

# Heathrow Airport – Property Rents 2019/20 Consultation Document

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Prepared by: Heathrow Airport Limited

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## Heathrow Airport Property Rents Consultation

### **Heathrow Property Rents 2019/20**

#### **1.0 Introduction**

- 1.1. The purpose of this consultation document is to set out Heathrow's proposal for the level of property rents for 2019/20 and invite the Heathrow community to provide views on the proposals.

#### **2.0 Heathrow Property Rents 2019/20**

- 2.1. Heathrow consults with the Heathrow community on setting levels of rent from 1<sup>st</sup> April 2019
- 2.2. Heathrow is proposing to increase property rents for 2019/20 in line with the Guide Price formula. The details are set out in Schedule A. The final published Guide Prices will take effect from 1<sup>st</sup> April 2019.

#### **3.0 Consultation Programme**

- 3.1. Heathrow is inviting comments from Heathrow property customers on the proposal so that these can be considered when we make our final decision.
- 3.2. A consultation meeting will be held on Tuesday, 25 June 2019. The closing date for written comments will be Friday, 26th July 2019. Heathrow will then announce the final level of property rents by 2<sup>nd</sup> August 2019.
- 3.3. The reason why the consultation takes place after the start of the Guide Price year on 1<sup>st</sup> April is due to the late availability of the IPD data for the rents formula. The consultation period is similar in duration to that in place last year which is a shorter period than was historically employed and was agreed on the basis that the Guide Price formula is well known among Heathrow tenants and has been consistently used by Heathrow Commercial Property throughout Q6.
- 3.4. The publication of this consultation paper on 6<sup>th</sup> July 2019 is the start of the consultation by Heathrow Property on the annual setting of property rents for 2019/20.

3.5. The consultation programme is as follows:

<b>Date</b>	<b>Milestone</b>
6 <sup>th</sup> July 2019	Heathrow publish consultation document on 2019/20 rental proposals
25 <sup>th</sup> June 2019	Consultation meeting
26 <sup>th</sup> July 2019	Property customer written responses due
2 <sup>nd</sup> August 2019	Heathrow publishes 2019/20 rents effective from 1 <sup>st</sup> April 2019

4.6. Any party wishing to comment on the proposal must submit responses in writing. Written responses should be sent to: [property@heathrow.com](mailto:property@heathrow.com)

4.7. Alternatively, written comments may be posted to the following address:

Guide Price Rents 2019/20 Consultation  
 Heathrow Property Department  
 Heathrow Airport Ltd  
 The Compass Centre  
 Nelson Road  
 Hounslow  
 TW6 2GW

4.8. If you have any questions on the consultation document, please contact Heathrow Property on the above e-mail address.

## **SCHEDULE A**

### **1.0 Background – Property Rents at Heathrow**

- 1.1. 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.
- 1.2. Since 1996 the Guide Prices have been adjusted by the percentage change in a rental formula, which is applied annually to the Guide Prices once consulted upon.
- 1.3. Following consultation, the tariff rents were simplified in 2008 and the formula has evolved since it was first introduced.
- 1.4. The components of the current formula, revised in 2002, are as follows:
  - 1.4.1. Passenger Numbers.
  - 1.4.2. Retail Price Index.
  - 1.4.3. 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).
- 1.5. The formula gives equal weighting to each component.
- 1.6. The formula seeks to provide consistent growth flattening the peaks and troughs associated with the external property market. This can be seen in the attached graph at Appendix 2.
- 1.7. Desk licence fees are reviewed biennially also using the Guide Price formula. They were reviewed in 2018 and will therefore not be reviewed again until 2020 and so remain unaltered for this year.

### **2.0 2019/20 Rental Proposal**

- 2.1. Heathrow is proposing to increase property rents for 2019/20. A full schedule of the proposed rents is attached at Appendix 3. A schedule of the 2018/19 rents is attached for comparison purposes at Appendix 4.

