



Heathrow Airport – Review of Commercial Revenues

Final Report
April 2017

Civil Aviation Authority

Our ref: 23049601
Client ref: 2553

Prepared by:

Steer Davies Gleave
28-32 Upper Ground
London SE1 9PD

+44 20 7910 5000
www.steerdaviesgleave.com

Prepared for:

Civil Aviation Authority
CAA House,
45-59, Kingsway
London
WC2B 6TE

Steer Davies Gleave has prepared this material for Civil Aviation Authority. This material may only be used within the context and scope for which Steer Davies Gleave has prepared it and may not be relied upon in part or whole by any third party or be used for any other purpose. Any person choosing to use any part of this material without the express and written permission of Steer Davies Gleave shall be deemed to confirm their agreement to indemnify Steer Davies Gleave for all loss or damage resulting therefrom. Steer Davies Gleave has prepared this material using professional practices and procedures using information available to it at the time and as such any new information could affect the accuracy of the results and conclusions made.



Documents

Document Sharing Hub

Contents

Executive Summary.....	i
1 Introduction	1
Background to this study	1
Scope of the study	1
Sources.....	1
Price bases	2
Introduction to HAL's commercial revenues performance	2
This study.....	4
2 Commercial revenues benchmarking.....	5
Introduction	5
Benchmarking Analysis	5
Summary.....	10
3 Retail	11
Recent performance trends.....	11
Drivers of Retail performance	12
Performance versus Q6 Settlement	24
Lessons for the H7 process	27
Best practice from other airports	29
Methods to increase revenues from existing sources.....	31
Means to increase revenues from new sources.....	32
Challenges and opportunities.....	32
4 Car Parking.....	35
Recent performance trends.....	35
Drivers of Car Parking performance	35
Performance versus Q6 Settlement	42
Lessons for the H7 process	43
Best practice from other airports	46
Methods to increase revenues from existing sources.....	47
Methods to increase revenues from new sources	49

5	Property.....	52
	Recent performance trends.....	52
	Drivers of Property performance	52
	Performance versus Q6 Settlement	56
	Lessons for the H7 process	57
	Best practice from other airports	57
	Methods to increase revenues from existing sources.....	57
	Means to increase revenues from new sources.....	58
6	Further Analysis	59
	Key Findings	59
	Recommended Actions.....	61

Figures

Figure 1.1: HAL commercial revenues (gross) in 2015	3
Figure 2.1: UK airports – Total commercial revenues per passenger, 2015.....	6
Figure 2.2: International airports - Total commercial revenues per passenger, 2015	6
Figure 2.3: International airports - Retail revenues per passenger, 2015.....	7
Figure 2.4: International airports - Property revenues per passenger, 2015.....	8
Figure 2.5: International airports – Car parking revenues per passenger, 2015.....	8
Figure 3.1: HAL – Retail revenue mix, 2015.....	11
Figure 3.2: Net Retail revenues per passenger (2015 prices).....	12
Figure 3.3: Heathrow Airport – Annual passenger traffic, 2013 – 2016.....	13
Figure 3.4: Heathrow Airport – Annual passenger traffic by geographical market, 2013 – November 2016 MAT.....	13
Figure 3.5: Heathrow Airport – Passenger nationality mix, 2013 – Q3 2016	14
Figure 3.6: Heathrow Airport – Passenger nationality mix per terminal, Jan-Sep 2016	15
Figure 3.7: Average income of passengers at top 4 UK airports, 2015	15
Figure 3.8: UK retail sales growth trends – 2006-2016	16
Figure 3.9: Heathrow Airport – Index of retail sales per passenger vs. leading exchange rates	20
Figure 3.10: Heathrow Airport – Tobacco sales (2015 prices).....	22
Figure 3.11: Heathrow Airport – Retail sales 2013-2015 (2015 prices).....	23
Figure 3.12: Heathrow Airport – Retail* sales per passenger 2013-2016 (2015 prices).....	23

Figure 4.1: Car parking revenues per passenger (2015 prices)	35
Figure 4.2: Heathrow Airport modal split, Jan-Sep 2016	36
Figure 4.3: % of passengers accessing Heathrow with a private car	37
Figure 4.4: UK airports – off airport parking spaces per MPPA.....	38
Figure 4.5: Parking spaces per MPPA – Leading European airports.....	39
Figure 4.6: Parking promotion - recent Gatwick example	48
Figure 5.1: Property revenues per passenger (2015 prices).....	52
Figure 5.2: Heathrow Airport – Tenanted property mix, December 2016.....	54
Figure 5.3: Heathrow Airport – Property ('000 sq. m) per area of the airport, December 2016	54
Figure 5.4: Heathrow Airport –Property revenue contribution by airport area, 2012-2015 (2015 prices)	55

