

Heathrow Airport – Property Rents 2018/19

Decision Document

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Prepared by: Heathrow Airport Limited

Status: Final

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1.0 Introduction and Consultation Programme

Purpose

- 1.1 Heathrow Airport Limited (Heathrow) has reviewed the Property Rental Guide Prices for 2018/19. The purpose of this document is to set out Heathrow's decision.
- 1.2 Heathrow has increased the Guide Price Rents by 2.94% for 2018/19.
- 1.3 The 2018/19 Rental Guidelines are effective from 1st April 2018.

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 are being reviewed again this year.
- 1.11 The consultation sought views on increasing rents by 2.94%

Consultation Programme

- 1.12 The consultation was launched on 4 July 2018 with the publication of the Consultation Document. An open consultation meeting was held on 26 July 2018 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 communication sent out on 5 July 2018.

1.14 The Consultation programme followed by Heathrow was:

| Date | Milestone |
|-------------------|---|
| 4 July 2018 | Heathrow publish consultation document on Heathrow 2018/19 rental proposals |
| 26 July 2018 | Consultation meeting. |
| 31 August 2018 | Property customer written responses due |
| 10 September 2018 | Heathrow publishes 2018/19 rents effective from 1 st April 2018 |

Further Information

1.15 This document informs all users of Heathrow’s decision and concludes this Consultation on Heathrow Property Guide Price Rents 2018/19.

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 26 July 2018 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 |
|--|---|
| Because Guide Prices are agreed after the effective date of 1 st April, several rent reviews will result in retrospective adjustments and back billing. | HAL Property would look at ways of bringing forward the consultation meeting and calculate the Guide Price as soon as the IPD Annual Property indexes become available for the preceding year. |
| Please clarify whether the Guide Prices apply to Property buildings on the Perimeter and CTA. | The Guide Price rates apply mainly to standard types of accommodation (e.g. lounges, offices, ramp, etc.) while many of the buildings in the CTA and Perimeter have a more specialised type of use. If the property location is not specifically referenced, then, in the absence of an explicit alternative valuation model/or a material change in circumstances contained within the lease, then the “custom and practice” |

| User Comment | Heathrow Response |
|--------------|--|
| | approach has been to mirror the Guide Price increase by the same percentage for the relevant period. |

3.0 Summary of Decision

- 3.1 The decision is to increase the Rental Guide Prices by the 2.94% calculated using the rental formula, with effect from 1 April 2018.
- 3.2 A full schedule of the rents is attached at Appendix 2.

4.0 Implementation Timescale

- 4.1 The 2018/19 Guide Prices are effective from 1 April 2018 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:

Heathrow AOC

Royal Dutch Shell

Aviation Fuel Services Ltd

Lambert Smith Hampton

ASIG

Yotel

Appendix 1 – Guide Price Rents 2018/19 Consultation Meeting Minutes

Meeting subject: Heathrow Guide Price Rents 2018/19 Consultation Meeting

Meeting location: Hyatt Place Heathrow, Bath Road - Meeting Room 6

Date/Time: 26 July 2018 09:00 – 11:00 hours

Present:

| | |
|-----------------------|--|
| Roberto Segala (RS) | Heathrow Airport Ltd |
| Sharan Chahal (SC) | Heathrow Airport Ltd |
| Diane Daniels (DD) | Heathrow Airport Ltd |
| Simon Arthur (SA) | Heathrow AOC |
| Andrew Gilling (AG) | Heathrow AOC |
| Antony Cooper (AC) | Cushman & Wakefield for British Airways |
| Clive Redding (CR) | LSH (Proxy Virgin Atlantic, Menzies and DNATA) |
| Mahadi Mohdbakri (MM) | Malaysia Airlines |
| Joao Soeiro (JS) | Plaza Premium Lounge |
| Edward Green (EG) | Shell |
| Ignatius Dsouza (ID) | Jet Airways |
| Jacinta Waweru (JW) | Kenya Airways |
| Julia Adams (JA) | Kenya Airways |
| Tony Margerison (TM) | ASIG |
| Niru Vaghela (NV) | Aviation Fuel Services Ltd |
| Darcy Lane (DL) | Aviation Fuel Services Ltd |

RS welcomed everyone to the 2018/19 Rents Consultation.

AGENDA ITEMS:

- Overview of Rents Consultation
- Consultation Timetable
- Guide Price Formula
- 2017/18 Guide Price Change
- Terminal 2 Guide Prices

RS, SC and DD from the HAL Property team introduced themselves and briefly explained their roles. Participants to the meeting also briefly introduced themselves. RS said that he would be happy to answer any questions during or after the presentation.

1. Overview

RS gave an overview of the consultation, outlining that this is for the 2018/19 Guide Price change. RS highlighted that the desk frontage rates form part of this year consultation, following the normal 2-year cycle which saw them last uplifted in 2016/17. He also confirmed that T2 Guide Prices retain the 4% discount for 2018/19.

2. Timetable

RS confirmed the consultation started on 4th July 2018 with Property publishing on the Heathrow website the consultation paper on 2018/19 rental proposals. The closing date for any written customer responses is 31st August 2018 with the 2018/19 guide price rents being confirmed on 7th September 2018.

RS explained that this year the consultation period has been shortened from 12 weeks to 4 weeks. This is based on specific feedback received from the AOC and the tenants at past consultation meetings where it was said that the guide price approach is formulaic and does not require 12 weeks of consultation.

3. Formula

RS presented the formula that has been used to calculate the 2018/19 guide price rents using Passenger numbers, RPI and the Investment Property Databank (IPD) indices for Central, Outer and West London.

RS then presented the formula calculation for 2018/19 which generated a +2.94% change.

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.

