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AIRPORT COOPERATIVE RESEARCH PROGRAM

ACRP REPORT 54

Resource Manual for Airport In-Terminal Concessions

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delegating contracting authority to a Leasing Manager if the basis for soliciting and selecting tenants is not transparent or if the costs of the Leasing Manager reduce revenues to the airport operator.

8.1.5 Hybrid Approach

Practical considerations may result in the use of more than one contracting approach at an airport. For example, at Seattle-Tacoma International Airport, multiple Prime Concessionaires are used for concessions on the concourses, and the Direct Leasing approach is used in the Central Terminal, which is themed as the Seattle Marketplace. Further, the Central Terminal marketing, leasing, and development was performed by a Leasing Manager on behalf of the Port of Seattle. Airport management believed it could use a conventional Prime Concessionaire approach for its concourses, but the new Central Terminal, a major centralized post-security concession development, was intended to be a showcase, and a Leasing Manager was considered the best way to attract and contract with tenants who may be wary of conventional public-sector contracting practices. The strategy at the Seattle airport was successful. After the Central Terminal was opened, airport staff assumed responsibility for its management.

At some other large airports, a combination of leasing approaches is also used. For example, at John F. Kennedy International Airport, a Master Concessionaire has executed a food and beverage agreement in JetBlue Airways' Terminal 5, and Direct Leasing is used in the airport's Terminal 4, where the concession program is managed by the terminal operator using Direct Leasing. A Third-Party Developer manages the pre-security central terminal retail program at Orlando International Airport, while multiple Primes operate the concessions in other areas of the terminal complex. A Third-Party Developer operates the concessions in the central terminal areas at Miami International Airport, and Primes and Direct Leasing are used in most other areas of the terminal complex. Two Third-Party Developers operate at Boston Logan International Airport, each managing the concessions in two of the airport's four terminals.

For these reasons, the Hybrid approach is more of a contracting strategy than an approach, with the airport operator using each approach as a tool to achieve the best overall program for its unique circumstances.

8.1.6 Summary of Concession Management Approaches

No single concession management approach can or should be universally applied. Airport operators must decide which approach offers the best outcome in light of the opportunities and challenges it presents. This decision is best made after careful analysis of the costs and benefits of each approach. Table 8-1 presents a high-level summary of the relative strengths of each approach

Table 8-1. Summary of relative strengths of major concession management approaches.

	Competition	Capital investment	Airport administrative costs	Financial return
Direct Leasing	High	High	High	High
Prime Concessionaire	Medium	High	Low	Medium
Third-Party Developer	High	High	Medium	Medium
Leasing Manager	High	n.a.	Medium	Medium

n.a. = Not applicable.

in terms of (1) competition, (2) ability to invest capital, (3) the associated airport administrative costs, and (4) the financial return to the airport enterprise associated with each approach.

Table 8-2 presents a summary of the advantages and disadvantages of each concession management approach. The following section presents a comparison of the revenue to the airport enterprise produced under each approach.

Table 8-2. Summary comparison of concession management approaches.

THIRD-PARTY DEVELOPER

Advantages:

- Lowest administrative burden, as Developer brings professionals with experience in marketing, leasing, developing, and managing food and retail spaces; single point of contact for airport management
- Coordinates all tenant design and construction
- Generally enters into subcontracts directly with subtenants and is able to negotiate optimal business terms (compared with public procurement requirements)
- Does not compete with tenants; shares goal of airport operator in maximizing sales, service
- Develops food courts and other common areas; makes investment in common areas, directories, etc.
- Variety of shops, concepts, subtenants creates high degree of competition and choices for customers

Disadvantages:

- Considerable potential sales volumes are necessary for Third-Party Developers to participate
- Requires longer term, typically 15 years, for Developer to earn satisfactory returns
- Developer takes cut of concession sales, which may reduce airport operator's concession revenues below potential of other approaches

LEASING MANAGER

Advantages:

- Similar to Third-Party Developer, brings professionals with experience in marketing, leasing, developing, and managing food and retail spaces; single point of contact for airport management
- Scope may include coordination of design and construction activities
- May (or may not) enter into agreements directly with subtenants; able to negotiate optimal business terms (compared with public procurement requirements)
- Variety of stores/concepts operated by different concessionaires creates distinct customer shopping choices and a high degree of competition

Disadvantages:

- Airport operator has responsibility for common area build-outs
- Leasing Manager receives a fee for its services, which may reduce airport concession revenues
- Typically works on a fee basis and does not make capital investment in common areas, directories, etc.