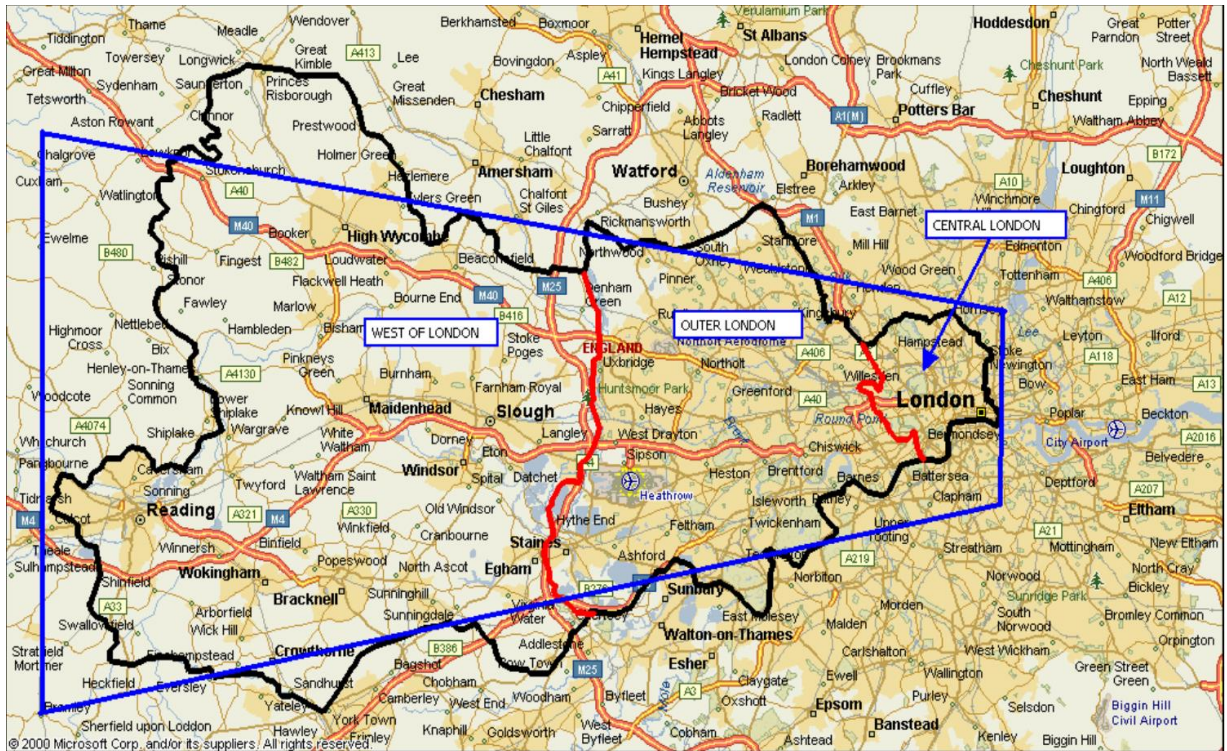
### **3.0 2019/20 Rental Calculation**

- 3.1. The rental formula has produced an overall increase of +1.95% for 2019, the calculation is set out in Appendix 5.

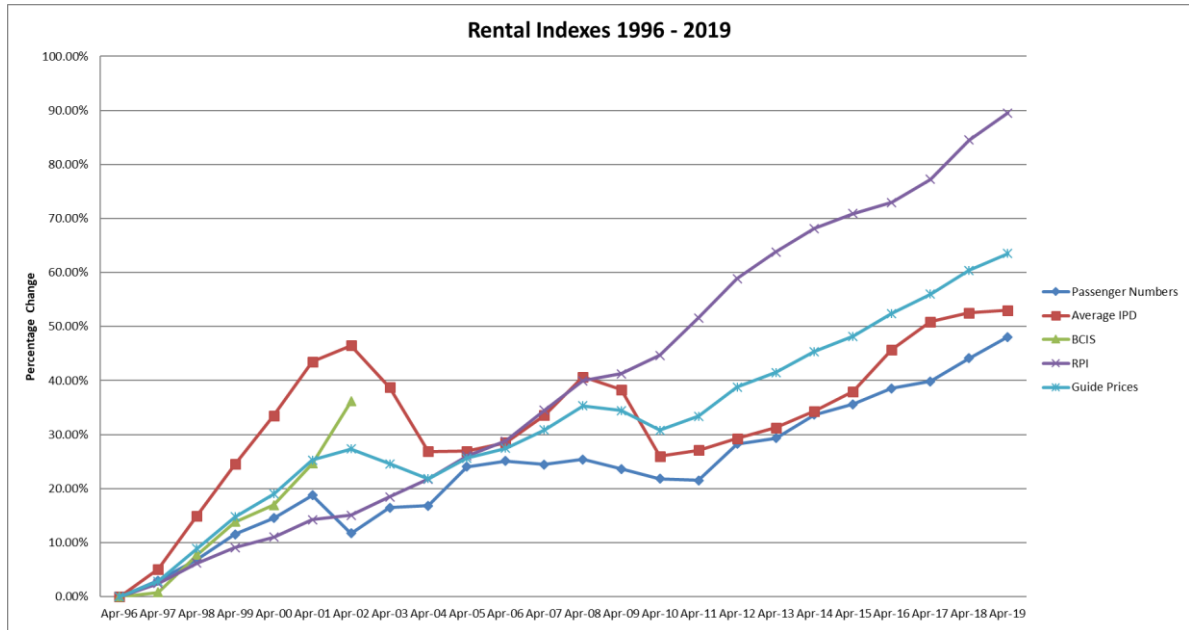
## **4.0 Terminal 2**

- 4.1. The rents for Terminal 2 were added to the 2014/15 Guide Prices for the first time.
- 4.2. The rents for Terminal 2 have a 4% discount applied until certain infrastructure items are delivered (see the extract from the Terminal 2 Property Rents – Decision Document, attached at appendix 6 for further information). To date the infrastructure remains to be completed and the 4% discount applies for 2019/20.

