Non-fare revenue for Metro Networks

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Non-fare revenue for Metro Networks
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2. Non fare revenue
3. Hong Kong MTR Case Study
1. Metro Operations Equation
# Profitability of Metro Operations

<table>
<thead>
<tr>
<th>Continent</th>
<th>Country</th>
<th>System</th>
<th>Ratio</th>
<th>Fare system</th>
</tr>
</thead>
<tbody>
<tr>
<td>Asia</td>
<td>Hong Kong</td>
<td>Hong Kong (MTR)</td>
<td>186%</td>
<td>Distance based</td>
</tr>
<tr>
<td>Asia</td>
<td>Singapore</td>
<td>Singapore (SMRT)</td>
<td>125%</td>
<td>Distance based</td>
</tr>
<tr>
<td>Europe</td>
<td>Denmark</td>
<td>Copenhagen</td>
<td>52%</td>
<td>Zone based</td>
</tr>
<tr>
<td>Europe</td>
<td>UK</td>
<td>London Underground</td>
<td>92%</td>
<td>Zone based</td>
</tr>
<tr>
<td>Europe</td>
<td>France</td>
<td>Paris (STIF)</td>
<td>29.7%</td>
<td>Zone based for passes</td>
</tr>
<tr>
<td></td>
<td></td>
<td></td>
<td></td>
<td>Distance based for tickets</td>
</tr>
<tr>
<td>North</td>
<td>USA</td>
<td>Chicago (CTA)</td>
<td>43.0%</td>
<td>Flat rate</td>
</tr>
<tr>
<td>America</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>North</td>
<td>USA</td>
<td>New York/Connecticut (MTA)</td>
<td>36.2%</td>
<td>Distance based</td>
</tr>
<tr>
<td>America</td>
<td></td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>
Profitability of Metro Operations

- Few Metro networks boast beneficial fare operating ratios

- Metro networks then have to develop ways to increase their revenue through new streams
  - Compensate loss making operation or
  - Boost their profitability
Revenue Strategy for Transit Networks

- **Fare revenue**
  - Revenue management
  - Fare regulation and revisions
  - New fare: Diversification of services

- **Non-fare / secondary revenues**
  - Optimize existing / Create new assets

> MAXIMIZE REVENUE Vs. AFFORDABILITY FOR ALL PASSENGERS

> NEW STREAM OF REVENUE
2. Non fare revenue
MoUD Metro Rail Policy 2017 D.vii. Enhancing Revenue:

c. Commercial/property development at stations and on other urban land has been used as a key instrument for maximizing revenues in metro rail/ railway systems in cities around the world. Notable examples are Hong Kong and Tokyo. Metro rail implementing agencies should endeavor to maximize revenue through commercial development at stations and on land allocated for this purpose.

d.[... on] enhancing non-fare box revenue through conventional as well as innovative means. The State Government shall ex-ante commit the enabling policy and regulatory framework and provision of requisite permissions, clearances & licenses etc. for all avenues of exploiting non-fare box revenue such as advertisements, leasing of space, fire clearances etc. under the state statute and rules through a single window facility to the SPV/agency implementing the metro rail project.
Various streams can be envisaged to generate additional revenues to either compensate a deficit in the fare revenue or to create additional investment resources:

- Commercial & retail related activities in stations, such as kiosks, shops, etc;
- Advertising in station, on-board trains, on smartcards/token;
- Branding of infrastructure: a brand against a station;
- Infrastructure leasing: space, telecom assets;
- Land value capture: TOD;
- Others streams: Digital content, merchandising, Energy selling: solar, Other non-fare revenue activities (e.g. in station events / filming, consultancy, parking etc.)

