

# Heathrow Airport – Property Rents 2015/16 Decision Document

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Prepared by: Heathrow Airport Limited

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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 2015/16. The purpose of this document is to set out Heathrow's decision.
- 1.2 Heathrow has increased the Guide Price Rents by 3.45% for 2015/16.
- 1.3 The 2015/16 Rental Guidelines are effective from 1<sup>st</sup> April 2015.

### 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 not reviewed this year, the next review will be with effect from 1<sup>st</sup> April 2016.
- 1.11 The consultation sought views on increasing rents by 3.45%

### Consultation Programme

- 1.12 The consultation was launched on 14<sup>th</sup> August 2015 with the publication of the Consultation Document. An open consultation meeting was held on 10<sup>th</sup> September 2015 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 10<sup>th</sup> September 2015, to property users and the AOC via an e-mail communication sent out on 18<sup>th</sup> August 2015.

1.14 The Consultation programme Heathrow has followed was:

Date	Milestone
14 <sup>th</sup> August 2015	Heathrow publish consultation document on Heathrow 2015/16 rental proposals
10 <sup>th</sup> September 2015	Consultation meeting
23 <sup>rd</sup> October 2015	Property customer written responses due
7 <sup>th</sup> November 2015	Heathrow publishes 2015/16 rents effective from 1 <sup>st</sup> April 2015

### Further Information

1.15 This document informs all users of Heathrow's decision and concludes this Consultation on Heathrow Property Guide Price Rents 2015/16.

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](mailto:property@heathrow.com)

## 2.0 Review of Responses and Decision

2.1 The comments received during the consultation meeting held on 10<sup>th</sup> September 2015 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 is there a minimum – maximum range for some types of properties?	When a building is constructed entirely at one point in time to the same standard and quality there would be a single guide price rent. However there are instances, for example, across a terminal or pier where they have been extended over time to different specifications/quality, a rental range takes this into account.
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 8.94% based on the % change between the 2012/13 (£71.08 psf) and the 2015/16 (£77.44 psf) rent for a CIP lounge. The calculation would be $((£77.44 - £71.08) / £71.08) \times 100$ .
The Guide Prices have shown growth over the years but there have been instances	There have been three historic occasions when this has happened. In each case the

User Comment	Heathrow Response
<p>where the formula has turned negative. Normally in a falling market tenants can go elsewhere and renew on better terms, what happens at Heathrow?</p>	<p>Guide Prices have been held. This is partly due the Heathrow being regulated and the decrease occurred part way through a regulatory period. In each case, following consultation, the Guide Prices were frozen and the decrease “banked”. The banked decrease was then offset against growth in future years until it was used up.</p>

### 3.0 Summary of Decision

- 3.1 The decision is to increase the Rental Guide Prices by the 3.45%, calculated using the rental formula, with effect from 1st April 2015.
- 3.2 A full schedule of the rents is attached at Appendix 2.

### 4.0 Implementation Timescale

- 4.1 The 2015/16 Guide Prices are effective from 1st April 2015 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:-

Virgin Atlantic Airways

Delta

Menzies Aviation

Global Baggage Solutions

ASIG/BBA Aviation

DNATA

All Nippon Airways

UK Border Force

## Appendix 1 – Guide Price Rents 2015/16 Consultation Meeting Minutes

Meeting title/subject: Heathrow Guide Price Rents 2015/16 Consultation Meeting

Meeting location: London Eye Meeting Room at the Compass Centre

Date/Time: 10<sup>th</sup> September 2015 at 1030-1130 hours

Present:

John Arbuckle	Heathrow Airport Ltd
Laura Halle	Heathrow Airport Ltd
Andrew Gilling	Heathrow AOC
Giles Ingham Grant	British Airways
Simon Arthur	Heathrow AOC
Marian Kelly	Air France KLM
Andy Woodall	Cushman and Wakefield for UK Border Force
Kevin Jones	Malaysian Airlines
Brendan Baker	United Airlines
Clive Redding	Lambert Smith Hampton for Virgin Atlantic Airways, Delta Menzies Aviation, Global Baggage Solutions, ASIG/BBA Aviation, Dnata and All Nippon Airways
<b>Apologies:</b>	
Olaf Guffens	Air France KLM
Ross Winn	Air New Zealand

<i>Description:</i>	<i>Action</i>
<p>JA welcomed everyone to the 2015/16 Rents Consultation.</p> <p><b>AGENDA ITEMS:</b></p> <ul style="list-style-type: none"> <li>• Overview of Rents Consultation</li> <li>• Consultation Timetable</li> <li>• Guide Price Formula</li> <li>• 2015/16 Guide Price Change</li> <li>• Terminal 2 Guide Prices</li> </ul> <p>JA introduced himself followed by introductions of other attendees. JA confirmed Laura 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>	

<i>Description:</i>	<i>Action</i>
<p><b>1. Overview</b></p> <p>JA gave an overview of the consultation, highlighting that the consultation is for the 2015/16 Guide Price change, desk frontage rates are retained at 2014 level, following the normal 2 year cycle and T2 Guide Prices retain the 4% discount for 2015/16.</p>	
<p><b>2. Timetable</b></p> <p>JA confirmed the consultation started on 14<sup>th</sup> August, with the closing date for any written customer responses being 23<sup>rd</sup> October 2015 and the 2015/16 guide price rents being confirmed on 7<sup>th</sup> November 2015.</p> <p>SA commented that the years on the slide were 2014, JA said they should have been 2015 and the slide would be updated.</p>	
<p><b>3. Formula</b></p> <p>JA presented the formula that had been used to calculate the 2015/16 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 presented the formula calculation for 2015/16 which generated a +3.45% change.</p> <p>JA 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</p> <p>The formula for the 2015/16 guide price rent calculations showed that guide prices would increase as follows:-</p> <p>1 year increase – +3.45%  2 year increase – +6.71%  3 year increase – +8.94%</p> <p>JA explained the percentage impacts over 1, 2 and 3 years with the majority of reviews are on a 3 year pattern therefore +8.94% will apply for those falling in the 2015/16 period.</p> <p>JA advised that the uplift on the previous year is +3.45% subject to rounding up to a whole penny.</p> <p>AW asked why there is a minimum-maximum range for some types of properties.</p> <p>JA responded that in instances where a building has been constructed at one point in time to a similar standard and quality then there would be a single rental level. However there are instances where, for example, across a terminal or a piers has been built in a number of phases of different types/quality and this range allows for this variation.</p>	

