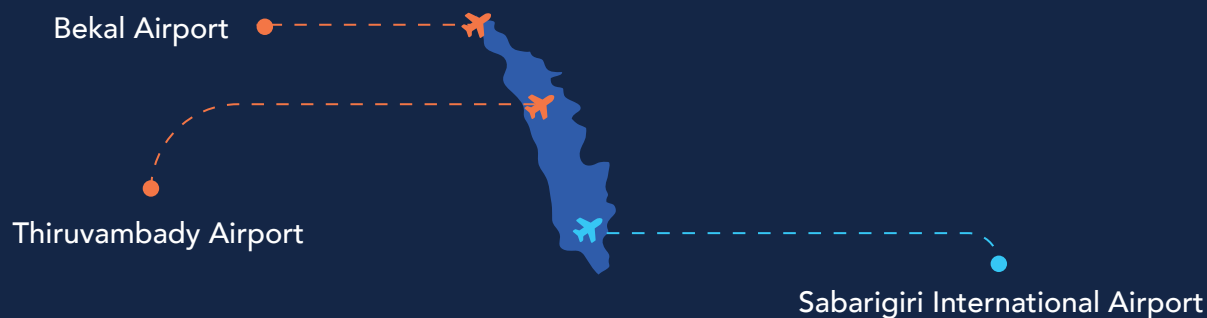
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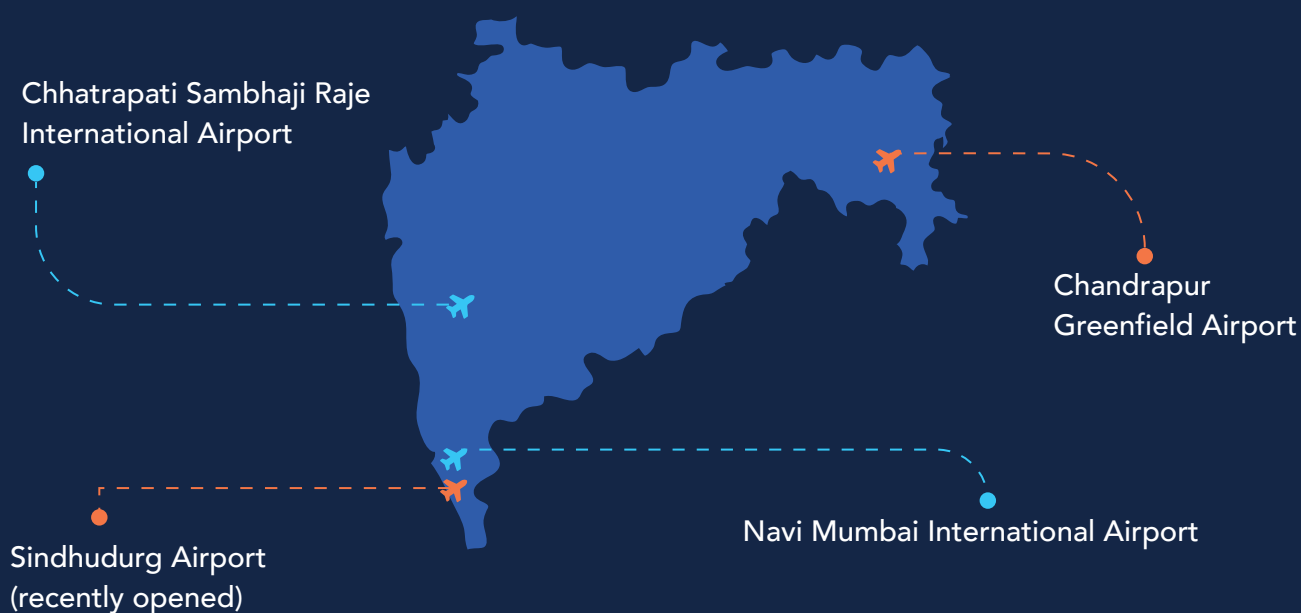
International Airport



