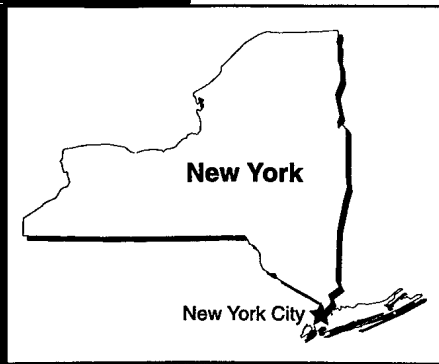


Station Concessions

**Metropolitan Transportation Authority
New York City, New York**



Metropolitan Transportation Authority

Background

Transit systems have many assets which provide attractive business opportunities to the private sector. One of these assets, real estate in high-traffic stations, can provide retailers with a steady stream of potential customers. Both large and small systems can benefit from the productive use of excess space in transit stations.

Large transit systems serve thousands of people daily and many small systems have central transfer points through which large numbers of people pass. In high-traffic stations transit agencies can raise funds and provide their riders with conveniences such as food, newspapers, flowers, or dry cleaning through concessions.

Case Background

For over a century, the transit system in New York City has recognized the value of the premium real estate it holds. One of the founders of the system, August Belmont, saw concessions as a way to make additional money. When the transit system was purchased by the public sector, the city, and since 1953, the New York City Transit Authority (now part of the Metropolitan

Agency Profile

Service Area	New York City
Modes	Bus, Heavy Rail, Commuter Rail
FY96 Operating Budget	\$5.7 billion
FY96 Capital Budget	\$2.4 billion
Annual Ridership	
Bus	434.7 million
Heavy Rail	1.1 billion
Commuter Rail	Not available
Revenue Vehicle Miles	
Bus	92.5 million
Heavy Rail	309.8 million
Commuter Rail	1.9 million
Fares	
Bus	\$1.50
Heavy Rail	\$1.50
Commuter Rail	\$1.50

Transportation Authority [MTA]), maintained this program to generate revenue from otherwise unused space. This space is licensed to concessionaires — individuals, partnerships, or corporations — who pay rent to occupy space on MTA property.

While concessions can exist at any high-density station, in New York, concessions are concentrated in about one-fourth of the 470 stations of the New York subway system. Concessionaires typically want to rent space in high-capacity stations. In New York, 15 stations carry 25% of the passengers; 56 stations carry 50% of the passengers. The minimum threshold for a station to support at least one store is 5,000 passengers/day. Only the 100 stations with the highest daily ridership have concessions in them.



Newstand

Example of concession businesses include newsstands (90% of MTA concessions), florists, shoe stores, shoe repairs, gift shops, compact disk shops, photo processing stores, and barbers. Up until 10 years ago, MTA also allowed food stands and restaurants, but now prohibits food sales (except packaged foods, e.g. potato chips) in subway stations because of the associated trash and vermin. Currently MTA is trying to attract automated teller machines to the stations. Because of the large number of people that pass through the stations, automated teller machine customers would be

safer in subway stations than on the streets of New York City.

The RFP Process

MTA selects concessionaires through a request for proposal (RFP) process. As old rentals expire or MTA permits leasing of new sites, the transit agency sends RFPs to several thousand names on the concessions mailing list, advertises the space in local newspapers, and hangs "For Rent" signs in empty windows. The

purpose of this process is to select the most financially rewarding business to maximize income to MTA.

Proposals must contain the following:

- **Application information statement.** This standard form requests information on the prospective business, including owners and incorporation information; past business experience; other municipal leases or contracts; real estate owned in the state of New York and a history of payment of taxes, assessments, rent, and loans on the aforementioned property; business and bank references; available lines of credit; assets; liabilities; a detailed one-year business plan; and authorization to request a credit report.
- **Proposal compensation form.** This form lists the rent schedule for the five-year period.

"Concessionaires — individuals, partnerships, or corporations — who pay rent to occupy space on MTA property."



Wig store

- **Description of the business.**
- **Description, conceptual drawing (stamped by licensed engineer), and cost estimate for necessary site improvements.**
- **Proposal deposit.** A certified check for the amount of three months of the proposed first year's rent.¹

MTA's real estate department then selects the best proposals based on the following criteria:

- Business experience,
- Financial qualifications,
- Income potential for MTA,
- Wig store
- Operation and management plan, and
- Schematic drawings of required improvements.

