Rightsizing Consolidated Rental Car Facilities

Since the mid-1990s, many new consolidated rental car facilities (CRCF) have been built in the U.S.; many more are being planned or are under construction. The construction cost of most of these facilities is in excess of $100 million dollars, and some approach $200 million.

Albersman & Armstrong staff recently completed a capacity study of the existing CRCF at the Minneapolis/ Saint Paul International Airport (MSP). This study concluded that, based on projected growth of three percent per year, the facility would be able to serve the rental car industry for another 10 years.

The methodology and conclusions of the study were developed with input from the rental car industry and the Airport. Unlike previous studies that relied heavily on surveys of the Rental Car Industry, this study was based on a physical survey and observations of the utilization at the CRCF. From this information, a computer model was developed to simulate rental car activity. The model was used to test the capacity of the facility at increasing transaction levels.

Raising Questions...

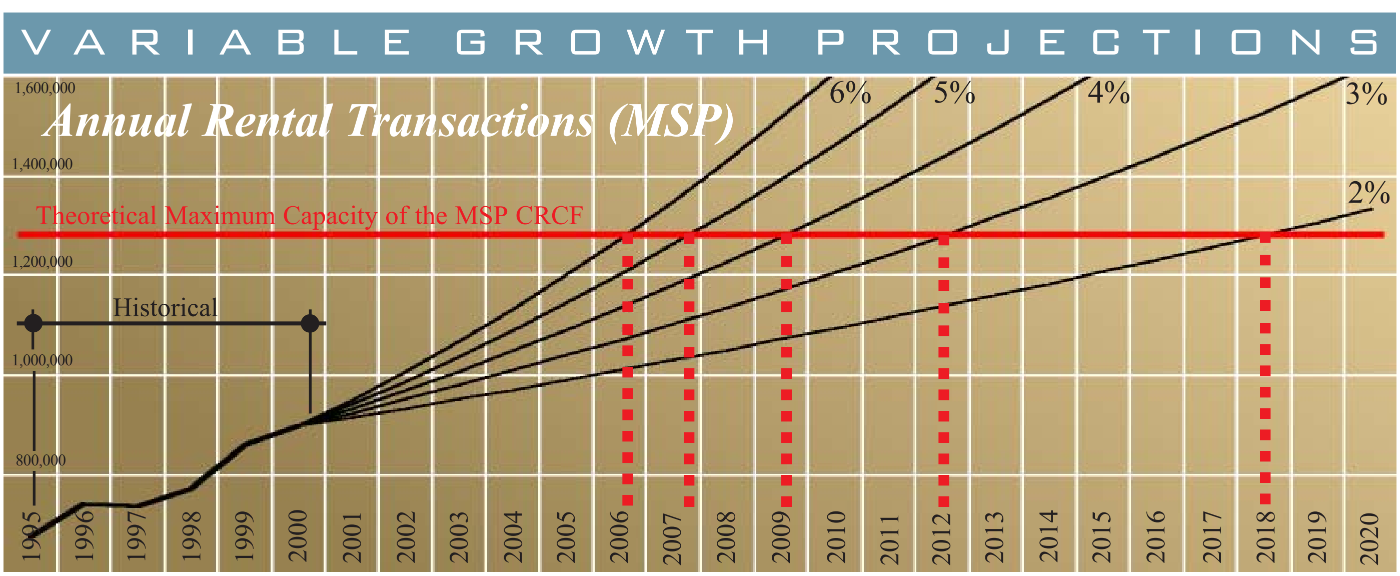
The MSP study raises questions about the size and cost of CRCF's at other airports. Although the facility at Minneapolis is significantly smaller than many of the new facilities serving similar markets, it is projected to serve the rental car industry for 10 or more years. The $46 million MSP facility has less than half the ready / return area as facilities in similar markets. At 30,000 square feet, the customer service area at MSP is also half the size of other CRCF's at airports with comparable markets.

Comparing Other Facilities...

This size discrepancy can be partially explained by the fact that many facilities are sized to serve the rental car industry for 20 years. However a 20-year planning period does not seem to justify such a wide discrepancy in size.

The table on the following page illustrates the size differences in ready / return space at existing or planned facilities. In order to arrive at an "apples to apples" comparison, the number of ready / return spaces is divided by annual gross rental car revenue to determine the ratio of ready / return space to gross revenue. This analysis also reveals significant inconsistencies in the size of ready / return facilities. Unique characteristics of the rental car market may account for some variation. However, they do not explain, for example, the differences between the Minneapolis and Houston facilities that have similar size markets and patterns of rental car utilization.

Ready / return facilities are a significant cost component of a typical CRCF. It is common for construction cost to be $15,000 per space. A difference of 1,000 spaces represents a $15 million cost variance.



Sizing Factors...

The physical form of a CRCF is greatly influenced by the business side of the rental car concession agreement process. The following is a discussion of selected components of that process, their impact on the CRCF, and how they can contribute to oversizing.

1. Financing

The primary revenue source for funding CRCF's is a customer facility charge (CFC). This is the preferred method of financing because the rental car industry successfully argues that it is not able to absorb the high cost of the new CRCF's.

Because the CFC is a direct charge to the customer, this method of financing does not encourage the same restraint in spending as it would if the cost were direct to the rental car agency or the airport. The budgeting process often focuses on the maximum dollar amount the rental car customer will accept rather than on the requirements of the facility. Also, because CFC financing is designated for capital expenditures rather than operational expenses, facilities tend to be more capital-intensive in order to reduce operating costs. A ready / return area may be sized larger than necessary to reduce shuttling costs.

While the CFC may be an appropriate financing tool, it should be structured to provide financial incentives for economizing the use of space.

2. Allocation Based on Market Share

Currently, most if not all space in a CRCF is allocated based on market share. All agencies are given the same amount of space per dollar of gross revenue.

