



London Airports Splash \$6 Billion on Revamp to Lure Jaded Flyers

By Steve Rothwell - May 9, 2011

[London](#)'s Heathrow and Gatwick airports, the busiest in Britain, are spending almost \$6 billion on makeover projects to stem an exodus of passengers and airlines put off by their crowded lounges and faded concrete.

At Heathrow, the roof will this month be added to a 2.6 billion-pound (\$4.3 billion) replacement terminal reckoned by owner BAA Ltd. to be [Europe](#)'s biggest building site. Gatwick, 43 miles away, has a 1 billion-pound spending plan that includes cladding one of its two aging terminals in glass and steel.

While the plans won't immediately add capacity at the runway-restricted airports, BAA and Global Infrastructure Partners, Gatwick's owner, say the spending is vital if they're to retain flyers and lure back others lost to award-winning developments at hubs including [Madrid](#), Munich and Paris Charles de Gaulle, which has an area four times that of Heathrow.

"We can't compete with Europe using 1950s infrastructure, so we're building for the future," Steve Morgan, head of BAA's capital investment program, said in an interview. "That means wider areas for passengers to walk through, faster baggage systems, brand new bathrooms and much better lighting with forecourts that are bigger, brighter and easier to navigate."

The reputations of both Heathrow and Gatwick, owned by BAA until 2009, were tarnished in the past decade as investment in facilities failed to keep pace with growth in traffic.

T5 Trauma

Even the opening of Heathrow's fifth terminal, built in 2008 for British Airways, its biggest customer, at a cost of 5.5 billion pounds, attracted negative publicity as tens of thousands of luggage items were misplaced and hundreds of flights canceled after the baggage system broke down on day one.

"We've learned a lot from our T5 experience," Morgan said. "We'll gradually start it up -- we won't make a big bang."

The current program involves the reconstruction of Terminal 2, dating from 1955 and Heathrow's

oldest building. Once that's complete in 2013 the 42-year-old Terminal 1 will be demolished and integrated with Terminal 2 over six years to create a single complex able to handle 30 million people annually, the same number accommodated by Terminal 5.

At Gatwick, work on renovating the North Terminal is more advanced and construction will be completed this month, with carriers including British Airways and [EasyJet Plc \(EZJ\)](#), the airport's two biggest clients, due to move in from September, Chief Executive Officer Stewart Wingate said in an interview.

Ship in a Bottle

While Heathrow remains [Europe's busiest airport](#), its total of 65.9 million passengers last year was 0.2 percent lower than in 2009. Among European peers, traffic rose 7.4 percent at Rome Fiumicino, 6.2 percent in Munich, 4.1 percent in Frankfurt, 3.8 in Amsterdam, 2.8 in Madrid and 0.2 percent at Paris CDG.

Gatwick's total of 31.4 million passengers in 2010 was the lowest in seven years and 3.8 million below the peak in 2007.

BAA's Morgan, a native of Columbus, [Ohio](#), likens refurbishing Heathrow while it's still operational to building a ship in a bottle and says the program is being driven by passenger needs rather than what's best for airlines.

"Our focus is on making an airport that's more utilitarian by design, allowing passengers to get through as quickly as they want," said Morgan, a former rear admiral in the U.S. Navy who was recruited from the nuclear industry to oversee Heathrow's reshaping. "The biggest challenge is anticipating what the demand will be and what kind of planes airlines will be flying."

Lufthansa, United

The biggest beneficiaries of the Terminal 2 revamp will be [Deutsche Lufthansa AG \(LHA\)](#), [United Airlines](#) and the 25 other members of the [Star Alliance](#) to which the building will be dedicated when it opens in 2014 with an initial 20-million capacity.

Heathrow is the world's busiest hub airport, with 35 percent of its passengers changing flights, and further developments will see BA's allies in the Oneworld grouping concentrated at Terminal 3, allowing quicker transfers to Terminal 5, and the 13 [SkyTeam carriers](#) including [Air France-KLM \(AF\) Group](#) and [Delta Air Lines Inc. \(DAL\)](#) relocated to Terminal 4.

At Gatwick, the South Terminal will this month unveil a new security system featuring Britain's first automated ticket check and longer conveyors for the inspection of carry-on bags.

Acquired by GIP for 1.51 billion pounds after BAA sold it in the face of pressure from Britain's antitrust regulator, Gatwick is targeting passenger growth of as much as 25 percent within seven years and aims to lure long-haul carriers from Heathrow as the bigger airport is limited by capacity curbs.

"Many carriers would like to get into Heathrow, but if it's genuinely full they're going to look at Gatwick," CEO Wingate said in an interview. "That's a big opportunity for us."

Hemmed In

What the reinvention of Heathrow and Gatwick can't do is change the geographical and political limitations facing them.

Heathrow, built in open countryside in a post-war era of laissez faire infrastructure development, is constrained by the encroaching [London suburbs](#) and a government policy on noise and emissions that limits it to two runways, compared with four at Paris Charles de Gaulle, five in Amsterdam and three in [Frankfurt](#), where a fourth is due to open this year.

Gatwick is the busiest single-runway airport in the world and has been unable to develop the variety of connections offered by major hubs, giving it the largest number of point-to-point flyers -- those who aren't changing planes -- in Europe.

The airport may also struggle to win business travelers who prefer Heathrow because it's closer to central London, said [John Strickland](#), an aviation analyst at JLS Consulting Ltd.

"There's no doubt that Gatwick has become much more open to business since becoming a separate company, but airlines don't pay millions to get slots at Heathrow for nothing," he said.

Jumbo Price

At Heathrow, limits on those operating slots has led carriers to deploy bigger aircraft such as Boeing Co.'s 747 and the [Airbus SAS A380 superjumbo](#), allowing them to maximize seats-per-flight. That in turn stretches the airport's infrastructure with loads of as many as 550 people at a time, Morgan said.

"We have more 747s and A380s flying here than any other place in the world, but they come with a price, and we have to adapt the airport to accommodate them," the executive said.

Faced with these demands, Heathrow's long-term strategy envisages eking out space for the next 25 to 30 years, adding satellite structures to Terminals 2 and 5 to help lift capacity to 90 million passengers from the existing runways, he said.

Peter Morris, chief economist at London-based aviation consultant Ascend, said brighter terminals

and the ability to handle more people on bigger planes are ultimately no substitute for the freeing up of additional takeoff slots.

“Heathrow is essentially full and all this does is rearrange the furniture,” he said. “Passenger numbers can drift up a little, but that doesn’t lessen the degree of misery caused by having a limit on the number of flights.”

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