Tables

Table 1.1: HAL Commercial revenues per passenger, 2015	3
Table 2.1: HAL Commercial revenues by category – 2015	5
Table 2.2: Leading European airports – Retail revenues by product category, 2015*	7
Table 2.3: UK airports – Parking revenues per non-connecting passenger, 2015*	9
Table 2.4: Benchmarking Heathrow's commercial revenues – Key issues.....	10
Table 3.1: Heathrow Airport – Retail space per million passengers	17
Table 3.2: Heathrow Airport – Airside mix and sales per m ²	18
Table 3.3: Heathrow Airport – Retail KPIs per terminal, 2015	18
Table 3.4: Heathrow Airport – recent airline moves	21
Table 3.5: Heathrow Airport – Tobacco sales per passenger (nominal)	22
Table 3.6: Heathrow Airport – Recent % margins in Retail	23
Table 3.7: Heathrow Airport – Retail revenues cumulative performance, Q6 to end of 2015 (2015 prices)	24
Table 3.8: Heathrow Airport – Q6 Retail revenues performance commentary	26
Table 3.9: Alternative airport retail business models.....	29
Table 3.10: Heathrow Airport – Minutes spent from coming through Security to leaving main shopping area	31
Table 3.11: Heathrow Airport - Minutes spent between leaving the departure lounge and expected time of flight Departure	32

Table 4.1: Heathrow Airport – Development of UK resident non-connecting traffic, 2013-2015	36
Table 4.2: Heathrow Airport – private car users	37
Table 4.3: Tariff Comparisons – Key UK airports	41
Table 4.4: T4 Short Stay tariff	41
Table 4.5: Heathrow Airport – Car Parking revenues cumulative performance, Q6 to end of 2015 (2015 prices)	42
Table 4.6: Heathrow Airport – Q6 Car Parking revenues performance commentary	43
Table 4.7: Benchmarking Distribution Channels for pre booking at key UK airports	49
Table 4.8: Prices – T5 POD vs T1-T5 Business Parking	49
Table 5.1: Heathrow Airport – Property Guide Price index, 2010-2015	53
Table 5.2: Heathrow Airport – Property occupancy, December 2016	55
Table 5.3: Heathrow Airport – Property revenue yield (£ per m ²), 2015	56
Table 5.4: Heathrow Airport – Property revenues cumulative performance, Q6 to end of 2015 (2015 prices)	56
Table 5.5: Heathrow Airport – Q6 Property revenues performance commentary	56
Table 6.1: Proposed actions.....	61

Executive Summary

Overview

This report has been prepared for the CAA by Steer Davies Gleave and is a high level study of the recent commercial revenue performance of Heathrow Airport Limited along with opportunities to develop these further.

The scope of the study is:

- Benchmarking of HAL's commercial revenues against relevant benchmarks;
- Analysis of the drivers of commercial revenues including explanation of difference in outturn revenues versus the Q6 settlement;
- Lessons learned that can be adopted for the CAA's H7 process;
- Identification of methods to increase revenues from existing sources;
- Assessment of the scope for increasing net revenues by introducing additional commercial uses of a similar type, further types of commercial development, and/or improving the mix of commercial activities, taking into account the wider interests of passengers; and
- Suggestions of possible further analysis to support the development of reliable conclusions.

Key Findings & Recommendations

Retail

Item	Comments
2015* trading performance (net)	• £422 million, £5.63/passenger • Performance versus CAA Q6 Determination (cumulative April 2014-December 2015): CAA £700 million, actual £721 million. • However cumulative retail revenue per passenger is below the CAA forecast, reflecting a significantly higher volume of passenger traffic than assumed for the Q6 Determination: CAA £5.49, actual £5.45.
Benchmark position	• Heathrow is a benchmark in the world of airport retail. • It generally has a superior revenue per passenger performance than peers in individual retail categories, and in overall terms has the highest level of retail revenue per passenger amongst the major airports we have compared it against.
Key findings	• The airport has direct relationships with and the presence of the world's leading luxury brands, and trades its space very effectively to drive sales and margin. • Changing consumer shopping behaviour facilitated by the development of e-commerce – while it is impossible to predict the full impact e-commerce will have on Travel Retail, the millennials who have grown up with e-commerce will expect to experience the same degree of flexibility towards their shopping at the airport as when they are at home. This means that the foundations for this change must be considered and developed so that HAL is ready for this eventuality. A new business model could be considered to radically grow sales, combining HAL's retail and e-commerce capability with the airlines access to 100% of passengers travelling through Heathrow Airport. HAL and its airline partners could be the disruptor to Travel Retail. • Most airports deliver step change in their retail revenues as a consequence of expanding their retail space. It is clear that in the absence of material additional space being available at Heathrow over the medium term combined with the fact they are already space constrained (compared to existing benchmarks), there is reason for concern over future revenue growth. This is a major issue both commercially and for passenger experience. Conversely, developing new space will be very expensive requiring innovative solutions in order to deliver successfully. • Possibly linked to space constraints, it appears that HAL's struggle to

Item	Comments
	grow sales materially has driven them to adapt their approach, sacrificing flexibility in some cases (for example through awarding longer contracts, at improved margins for HAL, which can bring revenue benefits in the short term but which also lengthen the period in which a concessionaire can operate, potentially creating an issue for the future should sales performance stagnate or deteriorate). While this has supported revenues in the short term there is a limit to how far they can go without causing long term damage as a result of moving away from principles which made them so successful in the first place. • We have mentioned areas where HAL has more or less influence but it is difficult to see how, in the absence of significantly more space, where HAL will derive material levels of incremental revenue. There is a risk the airport could therefore become more exposed to areas outside of its control such as exchange rates, shopping habits and above all else, a disruptor to the sector – the ‘Uber’ of Travel Retail.
Recommended future analysis	• Commission a detailed review of commercial space to define the optimal amount of retail space going forward. To include a full review of Satellite buildings outlining how they could be commercialised and cost benefit analysis on the development of retail space over cost of delivery. • Explore potential future legislative impacts on retail sales, upside or downside. • Review opportunities or threats in terms of HAL’s ability to continue to control the passenger-related retail distribution channel given changes led by e-commerce. • Consider means to incentivise the airport community (HAL, airlines, retailers) to collaborate to drive commercial revenues growth - a new business model.