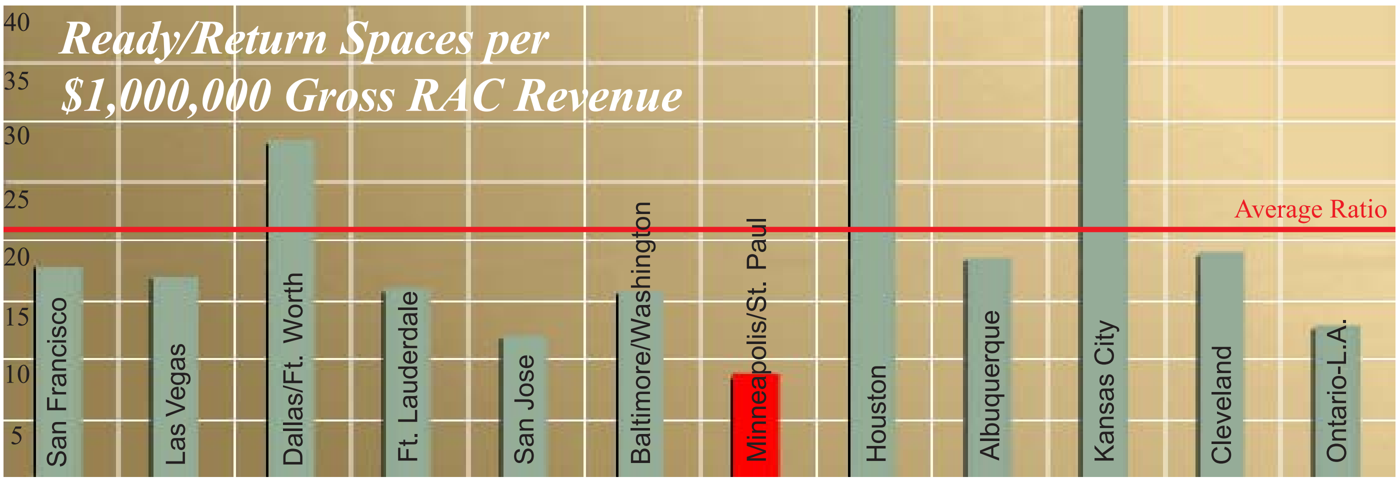
Allocating space based on market share fails to acknowledge individual differences among the agencies. An agency that serves a business clientele has less need for counter workstations because repeat business travelers are more likely to go directly to their cars than to conduct a transaction at a counter workstation. Leisure travelers tend to use counters more frequently, and require more workstations for the same number of customers. Also, leisure travelers tend to average more passengers per transaction and, therefore, require more space in the customer service building to accommodate passengers who are waiting.

AIRPORT CRCF COMPARISON

Airport	2000 Rental Car Gross Revenue[1]	Ready/Return Supply (spaces)	Ratio of Ready & Return/ Gross Revenue
San Francisco	$210,199,024	3,700	18
Las Vegas	$190,500,607	3,200	17
Dallas/Ft. Worth	$164,109,080	4,600	28
Fort Lauderdale	$188,129,172	3,069	16
San Jose	$123,144,775	1,600	13
Baltimore/Washington	$163,095,854	2,800	17
Minneapolis/St. Paul	$128,572,702	1,200	9
Houston	$118,058,176	4,760	40
Albuquerque	$76,954,398	1,400	18
Kansas City	$72,024,250	3,000	41
Cleveland	$60,110,964	1,200	19
Ontario-L.A.	$65,717,468	863	13

[1] *Source: Auto Rental News; (Period: May 2001 - June 2002)*

READY/RETURN SPACE COMPARISON



3. Design Equity

Regardless of how simple CRCF's may appear when finally designed, they require an enormous amount of time for planning and negotiation with the rental car industry. One of the primary difficulties is developing a plan that is equitable to all of the rental car agencies.

Most CRCF's are designed so that no single agency has better access to customers, regardless of its size or financial contribution. Consequently, common areas are overdesigned to insure that sight lines, walking distances, and bus pick up / drop off areas provide all agencies with equal access.

A system of price points in which rental car agencies are charged more for prime locations than for secondary locations could help correct this problem.

4. Number of Rental Car Company Participants

At most airports, 95% of the rental car transactions are conducted by the six or seven largest agencies. Some CRCF's are being designed for up to 20 individual agencies. These additional agencies increase the size and cost of a CRCF because each agency requires a certain minimum amount of space in which to operate. The Minneapolis CRCF has 43 counter worksations. If five new entrants were allowed in the facility, the number of required workstations would increase to 53. While there are legitimate political and competitive reasons for encouraging new entrants into a market, a 20% increase in size would provide only a marginal increase in customer service.

CFC financing sometimes contributes to the problem by providing funding to new entrants who would not be able to enter the market if they were required to finance the facility on their own.

5. Design For Expansion

Some of the new CRCF's are being built to serve the projected needs of the rental car industry for 20 years. An alternative approach is to plan a CRCF for expansion and build for 10 year utilization periods. This would not only reduce costs, but would also give airports more flexibility to respond to changes within the rental car industry.

In Summary...

The rental car industry is a low margin industry that is not only fiercely competitive within itself but also with other modes of transportation. As a result, the industry is very sensitive to market and non-market driven financial incentives. The current business framework in which CRCF's are planned and designed has some features that skew the layout of CRCF's in a manner that increases their size and cost. Modifying these criteria could result in significant facility cost savings without impacting customer service.

It is important for an airport to have a healthy rental car industry not only because of the service it provides but also because of the revenue it contributes to the airport. CRCF's that are oversized make it more difficult for the industry to compete effectively with other modes of transportation and, consequently, threaten this revenue source.