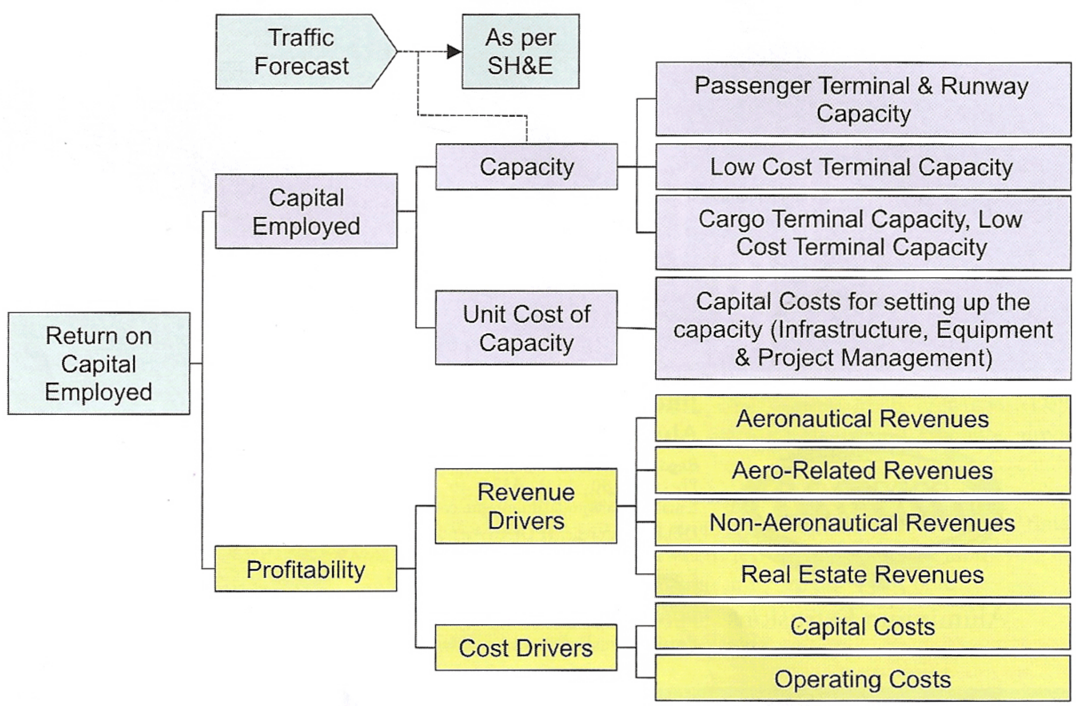
Aerotropolises, here we come

Retail will be a key driver in the changing revenue models of our airports, writes SUNIL TANDON.

The **Naresh Chandra Committee** in 2003 advocated the opening up of airports to private investors. The Government of India has since taken a bold new stance by encouraging the public private partnership (PPP) model for the development of greenfield airports and in improving the existing facilities. In fact, airport infrastructure development at major cities such as Mumbai, Delhi, Bangalore and Hyderabad has been undertaken via the PPP route over the last few years, and these airports are currently being run as separate joint venture companies (JVCs).

THE NEED FOR STABLE REVENUE MODELS

Privatisation has heralded the need to operate the airports as viable and sustainable business units. With stakeholders to answer to and investor confidence to buttress, the airport developers in India, much like their global counterparts, are looking for a stable revenue model. As the Government of India, and its newly appointed autonomous regulatory body, **Airports Economic Regulatory Authority of India (AERA),** has yet to deliver clear regulatory guidelines on aeronautical charges that airport operators can abide by, their existing revenue models have been subjected to scrutiny and remain controversial at best. The revenue forecasts made a few years ago by many of the airport operators, during the bidding process, were optimistic, projecting an exponential return on investments. Since then, traditional revenue streams as well as non-traditional sources (real estate) have also been affected by uncontrollable forces such as the economic slowdown, liquidity crunch, funding gaps, decrease in air traffic, and flailing margins of the airline sector.



THE CHANGING BUSINESS PLAN OF AIRPORTS

The business plan of airports today comprises all capital and profitability drivers that determine the return on capital employed (ROCE).

