

Heathrow Airport

Terminal 2 Property Rents

Decision Document

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Prepared by: Heathrow Airport Limited

Status: Final

Contents

Executive Summary Page

Chapter		Page No.
1.	Introduction and Consultation Programme	4
2.	Review of Responses and Decision	6
3.	Implementation Timescale	12
Annexes		
A.	Terminal 2 Guide Prices (2011/12 prices)	
B.	List of respondents	

Executive Summary

- Heathrow Airport Ltd (Heathrow) commenced its consultation to set Property Rent Guide Prices for Terminal 2 on 26th May 2011. The proposal was to set Property Rent Guide Prices for Terminal 2 at the same level as Terminal 5.
- Heathrow has decided that it will revise the Guide Prices for Terminal 2 to take into account some terminal infrastructure not being available from the expected opening date .
- Heathrow's decision was informed by user consultation meetings, bilateral meetings with users and written responses to the proposal. The consultation meetings were held on 3rd June 2011, 20th July 2011, 7th October 2011 and 27th April 2012.
- Heathrow received eight written user responses to the consultation.
- The Guide Prices for Terminal 2 will be effective immediately for rental discussions with ingoing occupiers and will be added to the annually published Guide Prices with effect from 1st April 2014 in the proposed year of opening.

Chapter 1

Introduction and Consultation Programme

Purpose

- 1.1 Heathrow proposed Property Rental Guide Prices for Terminal 2 for consultation and the purpose of this document is to set out Heathrow's decision following consultation.
- 1.2 The schedule of Guide Prices is contained in Annex A.
- 1.3 The Guide Prices for Terminal 2 will be effective immediately for rental discussions with ingoing occupiers and will be added to the annually published Guide Prices with effect from 1st April 2014 in the proposed year of opening.

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 the majority of standard property products. As new Terminal infrastructure is developed or demolished the schedule of Guide Prices is amended to reflect the changes in infrastructure.
- 1.5 As part of the engagement with occupiers of the new Terminal 2, Heathrow has consulted with all property users over the level of rents for the new property space.

Consultation Programme

- 1.6 The consultation process was launched on 26th May 2011.
- 1.7 Heathrow initially requested written responses by 30th June 2011; however this was later extended to 14th September 2011.
- 1.8 The Consultation programme Heathrow has followed is as follows:-

Table 1

Date	Event
26 th May 2011	Heathrow published Consultation document
3 rd June 2011	Consultation meeting
10 th June 2011	Consultation document addendum issued – Extension of time for user feedback
20 th July 2011	Consultation meeting
19 th August 2011	Consultation document addendum issued – Further information on how Terminal 5 rents were assessed
14 th September 2011	Written responses due from users
7 th October 2011	Consultation meetings
27 th April 2012	

Further Information

1.9 This document informs all users of Heathrow's decision and concludes this Consultation on Property Guide Price Rents for Terminal 2.

1.10 If you have any questions on the decision please contact:

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1.10.1 The following chapters in this document set out the comments raised by users and the solutions discussed prior to Heathrow making a final decision.

Chapter 2

Review of Responses and Decision

- 2.1 There were eight written responses to Heathrow's proposal, a list of responders is contained in Annex B.
- 2.2 In this chapter we set out the proposals and give a brief summary of the points made by the respondents. We then go on to consider those responses and set out Heathrow's decisions on the proposal.

Objectives

- 2.3 Establish property rent guide prices for Terminal 2 for assimilation into the Heathrow Property Rent Guide Price regime with effect from 1st April 2014.
- 2.4 Maintain consistency between guide price rents across the Heathrow estate.

Proposal

- 2.4 All standard terminal accommodation at Heathrow has property rents listed on the guide price schedule.
- 2.5 The proposal for Terminal 2 was to apply the same level of rent as applied to Terminal 5. This proposal applied the existing level of rent for Terminal 5 which represents a benchmark for new terminal infrastructure.

Responses

Set out in the attached table is a summary of the user responses and Heathrow's assessment.