Car Parking

Item	Comments
2015* trading performance	• £107 million, £1.43/passenger • Performance versus CAA Q6 Determination (cumulative April 2014-December 2015): CAA £173 million, actual £185 million. • Cumulative car parking revenue per passenger: CAA £1.35, actual £1.39.
Benchmark position	• At headline level Heathrow’s car parking revenues per passenger are on a similar par to those of other major leading airports and/or airport groups in Europe. • However the headline results are influenced by factors including the demographic mix of airport travellers and HAL’s policies towards reducing the number of car journeys in order to control environmental emissions. • Adjusting for some of these factors Heathrow attains higher parking revenues per passenger than Gatwick.
Key findings	• In comparison with its peers, HAL leads the airport parking market through its: • Consumer strategy offering a wide choice of quality products and competitive pricing particularly during off peak; and • Parking operation deploying best practice technology and processes in a highly competitive environment. • It appears that there is a limit to what HAL can learn from other UK or International airports that would make any real difference to parking revenues given its geography and available capacity, save for reviewing its distribution strategy and assessing whether a wider strategy with affiliates such as airlines and other consolidators could indeed generate material parking revenues/provide wider commercial opportunities.

Recommended future analysis	- Conduct a high level review of car park operator and HAL marketing costs (as part of an overall Heathrow car parking cost review) and benchmark where possible to other best practice airports to identify any potential for further cost savings. - Review time band analysis for HAL's short stay car parks to assess opportunities for further restructuring to provide additional revenue opportunities i.e. by minute /differential pricing by Terminal.
-----------------------------	--

Property

Item	Comments
2015* trading performance	£112 million, £1.49/passenger - Performance versus CAA Q6 Determination (cumulative April 2014-December 2015): CAA £203 million, actual £195 million. - Cumulative property revenue per passenger: CAA £1.59, actual £1.47.
Benchmark position	- There is some evidence of outperformance in property revenues by individual peers, although Heathrow is towards the upper end of the range when compared to other leading airports. - From a pure benchmarking perspective one should not take the performance at face value as some airports with higher revenue are known to operate under a different model, they act as the developer, invest more money than HAL and as a consequence enjoy higher returns. With no material new space coming on-line before R3 this is a model HAL might need to explore.
Key findings	- While HAL does not necessarily lead its peers in relation to Property revenue per passenger it is important to remember that HAL's property revenue in and around the terminal areas is largely influenced by the Guide Price Formula, over which it has no control and, in the case of property located around the Perimeter there are limitations due to local competition. - HAL has developed alternative, passenger-facing, ways to develop Property space e.g. pay on entry lounges. The turnover based rents can match and potentially exceed the guide price rents if the lounges are successful. - As with Retail, there is a general shortfall in property space which should be reviewed as this will constrain revenue growth.
Recommended future analysis	Detailed Property Strategy, reviewing all space, what do HAL own, how is space used, opportunities to materially change the way they do business today e.g. lower cost buildings.

Note: * 2015 is the most recent period covered by the HAL Regulatory Accounts at the time of writing of this report (March 2017)

Glossary

ACC	Airline Consultative Committee
ANPR	Automatic Number Plate Recognition
AOC	Airline Operators Committee
APCOA	APCOA Parking
APH	Airport Parking & Hotels
ATV	Average Transaction Value
CRM	Customer relationship management
CTA	Central Terminal Area
E & M	Electronic & mobile commerce
ETRC	European Travel Retail Confederation
F & B	Food & Beverage
FBP	Final Business Plan
HAL	Heathrow Airport Limited
HEX	Heathrow Express
H7	Regulatory period (next)
IAPA	Independent Airport Parking Association
IATA	International Air Transport Association
IPD	UK Monthly Property Index (published by MSCI)
KPI	Key performance indicator
MAT	Moving annual total
MPPA	Millions of passengers per annum
MSCP	Multi storey car park
ONS	Office for National Statistics
PRT	Personal Rapid Transit
Q6	Regulatory period (current)
ROI	Return on investment
RPI	Retail Price Index
R3	Heathrow with three runways
TDA	Tobacco Display Area
WDFG	World Duty Free Group
WHS	WHSmith
VAT	Value added tax
YoY%	Year on year % change

1 Introduction

Background to this study

- 1.1 The CAA is starting to prepare for the forthcoming H7 review of airport charges at Heathrow Airport and is gathering evidence on Heathrow Airport Limited's ('HAL') revenues and costs to aid its assessment.
- 1.2 The CAA has commissioned Steer Davies Gleave to develop a high level study which examines Heathrow's performance in generating commercial revenues. The results of this study will be used to make initial judgements about priority areas and to supplement the process of Constructive Engagement between HAL and airlines in summer 2017.