(continued on next page)

Table 8-2. (Continued).

DIRECT LEASING

Advantages:

- Direct relationship between airport operator and concessionaires
- Variety of stores/concepts operated by different concessionaires creates distinct customer shopping choices and a high degree of competition
- Airport operator controls overall scope of program

Disadvantages:

- Requires the most airport staff time and expertise due to variety of individual concession agreements to award and manage
- Airport operator has responsibility for common-area build-outs
- Design and construction activities by many different firms increases workload for airport operator
- Greater risk of failure, as individual agreements must be self sufficient; greater exposure to traffic risks
- If local businesses are targeted, training will be required; there may be operating risks associated with inexperienced concessionaires

PRIME CONCESSIONS

Advantages:

- Only a few points of contact for coordination of design and construction activities, depending on number of primes
- Primes typically handle common-area build out, such as food courts
- Requires less airport staff time (compared with Direct Leasing) with fewer, larger concession agreements to manage
- Prime subleases to ACDBEs and others on behalf of airport

Disadvantages:

- Less competition than other management approaches
- Variety of stores/concepts offered are often more limited due to pre-established agreements with certain brands
- Approach (on average) results in development of less space compared with other approaches
- Prime concessionaire may be in competition with sub-tenants
- Lower sales compared with other approaches, although percentage rents are typically higher

8.2 Financial Performance by Management Approach

A number of factors are involved in the choice of concession management approach, but the one factor that is universally considered is revenue to the airport enterprise. In this section, the financial performance of the various concession management approaches is analyzed in terms of the sales and revenue performance of airports where each management approach is in effect.

Financial performance was analyzed using data for the busiest 35 airports in the United States, mostly large hubs (and a few medium hubs), regarding concession space, sales, and revenue data reported in the *Airport Revenue News Fact Book 2009* for calendar year 2008 (Airport Revenue News 2009).

Airports with passenger traffic less than that of the least busy of the top 35 airports (i.e., below 5.5 million annual enplaned passengers) are considered too small for the Third-Party Developer approach; generally, the Prime Concessionaire or Direct Leasing approach is used at these airports. Therefore, only the busiest 35 airports, which are capable of supporting and implementing any of the concession management approaches, were considered in the analysis.

Because of incomplete reporting of sales data, Cleveland Hopkins International Airport was eliminated from the analysis. At the time this analysis was conducted, the airport was in transition from the Prime Concessionaire approach to the Third-Party Developer approach. Pittsburgh International Airport (which has the highest spend rate per enplaned passenger in the United States) was also excluded from the analysis as it falls outside of the top 35 airports in terms of numbers of enplaned passengers.

8.2.1 Classification of Airports

Each airport included in the analysis was classified according to its management approach. Airports where two or more management approaches are used were placed in the Hybrid classification. The Hybrid approach, as referred to in this section, should be considered an eclectic approach and not an end in itself. Some airports classified as Hybrid have Third-Party Developer agreements, including New York's John F. Kennedy International and LaGuardia airports, and Bush Intercontinental Airport/Houston. Miami and Orlando International Airports employ Direct Leasing, Prime Concessionaire, and Third-Party Developer approaches. Including these airports allows all of the airports to be classified and compared in terms of average sales, space, and revenue.

The Third-Party Developer and Leasing Manager approaches have many similarities, with the lack of investment on the part of the Leasing Manager being the major difference. Therefore, the two categories were combined for this analysis.

Table 8-3 presents a summary of enplaned passengers, sales, and space by concession management approach for the airports included in the analysis. Six airports used the Third Party Developer/Leasing Manager management approach, 9 used the Direct Leasing approach, 8 used the Hybrid approach, and 11 used the Prime Concessionaire approach.

Table 8-4 presents a summary of revenue received by the airport operator from food and beverage and retail sales, revenue per enplaned passenger, and effective percentage rent for the airports included in the analysis (i.e., airports that provided revenue data to Airport Revenue News).

8.2.2 Summary of the Analysis

Table 8-5 presents a summary of sales per enplaned passenger for each concession management approach calculated using the total sales at airports in each category divided by total enplaned passengers. Where indicated, an average for all airports included in this analysis is shown. The highest sales per enplaned passenger for each sales category is indicated in boldface. Table 8-5 shows that, on average, the Third-Party Developer/Leasing Manager approach produced the highest total spend rate per enplaned passenger, followed by the Direct Leasing and Hybrid approaches. The Prime Concessionaire approach had the lowest average sales per enplaned passenger.