	Property User Responses	Heathrow Assessment
1.	Heathrow should maintain rental relativities between old and new terminal estates and assimilate into the guide price structure.	The principle of charging a higher level of rent for new terminal infrastructure was established when Terminal 5 rents were assessed. Heathrow agrees that rents should be assimilated into the Guide Price structure.
2.	A comparison of operational infrastructure between T1/3/4 with T5 and T2 shows T2 is inferior to T5 for the following reasons:- <ol style="list-style-type: none">1. surface access,2. passenger car parking,3. crew screening.	There are differences between T5 and T2 in terms of surface access, however there is no material difference in the availability of road and rail services. T2 will have a multi-storey car park, access to business and long stay car parking products. The reference to the difference in crew screening in T5 was to a dedicated crew facility, this is a separate facility funded by British Airways for their own staff.
3.	There are operational constraints with T2 phase 1 i.e. <ol style="list-style-type: none">1. No Track Transit System (TTS) between T2A and B2. No new departures baggage system until phase 2,3. Baggage operation split between T1 and T2.4. Pier service level.	Heathrow acknowledges the TTS between T2A and B, the departures baggage system and the through taxiway are differences between T2 and T5. The level of pier service is still work in progress. The provision of the through taxiway is due to be completed during Q6.

	5. Through taxiway.	
4.	T2 Phase 1 will be full from day 1 and has no scope for airline growth.	How full the terminal will be is uncertain, a second phase to T2A and an additional satellite will provide additional capacity as required through the airport master plan. This expansion would be subject to capacity requirements and capital investment consultation.
5.	T5 rents were not consulted on by Heathrow, full details requested.	The rents for T5 were consulted through the AOC Rents Group, the established process at the time. Details of how the rents were assessed were contained in the Consultation Document Addendum dated 19 th August 2011.
6.	No offer of rent free periods, transition plan or rental incentives for T2.	No rent free periods will be made available to occupiers of Terminal 2; however the Airline Relocations Policy will apply and contains certain arrangements to help certain classes of relocating airlines.
7.	Request for all airlines to be provided with opportunity to put forward rents proposal.	The consultation process allowed the opportunity for all property users to put forward their own proposals. Some users did put forward their own proposals.
8.	Alternative rent proposals were put forward 1. T2 premium over T1/3/4 +2.5%. Further discounts for inferior operational infrastructure and constraints. 2. T2 premium +0.5% per annum over T5 to reflect "newness" of infrastructure i.e. +2%.	Heathrow does not believe that the correct starting point for assessing T2 rents is CTA/T4; the correct starting point is to take T5 rents because it is the closest comparable terminal building in terms of age, design and functionality. Heathrow does not believe that T2 should reflect a premium over T5 because there is no significant difference in "newness" between the terminals.
9.	Review rents when Terminal 2 build complete.	Unfortunately property occupiers require rental levels for budgeting and agreements will need to be entered into prior to the completion of the Terminal. As a result of these factors published rents are required now.
10.	Adjust rents to take into account individual airline operational impacts.	The rents for property space are consistently applied across other terminals and property occupiers. A move to take into account individual airlines operational changes and reflect this in the rent for space would lead to inconsistency in charging.
11.	Request for property information packs for T2	Property information packs are being produced by the Terminal 2 project team, with CIP lounges as the priority.
12.	T2 Guide Prices should exclude the indexation banking currently undertaken with the Guide Prices.	Indexation banking is a temporary arrangement to deal with an unexpected decrease in the rents formula. The rents for Terminal 2 are being assessed in comparison with the other terminal infrastructure at Heathrow, therefore regardless of indexation banking comparable levels of rent will be charged.
13.	There was no rent increase at T4 following refurbishment, so why should T2 rents be higher than CTA rents?	The refurbishment of Terminal 4 was taken into account in assessing the rebased Guide Prices in 2008.
14.	T2 phase 1 was to be delivered for	The timing of Terminal 2 delivery has