The change in guide prices over the last few years would mean the following increases:

1 year increase: +2.94%
2 year increase: +5.91%
3 year increase: +9.83%

EG asked whether consideration should be given on replacing the RPI index with the CPI index. RS explained that one of the benefits of the formula is consistency and the RPI index has been used since 1996. HAL Property would consider reviewing the formula if there is a strong justification for the change.

SA asked what was the source of the RPI figure used in the formula. RS said the source was www.ons.gov.uk Retail Price Index – All Items (Table 36)

4. Guide Price Changes

RS advised how the T4 CIP rent is used as a baseline to analyse the bi-annual and 3 yearly % Guide Price change. This rent is used as it has been consistent and was not varied during the rent rebasing in 2008.

5. Terminal 2 Guide Price Rents

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 2018/19. This infrastructure includes the through taxiway, 2 additional stands, T2 baggage system and the T2A to T2B Track Transit System.

6. AOB

DL said that because Guide Prices are agreed after the effective date of 1st April, a number of rent reviews will result in retrospective adjustments and back billing.

RS responded that HAL Property would look at ways of bringing forward the consultation meeting and calculate the Guide Price as soon as the IPD Annual Property indexes become available for the preceding year.

CR said that the service provision should be better and certain failings, such as air conditioning, should not happen considering the level of rent paid by the tenants. RS responded that HAL Property is working closely with HAL Engineering to ensure service management keeps improving. An example is the recent migration of the Engineering Help Desk from the BSC to APOC, which has resulted in a faster response time to faults.

TM - ASIG asked for information on the project for Stand 574 saying that they have not been contacted by the project team. RS said that he will seek more information on the current status of the project.

Aviation Fuel Services asked whether the Guide Prices apply to Property buildings on the Perimeter and CTA. RS explained that the Guide Price rates apply mainly to standard types of accommodation (e.g. lounges, offices, ramp, etc.) while many of the buildings in the CTA and Perimeter have a more specialised type of use. If the property location is not specifically referenced, then, in the absence of an explicit alternative valuation model/or a material change in circumstances contained within the lease, then the "custom and practice" approach has been to mirror the RGP increase by the same percentage for the relevant period.

RS asked if there were any other questions or comments, none were made by the attendees.

RS then closed the meeting and confirmed that the deadline for any written responses to the consultation document is 31st August 2018. Draft minutes would be circulated to the attendees for review. He asked that if anyone has any other questions to please get in touch.

The Guide Prices are due to be published on 7th September 2018 and an email will be circulated to advise when this has happened.

END

Appendix 2 – Heathrow Rental Guide Prices 2018/19

Heathrow Airport Rental Guide Prices - 2018/19

(Effective 1st April 2018)

| | Rent £ sq ft per annum | | Rent £ sq M per annum | |
|--|------------------------|-----------|-----------------------|-----------|
| | Min | Max | Min | Max |
| Terminal 1 | | | | |
| Piers - standard ramp | £42.52 | £50.34 | £457.63 | £541.82 |
| Terminal 2 | | | | |
| CIP - T2A | | £89.79 | | £966.52 |
| CIP - T2B | | £85.31 | | £918.28 |
| T2A - Landside offices/support accom | | £78.71 | | £847.23 |
| T2A - Airside offices/support accom | | £64.72 | | £696.66 |
| T2A - Airside apron level support accom (Ramp) | | £50.75 | | £546.22 |
| T2B - Apron level support accom (Ramp) | | £50.34 | | £541.82 |
| Terminal 3 | | | | |
| North Wing | | £68.02 | | £732.21 |
| South Wing | | £75.57 | | £813.41 |
| East Wing | | £73.13 | | £787.21 |
| Departures ground floor R/O check-in | | £57.83 | | £622.49 |
| Departures ground floor off back corridor | | £51.02 | | £549.16 |
| Infill Offices | | £75.57 | | £813.41 |
| CIP - Departures | | £85.05 | | £915.46 |
| CIP - Arrivals | £80.77 | £85.05 | £869.36 | £915.46 |
| Piers - standard ramp | £42.52 | £50.34 | £457.63 | £541.82 |
| Building 820 | | | | |
| First and Second Floor | | £60.49 | | £651.14 |
| Ground Floor | | £63.77 | | £686.45 |
| Bays | | £39.65 | | £426.80 |
| D'Albiac House | | | | |
| Bays | | £35.69 | | £384.17 |
| Offices (Outer offices) | | £54.77 | | £589.56 |
| Offices (Inner offices) | | £53.24 | | £573.04 |
| Terminal 4 | | | | |
| NE Extension, Balcony | | £75.57 | | £813.41 |
| Departures rear of check in | | £57.83 | | £622.49 |
| Mezzanine airside | | £54.44 | | £585.96 |
| Standard ramp | £42.52 | £50.34 | £457.63 | £541.82 |
| CIP | | £85.05 | | £915.46 |
| Terminal 5 | | | | |
| CIP - T5A | | £93.53 | | £1,006.79 |
| CIP - T5B/C | | £88.87 | | £956.54 |
| T5A - Landside offices/support accom | | £81.99 | | £882.53 |
| T5A - Airside offices/support accom | | £67.42 | | £725.69 |
| T5A - Airside apron level support accom (Ramp) | | £52.86 | | £568.98 |
| T5B/C - Airside offices/support accom | | £64.21 | | £691.20 |
| T5B/C - Apron level support accom (Ramp) | | £51.60 | | £555.40 |
| Desk Frontage Rates - All Terminals | | | | |
| Check-In | | £603.83 | | £1,981.03 |
| Sales and Reservation | | £1,250.20 | | £4,101.64 |
| Transfer | | £603.83 | | £1,981.03 |
| Information | | £927.03 | | £3,041.39 |

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.