In the food and beverage category, the highest spend rate was achieved under the Direct Leasing approach, followed closely by the Developer/Leasing Manager approach and the Hybrid approach. The Prime Concessionaire approach again resulted in the lowest spend rate.

The Direct Leasing approach produced the highest specialty retail spend rate, followed by the Developer/Leasing Manager and Hybrid approaches. Information on retail spending for two airports where the Prime Concessionaire approach is used was categorized by specialty and conven-

Table 8-3. Summary of enplaned passengers, space, and sales by concession management approach—2008.

			Food & beverage and retail (excluding duty free)			
Concession management approach	Enplaned passengers (millions)	Enplaned passengers rank	Sales per enplaned passenger	Total sales (millions)	Square feet per 1,000 enplaned passengers	Average sales per square foot
DEVELOPER/LEASING MANAGER						
Newark	17.7	12	$10.57	$ 187.1	8.3	$1,278
Philadelphia	15.8	19	$8.60	$ 136.3	7.3	$1,178
Boston	13.0	20	$10.19	$ 132.3	11.7	$868
Washington Dulles	11.9	21	$8.48	$ 100.5	13.0	$654
Baltimore	10.2	25	$8.41	$ 86.1	8.3	$1,007
Washington Reagan	9.0	29	$9.01	$ 80.8	7.1	$1,269
Total / Average	**77.6**		**$9.32**	**$ 723.1**	**9.2**	**$1,008**
DIRECT LEASING						
Dallas/Fort Worth	29.0	4	$8.39	$ 243.1	7.7	$1,090
Denver	25.7	5	$8.42	$ 216.0	6.1	$1,371
Las Vegas	22.1	7	$10.10	$ 223.1	5.9	$1,721
Phoenix	19.8	9	$8.57	$ 169.8	7.6	$1,123
San Francisco	18.5	10	$11.70	$ 216.8	8.2	$1,422
Detroit	17.5	13	$9.07	$ 158.6	7.4	$1,219
Minneapolis	17.0	16	$8.98	$ 152.3	9.2	$974
Portland	7.2	33	$10.44	$ 74.7	10.8	$971
Kansas City	5.5	39	$4.97	$ 27.5	11.1	$449
Total / Average	**162.3**		**$9.14**	**$ 1,481.9**	**7.6**	**$1,196**
HYBRID						
Chicago O'Hare	34.0	2	$8.58	$ 291.9	3.5	$2,453
New York - Kennedy	23.9	6	$11.84	$ 282.8	9.2	$1,286
Houston Bush Intercontinental	21.6	8	$4.73	$ 102.2	4.1	$1,152
Orlando	18.2	11	$9.29	$ 169.4	8.6	$1,082
Miami	17.0	15	$9.92	$ 169.0	9.3	$1,073
Seattle	16.1	18	$9.60	$ 154.4	7.1	$1,354
New York - LaGuardia	11.6	23	$8.79	$ 101.7	7.7	$1,140
Chicago Midway	8.2	31	$8.24	$ 67.8	5.2	$1,573
Total / Average	**150.6**		**$8.89**	**$ 1,339.2**	**6.6**	**$1,355**
PRIME CONCESSIONAIRE						
Atlanta	45.1	1	$7.55	$ 340.5	4.2	$1,812
Los Angeles	29.9	3	$8.93	$ 267.2	4.9	$1,817
Charlotte	17.4	14	$8.12	$ 141.0	4.6	$1,775
Fort Lauderdale	11.6	22	$6.77	$ 78.5	6.6	$1,020
Salt Lake City	10.4	24	$7.39	$ 76.8	5.8	$1,275
Tampa	9.1	26	$8.66	$ 79.2	10.3	$840
Houston Hobby	9.1	27	$3.04	$ 27.7	2.8	$1,067
San Diego	9.1	28	$8.02	$ 72.7	5.5	$1,470
St. Louis	7.2	32	$7.70	$ 55.5	10.0	$771
Cincinnati	6.8	34	$7.28	$ 49.5	16.1	$453
Oakland	5.7	37	$6.26	$ 36.0	3.1	$1,992
Total / Average	**161.4**		**$7.59**	**$ 1,224.6**	**5.7**	**$1,330**
		Count				
DEVELOPER/LEASING MANAGER	77.6	6	$9.32	$ 723.1	9.2	$1,008
DIRECT LEASING	162.2	9	$9.14	$ 1,481.9	7.6	$1,196
HYBRID	150.7	8	$8.89	$ 1,339.3	6.6	$1,355
PRIME CONCESSIONAIRE	161.4	11	$7.59	$ 1,224.6	5.7	$1,330
Total / Average	**551.9**	34	**$8.64**	**$ 4,768.9**	**6.4**	**$1,347**