	occupation in 2012 with full delivery in 2016.	changed from the original programme; however this does not affect the level of rent charged for property space.
15.	T2 will be occupied by 18 airlines as against 1 in T5 with its opportunity of combined use of premises.	The number or combination of airline occupiers has no bearing on the level of Guide Price rents.
16.	Should Heathrow address the issues of difference between T5 and T2 infrastructure then a comparative rent approach with T5 would be reasonably considered.	Heathrow acknowledges that there are some infrastructure differences, notably; Terminal 2 will use the Terminal 1 departures baggage system, lack of a Track Transit system between Terminal 2A and 2B, The completion of the through taxiway between Terminal 2A and 2B.
17.	The Central Terminal Area has better passenger connectivity to heavy rail, national and local bus and underground compared to T5.	Both Terminal 5 and Terminal 2 have connectivity to the same transport networks, but delivered in different ways given their different locations within the Heathrow campus. Heathrow does not believe this is a material consideration for establishing rents at Terminal 2.
18.	T2 has improved passenger access to CIP lounges over T5.	The design of Terminal 2 is different to Terminal 5, including the access arrangements for CIP lounges. Access to lounges differs across terminals and has not been a material factor in assessing Guide Price rents

Decision

Key Principles:

1. There are some items of infrastructure which will not be available at the opening of T2 but will become available post T2 opening. See Table1.
2. The T2 rents will fall within the Guide Price range between the CTA / T4 and T5 for equivalent space types.
3. The Property rents for a completed Terminal 2 will be aligned to Terminal 5 property rents.
4. Rental discounts to the T2 headline rent Guide Prices to apply for an interim period until defined infrastructure issues are resolved.
5. No discounted rent shall be less than the current CTA/T4 Guide Price for the relevant space type.

Mechanics:

The Property Rental Guide Prices are published annually with effect from 1st April. The published T2 Guide Prices will initially include a discount. This rental discount will be removed from the headline Guide Prices published to be effective 1 April following the achievement of the milestone for resolution of the relevant infrastructure issue (see Table 1).

The rents paid by property customers under their property agreement will change at the next rent review or lease renewal following the change in Guide Price using the published tariff applicable at the relevant review/renewal date. The Guide Prices will generally provide the basis for non-tariff terminal related accommodation types where there is no Heathrow wide common charging.

Desks will remain at Heathrow wide charging levels.

Other charges payable under Property agreements are unaffected by the discounts e.g. heating, maintenance and refuse charges.

The methodology for calculating the T2 Guide Prices annually whilst the Infrastructure discounts remain are as follows:-

a) Apply Guide Price indexation to the T2 Headline Guide Price categories WEF 1 April annually, i.e. the Guide Prices for T2 without infrastructure discounts.

b) Apply the total cumulative % discount to the T2 Headline Guide Price categories according to the number of Infrastructure Issues remaining as at 1 April for that guide price year.

The commercial impacts on Heathrow's range of charges due to the stated infrastructure issues shall only be reflected here. Discounts against other charges for these issues will not be available. If this is found to be the case, double counting shall be addressed by removal of the discount from rents or the appropriate other Heathrow charge.

The defined Infrastructure Issues and Milestones for removal of discounts are:

Table 1

Infrastructure not available for opening of Terminal 2	Indicative Date for Delivery	Milestone for removal of discount from Guide Prices	Guide Price discount
1. Completion of through taxiway and stands 234-235	c. 2016	Completion of through taxiway between T2 A&B and operational availability of stands 234-235	1%
2. Completion of T2 baggage system	c. 2020+	Commissioning of baggage ring main tunnel connectivity to the T1/T2 baggage system Commencement of departures baggage processing within T2A	2%
3. Track Transit System linking T2A and T2B	c. 2020+	Commencement of TTS operations between T2A and T2B	1%

The Guide Prices and comparisons are set out in the following table (figures are in 2011-2012 Guide Price year values and subject to future indexation in line with the Heathrow Guide Prices):-