Scope of the study

- 1.3 The focus of the study is on both the historical levels of performance of commercial revenues at Heathrow (in absolute terms and also versus the CAA's Q6 Settlement), and also the scope for developing them further in the future.
- 1.4 The scope comprises:
- Benchmarking of HAL's commercial revenues against relevant benchmarks;
 - Analysis of the drivers of commercial revenues including explanation of difference in outturn revenues versus the Q6 settlement;
 - Lessons learned that can be adopted for the CAA's H7 process;
 - Identification of methods to increase revenues from existing sources;
 - Assessment of the scope for increasing net revenues by introducing additional commercial uses of a similar type, further types of commercial development, and/or improving the mix of commercial activities, taking into account the wider interests of passengers; and
 - Suggestions of possible further analysis to support the development of reliable conclusions.

Sources

- 1.5 Our report has drawn on various sources in the public domain, including HAL's published Regulatory Accounts, and has also been informed by confidential materials shared with us by HAL.
- 1.6 We have also interviewed the following organisations:
- HAL (Retail, Car Parking, Property);
 - Concessionaires:
 - World Duty Free Group (WDFG); and
 - Car parking Managing Agent: APCOA.
 - European Travel Retail Confederation (ETRC); and



- Airlines (representatives of IATA, Heathrow AOC, Heathrow ACC, British Airways).

Price bases

- 1.7 Unless stated we have expressed sales and revenues in 2015 real prices. This recognises that information in the public domain, notably HAL's Regulatory Accounts, is at the time of writing of this report only available up to and including 2015.
- 1.8 Where we have received confidential or non-published data from HAL for 2016, in part or the full year (e.g. Tobacco sales), we have converted this to 2015 prices unless stated, and similarly have adjusted any supporting historical time series in the same way.
- 1.9 In all cases where data is converted to real prices we have used published ONS RPI tables.

Introduction to HAL's commercial revenues performance

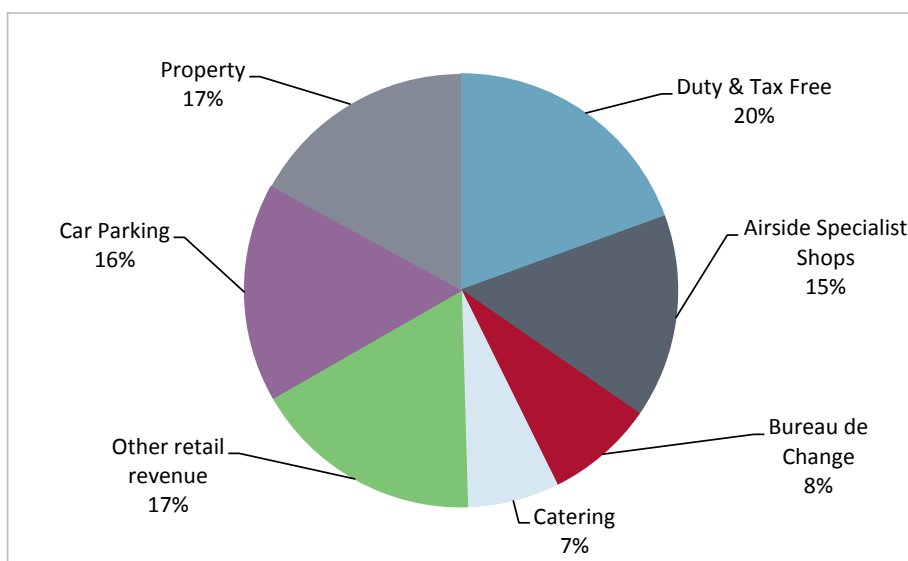
How HAL derives its commercial revenues

- 1.10 **Services to Passengers** – this includes areas such as retail, food & beverage, bureaux de change, advertising, car parking and car rental. With the exception of car parking these services are operated on a concessionaire model where a third party is responsible for the front line provision of the service and the airport receives a concession fee based on a percentage of the concessionaire's net sales turnover. In most cases the concession fee is underwritten by a minimum guaranteed rent. Car Parking is based on a management contract whereby HAL collects all of the revenue and the car park operator is paid a fee plus operating costs for providing car park services to the passenger. This particularly benefits HAL as all of the revenue growth from passengers and tariff increases is fully realised by HAL rather than being shared with the car park operator.
- 1.11 **Services provided to airlines and other business users** – this includes areas such as check-in desks, office rental, airline lounges and warehousing. Charges for these services are often fixed or volume related and as a consequence are less likely to increase at the same rate as passenger growth.
- 1.12 The scope of this review encompasses HAL's commercial revenues contributing to the single till calculation of the price control. At present these comprise revenues from the following non-aeronautical activities:
- Retail:
 - Duty & Tax Free;
 - Airside Specialist Shops;
 - Bureau de Change;
 - Catering;
 - Other Retail income;
 - includes Bookshops, Car Rental, Advertising, Other Retail activities;
 - Car parking; and
 - Property.

Recent performance

- 1.13 HAL's regulatory accounts show that the company earned £641 million in net commercial revenues in calendar year 2015, comprising the following mix:



Figure 1.1: HAL commercial revenues (gross) in 2015

Source: HAL regulatory accounts 2015

- 1.14 In overall terms the actual revenues achieved in 2015 were fractionally higher than those assumed by the CAA for the Q6 Determination (Actual: £658m gross, CAA £654m).
- 1.15 However the actual performance was derived from a materially higher volume of passengers (75.0 million) than those assumed by the CAA for 2015 (72.0 million), indicating that per passenger revenues have failed to develop fully in line with Q6 Determination expectations.