Note: Cleveland Hopkins airport reported on food and beverage sales but not retail and is excluded from the analysis.
Source: Top 34 airports reporting data to *Airport Revenue News* for food and beverage and retail Calendar Year 2008. (Airport Revenue News 2009).

ience retail; therefore, the analysis does not show either category for the Prime Concessionaire approach. (Excluding those two airports, the other airports where the Prime Concessionaire approach is used had specialty retail sales averaging $1.09 per enplaned passenger). The Developer/Leasing Manager approach produced sales per enplaned passenger that were $0.68 or 8% above the average for all approaches and $1.73 or 23% above the Prime Concessionaire average.

The Developer/Leasing Manager approach resulted in the highest average total retail spend per enplaned passenger, followed by the Hybrid and Direct Leasing approaches. The results for the

Table 8-4. Summary of revenue, revenue per enplaned passenger, and average effective percentage rent by concession management approach—2008.

			Food & beverage and retail (excluding duty free)			
Concession management approach	Enplaned passengers (millions)	Enplaned passenger Rank	Total sales (millions)	Revenue to airport (millions)	Revenue per enplaned passenger	Effective percentage rent
DEVELOPER/LEASING MANAGER						
Newark	–	12	$ –	$ –	–	–
Philadelphia	–	19	–	–	–	–
Boston	–	20	–	–	–	–
Washington Dulles	–	21	–	–	–	–
Baltimore	10,242,269	25	86,089,458	11,662,602	$1.14	13.5%
Washington Reagan	8,976,979	29	80,842,249	10,283,012	$1.15	12.7%
Total / Average	19,219,248		$ 166,931,707	$ 21,945,614	$1.14	13.1%
DIRECT LEASING						
Dallas/Fort Worth	–	4	$ –	$ –	$0.00	–
Denver	25,650,243	5	216,042,542	30,394,834	$1.18	14.1%
Las Vegas	22,086,022	7	223,100,666	28,427,558	$1.29	12.7%
Phoenix	19,816,493	9	169,782,675	23,162,937	$1.17	13.6%
San Francisco	18,528,274	10	216,789,473	30,127,331	$1.63	13.9%
Detroit	17,495,850	13	158,602,837	24,355,204	$1.39	15.4%
Minneapolis	16,955,473	16	152,343,897	21,983,508	$1.30	14.4%
Portland	7,150,857	33	74,669,450	8,643,246	$1.21	11.6%
Kansas City	5,527,549	39	27,459,508	2,913,361	$0.53	10.6%
Total / Average	133,210,761		$ 1,238,791,048	$ 170,007,979	$1.28	13.7%
HYBRID						
Chicago O'Hare	–	2	$ –	$ –	$0.00	–
New York - Kennedy	–	6	–	–	$0.00	–
Houston Bush Intercontintal	21,623,261	8	102,230,762	12,923,227	$0.60	12.6%
Orlando	18,238,277	11	169,404,326	24,108,082	$1.32	14.2%
Miami	17,035,400	15	169,021,114	21,752,300	$1.28	12.9%
Seattle	16,084,939	18	154,428,491	20,828,036	$1.29	13.5%
New York - LaGuardia	–	23	–	–	$0.00	–
Chicago Midway	–	31	–	–	$0.00	–
Total / Average	72,981,877		$ 595,084,693	$ 79,611,645	$1.09	13.4%
PRIME CONCESSIONAIRE						
Atlanta	45,090,314	1	$ 340,549,351	$ 46,098,718	$1.02	13.5%
Los Angeles	29,928,150	3	267,219,616	43,891,036	$1.47	16.4%
Charlotte	–	14	–	–	$0.00	–
Fort Lauderdale	11,586,568	22	78,464,793	14,990,435	$1.29	19.1%
Salt Lake City	–	24	–	–	$0.00	–
Tampa	9,142,879	26	79,203,615	14,800,410	$1.62	18.7%
Houston Hobby	9,120,970	27	27,720,844	4,652,298	$0.51	16.8%
San Diego	9,066,343	28	72,708,235	10,487,922	$1.16	14.4%
St. Louis	7,207,890	32	55,470,330	6,678,414	$0.93	12.0%
Cincinnati	–	34	–	–	$0.00	–
Oakland	5,749,093	37	35,993,456	5,928,517	$1.03	16.5%
Total / Average	126,892,207		$ 957,330,240	$ 147,527,750	$1.16	15.4%
		Count				
DEVELOPER/LEASING MANAGER	19,219,248	2	$ 166,931,707	$ 21,945,614	$1.14	13.1%
DIRECT LEASING	133,210,761	8	1,238,791,048	170,007,979	$1.28	13.7%
HYBRID	72,981,877	4	595,084,693	79,611,645	$1.09	13.4%
PRIME CONCESSIONAIRE	126,892,207	8	957,330,240	147,527,750	$1.16	15.4%
Total / Average	352,304,093	22	$ 2,958,137,688	$ 419,092,988	$1.19	14.2%

