

Heathrow Airport – Property Rents 2017/18 Decision Document

Date: 10th November 2017

Prepared by: Heathrow Airport Limited

Status: Final

Contents

1.0	Introduction and Consultation Programme	3
	Purpose.....	3
	Background.....	3
	Consultation Programme.....	3
	Further Information.....	4
2.0	Review of Responses and Decision	4
3.0	Summary of Decision	4
4.0	Implementation Timescale.....	5
5.0	List of Respondents.....	5
	Appendix 1 – Guide Price Rents 2016/17 Consultation Meeting Minutes	6
	Appendix 2 – Heathrow Rental Guide Prices 2016/17	9

1.0 Introduction and Consultation Programme

Purpose

- 1.1 Heathrow Airport Limited (Heathrow) has reviewed the Property Rental Guide Prices for 2017/18. The purpose of this document is to set out Heathrow's decision.
- 1.2 Heathrow has increased the Guide Price Rents by 2.88% for 2017/18.
- 1.3 The 2017/18 Rental Guidelines are effective from 1st April 2017.

Background

- 1.4 Since 1996 Heathrow has had a list of published Guide Prices. The Guide Prices are either a band or spot rent for most standard property products.
- 1.5 Since 1996, Guide Prices have been adjusted by the percentage change in a rental formula, which is applied annually to the Guide Prices which was consulted.
- 1.6 In consultation with the AOC Rents Group the tariff rents were simplified in 2008 and the formula has evolved since it was first introduced.
- 1.7 The components of the current formula, revised in 2002, are as follows:
 - Passenger Numbers.
 - Retail Price Index.
 - Investment Property Databank (IPD) Annual Property Index – the average of Central, Outer and West of London Office Indices (see Appendix 1 for the geographical area).
- 1.8 The formula gives equal weighting to each component.
- 1.9 The formula seeks to provide consistent growth flattening the peaks and troughs associated with the external property market.
- 1.10 Desk licence fees are reviewed bi-annually on the same basis as rents. They were last reviewed in 2016 and will be reviewed again in 2018.
- 1.11 The consultation sought views on increasing rents by 2.88%

Consultation Programme

- 1.12 The consultation was launched on 2nd August 2017 with the publication of the Consultation Document. An open consultation meeting was held on 4th September 2017 to seek feedback on the proposals.
- 1.13 The consultation documents along with copy of the presentation from the consultation meeting have been available on the Heathrow website. Heathrow communicated the consultation documents and an invitation to a consultation meeting, to property users and the AOC via an e-mail communications sent out week commencing 2nd August 2017.
- 1.14 The Consultation programme Heathrow has followed was:

Date	Milestone
2 nd August 2017	Heathrow publish consultation document on Heathrow 2017/18 rental proposals
4 th September 2017	Consultation meeting.
3 rd November 2017	Property customer written responses due
10 th November 2017	Heathrow publishes 2017/18 rents effective from 1 st April 2017

Further Information

1.15 This document informs all users of Heathrow's decision and concludes this Consultation on Heathrow Property Guide Price Rents 2017/18.

1.16 If you have any questions on the decision, please contact:

Heathrow Property Department
 Heathrow Airport Ltd
 The Compass Centre
 Nelson Road
 Hounslow
 Middlesex
 TW6 2GW

E-mail: property@heathrow.com

2.0 Review of Responses and Decision

2.1 The comments received during the consultation meeting held on 4th September 2017 are set out in the minutes, including a list of attendees, attached at Appendix 1.

2.2 A summary of the responses, together with Heathrow's response is set out below.

User Comment	Heathrow Response
Why does the consultation period last for 12 weeks, could this period be reduced?	Heathrow uses consultation best practice which involves wide communication to users at the airport and permits time for users to consider Heathrow's consultation proposal. Heathrow will review the need for a 12-week consultation for the rental guide prices in future years.
Can you explain how this rent review relates to my contract with HAL Property?	Questions that relate to a specific agreement that a tenant has with HAL Property have been responded directly to the tenant.

3.0 Summary of Decision

3.1 The decision is to increase the Rental Guide Prices by the 2.88%, calculated using the rental formula, with effect from 1st April 2017.

3.2 A full schedule of the rents is attached at Appendix 2.

4.0 Implementation Timescale

4.1 The 2017/18 Guide Prices are effective from 1st April 2017 and will be implemented immediately for any property rental transactions effective from this date.