Table 1.1: HAL Commercial revenues per passenger, 2015

2015	Retail & Car Parking	Property	Total
CAA	£7.47	£1.61	£9.08
Actual	£7.28	£1.49	£8.77

Note: Gross revenues incl. retail expenditure

- 1.16 Adjusted for inflation, HAL's cumulative commercial revenues performance from April 2014 – December 2015 has also been close to the CAA forecast. In 2015 prices the airport generated revenues of £1.093 billion in this period, +1.0% more than the CAA forecast of £1.082 billion.
- 1.17 The actual cumulative per passenger revenues has been lower than projected, at £8.26 per passenger versus the CAA's expectation of £8.49 (-2.8%).



013

This study

1.18 In the remainder of this report we:

- Summarise the recent performance of commercial revenues at Heathrow versus those at peer airports;
- Assess the key scope areas as they relate to retail, car parking, and property respectively.
- Summarise our main findings along with recommendations for additional analysis.

www.heathrowairport.com



013

2 Commercial revenues benchmarking

Introduction

- 2.1 This section of the report introduces HAL's revenue performance in the areas of scope, and compares it to relevant UK, European and global airport benchmarks for which there is data available in the public domain.
- 2.2 In 2015 HAL earned the following revenues from its regulated commercial revenues:

Table 2.1: HAL Commercial revenues by category – 2015

Category	Revenues (£m)	Revenues/Passenger
Duty & Tax Free	128	£1.71
Airside Specialist Shops	100	£1.33
Bureau de Change	53	£0.71
Catering	45	£0.60
Other Retail income	113	£1.51
Retail expenditure	-17	- £0.23
Retail (Total)	422	£5.63
Car parking (Total)	107	£1.43
Property (Total)	112	£1.49
Total	641	£8.55

Source: HAL Regulatory Accounts 2015

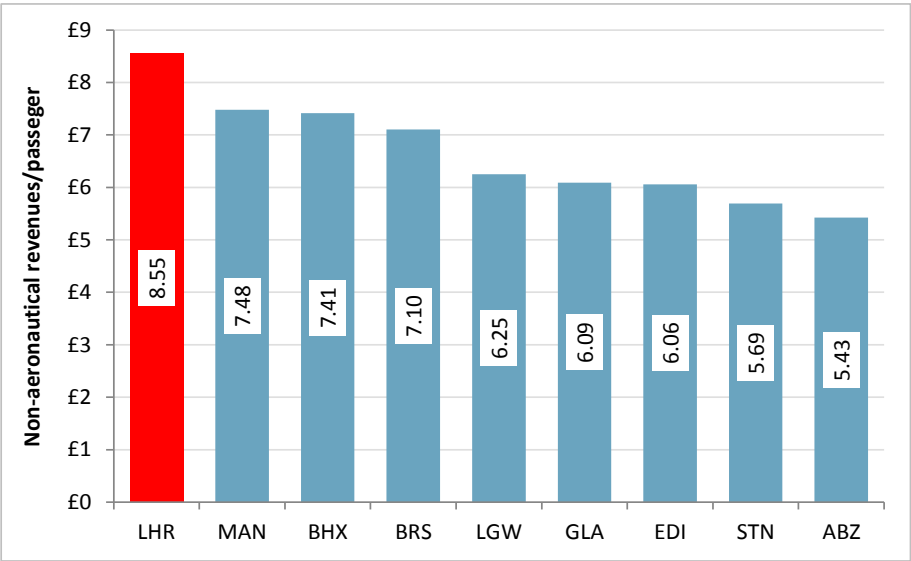
Benchmarking Analysis

Performance at total level

- 2.3 At an overall level Heathrow achieved the highest levels of commercial revenue per passenger among the UK's leading airports. The airport earned £8.55 per passenger from its regulated commercial revenues streams, over £1 per passenger more than at Manchester, and £2.30 more than at Gatwick.
- 2.4 The data for some of the airports shown below includes revenues from sources which are not regulated at Heathrow. Adjusting the comparison to take into account the income HAL earns from the other non-airport charges streams (Rail, Other Regulated Charges, Other) reported in its regulatory accounts would widen the gap substantially further, with HAL generating £13.95 per passenger across all its non-airport charges revenues in 2015.