Note: Cleveland Hopkins airport reported on food and beverage sales but not retail and is excluded from the analysis.
Source: Top 34 airports reporting data to *Airport Revenue News* for food and beverage and retail Calendar Year 2008. (Airport Revenue News 2009).

Prime Concessionaire approach were again last, trailing the Developer/Leasing Manager approach by $1.07 per enplaned passenger. The Prime Concessionaire approach also resulted in $0.64 per enplaned passenger below the overall average for all concession management approaches.

Table 8-6 presents a comparison of the average spend rate per enplaned passenger for the 34 airports included in the analysis for each concession management approach. The highest spend rate per passenger for each sales category is indicated in boldface. The Prime Concessionaire approach had lower than average rates for total spending, food and beverage spending, and retail spending

Table 8-5. Passenger spend rates by concession management approach—2008.

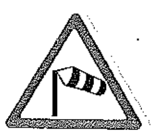
	Sales per enplaned passenger				
	Total	Food and beverage	Specialty retail (1)	Convenience retail (1)	Total retail
Direct leasing	$ 9.14	**$ 5.60**	**$ 1.99**	$ 1.54	$ 3.53
Prime concessionaire	$ 7.59	$ 4.89	n.a.	n.a.	$ 2.69
Developer/leasing manager	**$ 9.32**	$ 5.56	$ 1.82	$ 1.94	**$ 3.76**
Hybrid	$ 8.89	$ 5.32	$ 1.56	**$ 2.00**	$ 3.56
Average—all airports	$ 8.64	$ 5.31	$ 1.53	$ 1.80	$ 3.33

n.a. = Not available.
(1) Two airports in this category do not break out specialty retail from total retail.
Source: Airport Revenue News 2009. Data for 2008.

per enplaned passenger. All other approaches resulted in above average total rates for food and beverage and total retail.

Table 8-7 summarizes the ranking of concession management approaches in terms of sales per enplaned passenger for each category (food and beverage, specialty and convenience retail, and total retail).

8.2.3 Space Comparison



The data suggest that differences in the performance of the concession management approaches may result, in part, from the differences in the quantity of concession space developed under each approach. Figure 5-2 in Chapter 5 presented the relationship between the amount of concession space (per 1,000 enplaned passengers) and the average spend per enplaned passenger. The data show that, on average, airports at which the Developer/Leasing Manager approach is used have considerably more concession space in service for food and beverage and overall retail services.

Table 8-8 shows the average concession space per 1,000 enplaned passengers organized by concession management approach and major category. At airports using the Developer/Leasing Manager approach, there is typically less convenience retail space, but more specialty retail space in operation, and the most overall retail space in service. At airports using the Prime Concessionaire approach, the lowest total concession space was allocated for food and beverage and specialty retail, and the highest was allocated for convenience retail. In terms of total retail space, Prime Conces-

Table 8-6. Sales per enplaned passenger by management approach as percent of group average—2008.