Program Structure

Because the primary goal of the MTA is to move people, the real estate department can only use the space in a station for concessions if the use will not interfere with passenger movement. MTA has the usual landlord-tenant problems with maintenance and rent (most stores are "Mom and Pop" operations). As a government agency, MTA finds it hard to rely on the courts to enforce landlord-tenant laws because private individuals often claim oppression by a large, uncaring government agency. Despite these issues, Real Estate is the only revenue positive department in the MTA: annually concessions yield \$2.7 million for the subway system.

There are three key elements to the programs' structure:

- Station improvements,
- Lease term, and
- Rent levels.

Station Improvements

When concession contracts expire, the site typically requires significant reconstruction or rehabilitation. Although MTA may perform some construction on the concession site during station rehabilitation, in four out of five cases, the cost for the new store infrastructure is borne solely by the new concessionaire. Title to the improvements is later transferred to MTA.

MTA informs potential concessionaires that building in subway stations is more expensive than building at street level because material must be brought underground and garbage transported to surface level.

Moreover, construction cannot interfere with passenger movement. For example, an 85-square-foot newspaper stand at the 116th and Columbia Station (on the IRT Broadway/7th Avenue line) cost \$60,000 to build. Part of this cost was a result of the fact that the station is a historical landmark, and no architectural improvements could be made unless they are approved by the local board. In order to recoup the high cost of the stand, the lessee was allowed a longer license term.

License Term

The license term has historically been five years. Last year MTA instituted a new term of five years with a five-year renewal option. This new policy was instituted because often when the lease expired, rental would continue from month to month until the MTA had a chance to remarket the space. A month-to-month lease yields less revenue than a five-year lease because there are no scheduled increases in rent payments.

Rent

MTA assigns rent based on the amount charged to the previous concession adjusted for inflation. The agency also researches the rent levels for comparable commercial space in the city and contacts brokers for price information. As appropriate, rents may be adjusted to reflect market conditions. In addition to the base rent, a rent premium is charged for busy stations. The

old axiom, "location, location, location" holds true: MTA can charge a significant premium for transfer stations and CBD stations.

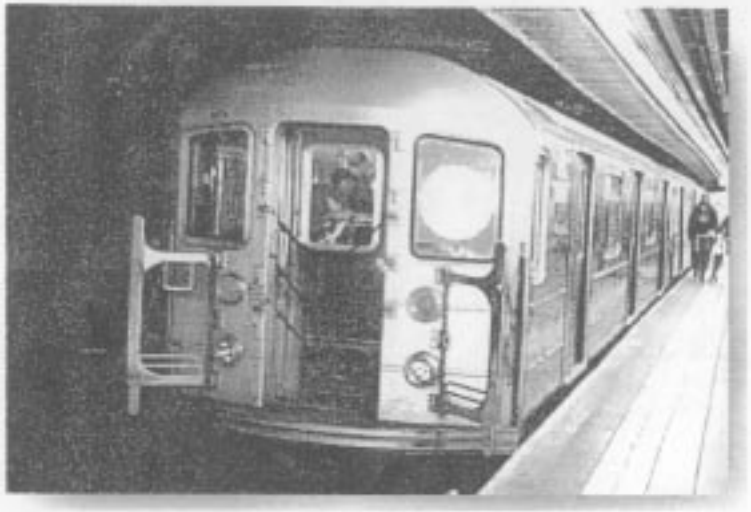
Concessionaires can successfully lower rent payments with adequate justification. For example, a potential concessionaire might agree that a site is worth \$1000 per square foot per month, but might negotiate an escalating schedule of rents due to higher up-front construction costs. The concessionaire might pay \$750 in the first year, \$850 in the second year, \$1,000 in the third year, \$1,150 in the fourth year, and \$1,250 in the fifth year. The total rent paid remains the same, but the cash flow burden on the concessionaire is relieved.

"The old axiom, 'location, location, location' holds true: MTA can charge a significant rent premium for transfer stations and CBD stations."

Lessons Learned

Leasing retail space in transit stations provides an attractive way for a transit system to raise additional funds. The most important lesson an agency can learn is that it is necessary to put concessions where the people are. A transit agency can often double the rent of a stand by moving it 20 feet in the right direction.

It is very difficult for a transit agency to realize the maximum revenue from concessions if they are not a priority. The MTA Real Estate Department could generate more concessions revenue if the success of the program was as high a priority as people movement.



Numerous passenger surveys have shown that concession stands give riders a sense of well-being and security because people are moving and congregating in numbers.

Finally, in order to ensure that a transit system attracts viable retailers who will pay the required rent promptly, it is essential to have a well-controlled RFP process. Proposers must provide a business history and references, bank references, a business plan, and a credit check.

Contact Information

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Barber shop



Barber shop

Endnotes

- 1 Deposits plus interest are returned for the unsuccessful proposals.