5.0 List of Respondents

5.1 Responses were made during the consultation meeting, specific comments came from, or on behalf of:

American Airlines

Heathrow AOC

Plaza Premium Lounge

The Collinson Group

Appendix 1 – Guide Price Rents 2017/18 Consultation Meeting Minutes

Meeting title/subject: Heathrow Guide Price Rents 2017/18 Consultation Meeting

Meeting location: Hyde Park Meeting Room at the Compass Centre

Date/Time: 04 September 2017 14:00 – 16:00 hours

Present:

Roberto Segala (RS)	Heathrow Airport Ltd
Giles Edwards (GE)	Heathrow Airport Ltd
Andrew Gilling (AG)	Heathrow AOC.
Giles Ingham Grant (GIG)	British Airways
Sarah Kelley (SK)	LSH (Proxy Virgin Atlantic, Menzies and DNATA)
Jonathan French (JF)	Collinson Group
Amin Amin (AA)	Plaza Premium Lounge
Harjinder Singh Bhasin (HSB)	Jet Airways
Ignatius Dxouza (ID)	Jet Airways
Annabel Oakley (AO)	Cushman & Wakefield for British Airways
Jessika Varsani (JV)	American Airlines
Ash Mahmud (AM)	American Airlines

<i>Description:</i>	<i>Action</i>
<p>RS welcomed everyone to the 2017/18 Rents Consultation.</p> <p>AGENDA ITEMS:</p> <ul style="list-style-type: none"> • Overview of Rents Consultation • Consultation Timetable • Guide Price Formula • 2017/18 Guide Price Change • Terminal 2 Guide Prices <p>RS introduced himself, outlined the recent changes to the Heathrow Property team organisational structure and said he would be happy to answer any questions during or after the presentation.</p>	

<i>Description:</i>	<i>Action</i>
<p>1. Overview</p> <p>RS gave an overview of the consultation, outlining that the consultation is for the 2017/18 Guide Price change. RS highlighted that the desk frontage rates remain unchanged for this Guide Price Year, following the normal 2 year cycle which saw them uplifted in 2016/17. He also confirmed that T2 Guide Prices retain the 4% discount for 2017/18.</p>	
<p>2. Timetable</p> <p>RS confirmed the consultation started on 2nd August 2017 with Property publishing on the Heathrow website the consultation paper on 2017/18 rental proposals. The closing date for any written customer responses is 3rd November 2017 with the 2017/18 guide price rents being confirmed on 10th November 2017.</p>	
<p>3. Formula</p> <p>RS presented the formula that had been used to calculate the 2017/18 guide price rents using Passenger numbers, RPI and the Investment Property Databank (IPD) indices for Central, Outer and West London.</p> <p>RS then presented the formula calculation for 2017/18 which generated a +2.88% change.</p> <p>RS used a graph plotting the changes in passenger numbers, RPI, IPD and the Guide Price since 1996 which illustrated the effect of the formula in plotting a steady change in rents avoiding the peaks and troughs of the off airport property market.</p> <p>The change in guide prices over the last few years would mean the following increases:-</p> <p>1 year increase: +2.88% 2 year increase: +6.69% 3 year increase : +10.37%</p> <p>RS explained the percentage impacts over 1, 2 and 3 years with the majority of rent reviews on a 3 year pattern therefore +10.37% will apply for those falling in the 2017/18 period.</p> <p>AM queried the inclusion of Central London IPD property rents as part of the calculation to which RS responded that the index uses a blend of the areas which are economically significant to Heathrow and its tenants / occupiers. AG concurred and explained how in 2008 the rents for Heathrow were rebased and the decision was taken to focus the IPD property rents on central, outer and west London.</p>	