	Percent of Average Sales per Enplanement				
	Total	Food and beverage	Specialty retail (1)	Convenience retail (1)	Total retail
Direct leasing	106%	**105**	130%	86%	106%
Prime concessionaire	88%	92%	n.a.	n.a.	81%
Developer/leasing manager	**108%**	**105%**	**119%**	108%	**113%**
Hybrid	103%	100%	102%	**111%**	107%
Average—all airports	100%	100%	100%	100%	100%

n.a. = Not available.
(1) Two airports in this category do not break out specialty retail from total retail.
Source: Airport Revenue News 2009. Data for 2008.

Table 8-7. Ranking of sales per enplaned passenger by management approach —2008.

	Sales per enplaned passenger - rank among management approaches				
	Total	Food and beverage	Specialty retail (1)	Convenience retail (1)	Total retail
Direct leasing	2	1	1	3	3
Prime concessionaire	4	4	*n.a.*	*n.a.*	4
Developer/leasing manager	1	2	2	2	1
Hybrid	3	3	3	1	2

n.a. = Not available.
(1) Two airports in this category do not break out specialty retail from total retail.
Source: Airport Revenue News 2009. Data for 2008.

sionaires had only 61% and 69% of the total retail space compared with the Developer/Leasing Manager and Direct Leasing approaches, respectively.

Table 8-9 presents a comparison of concession space per 1,000 enplaned passengers with the overall average for the concession management approaches on a percentage basis, with the values presented in Table 8-8 expressed as a percentage of the overall airport average. The highest percentage for each sales category is indicated in boldface. The data suggest that the airports where the Developer/Leasing Manager approach is used have, on average, more space than the average of the 34 airports analyzed. On the other hand, airports where the Prime Concessionaire approach is used have less space than the average of the airports analyzed.

The data presented in Tables 8-8 and 8-9 suggest that

- Third-Party Developers/Leasing Managers are incentivized to develop the most concession space at airports, as additional space maximizes overall sales and revenue to the airport enterprise, and these concession managers share in the revenue. As private companies, Third-Party Developers (and Leasing Managers) have more latitude in negotiating business terms and entering into leases. Airports where the Third-Party Developer/Leasing Manager approach is used performed slightly below airports where the Direct Leasing approach is used in sales per enplaned passenger in the food and beverage category, but performed better in the retail category. On the whole, airports where the Third-Party Developer/Leasing Manager approach is used performed only about 2% better in sales per enplaned passenger than airports where the Direct Leasing approach was used, or about $0.23 per enplaned passenger.

Table 8-8. Concession space per 1,000 enplaned passengers by management approach—2008.

	Square feet per 1,000 enplaned passengers				
	Total	Food and beverage	Specialty retail (1)	Convenience retail (1)	Total retail
Direct leasing	7.6	4.8	1.9	1.0	2.9
Prime concessionaire	5.7	3.7	*n.a.*	*n.a.*	2.0
Developer/leasing manager	9.2	5.9	2.0	1.3	3.3
Hybrid	6.6	3.9	1.5	1.1	2.6
Average—all airports	7.0	4.4	1.5	1.1	2.6

n.a. = Not available.
(1) Two airports in this category do not break out specialty retail from total retail.
Source: Airport Revenue News 2009. Data for 2008.

Table 8-9. Concession space per 1,000 enplaned passengers as a percent of the overall management approach average—2008.

	Square feet per 1,000 enplaned passengers as percent of average				
	Total	Food and beverage	Specialty retail (1)	Convenience retail (1)	Total retail
Direct leasing	109%	108%	123%	92%	110%
Prime concessionaire	81%	84%	*n.a.*	*n.a.*	77%
Developer/leasing manager	**132%**	**135%**	**129%**	**124%**	**127%**
Hybrid	94%	90%	100%	101%	100%
Average—all airports	100%	100%	100%	100%	100%

n.a. = Not available.
(1) Two airports in this category do not break out specialty retail from total retail.
Source: Airport Revenue News 2009. Data for 2008.

- Airports utilizing the Direct Leasing concession management methodology are also incentivized to develop more space as the additional space maximizes overall sales and revenue to the airport enterprise. With more specialist food and beverage and retail tenants competing for business, airports that utilize the Direct Leasing management approach perform better than airports where either the Hybrid or Prime Concessionaire approach is used. Airports where the Direct Leasing approach is used rank second in terms of developed concession space.
- Airports where the Prime Concessionaire approach is used had the lowest ratio of space to passengers. In most cases, the operators of these airports must work through the Prime Concessionaire to develop additional space. A right-of-first-refusal clause is typically included in agreements with Prime Concessionaires, which gives the Prime Concessionaire first choice on developing space. However, the airport operator must convince the Prime Concessionaire that the marginal contribution from additional concession space will exceed its marginal cost, that is, it will not reduce the Prime Concessionaire's return on investment, particularly if the new space will compete with existing space. The additional investment may also lower the overall return on investment under the Prime Concessionaire agreement.