Only static advertising in stations and 3rd party station retail activities are common to most metros.
Commercial/Retail Activities in Station

- The Metro passengers benefit out of access to wide range of facilities
- Occupants of the commercial spaces get huge potential to expand business
- Rentals from shops, kiosks, bank automated teller machines and quick service restaurants are traditional source of alternate revenues.
Advertisements

- From traditional to digital means
Branding rights

- Potential for corporate sponsorship for Metro stations and trains.
- Provides advertisers/brands with opportunities for brand visibility, naming rights, retail and promotional campaigns.
- This form has also become popular in India: Gurgaon Rapid Metro, Mumbai Metro
- Subject to debate
Telecom infrastructure leasing

- Concerned with
  - leasing out of bandwidth on the Metro’s OFC network to commercial entities
  - leasing out space to allow a third party to erect mobile telephone towers
- Stations generally situated in strategic locations around a city.
Land value capture through TOD

- Government
- Land Development
- Rail Operator

Synergy Value

- Increased Accessibility
- Improved Quality
- Increased Passengers
- Construction Funds
- Social and Environmental Benefits

Sustainable Urban Development
Affordability & Accessibility for all
TOD Models

- **Density**: High density development within the walking distance of public transport node.

- **Diversity**: A mix-use of land to make the community a more attractive destination.

- **Design**: Seamless connection between community and station, separated vehicular and pedestrian traffic, comfortable public space.

TOD become more attractive & accessible
Reduce vehicle trip levels
Increase PT usage
3. Hong Kong MTR - Case Study
Case Study – Distribution of revenue of Hong Kong MTR

On Hong Kong Operations

- 63% fare revenue
- 37% non-fare revenue

Source: MTRC 2016 Annual Report
Case Study – Revenue from Station Commercial Businesses

- Diversified portfolio of Station Commercial Businesses
- Ensuring long term source of revenue
- Will grow as network expands
- Shrinking advertisement market compensated by adjusting their mix of retail

Source: MTRC 2016 Annual Report
Case Study – Revenue from Station Commercial Businesses

- Assets in 93 stations
  - 22,000 advertising units in station
  - 23,000 advertising units on trains
  - 1,300 shops in station
1. Government grant ‘Land Development Right’ of sites comprehensively planned by MTRC on new railways.

2. MTRC pays land to Government thanks to developers on ‘Greenfield – No Railway’ basis.

3. MTRC builds railway and develops property in partnership with Property Developers.

4. Property value goes up with railway.

5. MTRC benefits from the value enhancement which is used to build new railways.
MTRC Property Rental and Management Business

- Ensuring long term source of revenue
- Will grow as new TOD operations emerge

<table>
<thead>
<tr>
<th>In HK$ million</th>
<th>2016</th>
<th>2015</th>
</tr>
</thead>
<tbody>
<tr>
<td>Property rental income from:</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Elements</td>
<td>1,161</td>
<td>1,101</td>
</tr>
<tr>
<td>Telford Plaza</td>
<td>886</td>
<td>863</td>
</tr>
<tr>
<td>Maritime Square</td>
<td>557</td>
<td>528</td>
</tr>
<tr>
<td>Luk Yeung Galleria</td>
<td>214</td>
<td>205</td>
</tr>
<tr>
<td>PopCorn</td>
<td>186</td>
<td>172</td>
</tr>
<tr>
<td>Citylink Plaza</td>
<td>172</td>
<td>168</td>
</tr>
<tr>
<td>Paradise Mall</td>
<td>149</td>
<td>152</td>
</tr>
<tr>
<td>International Finance Centre</td>
<td>650</td>
<td>633</td>
</tr>
<tr>
<td>Other properties</td>
<td>476</td>
<td>445</td>
</tr>
<tr>
<td>Rental Income Sub total</td>
<td>4,451</td>
<td>4,267</td>
</tr>
<tr>
<td>Property management income</td>
<td>290</td>
<td>266</td>
</tr>
<tr>
<td>Total</td>
<td>4,741</td>
<td>4,533</td>
</tr>
</tbody>
</table>

