

Heathrow Airport – Property

Guide Price Rents 2014/15 Decision Document

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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	5
4.0	Implementation Timescale.....	5
5.0	List of Respondents.....	5
	Appendix 1 – Guide Price Rents 2014/15 Consultation Meeting Minutes	6
	Appendix 2 – Heathrow Rental Guide Prices 2014/15	9

1.0 Introduction and Consultation Programme

Purpose

- 1.1 Heathrow Airport Limited (Heathrow) has reviewed the Property Rental Guidelines for 2014/15. The purpose of this document is to set out Heathrow's decision.
- 1.2 Heathrow has increased the Guide Price Rents by 3.15% for 2014/15.
- 1.3 The 2014/15 Rental Guidelines are effective from 1st April 2014.

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.
- 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 with the AOC Rents Group.
- 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, and are reviewed this year with effect from 1st April 2014.
- 1.11 The consultation sought views on increasing rents by 3.15%

Consultation Programme

- 1.12 The consultation was launched on 6th August 2014 with the publication of the Consultation Document. An open consultation meeting was held on 2nd September 2014 to seek feedback on the proposals.
- 1.13 The consultation documents along with minutes from the consultation meeting have been available on the Heathrow website. Heathrow communicated the consultation documents and an invitation to a consultation meeting on 2nd September 2014, to property users and the AOC via an e-mail communication sent out on 8th August 2014.

1.14 The Consultation programme Heathrow has followed was:

Date	Milestone
6 th August 2014	Heathrow publish consultation document on Heathrow 2014/15 rental proposals
2 nd September 2014	Consultation meeting
15 th October 2014	Property customer written responses due
29 th October 2014	Heathrow publishes 2014/15 rents effective from 1 st April 2014

Further Information

1.15 This document informs all users of Heathrow's decision and concludes this Consultation on Heathrow Property Guide Price Rents 2014/15.

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 2nd September 2014 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
Query over how the 3 year % change in Guide Prices is calculated?	The Guide Prices change annually in line with the change in the formula. Over a 3 year period, the % change would be 6.48% based on the % change between the 2011/12 (£70.30 psf) and the 2014/15 (£74.86 psf) rent for a CIP lounge. The calculation would be $((£74.86 - £70.30) / £70.30) \times 100$.
When will stands 234/5 and the through taxiway between T2A and B be completed and the T2 rent discount unwind?	The rents on T2 are discounted by up to 4% until a series of infrastructure items are delivered (Please see the T2 Guide Price Rents Decision Document, attached to the consultation document, for further details). The completion of stands 234/5 and the through taxiway is currently anticipated to be delivered in late 2017. This will mean the Guide Prices for T2 will increase by 1% when the next Guide Prices are published

	i.e. 1 st April 2018.
Why do IPD delay producing data for the formula?	The IPD property index is required to complete the formula calculation. The data provided by IPD is bespoke for the Heathrow rents formula and takes time for IPD to calculate and audit for accuracy. When challenged on the timescale for producing the annual data, IPD suggested using the annual change in their quarterly index; this could be evaluated for use in future years.

3.0 Summary of Decision

- 3.1 The decision is to increase the Rental Guide Prices by the 3.15%, calculated using the rental formula, with effect from 1st April 2014
- 3.2 A full schedule of the rents is attached at Appendix 2.

4.0 Implementation Timescale

- 4.1 The 2013/14 Guide Prices are effective from 1st April 2014 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:-
British Airways
Virgin Atlantic Airways

Appendix 1 – Guide Price Rents 2014/15 Consultation Meeting Minutes

Meeting title/subject: Heathrow Guide Price Rents 2014/15 Consultation Meeting

Meeting location: Jo 'Burg & Kuala Lumpur Meeting Room at the Compass Centre

Date/Time: 2 September 2014 at 1130-1230 hours

Present:

John Arbuckle	Heathrow Airport Ltd
Gary Peacock	Heathrow Airport Ltd
Steve Barnes	British Airways
Andrew Gilling	British Airways and Heathrow AOC
Amgad Shaheen	British Airways
Anna Potenza	Cushman and Wakefield for British Airways
Joanna Jukes	Cushman and Wakefield for British Airways
Luca Bevilacqua	ASC Cargo
Diane Brady	ASC Cargo
Clive Redding	Lambert Smith Hampton for Virgin Atlantic Airways

<i>Description:</i>	<i>Action</i>
<p>AGENDA ITEMS:</p> <ul style="list-style-type: none"> • Overview of Rents Consultation • Timetable for consultation • Formula for calculating changes in guide price rents • Terminal 2 Guide price rents <p>JA welcomed everyone to the consultation meeting, introduced himself and Gary Peacock. JA confirmed Gary would take minutes of the meeting for circulation to attendees following the meeting. JA said he would be happy to answer any questions during or after the presentation.</p>	
<p>1. Overview</p> <p>JA gave an overview of the consultation document, how the guide price rent changes are calculated using RPI change, IPD and Passenger numbers. JA then discussed how this would be applied to calculate the 2014/15 proposed guide price rents and the desk frontage guide price changes.</p>	