## APPENDIX 1 – IPD Index Geographical Areas



## APPENDIX 2 – Graph of Historic Changes in the Rental Formula Components





## APPENDIX 3 – Draft 2019/20 Guide Prices

Heathrow Airport Rental Guide Prices - 2019/20 (Effective 1st April 2019)	Draft 2019/20			
	Rent £ sq ft per annum		Rent £ sq M per annum	
	Min	Max	Min	Max
<b>Terminal 1</b>				
Piers - standard ramp	£43.35	£51.32	£466.58	£552.41
<b>Terminal 2</b>				
CIP - T2A		£91.55		£985.41
CIP - T2B		£86.98		£936.23
T2A - Landside offices/support accom		£80.25		£863.79
T2A - Airside offices/support accom		£65.99		£710.28
T2A - Airside apron level support accom (Ramp)		£51.74		£556.90
T2B - Apron level support accom (Ramp)		£51.32		£552.41
<b>Terminal 3</b>				
North Wing		£69.35		£746.52
South Wing		£77.05		£829.31
East Wing		£74.56		£802.59
Departures ground floor R/O check-in		£58.96		£634.65
Departures ground floor off back corridor		£52.02		£559.89
Infill Offices		£77.05		£829.31
CIP - Departures		£86.71		£933.35
CIP - Arrivals	£82.35	£86.71	£886.36	£933.35
Piers - standard ramp	£43.35	£51.32	£466.58	£552.41
<b>Building 820</b>				
First and Second Floor		£61.68		£663.87
Ground Floor		£65.02		£699.86
Bays		£40.43		£435.15
<b>D'Albiac House</b>				
Bays		£36.39		£391.67
Offices (Outer offices)		£55.84		£601.09
Offices (Inner offices)		£54.28		£584.24
<b>Terminal 4</b>				
NE Extension, Balcony		£77.05		£829.31
Departures rear of check in		£58.96		£634.65
Mezzanine airside		£55.50		£597.41
Standard ramp	£43.35	£51.32	£466.58	£552.41
CIP		£86.71		£933.35
<b>Terminal 5</b>				
CIP - T5A		£95.36		£1,026.47
CIP - T5B/C		£90.60		£975.24
T5A - Landside offices/support accom		£83.59		£899.79
T5A - Airside offices/support accom		£68.74		£739.88
T5A - Airside apron level support accom (Ramp)		£53.89		£580.10
T5B/C - Airside offices/support accom		£65.47		£704.71
T5B/C - Apron level support accom (Ramp)		£52.61		£566.26
<b>Desk Frontage Rates - All Terminals</b>				
Check-In		£598.38		£1,963.15
Sales and Reservation		£1,238.91		£4,064.61
Transfer		£598.38		£1,963.15
Information		£918.66		£3,013.93

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.

## APPENDIX 4 – Guide Prices 2018/19

Heathrow Airport Rental Guide Prices - 2018/19 (Effective 1st April 2018)	2018/9			
	Rent £ sq ft per annum		Rent £ sq M per annum	
	Min	Max	Min	Max
<b>Terminal 1</b>				
Piers - standard ramp	£42.52	£50.34	£457.63	£541.82
<b>Terminal 2</b>				
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
<b>Terminal 3</b>				
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
<b>Building 820</b>				
First and Second Floor		£60.49		£651.14
Ground Floor		£63.77		£686.45
Bays		£39.65		£426.80
<b>D'Albiac House</b>				
Bays		£35.69		£384.17
Offices (Outer offices)		£54.77		£589.56
Offices (Inner offices)		£53.24		£573.04
<b>Terminal 4</b>				
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
<b>Terminal 5</b>				
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
<b>Desk Frontage Rates - All Terminals</b>				
Check-In		£598.38		£1,963.15
Sales and Reservation		£1,238.91		£4,064.61
Transfer		£598.38		£1,963.15
Information		£918.66		£3,013.93

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.

**APPENDIX 5 – 2018/19 Rental Formula Calculation**

	<b>2017</b>	<b>2018</b>	<b>% Change</b>
<b>Passenger No.s (1)</b>	77,988,752	80,102,014	+2.71%
<b>Retail Price Index (RPI) (2)</b>	278.1	285.6	+2.70%
<b>IPD Annual Property Index (3)</b>	(3)	(3)	+0.46%
<b>Average % Change</b>			<b>+1.95%</b>

## Notes:

1. Passenger numbers for the preceding year, January – December.
2. Retail Price Index (RPI) (All Items) – Index figure for December of the preceding year.
3. Investment Property Database (IPD) Office Rental Value Growth for the preceding year.

	<b>2017</b>	<b>2018</b>	<b>% Change</b>
<b>Central London</b>	307.9	310.5	+0.84%
<b>Outer London</b>	221.3	219.5	-0.81%
<b>West of London</b>	147.8	149.8	+1.34%
<b>Average</b>			<b>+0.46%</b>

## **APPENDIX 6 – Terminal 2 Property Rents, Decision Document**

### **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 1<sup>st</sup> 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	<i>Currently 2021/22</i>	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%