Executive Summary

i) This study is undertaken by Alan Stratford and Associates Limited in conjunction with ARC Airport Retail Consultants. Undertaken on behalf of the Commission for Aviation Regulation (CAR), it provides an assessment of potential commercial revenue at Dublin Airport over the period 2005-2014.

ii) This second version of our Final Report takes account of comments received from the Commission for Aviation Regulation, the Dublin Airport Authority and other interested parties following publication of an earlier version of the Final Report (or the Executive Summary) as part of the Commission's Draft Determination of the Maximum Levels of Airport Charges at Dublin Airport.

iii) Commercial revenue at Dublin Airport comprises retail income from its own DAA's shops and other retail concessionaires, property income, car parking revenue and income from operating concessionaire and rentals. Of these, the most significant component is retail income which currently represents some 43% of all commercial revenue.

iv) Our analysis is based on a combination of recent trends in commercial revenue at Dublin and at UK and international airports. To facilitate comparison these have been made on a 'per passenger' basis using constant 2005 price levels. Our forecasting methodology is based on the correlation between passenger growth and average commercial revenue per passenger (ie the annual percentage increase for each category of commercial revenue is taken as a fixed proportion of the annual passenger growth). There are, however, specific adjustments that need to be taken into account for particular factors (eg planned increases in the available retailing/F&B space per passenger, the impact of an additional pier and a second terminal etc). Whilst our commercial revenue forecasts are broadly based on DAA's proposed capital expenditure programme for Dublin Airport published in May 2005, it is recognised that this is subject to change, so the projections should be considered as realisable targets given the future commercial operation of the airport as a whole. .

v) Dublin Airport's own shops occupy just under one half of all retail space in its passenger terminal. Due to the relative importance of duty free shopping, their net income per sq metre of floor space is significantly higher than other non-DAA operated retail concessions and food and beverage outlets in the terminal.

vi) In the past three years, the revenue from both duty free and tax paid shopping has been influenced by external competition from other airports and from the high street. The sales of certain product areas eg tobacco, photographic film and traditional products such as crystal have declined as a result of changes in customer demand – although gross margins have risen slightly. The DAA's own outlets have a particular focus on 'Irish branded' gifts – although they have not expanded into high margin 'high tech' products such as digital cameras, portable CD players, i-Pods etc. A further factor is that, due to increased queuing times at check-in and at security, passengers have less time for shopping activities.

vii) Our benchmarking analysis reveals that Dublin has proportionately less retail space per passenger than other international airports. This is compounded by the high proportion of space allocated to food and beverage offers, particularly on the landside mezzanine floor. Whilst this does also act as an overflow for the main departure concourse, the net income per sq metre from F&B activities is substantially below that of retail shopping.

viii) DAA's proposed capital expenditure programme includes an extension to the main airside shopping area, 'the Street', redevelopment of the duty free shop in Pier B and the provision of new airside restaurant. This would extend retail space in the terminal by some 39% and could theoretically increase F&B floor space by up to 22%. Further redevelopment could potentially take place on the mezzanine floor by converting some of the existing F&B space into more profitable retail offers.

ix) Our projections of commercial revenue are based on what we believe are realistic targets for the DAA based on comparable cost-effective commercial operations at other international airports. Commercial revenue is influenced by the amount of time passengers have available for retailing and the use of the food and beverage activities. Whilst there has been a trend towards longer passenger queuing times at check-in and security, this is now being compensated for by earlier arrival times at the airport. For the purposes of our projections, we assume that the average dwell times in Dublin Airport's revenue-earning facilities will not be less than those experienced in 2004.

x) In the case of retail and food and beverage (F&B) revenue, we note that the traffic forecasts suggest that the type of traffic at Dublin is likely to change over the next 10-15 years. Our assessment takes account of the particular growth anticipated in the North American market due to the relaxation of the Shannon stopover which should impact on the average retail spend per passenger. In addition, the DAA are planning significant increases in retail space both in the existing terminal (to 2009) and then in the proposed new terminal (from 2010 onwards).

xi) As a result of these factors, we project that Dublin Airport's net retail income per passenger (in constant 2005 prices) will remain stable up to 2008. This would be followed by a significant rise to €2.60 per passenger in 2009 and to €2.71 per passenger in 2010 as a result of the second terminal.

xii) DAA's revenue from car parking has declined over the period 2002-2004 due to an apparent reduction in the proportion of passengers or meeters and greeters using the short and long-term car parks. Revenues have also been affected by a competing off-airport car park at Santry Road. In 2005, however, the DAA increased car parking tariffs by some 20-30%. The DAA also has plans to provide additional short-term car parking space in about 2009. Our projections show a substantial increase in car parking revenue between 2004 (€1.65 per passenger) and 2005 (€1.73 per passenger) due to the tariff increase followed by a decline to €1.62 per passenger by 2010.

xiii) Property income at Dublin Airport consists of certain non-retail concessions in the terminal (eg foreign exchange, car hire, telephone kiosks etc), rental income from airlines and other DAA tenants and advertising. Whilst property rents have risen in 2005 (due to new contract negotiation), the DAA expect these to fall over the period to 2010. Similarly, property concession income is expected to fall – particularly if the UK joins the Euro within the next five years. On the other hand, certain new facilities, eg improvements to the car hire area, should generate additional rental income. We forecast that the average revenue from property will fall from €1.78 to €1.60 per passenger over the period 2005-2010, and will then decrease at a lower rate to €1.57 per passenger by 2014.

xiv) Other operating concession income comprises fuel surcharges, charges for the use of the executive lounges and the US Naturalisation Facility and other miscellaneous income. As much of this income is directly correlated with traffic levels, our forecasts suggest that this will decline marginally from €0.23 to €0.22 per passenger between 2005-2010.

xv) In summary, we predict that that, in real terms, total commercial revenue per passenger at Dublin will decline slightly in the period to 2010. Our forecasts show a reduction from €6.33 to €6.15 per passenger between 2005-2010. This declines at a reduced rate to €6.10 per passenger in 2014 due to the additional retailing and other commercial opportunities from the second terminal. In outturn prices, this represents an increase in total commercial income to €172.8m in 2010 and €222.4m by 2014 due to the increases in traffic forecasted by the DAA.

xvi) Our forecasts of commercial revenue can be benchmarked with similar forecasts for London Heathrow, Gatwick, Stansted and Manchester Airports prepared for the UK CAA for regulatory purposes. Over the period 2004-2007, our forecasts suggest that commercial revenue per passenger at Dublin (at constant 2005 prices) will fall by 0.4% per annum, in comparison to these UK airports where commercial revenue per passenger is expected to fall by between 0.5%-2.2% annually. The reduced rate of decline at Dublin can largely be attributed to significant increases in car parking tariffs and property rental income received in 2005.

xvii) A further benchmarking analysis based on 2002 data indicates that Dublin only raises the equivalent of 48.6% of the level of commercial income per passenger in comparison with the average for European international airports as a whole. We believe that this indicates that Dublin has the underlying potential to substantially increase its net commercial revenue over the next 10-15 years which would enable it to close the gap that exists between itself and UK peer airports in terms of its performance measured on a per passenger basis.