<i>Description:</i>	<i>Action</i>
<p>4. Guide Price Changes</p> <p>RS advised how the T4 CIP rent is used as a baseline in order to analyse the 3 yearly % Guide Price change. This rent is used as it has been consistent and was not varied during the rent rebasing in 2008. The 3 yearly % change is then calculated using this CIP rent.</p>	
<p>5. Terminal 2 Guide Price Rents</p> <p>RS advised that the T2 Guide Prices were consulted on in 2013 and were incorporated into the Guide Prices from 1 April 2014. He confirmed that the 4% discount which is applied until key infrastructure projects have been completed will continue for 2017/18. This infrastructure includes the through taxiway, 2 additional stands, T2 baggage system and the T2A to T2B Track Transit System.</p>	
<p>6. AOB</p> <p>AG said the guide price approach was formulaic and questioned the need for a 12 week consultation. RS said that will raise this matter with HAL and informed the group that the 12 week period was a result of governance requirements.</p> <p>RS also confirmed that HAL Property would look to agree rent reviews in principle with occupiers ahead of the Guide Prices being finalised so that once the Guide Prices were published these rent reviews could be documented without undue delay.</p> <p>JF queried whether this was actually a consultation given the transparent and formulaic nature of the process and AG explained that it was an information forum as well as a consultation meeting.</p> <p>AA asked why the rents do not decrease and only increase. RS explained that where the formula resulted in a decrease in the Guide Prices then this reduction would not be passed on immediately but it would be “banked” and applied against future increases. This was consistent with the objective of minimising peaks and troughs.</p> <p>AA queried what the significance was of the 1 year, 2 year and 3 year percentage increases to which RS gave an explanation.</p> <p>RS asked if there were any other questions or comments, none were made by the attendees.</p>	
<p>RS then closed the meeting and confirmed that the deadline for any written responses to the consultation document is 3rd November 2017. Draft minutes would be circulated to the attendees for review. He asked that if anyone has any other questions to please get in touch.</p> <p>The Guide Prices are due to be published on 10th November 2017 and an email will be circulated to advise when this has happened</p>	

Appendix 2 – Heathrow Rental Guide Prices 2017/18

Heathrow Airport Rental Guide Prices - 2017/18

(Effective 1st April 2017)

	Rent £ sq ft per annum		Rent £ sq M per annum	
	Min	Max	Min	Max
Terminal 1				
Piers - standard ramp	£41.30	£48.90	£444.56	£526.35
Terminal 2				
CIP - T2A		£87.23		£938.91
CIP - T2B		£82.87		£892.05
T2A - Landside offices/support accom		£76.46		£823.03
T2A - Airside offices/support accom		£62.87		£676.77
T2A - Airside apron level support accom (Ramp)		£49.30		£530.62
T2B - Apron level support accom (Ramp)		£48.90		£526.35
Terminal 3				
North Wing		£66.08		£711.30
South Wing		£73.41		£790.18
East Wing		£71.05		£764.72
Departures ground floor R/O check-in		£56.18		£604.71
Departures ground floor off back corridor		£49.56		£533.47
Infill Offices		£73.41		£790.18
CIP - Departures		£82.62		£889.31
CIP - Arrivals	£78.46	£82.62	£844.53	£889.31
Piers - standard ramp	£41.30	£48.90	£444.56	£526.35
Building 820				
First and Second Floor		£58.77		£632.54
Ground Floor		£61.95		£666.84
Bays		£38.52		£414.61
D'Albiac House				
Bays		£34.67		£373.19
Offices (Outer offices)		£53.21		£572.72
Offices (Inner offices)		£51.72		£556.67
Terminal 4				
NE Extension, Balcony		£73.41		£790.18
Departures rear of check in		£56.18		£604.71
Mezzanine airside		£52.88		£569.22
Standard ramp	£41.30	£48.90	£444.56	£526.35
CIP		£82.62		£889.31
Terminal 5				
CIP - T5A		£90.86		£978.03
CIP - T5B/C		£86.33		£929.22
T5A - Landside offices/support accom		£79.65		£857.33
T5A - Airside offices/support accom		£65.49		£704.96
T5A - Airside apron level support accom (Ramp)		£51.35		£552.73
T5B/C - Airside offices/support accom		£62.38		£671.46
T5B/C - Apron level support accom (Ramp)		£50.12		£539.54
Desk Frontage Rates - All Terminals				
Check-In		£567.04		£1,860.33
Sales and Reservation		£1,174.01		£3,851.71
Transfer		£567.04		£1,860.33
Information		£870.54		£2,856.05

Unless otherwise stated:

The rents are exclusive of Maintenance Rent and Heating Rent or Service Charge.

All rents (except CIP) assume measurement based on net internal area.

A discount of 10% is given for No Natural Light, unless all the accommodation in the category has no natural light.

Where there is a price range, actual charge will be based on the overall quality and location of accommodation.

Typically, new build will be at the top of range.