Domestic Airport



MAHARASHTRA



List Of Upcoming Airports In India

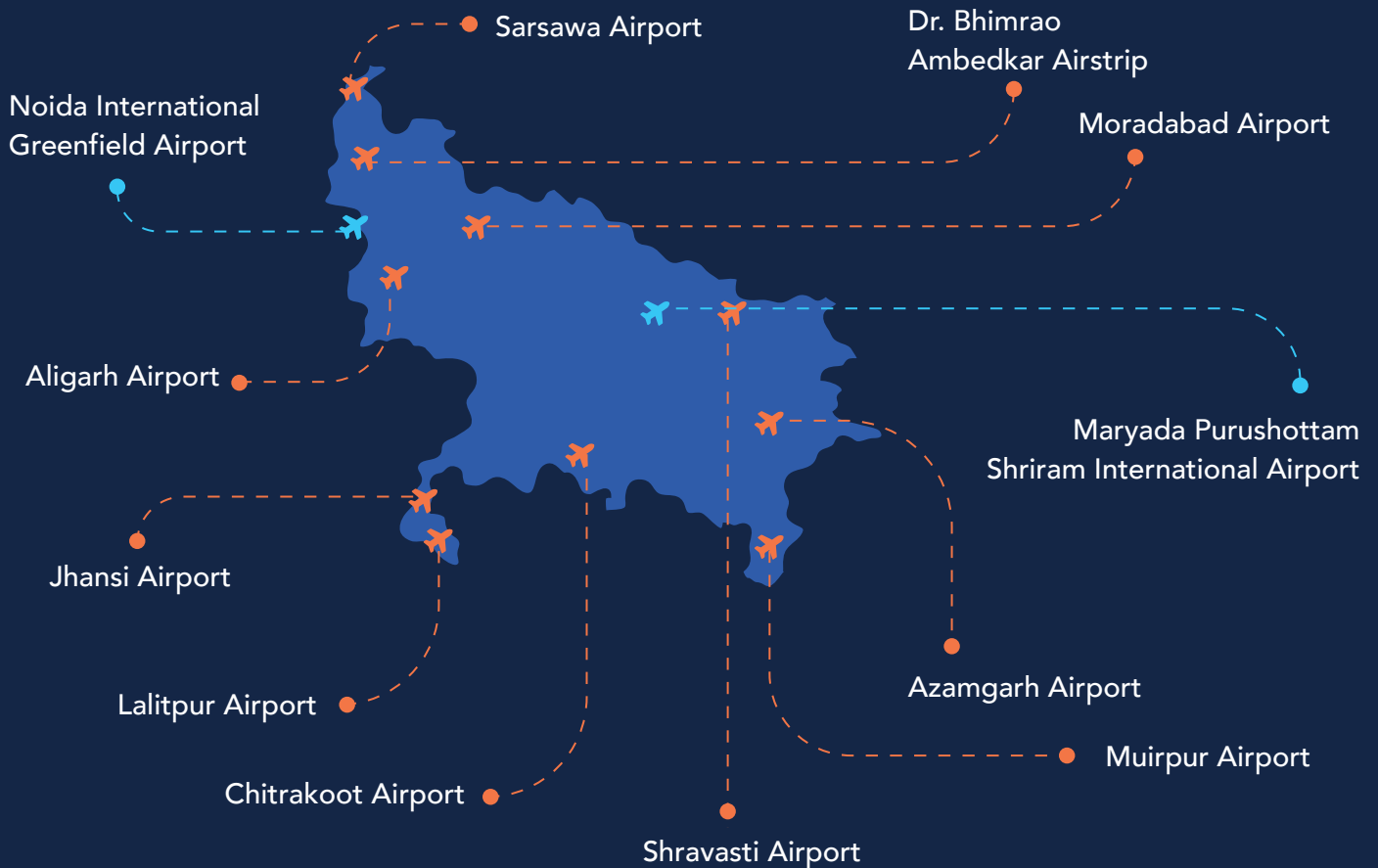
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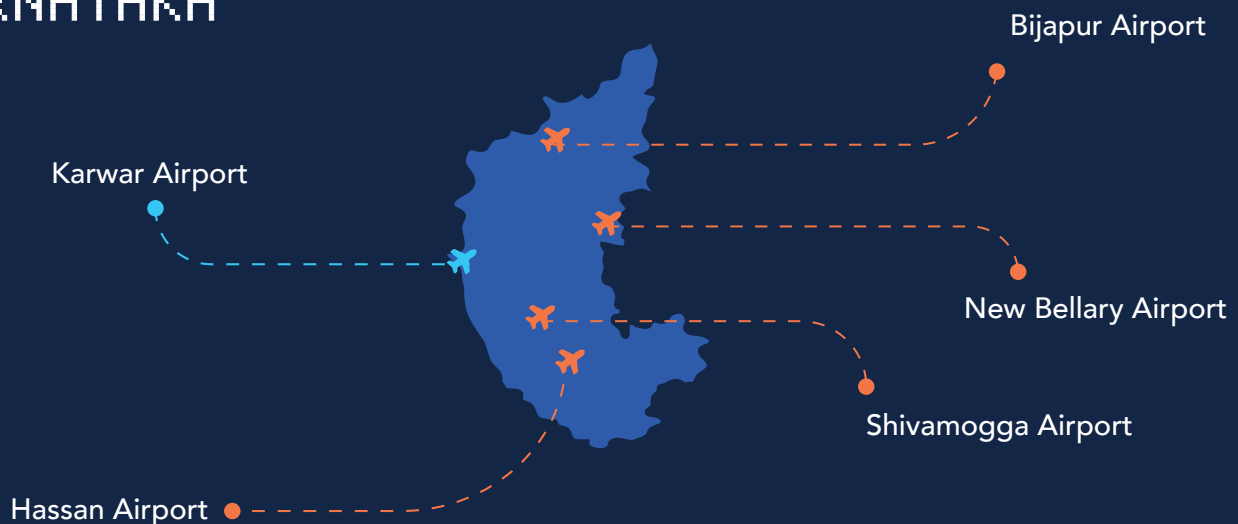
International Airport



Domestic Airport



KARNATAKA



Total Count Of Upcoming Airports In India



42 Total New Airports **32** Domestic Airports **10** International Airports



Our People

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