Figure 2.1: UK airports – Total commercial revenues per passenger, 2015

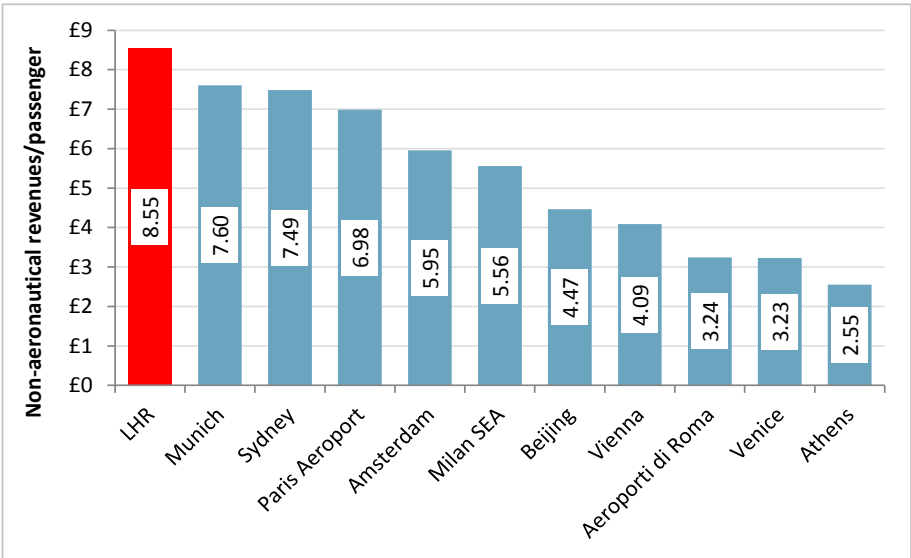


Source: Steer Davies Gleave analysis of published airport annual accounts

Note: Calendar year 2015 except for the following airports for which the data relates to 2015/16; Manchester, Gatwick, Stansted, Birmingham. Definitions of commercial revenues may vary between airports, notably in relation to classification of ancillary revenues such as operational facilities income.

2.5 Heathrow also generates a higher amount of commercial revenues per passenger than its leading international peers.

Figure 2.2: International airports - Total commercial revenues per passenger, 2015



Source: Steer Davies Gleave analysis of published airport annual accounts

Note: Revenues recorded in local currency and converted to sterling at average rates for 2015.

Airport group components: Paris Aeroport – Charles de Gaulle, Orly; Milan SEA – Linate, Malpensa; Aeroporti di Roma – Fiumicino, Ciampino

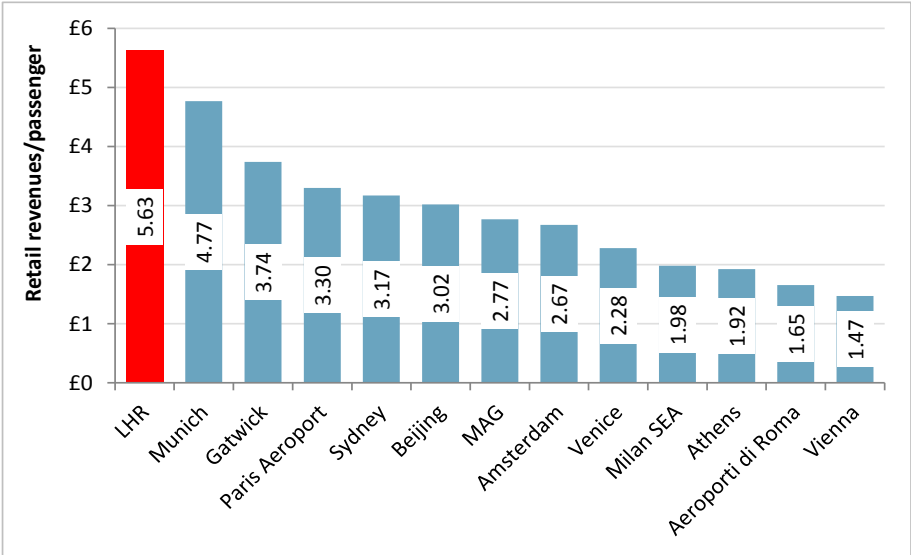


Performance at category level

Retail

2.6 Heathrow generally has a superior revenue per passenger performance than peers in the retail categories.

Figure 2.3: International airports - Retail revenues per passenger, 2015



Source: Steer Davies Gleave analysis of published airport annual accounts

Note: All airport figures are for 2015 except for Gatwick and MAG (2015/16). Foreign airport revenues recorded in local currency and converted to sterling at average rates for 2015. Heathrow retail figures are net of expenditure.

Airport group components: MAG – Manchester, Stansted, East Midlands, Bournemouth

2.7 Evidence from individual retail product categories suggests that Heathrow generally tends to outperform peers at this level too, although Gatwick has a stronger Catering performance:

Table 2.2: Leading European airports – Retail revenues by product category, 2015*

Airport	Duty Free	Specialist Shops	Bureau de Change	Catering
LHR	£1.71	£1.33	£0.71	£0.60
Gatwick	£1.17	£0.95	£0.57	£0.68
Paris Aeroport	£2.48**	-	£0.17	£0.24
Aeroporti di Roma	£0.63	£0.44	£0.14	£0.43
Amsterdam	-	-	-	£0.41