8.2.4 Sales per Square Foot

Sales per square foot is a measure of the productivity of concession space, and can be an indicator of or surrogate for assessing concessionaire profitability, as the measure relates investment (square footage) with sales. Sales per square foot is not a measure of profitability for the airport enterprise, however, as airports with very limited concession space may have high sales per square foot and at the same time are likely to have low sales per enplaned passenger. Sales per enplaned passenger is the best measure of overall concession performance.

Table 8-10 shows the sales per square foot for each concession management approach, by category. The highest sales per square foot for each sales category is indicated in boldface. The Prime Concessionaire approach produces the lowest overall sales per enplaned passenger (see Table 8-5) and the highest sales per square foot. High sales per square foot may be good for concessionaires, in that it indicates good return on investment, but it is not necessarily good for the airport operator, which could maximize total sales and revenue by developing more space. For example, Newark Liberty, John F. Kennedy, Boston Logan, and Portland International Airports have some of the highest total spend rates, while their average sales per square foot are near or below the overall average (see Table 8-3).

8.2.5 Percentage Rents

Of the 34 airports included in the analysis, 22 reported net revenue data. Based on the reported data, the average effective rent can be calculated. The effective rent is total revenue divided by total

Table 8-10. Sales per square foot by concession management approach—2008.

	Sales per square foot				
	Total	Food and beverage	Specialty retail (1)	Convenience retail (1)	Total retail
Direct leasing	$ 1,196	$ 1,176	**$ 1,051**	$ 1,577	$ 1,230
Prime concessionaire	**$ 1,330**	**$ 1,323**	*n.a.*	*n.a.*	$ 1,343
Developer/leasing manager	$ 1,008	$ 936	$ 917	$ 1,467	$ 1,136
Hybrid	$ 1,355	$ 1,351	$ 1,014	**$ 1,858**	**$ 1,361**
Average—all airports	$ 1,234	$ 1,210	$ 991	$ 1,685	$ 1,275

n.a. = Not available.
(1) Two airports in this category do not break out specialty retail from total retail.
Source: Airport Revenue News 2009. Data for 2008.

sales, and takes into account different rent structures for tenants in the same category. The results are shown in Table 8-11. Only the total retail average percentage rent is shown for the Prime Concessionaire approach as two airports did not break out their space and sales into specialty retail and convenience retail sub-categories.

The average effective rent for all airports was 14.2%. Airports using the Prime Concessionaire approach had the highest effective rent, 15.4% overall, or 1.2% percent of sales above the group average. Third-Party Developers had an average effective rent of 13.1%, or 1.1% below the group average. Direct Leasing airports averaged 13.7%, or about 0.5% below the overall average. If the sales for each approach were equal, this might suggest that the Prime Concessionaire approach would yield the highest revenue. However, the sales are not equal for each management approach.

Adjusting the average percentage rent shown in Table 8-11 for the difference in sales per enplaned passenger shown in Table 8-5 results in the following effective percentage rent for each management approach, as shown in Table 8-12. The effective percentage rent for an airport or a category can be calculated by dividing the rent paid to the airport by the sales. Note that it is possible that high Minimum Annual Guarantees may result in high effective rents as the total Minimum Annual Guarantee may exceed the percentage rents that would be due under the concession agreement.

When the difference in sales performance for each management approach is factored in, the difference in the effective rent narrows considerably. Direct Leasing results in the highest overall return on sales (14.5%), followed by the Developer, Hybrid, and Prime Concessionaire approaches. The Prime Concessionaire approach, which results in the highest average rent, compares less favorably when the difference in sales performance for each approach is considered. In the food and beverage category, the Developer/Leasing Manager approach produces the highest return on sales,

Table 8-11. Average percentage rent by management approach and category—2008.