Source: MTRC 2016 Annual Report
MTRC Property Rental and Management Business

- Diversified assets:
  - 96,000 flats residential flat under MTR management
  - +Adding 18,000 units
  - 13 malls
  - GFA to raise +40% at 300,000sqm

Distribution of Hong Kong Property Management Income
(Percentage)

Source: MTRC 2016 Annual Report
Different Development Types for Different Stations

When determining the best land use types appropriate for different stations, MTR takes the following factors into consideration:

- Area, plot ratio and land use demand of the surrounding areas
- The surrounding environment and city style of the proposed development

- High-rise Office: small area/high plot ratio
- High-rise Residence: small area/high plot ratio
- Mid-rise Residence: medium area/medium plot ratio
- Large-scale Residence: large area/low plot ratio
- Large-scale Mix Use: large area/medium plot ratio
- Unclassified
MTRC Railway / Development Nodes in Hong Kong
MTRC Airport Express Line Kowloon Station Development
Case Study – Kowloon Station TOD
Case Study – Kowloon Station TOD

Property: Mixed residential / retail / offices
- Phase 1 to 4 – 5990 residential units
- Phase 5 – Elements (retail) – 82750 m2
- Phase 6 – Cullinan (residential) – 825 units, W Hotel (hotel) – 393 rooms, and Harbourview Place (serviced apartments) – 266 units
- Phase 7 – ICC (office) – 231778 m2, Ritz Carlton (hotel) – 300 rooms
- Total – 5,400 car park spaces

Transit
- MTR station for Airport Express line (with in-town check-in) and Tung Chung Line
- Station car park (with park-and-ride scheme) – 120 spaces
- Cross-boundary coach terminus (coaches to Shenzhen airport) – 24 bays
- AEL shuttle bus and coach station – 11 bays
- Public transport terminus with bus (7 routes) and GMB bus (3 routes)
- Taxi stand
Case Study – Kowloon Station TOD

GROUND FLOOR

- AEL in-town check-in hall
- AEL taxi/bus
- Cross border buses
- Station car park
- Public Transport Interchange
Case Study – Kowloon Station TOD
MTRC Airport Express Line Hong Kong Station Development
Case Study – Hong Kong Station TOD
Case Study – Hong Kong Station TOD

 Property: Focus on Office / retail in the heart of the CBD
  • One IFC: 72,800 m²
  • Two IFC: 185,805 m²
  • Four Seasons Hotel HK: 52,051 m²
  • IFC Mall: 74,285 m²
  • Total No. of parking spaces: 1,800

 Transit
  • MTR station for AEL (with in-town check-in) and Tung Chung Line
  • Station car park (with park-and-ride scheme)
  • AEL shuttle bus and coach station
  • Public transport terminus with bus (10 routes) and GMB
  • Taxi stand
  • Pedestrian connection to Central station
Case Study – Hong Kong Station TOD

IFC Two
IFC Mall
IFC One
Subway Station (underground)
Four Seasons Hotel and serviced apartments
Case Study – Hong Kong Station TOD
MTRC Tseung Kwan O Line LOHAS Park Station Development
Case Study – Tseung Kwan O Line LOHAS Park TOD
Case Study – Tseung Kwan O Line LOHAS Park TOD

- Property: Focused on residential far away from the CBD
  - Estate GFA: 330,000 m², with 50 residential towers, 21,500 units
  - Retail GFA: 50,000 m²
  - Park: 19,000 m² and a 330-metre seafront promenade.

- Transit
  - MTR station for Tseung Kwan O Line
  - Public transport terminus with bus (8 routes) and GMB (3 routes)
  - Taxi stand
Case Study – Tseung Kwan O Line LOHAS Park TOD
Conclusion

- No ideal model fit for all networks
- Adapt to the local environment and culture.
- Necessary change is legislation to enable all kinds of non fare collection
- Keep innovating finding new ways to increase revenue while improving passengers experience
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