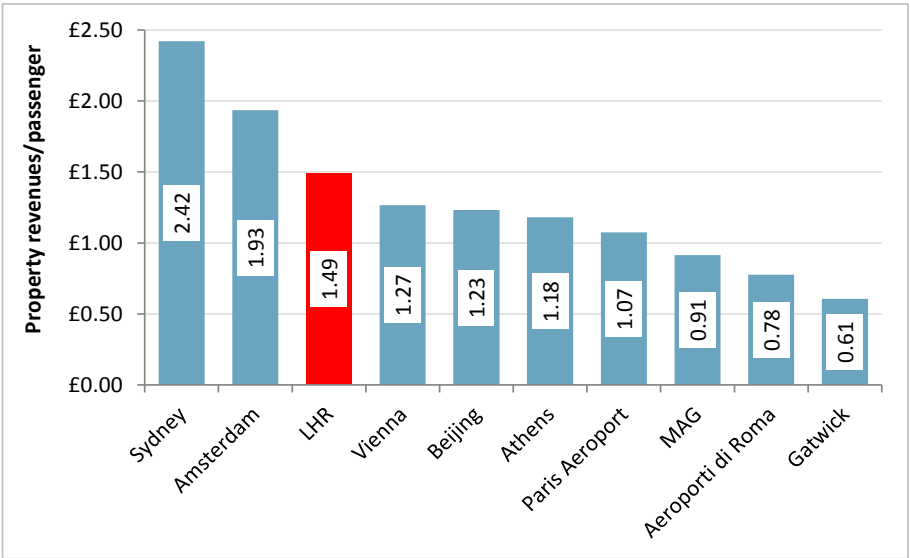
Sources: Steer Davies Gleave analysis of published airport annual accounts Note: * all airport figures are for 2015 except Gatwick (2015/16) **Duty Free and Specialist Shops appear to be counted together. Foreign airport revenues recorded in local currency and converted to sterling at average rates for 2015.

Property

2.8 There is some evidence of outperformance in property by peers:



Figure 2.4: International airports - Property revenues per passenger, 2015



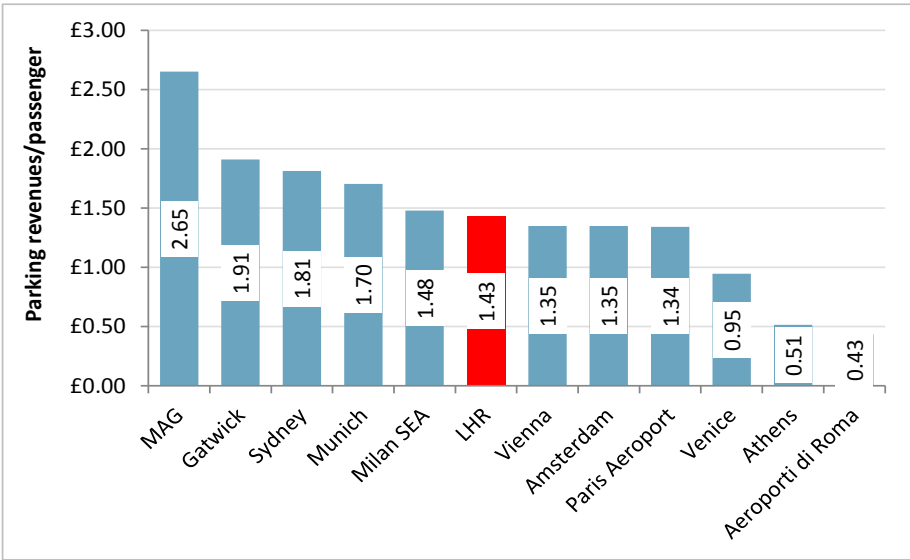
Source: Published airport annual accounts

Note: All airport figures are for 2015 except for Gatwick and MAG (2015/16). Foreign airport revenues recorded in local currency and converted to sterling at average rates for 2015.

Car Parking

2.9 Car parking is a category in which our analysis, assessing parking revenues in terms of total passenger volumes, suggests that some peer airports are performing better.

Figure 2.5: International airports – Car parking revenues per passenger, 2015



Source: Published airport annual accounts

Note: All airport figures are for 2015 except for Gatwick and MAG (2015/16). Foreign airport revenues recorded in local currency and converted to sterling at average rates for 2015.

2.10 However, the result is skewed by the relative proportions of connecting traffic (as passengers transferring between flights will not have access to



their own car, except at the airports at which they start and end their trip). In addition, the comparative results are influenced by:

- Heathrow's higher share of foreign resident passengers who do not have access to a private car (for parking);
- HAL's Surface Access strategy which aims to reduce the number of car journeys passengers take to the airport in order to control emissions, and which targets 45% of passengers using public transport by 2020, and 50% by 2030; and
- Heathrow's range of alternative surface access options.

2.11 Adjusting the analysis for the UK airports to non-connecting traffic only:

Table 2.3: UK airports – Parking revenues per non-connecting passenger, 2015*

Airport	Revenue per passenger
MAG	£2.74
Heathrow	£2.22
Gatwick	£2.04

Source: Steer Davies Gleave analysis of published airport annual accounts, CAA

Note: *Revenue figures for MAG and Gatwick are for 2015/16. Non-connecting passengers derived from % splits in CAA Departing Passenger Survey 2015 times total passengers.

Areas in which other airports outperform Heathrow

2.12 From the analysis above, areas in which there is evidence of outperformance versus Heathrow that could be investigated further include:

- Retail
 - Catering: Gatwick (Heathrow's issues relative to Gatwick are likely to be constrained space, a higher proportion of full service airlines providing free food and drink on board, connecting passenger mix and cultural differences in passenger mix).
- Car Parking:
 - MAG.
- Property:
 - Amsterdam, Sydney.