	Effective percentage rent					
	Total	Food and beverage	Specialty retail (1)	Convenience retail (1)	Total retail	Number of Airports
Direct leasing	13.7%	12.5%	15.7%	15.7%	15.7%	8
Prime concessionaire	15.4%	14.1%	*n.a.*	*n.a.*	17.9%	8
Developer/leasing manager	13.1%	12.7%	13.1%	14.6%	13.8%	2
Hybrid	13.4%	12.1%	13.8%	16.4%	15.2%	4
Average—all airports	14.2%	13.0%	15.6%	16.6%	16.1%	14

n.a. = Not available.
(1) Two airports in this category did not break out specialty retail from total retail.
Source: Airport Revenue News 2009. Data for 2008.

Table 8-12. Effective percentage rent by management approach adjusted for sales performance—2008.

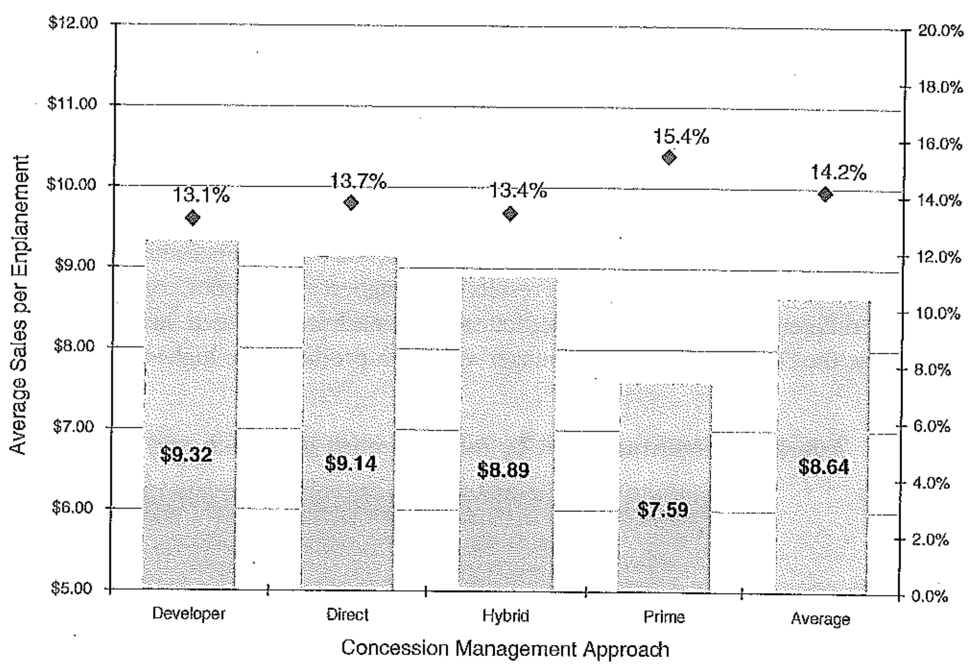
	Effective percentage rent adjusted for differences in sales performance						
	Total	Food and beverage	Specialty retail (1)	Convenience retail (1)	Total retail	Number of Airports
Direct leasing	14.5%	13.2%	20.4%	13.5%	16.7%	8
Prime concessionaire	13.5%	13.0%	*n.a.*	*n.a.*	14.5%	8
Developer/leasing manager	14.2%	13.3%	15.6%	15.7%	15.7%	2
Hybrid	13.8%	12.1%	14.1%	18.3%	16.3%	4
Average—all airports	14.2%	13.0%	15.6%	16.6%	16.1%	14

n.a. = Not available.
(1) Two airports in this category did not break out specialty retail from total retail.
Source: Airport Revenue News 2009. Data for 2008.

with Direct Leasing a close second. In the total retail category, the Direct Leasing approach produces the highest return on sales, followed by the Hybrid, Developer, and Prime Concessionaire approaches.

The Prime Concessionaire approach would produce the highest return on sales if all management approaches resulted in identical sales. However, this is not the case. The Direct Leasing and Developer/Leasing Manager approaches, each of which creates incentives to develop the most space and the highest sales, produce higher revenues, as shown in Table 8-12.

Figure 8-1 presents a comparison of the average sales per enplaned passenger and average effective rent by concession management approach. The columns represent the average sales per enplaned passenger (labeled on left axis) and the diamonds represent the average effective percentage rent (labeled on right axis).



Source: Airport Revenue News 2009.

Figure 8-1. Comparison of average sales per enplaned passenger and average effective rent by concession management approach (food and beverage and retail)—2008.