



AIRMALLED: Failures of the Airport Concessions Developer Model

May 2011

Sales Not Enough to Justify Lower AIRMALL Rents

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This is the second in the Airport Group series *AIRMALLED: Failures of the Airport Concessions Developer Model*.

Throughout 2011, the Airport Group will be assessing performance and consequences attributable to the concessions developer model.

In airport concessions, the relationship between sales and rent revenue captured by an airport system is critical to the success of the program. Higher passenger sales and higher percentage rent rates result in a healthy source of non-aviation revenue for airports.

In the previous report in this series, the Airport Group demonstrated that under Airmall USA's concessions management, both the overall percentage rent as well as rent per enplaned passenger paid to airports lag behind those at peer airports (see *Less Rent Generated Under the Developer Model*). Further analysis indicates that sales performance is not high enough to offset these lower rent figures.

Airmall has attempted to justify its weak rent performance by highlighting increases in sales revenue at its airports. However, in recent years, Airmall's sales performance has not improved at a greater rate than peer airports, nor is it high enough to offset uncaptured revenue for airports under its management model.

Between 2003 to 2009, the overall sales per enplaned passenger (SPEP) increased at Airmall airports¹ by approximately 42%, the same rate as at peer airports without a private concessions developer on the 2010 ARN Top 50 Performing North American Airports list.

Sales per Enplaned Passenger comparison: Airmall vs. Peer Airports	
	2003-2009 SPEP increase
Airmall airports	41.9%
Peer airports	42.4%

In the previous report in this series, we mention that peer airports² collect rents at a rate of 15% of total concessions sales generated, while the overall rents paid to airports by Airmall in 2009 was just 10.7%. Yet overall sales per enplaned passenger at Airmall airports in 2009³ were only 3.8% greater than at peer airports, a margin that does not make up for the discrepancy in rent rates.

The Airport Group is the Airport and Infrastructure research, policy and development arm of UNITE HERE, the labor union for airport food and beverage and retail workers.

¹ Airmall airports defined as the three airports using Airmall's concessions management services throughout this period: Baltimore Washington, Boston Logan, and Pittsburgh International airports. Airmall was not operational at Cleveland Hopkins International Airport until 2008.

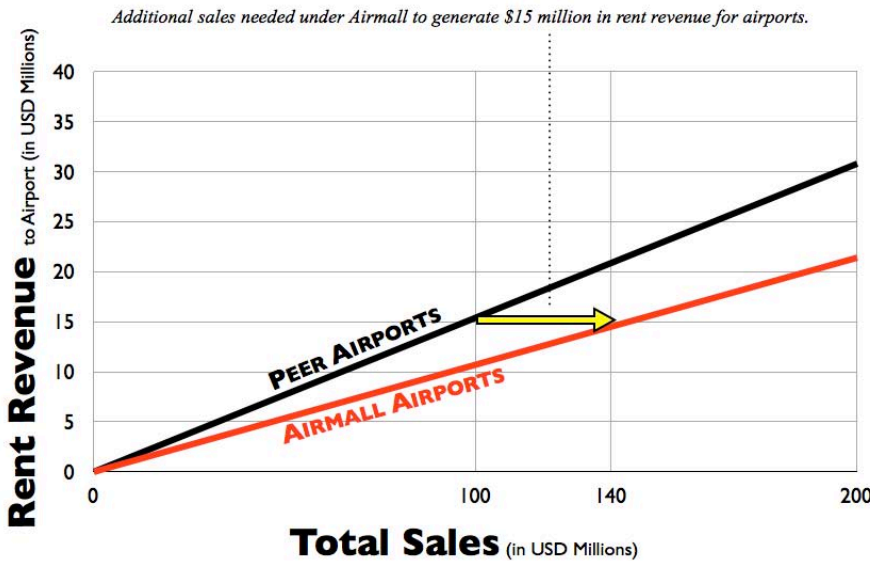
² Peer airports defined as the 25 U.S. airports without a private developer on the ARN 2010 Top 50 Performing North American Airports list which provided rent figures in the ARN Fact Book 2010.

³ Includes Cleveland Hopkins International Airport



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In other words, for every \$100 million in sales, the average non-developer peer airport would generate \$15 million in rent revenue while the average Airmall airport would only generate \$10.7 million. In order to even match its peer airport's \$15 million in captured rents, the Airmall airport would need to generate \$140 million in sales, or 40% more. For every \$1 in sales at the peer airport, Airmall's airport would need \$1.40 in sales. Airmall's 3.8% advantage in sales per enplanement rates fails to make up for this.

As an example we can look at Baltimore Washington International Airport (BWI), whose concessions are managed by Airmall, and Salt Lake City International Airport (SLC), which is managed directly by the City's own Department of Airports. These two airports enplaned nearly the same number of passengers

2009	Age of program	Enplaned passengers	Concessions sales	Portion of sales captured by Airport
Baltimore Washington International	5 years	10.5 million	\$90.07 million	\$10.45 million
Salt Lake City International	10 years	10.2 million	\$72.48 million	\$10.61 million

in 2009⁴, while sales at SLC were 20% lower than at BWI. Despite this, Salt Lake City collected more rent revenue (1.5% higher) from concessions sales at its airport than the State of Maryland did from concessions at BWI. This is even more incredible when considering that concessions at SLC had not been redeveloped since 2000. Airmall's program at Baltimore was five years old yet provided less return to the airport system than the ten year old program at Salt Lake City.

Airports that manage and develop their own concessions programs are at an advantage in capturing higher overall returns from sales while seeing consistent sales improvements. Overall sales performance at concessions programs managed by Airmall needs to be much higher to justify foregone revenue from percentage rent under this model.

Lower capture of concessions sales results in lower coverage of airport operating costs, resulting in harm to various segments of the airport system. The Airport Group recommends that airports maintain direct control on their concessions operations to ensure access to higher returns from this sector. Airport markets with private developers should continue to be valued negatively when compared against markets with this advantage.