The key revenue drivers for airport profitability can be categorised into:

- **Aeronautical revenues:** Landing, parking and housing charges, route navigation facilities charges (RNFC), terminal navigational landing charges (TNLC), X-Ray charges and passenger service fee (PSF)
  - **Aero-related revenues:** Cargo, ground handling, fuel storage, maintenance repair and overhaul (MRO) and catering
- **Non-aeronautical revenues:** Advertising, Car Parking, Retail, Office Space and Public Admission
  - **Real estate revenues:** Aviation academy, hotels, convention centres, retail parks, business parks, free trade zones (FTZs), special economic zones (SEZs)
- **User development fee (UDF)**

REVENUE MODEL: CASH COWS OR STARS?

Traditionally, airports have relied on aeronautical revenues to bolster their balance sheet; however, across the world the contribution of non-aeronautical revenues has gained importance. Internationally, major airports tend to garner a larger contribution from non-aeronautical revenues and real estate (nearly 60 to 70 per cent), whereas in India, it remains a mere 30 per cent. However, compared to the figures from the early nineties (10 to 15 per cent), there has been a marked change. Indian airports, too, are focusing on boosting commercial revenues to improve their cash flows. This would prove to be a robust strategy especially during lean periods, when a drop in air traffic has an adverse effect on the aeronautical and aero-related revenue streams.

CHANGE IN NON-AERONAUTICAL REVENUE PERCENTAGES (2008 TO 2009)

- Mumbai International Airport: 29% to 39 %
- Delhi International Airport: 55% to 65%
- Cochin International Airport: 45% to 52%
- Hyderabad International Airport: 44% estimated to rise to 54% by 2014-15.

RETAIL: A KEY DRIVER

With the increasing purchasing power of the Indian middle class, and a shift towards consumerism, there is potential to increase the share of commercial income generated by non-traditional revenue sources such as duty free retail and hospitality. Retail (including shopping arcades, currency exchange services, food & beverage) remains the single largest non-aeronautical revenue generator in airports worldwide. Moreover, it involves marginal capital investments and direct costs on behalf of the airports.

While the location and the size of the airport play a key role in determining the actual potential of such non-aeronautical accruals, there fails to be a consistent link between passenger footfalls at airports and retail sales. The penetration can, however, increase with thorough analyses of the airport's current and future traffic and airline mix (low cost, luxury, domestic or international), and availability of concession space. Today, Indian airport operators are looking at emulating the commercial success of international airports like Changi (Singapore) and Dubai. However, high rentals and ineffective passenger mix and dwell time studies prove to be a hurdle for many Indian airports.

While undertaking space planning and development, airport operators need to take into account the strong relationship between revenues and traffic categories. For instance, outbound passengers would spend more at post-security concessions on food and beverage, duty free etc. Inbound passengers would spend on car rentals. Studies need to be conducted on airline mix, stage length, and routes. Long haul international passengers would typically spend more on retail, as compared to short haul LCC passengers. Optimal space