Summary

2.13 The key issues arising from our benchmarking analysis are:

Table 2.4: Benchmarking Heathrow’s commercial revenues – Key issues

Area	Comment
Total commercial revenues	• Heathrow ahead of UK and global peers
Retail	• As above at overall Retail level • Slightly behind Gatwick for Catering revenue per passenger
Parking	• Adjusting to comparing revenues on a non-connecting passenger basis, Heathrow is ahead of peers with the exception of the MAG airports
Property	• Heathrow generally ahead of peers, with the exceptions of Sydney and Amsterdam

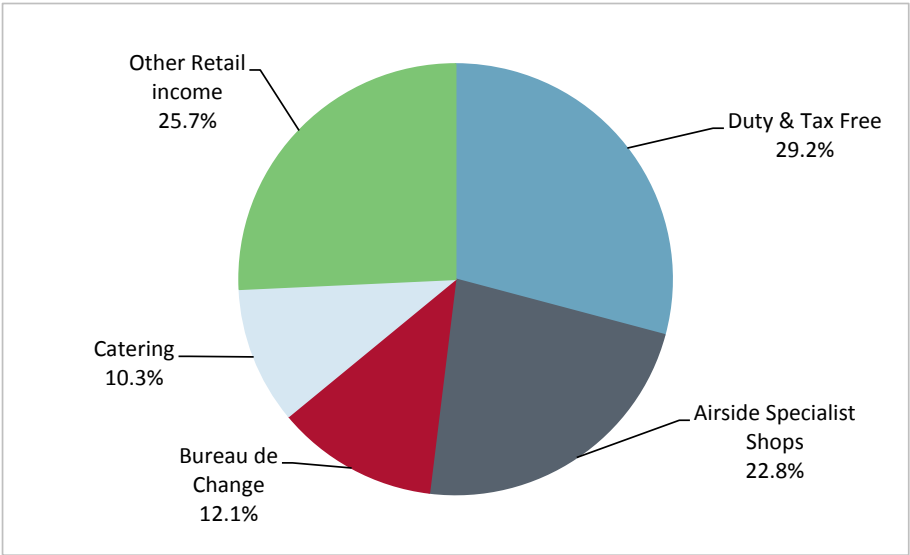
Page 10 of 10

3 Retail

Recent performance trends

3.1 HAL’s Retail activities generated £439 million in gross revenues during 2015. The largest category (by revenue) was Duty & Tax Free (£128 million).

Figure 3.1: HAL – Retail revenue mix, 2015



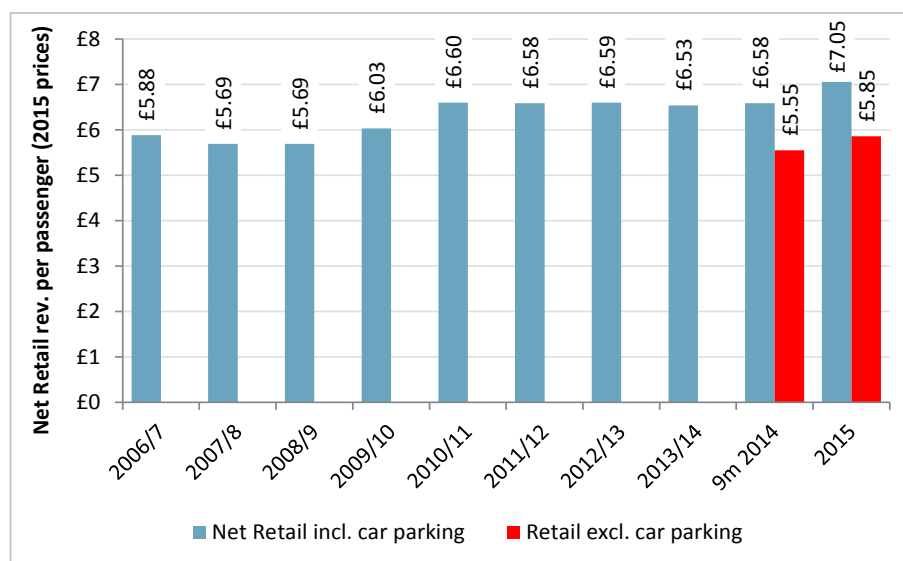
Source: HAL Regulatory Accounts, 2015

3.2 HAL’s Retail revenues have grown strongly in real per passenger terms in the past two years. In 2013/14¹ they averaged £6.64 (including Car Parking revenues), this grew by 6% to £7.05 in 2015.

¹ Data from HAL’s regulatory accounts, these moved from a fiscal to calendar year basis after 2013/14.



Figure 3.2: Net Retail revenues per passenger (2015 prices)



Source: HAL Regulatory Accounts

Note: Basis of regulatory accounts changed during 2014 from fiscal to calendar year basis, 2014 results reported for April-December only. Car parking revenues not separately reported in HAL Regulatory Accounts before 2014.

- 3.3 However, over the longer term real per passenger revenues have fluctuated in a range of £6 to £7. In 2010/11 they were very close to 2015 levels (which represent the record over the past 10 years), and have remained at, or above, £6.60 per passenger since then.

Drivers of Retail performance

Traffic volume and mix

- 3.4 HAL's commercial revenue performance during Q6 has taken place against a backdrop of generally steady growth in traffic volumes, with the exception of 2016 when traffic growth slowed to close to 0% in the period from April 2016 onwards. Over the 2013-2016 period annual traffic growth averaged +1.5%.
- 3.5 Passenger volumes have also been substantially higher than assumed for the Q6 Determination, exceeding the CAA's forecasts by about 3 million passengers in both 2015 and 2016.



013