<i>Description:</i>	<i>Action</i>
<p>2. Timetable</p> <p>JA confirmed the consultation started on 6th August, with the closing date for any written customer responses being 15th October 2014 and the 2014/15 guide price rents being confirmed on 29th October 2014.</p>	
<p>3. Formula</p> <p>JA presented the formula that had been used to calculate the 2014/15 guide price rents using Passenger numbers, RPI and the Investment Property Databank (IPD) property rents for central, outer and West London.</p> <p>JA then talked through the geographical map of the IPD areas that are used in this formula.</p>	
<p>4. Terminal 2 Guide Price Rents</p> <p>JA confirmed that the 4% discount on rents would remain in place until the key infrastructure was completed. This infrastructure includes the taxiway planned for 2016 and the TIS system and T2 baggage infrastructure due post 2020 in Q7.</p> <p>SB asked for confirmation on the date that the taxiway crossing will be delivered as the 4% discount will be reduced once these key pieces of infrastructure come online.</p> <p>JA confirmed that the 4% guide price discount would reduce in line with the infrastructure provision set out in the T2 guide price rents decision document (A copy is attached to the Guide Price Consultation document) and that he would confirm the date that the T2 taxiway infrastructure is due to be completed.</p>	JA
<p>5. AOB</p> <p>AG questioned why the consultation process on guide price rents was so long and that this had an impact on budgetary planning due to most parties' accounts closing at the end of the year.</p> <p>JA confirmed that Heathrow's standard process for consultation required a 12 week consultation but noted AG challenge to the timescale. JA said he would look at this internally to see if the timescale could be reduced for future consultations.</p> <p>CR asked what specifically slowed the consultation process down.</p> <p>JA said that it was the IPD calculation and index that was required before the rents consultation document could be published but that he was looking to identify ways to speed this up. JA said IPD when challenged on the timescale for producing the annual data, suggested using the annual change in their quarterly index. JA said he would investigate this to see how this could speed up the consultation</p>	

<i>Description:</i>	<i>Action</i>
<p>process for future years.</p> <p>JA asked if there were any other questions or comments, none were made by the attendees.</p>	
<p>JA used a graph plotting the changes in passenger numbers, RPI, IPD and the Guide Price since 2006 which illustrated the effect of the formula in plotting a steady change in rents avoiding the peaks and troughs of the off airport</p> <p>The formula for the 2014/15 guide price rent calculations showed that guide prices would increase as follows:-</p> <p>1 year increase – 3.15%</p> <p>2 year increase – 5.31%</p> <p>3 year increase – 6.48%</p>	
<p>CR noted that the sum total of the 3 annual increases totalled 6.36%, a variance of 0.12% on the 3 year increase total communicated. JA confirmed that the calculation would be the percentage difference in the actual guide price rent over the last 3 years but that he would confirm the exact percentage.</p>	JA
<p>JA then closed the meeting and confirmed that the deadline for any written responses to the consultation document is 15th October 2014 and draft minutes would be circulated to the attendees for review.</p>	

Appendix 2 – Heathrow Rental Guide Prices 2014/15

Heathrow Airport Rental Guide Prices - 2014/15

(Effective from 1st April 2014)

	Rent £ sq ft per annum		Rent £ sq M per annum	
	Min	Max	Min	Max
Terminal 1				
Second floor office		£66.51		£715.95
CIP		£74.86		£805.77
Piers - standard ramp	£37.42	£44.31	£402.80	£476.90
Piers - first floor	£38.92	£45.80	£418.93	£493.04

Terminal 2				
CIP - T2A		£79.03		£850.71
CIP - T2B		£75.09		£808.26
T2A - Landside offices/support accom		£69.28		£745.72
T2A - Airside offices/support accom		£56.97		£613.19
T2A - Airside apron level support accom (Ramp)		£44.67		£480.78
T2B - Apron level support accom (Ramp)		£44.31		£476.90

Terminal 3				
North Wing		£59.87		£644.48
South Wing		£66.51		£715.95
East Wing		£64.37		£692.89
Departures ground floor R/O check-in		£50.90		£547.90
Departures ground floor off back corridor		£44.91		£483.36
Infill Offices		£66.51		£715.95
CIP - Departures		£74.86		£805.77
CIP - Arrivals	£71.09	£74.86	£765.20	£805.77
Piers - standard ramp	£37.42	£44.31	£402.80	£476.90

Building 820				
First and Second Floor		£53.24		£573.12
Ground Floor		£56.13		£604.20
Bays		£34.90		£375.67

D'Albiac House				
Bays		£31.41		£338.14
Offices (Outer offices)		£48.21		£518.92
Offices (Inner offices)		£46.86		£504.38

Terminal 4				
NE Extension, Balcony		£66.51		£715.95
Departures rear of check in		£50.90		£547.90
Mezzanine airside		£47.91		£515.75
Standard ramp	£37.42	£44.31	£402.80	£476.90
CIP		£74.86		£805.77

	Rent £ sq ft per annum		Rent £ sq m per annum	
	Min	Max	Min	Max
Terminal 5				
CIP - T5A		£82.33		£886.16
CIP - T5B/C		£78.22		£841.93
T5A - Landside offices/support accom		£72.17		£776.79
T5A - Airside offices/support accom		£59.34		£638.74
T5A - Airside apron level support accom (Ramp)		£46.53		£500.81
T5B/C - Airside offices/support accom		£56.52		£608.38
T5B/C - Apron level support accom (Ramp)		£45.42		£488.86

Desk Frontage Rates - All Terminals				
Check-In		£531.48		£1,743.69
Sales and Reservation		£1,100.40		£3,610.19
Transfer		£531.48		£1,743.69
Information		£815.95		£2,676.96

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.