Table 2

Guide Price Category	T5 Guide Prices (benchmark)	CTA/T4 Guide Prices (existing)	Discounted Guide Prices at T2 (4% initial discount)
T2A – CIP	£77.31	£70.30	£74.22
T2B – CIP	£73.46	£70.30	£70.52
T2A – Landside Office and Support Accommodation - all levels	£67.77	£62.46	£65.06
T2A – Airside Office and Support Accommodation (Excl apron level)	£55.73	£52.03*	£53.50
T2A – Airside Apron Level Support Accommodation (Ramp)	£43.69	£41.61	£41.94
T2B – Apron Level Support Accommodation (Ramp)	£42.65	£41.61	£41.61 **

* No direct CTA/T4 equivalent. Rate shown is midway between ramp and landside office rate using same principle applied at T5/T2 for illustration.

**T2B Apron Level Support Accommodation retained at T1 Pier level of rent.

The following table illustrates movement of Guide Prices as the infrastructure issues are incrementally resolved, with discounts progressively removed as a result. All prices are in 2011/12 prices. Note this does not include the effect of Guide Price indexation which would apply to the headline guide price according to future movements in Guide Prices which would then be subject to the appropriate infrastructure discount.

Table 3

Guide Price Category	Initial T2 Headline Guide Prices	Initial Guide Prices payable (e.g. 2014)	Guide Prices payable WEF 1 April following resolution of infrastructure issue 1:	Guide Prices payable WEF 1 April following resolution of infrastructure issues 1 & 2:	Guide Prices payable WEF 1 April following resolution of infrastructure issues 1,2 & 3:
Total discount		(4% discount)	(3% discount)	(1% discount)	(0% discount)
T2A - CIP	£77.31	£74.22	£74.99	£76.54	£77.31
T2B - CIP	£73.46	£70.52	£71.26	£72.73	£73.46
T2A – Landside Office and Support Accommodation - all levels	£67.77	£65.06	£65.74	£67.09	£67.77
T2A – Airside Office and Support Accommodation (Excl apron level)	£55.73	£53.50	£54.06	£55.17	£55.73
T2A – Airside Apron Level Support Accommodation (Ramp)	£43.69	£41.94	£42.38	£43.25	£43.69
T2B – Apron Level Support Accommodation (Ramp)	£42.65	£41.61	£41.61	£42.22	£42.65

Chapter 3

Implementation Timescale

The Property Rental Guide Prices will be used for the letting of space in T2A and T2B. The schedule of prices will shadow the published Rental Guide Prices until they are added to the Guide Price Schedule on 1st April 2014, prior to T2 opening.

Annex A

Terminal 2 Guide Prices (2011/12 prices)

Guide Price Category	Guide Prices £ per sq foot	Guide Prices £ per sq metre
T2A - CIP	£74.22	£798.90
T2B - CIP	£70.52	£759.07
T2A – Landside Office and Support Accommodation - all levels	£65.06	£700.30
T2A – Airside Office and Support Accommodation (Excl apron level)	£53.50	£575.87
T2A – Airside Apron Level Support Accommodation (Ramp)	£41.94	£451.44
T2B – Apron Level Support Accommodation (Ramp)	£41.61	£447.89
Desk Frontage Rates	£ per foot	£ per metre
Check-in	£499.12	£1,637.51
Sales and Reservation	£1,033.39	£3,390.35
Transfer	£499.12	£1,637.51
Information	£766.26	£2,513.95

Notes:-

1. See chapter 2 of the Terminal 2 Guide Price Decision Document for details of how the Terminal 2 Guide Prices are calculated.
2. All rents are in 2011/12 prices and subject to indexation in line with the Guide Price formula.
3. Rents include an initial 4% discount to the headline rents for Terminal 2.
4. Desk frontage rates are the same across all terminals.

Annex B

List of Respondents

- Air Canada
- Air New Zealand Limited
- British Airways plc
- BMI British Midland
- Lufthansa German Airlines
- South African Airways
- Turkish Airlines
- United Air Lines Inc