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###### National Assembly

Question Number: 788

**Mr C H H Hunsinger (DA) to ask the Minister of Transport:**

(1) (a) What criteria are used by the Airports Company of SA (ACSA) when (i) allocating retail space at airports and (ii) determining the size of retail space allocated to retailers, (b) what (i) analysis was undertaken at each airport to determine the type of businesses that were allocated retail spaces and (ii) were the outcomes of the analysis;

(2) (a) what financial analyses reflecting historic outcomes were undertaken and (b) what were the outcomes of such analyses;

(3) (a) what financial analyses reflecting predictive future outcomes were undertaken and (b) what were the outcomes of such analyses? NW907E

**REPLY**

1. (a) (i)

As a policy, every retail store is awarded through an open, fair, equitable and transparent process. The award of retail leases through a tender process is subject to approval of the Airports Company South Africa SOC Limited (ACSA) designated governance committees.

The principal determining factor in the provision of retail space relates to the passenger volumes which are considered over the medium to long term. An internationally accepted rule of thumb is that every one million passengers can support between 800 and 1000 square meters of retail space. This is however at best an average indicator as many other factors make each airport unique.

(a) (ii)

The size of retail space at the airport is determined in terms of the merchandise mix. Merchandise mix is defined into major concepts/categories such as core duty free, arts and craft, electronics, books, fashion apparel, foreign exchange, food and beverage. Each of these categories require different size retail stores ranging from large stores of over 1,000 sqms to very small stores of only 50 sqms.

(b) (i)

Market research is undertaken before each major retail expansion or reconfiguration project. Market research of current demand and trends at other successful airports coupled with the empirical evidence of successful historical performance would be utilised in determining the scope or range of products that should comprise the offer in any given area. An airport’s duty free area would feature mostly high-end products in line with the passenger profile, the legislative environment (mostly tax- and duty free) and the longer dwell time prevalent in these areas.

Whilst the above area only caters for passengers on airside, the landside offer must also cater for the non-passenger consumer which would include airport staff.

(b) (ii)

The outcome of this analysis will confirm that the exiting location and retail space is adequate or not. If not, a revised retail spatial plan together with the merchandise plan is agreed upon. If the retail space is deemed to be adequate, the merchandise plan is agreed upon based on the historical trading densities achieved.

1. (a)

The starting point is to understand the retail categories/concepts that underperform which are normally reflected in the turnover trading density per sqm achieved. Another indicator is based on rentals paid as a percentage of turnover which are higher than the concession rate. ACSA is also able to benchmark trading density performance on similar retail categories across its airports, or within zones in the airport. Rentals are set and turnover performance are different across differing retail categories/concepts but also influenced by the proximity of trading areas to the flow of passengers.

 (b)

 The tenant mix and merchandise plan are changed where the retail concept is not achieving the planned outcome. ACSA carefully considers failure of the concept against the operator’s poor performance which could be due to a store being located in the wrong area or sometimes having to many stores providing the same concept.

1. (a)

The drivers influencing retail turnovers are:

* The disposal income predicted;
* the current and forecast ZAR rate of exchange that influences input costs and propensity to spend;
* the expected passenger traffic growth;
* the impact of available and new retail space planned;
* The impact of internal and external competition on the current and new retail concepts; and
* Changes to duty free and other legislation.

Therefore, the above factors are considered in determining the appropriateness of the historic performance as a proxy for setting the future minimum rentals and reviewing the business plans presented by the bidders against these parameters.

 (b)

 The response to item 3 (a) influences the outcome. If retail concepts are not achieving the desired outcome for the operator or ACSA, these are substituted by better performing concepts and/or new concepts proposed by bidders. Sometimes minimum monthly rentals are revised lower in the new bid where the historic minimum rentals as a percentage of the trading density were bid too high, or not affordable or sustainable.