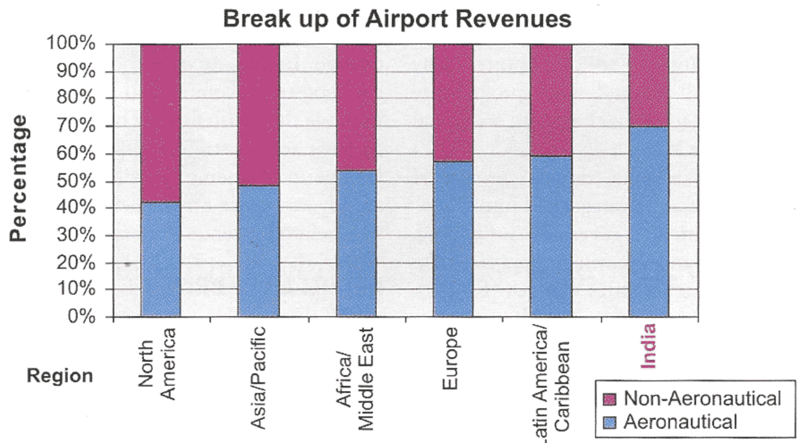
LAND AVAILABLE FOR COMMERCIAL DEVELOPMENT AT NON-METRO AIRPORTS

Airports	Total land area in acres	Land available for commercial development	% of total land
Goa	**26**	**4.63**	**18**
Indore	**634**	**96.25**	**15**
Aurangabad	**248**	**33.47**	**13**
Lucknow	**1186**	**158.93**	**13**
Khajuraho	566	39.05	7
Bhopal	634	35.51	6
Jaipur	655	36.62	6
Vadodra	722	45.53	6
Vizag	194	12.45	6
Guwahati	509	25.52	5
Madurai	502	24.95	5
Nagpur	1460	79.47	5
Port Blair	45	2.4	5
Ahmedabad	929	40.38	4
Mangalore	345	13.85	4
Trivandrum	539	23.34	4
Trichy	655	25.49	4
Rajkot	248	7.02	3
Agartala	517	10	2
Amritsar	735	11.24	2
Coimbatore	410	6.99	2
Dimapur	316	5	2
Patna	259	5	2
Ranchi	546	10	2
Imphal	505	5	1
Raipur	592	3	1
Udaipur	328	1.67	1
Varanasi	579	6.63	1
Bhubaneshwar	814	2.79	0
Total	**15696**	**772**	**5**

Source: Committee on Infrastructure

planning designed to attract passengers, decrease in time spent by passengers at stress points such as security, check-in etc, will serve to encourage longer dwell times. It has been noted in most successful airports that ease of passenger processing enhances retail commercial performance.

In the current slowdown, existing airports need to review not only lease and rental space usage, but also existing lease terms, parking programmes and terminal concessions. They also need to focus on innovative sources such as advertising options, valet parking and convert them into profitable business units.



THE WAY FORWARD

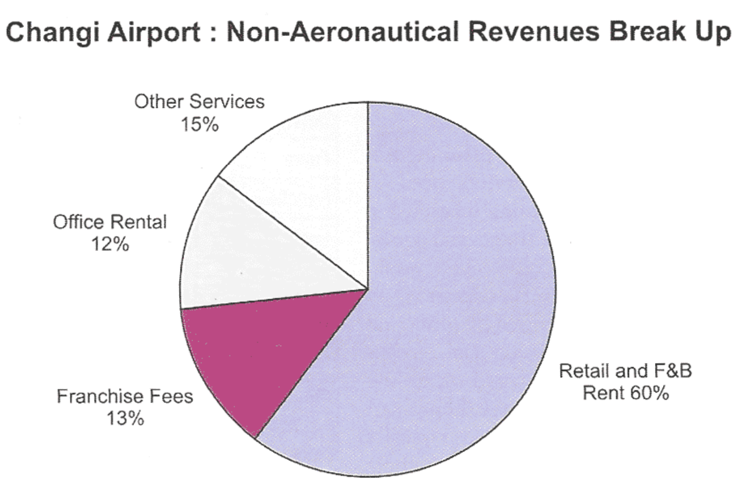
The Government of India has identified 35 non-metro airports for development. While AAI will undertake the development of the airport infrastructure, private developers will be invited to participate in land side development. The growth of retail, parking charges and duty free shopping may be limited in the near future, especially for Tier III airports. Furthermore, with smaller passenger aircraft plying from these airports, typically lesser aeronautical revenues would be earned. These airport operators will need to focus on real estate development to generate higher non-aeronautical revenues. There is tremendous potential, with nearly 13 to 18 per cent, of total land available, earmarked for commercial development in places such as Aurangabad, Goa, Lucknow and Indore.

Real estate revenues could be categorised under terminal related and non-terminal related revenues. Terminal related property development would include shopping malls, terminal, conference venues, land side hotels. Warehousing, commercial office spaces, hospitals, business parks would fall under non-terminal related revenues.

The valuations of airports such as Delhi and Hyderabad are propelled by the right to develop 250 and 1000 acre of land respectively. GMR Hyderabad International Airport Ltd (GHIAL) for instance, has the right to sublease the land and collect rents from third parties. GHIAL has also the rights to develop hotels, hospitals, entertainment areas etc on the 1000 acre of land near the airport. GHIAL has also received in-principle approval from the Government of India to set up a multi-product SEZ and aviation-linked SEZ within the airport site. GHIAL has further announced that an MRO facility in association with Malaysian Airlines would be set up at the aerospace park.

Delhi International Airport Ltd (DIAL), on the other hand, plans to sublease land to be developed as a hospitality district. Developers will also be offering service facilities such as convention centres, restaurants etc with the hope of converting it into a central business district.

Cochin International Airport Ltd (CIAL) plans to develop an industrial park for aerospace industries, and is making an effort to develop the airport as a cargo hub. **Bengaluru International Airport Ltd (BIAL)** is set to develop a premium commercial and technology centre, "Airport City", over 150 acre, with another 50 acre being earmarked for an entertainment centre. A new aerotropolis is also being developed at Durgapur, West Bengal, for industrial and commercial usage, with a proposed MRO facility. IT



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