<i>Description:</i>	<i>Action</i>
<p>CR queried the indices for the last 3 years as he does not get the same answer, i.e. his calculations do not come to +8.94%.</p> <p>JA advised that the guide prices have been escalated consistently over the years using the annual formula change. The three yearly changes in Pricing is calculated by applying the 3.45% increase to T4 CIP rent as being consistent and not varied during the rent rebasing in 2008. The 3 yearly % changes are then calculated using the CIP rent.</p> <p>JA asked CR to share his workings and JA would be happy to look at the difference.</p> <p>AW commented that the guide prices show growth over the years but there have been instances where they have fallen. Normally in a falling market tenants can go elsewhere and renew on better terms, what happens at Heathrow?</p> <p>JA advised that there have been 3 occasions in the past when the Guide Prices indices have produced a decrease. In each case the Guide Prices have been held. This is partly due to being a regulated airport and this also fell mid-way through a regulatory period.</p> <p>In each case following consultation the Guide Prices were frozen and the decrease banked. As the formula increased it was offset by the decrease until the banked decrease was used up and the Guide Prices then started to increase again.</p> <p>AG confirmed that this was undertaken in consultation with the AOC Rents Group. It was to prevent tenants terminating on 3 months' notice to take the benefit as Heathrow has to advise on its projected income and any loss would be rolled into the next quinquennium. In the last period when rents fell they stayed constant for 6 years, eventually increasing mainly due to IPD.</p> <p>JA advised that all the previous consultations are available on the website which explains more about the mechanics should anyone wish to read them.</p>	<p>JA/CR</p>
<p><b>4. Terminal 2 Guide Price Rents</b></p> <p>JA advised that the T2 Guide Prices were consulted on in 2013 and were incorporated into the Guide Prices from 1 April 2014. He explained the 4% discount which is applied until key infrastructure projects have been completed will continue for 2015/16. This infrastructure includes the through taxiway, 2 additional stands, T2 baggage system and the T2A to T2B Track Transit System.</p>	

<i>Description:</i>	<i>Action</i>
<p><b>5. AOB</b></p> <p>JA asked if there were any other questions or comments, none were made by the attendees.</p>	
<p>JA then closed the meeting and confirmed that the deadline for any written responses to the consultation document is 23<sup>rd</sup> October 2015. 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 7<sup>th</sup> November 2015 and an email will be circulated to advise when this has happened.</p>	

## Appendix 2 – Heathrow Rental Guide Prices 2015/16

### Heathrow Airport Rental Guide Prices - 2015/16

(Effective 1st April 2015)

	Rent £ sq ft per annum		Rent £ sq M per annum	
	Min	Max	Min	Max
<b>Terminal 1</b>				
Second floor office		£68.81		£740.63
CIP		£77.44		£833.55
Piers - standard ramp	£38.71	£45.83	£416.68	£493.34
Piers - first floor	£40.26	£47.38	£433.38	£510.04

<b>Terminal 2</b>				
CIP - T2A		£81.76		£880.04
CIP - T2B		£77.68		£836.12
T2A - Landside offices/support accom		£71.67		£771.43
T2A - Airside offices/support accom		£58.93		£634.33
T2A - Airside apron level support accom (Ramp)		£46.21		£497.35
T2B - Apron level support accom (Ramp)		£45.83		£493.34

<b>Terminal 3</b>				
North Wing		£61.94		£666.70
South Wing		£68.81		£740.63
East Wing		£66.59		£716.77
Departures ground floor R/O check-in		£52.66		£566.79
Departures ground floor off back corridor		£46.45		£500.02
Infill Offices		£68.81		£740.63
CIP - Departures		£77.44		£833.55
CIP - Arrivals	£73.54	£77.44	£791.58	£833.55
Piers - standard ramp	£38.71	£45.83	£416.68	£493.34

<b>Building 820</b>				
First and Second Floor		£55.08		£592.88
Ground Floor		£58.07		£625.03
Bays		£36.10		£388.62

<b>D'Albiac House</b>				
Bays		£32.50		£349.79
Offices (Outer offices)		£49.87		£536.81
Offices (Inner offices)		£48.47		£521.77

<b>Terminal 4</b>				
NE Extension, Balcony		£68.81		£740.63
Departures rear of check in		£52.66		£566.79
Mezzanine airside		£49.57		£533.53
Standard ramp	£38.71	£45.83	£416.68	£493.34
CIP		£77.44		£833.55

<b>Terminal 5</b>				
CIP - T5A		£85.16		£916.71
CIP - T5B/C		£80.91		£870.96
T5A - Landside offices/support accom		£74.65		£803.57
T5A - Airside offices/support accom		£61.39		£660.76
T5A - Airside apron level support accom (Ramp)		£48.13		£518.07
T5B/C - Airside offices/support accom		£58.47		£629.35
T5B/C - Apron level support accom (Ramp)		£46.98		£505.71

<b>Desk Frontage Rates - All Terminals</b>				
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.

END