

Heathrow Airport – Property Rents 2017/18 Consultation Document

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Prepared by: Heathrow Airport Limited

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Heathrow Property Rents 2017/18

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 2017/18 and invite the Heathrow community to provide views on the proposals.

2.0 Heathrow Property Rents 2017/18

- 2.1. Heathrow consults every year with the Heathrow community on setting levels of rent from 1st April 2017.
- 2.2. Heathrow is proposing to increase property rents for 2017/18 in line with the Guide Price formula. The details are set out in Schedule A. The final published Guide Prices will take effect from 1st April 2017.

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 4th September 2017 the closing date for written comments is 3rd November 2017. Heathrow will then announce the final level of property rents by 10th November 2016.
- 3.3. The reason for the start of the consultation after the start of the Guide Price year on 1st April is due to the late availability of the IPD data for the rents formula. The consultation period of twelve weeks has been chosen to enable a reasonable period for consultation and the Guide Prices to be published as soon as possible following the release of the IPD data.
- 3.4. The publication of this consultation paper on 2nd August 2017 is the start of our consultation on the annual setting of property rents for 2017/18.

3.5. The consultation programme is as follows:

| Date | Milestone |
|--------------------------------|---|
| 2 nd August 2017 | Heathrow publish consultation document on Heathrow 2017/18 rental proposals |
| 4 th September 2017 | Consultation meeting |
| 3 rd November 2017 | Property customer written responses due |
| 10 th November 2017 | Heathrow publishes 2017/18 rents effective from 1 st April 2017 |

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

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

Guide Price Rents 2017/18 Consultation
Heathrow Property Department
Heathrow Airport Ltd
The Compass Centre
Nelson Road
Hounslow
Middlesex
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 2016 and will be reviewed again next year with effect from 1st April 2018.

2.0 2017/18 Rental Proposal

- 2.1. Heathrow is proposing to increase property rents for 2017/18. A full schedule of the proposed rents is attached at Appendix 3. A schedule of the 2016/17 rents is attached for comparison purposes at Appendix 4.

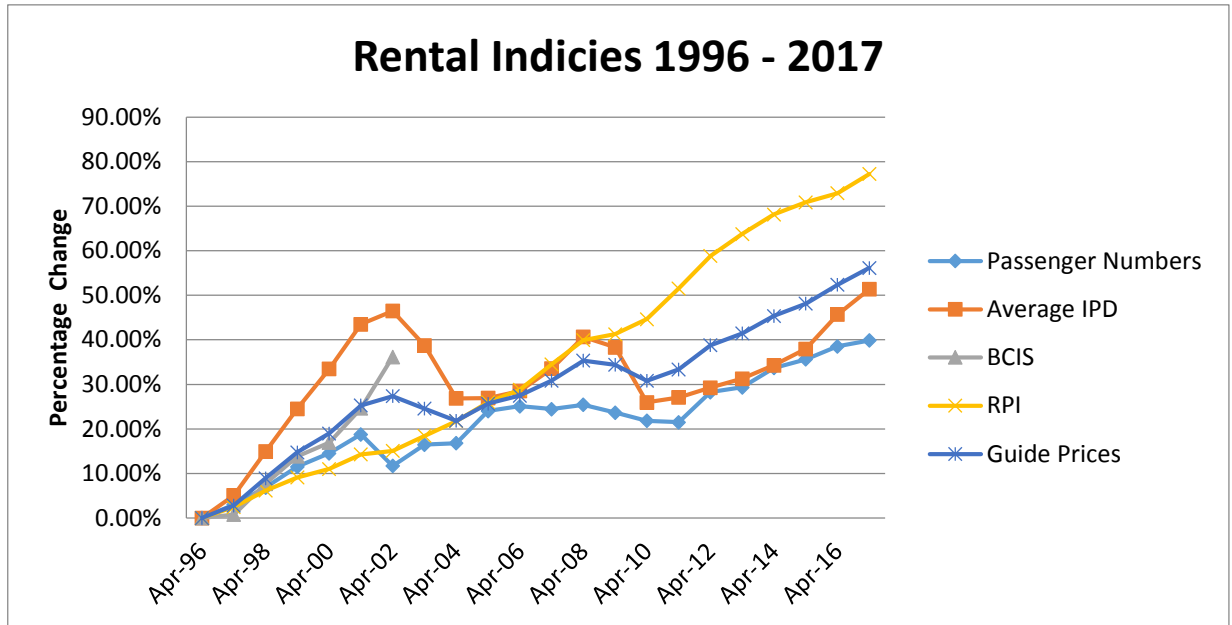
3.0 2017/18 Rental Calculation

- 3.1. The rental formula has produced an overall increase of +2.88% for 2017, 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 2017/18.

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



APPENDIX 3 – Draft 2017/18 Guide Prices

| Heathrow Airport Rental Guide Prices - 2017/18 (Effective 1st April 2017) | DRAFT | | | |
|--|------------------------|-----------|-----------------------|-----------|
| | Rent £ sq ft per annum | | Rent £ sq M per annum | |
| | Min | Max | Min | Max |
| Terminal 1 | | | | |
| Piers - standard ramp | £41.30 | £48.90 | £444.56 | £526.35 |
| Terminal 2 | | | | |
| CIP - T2A | | £87.23 | | £938.91 |
| CIP - T2B | | £82.87 | | £892.05 |
| T2A - Landside offices/support accom | | £76.46 | | £823.03 |
| T2A - Airside offices/support accom | | £62.87 | | £676.77 |
| T2A - Airside apron level support accom (Ramp) | | £49.30 | | £530.62 |
| T2B - Apron level support accom (Ramp) | | £48.90 | | £526.35 |
| Terminal 3 | | | | |
| North Wing | | £66.08 | | £711.30 |
| South Wing | | £73.41 | | £790.18 |
| East Wing | | £71.05 | | £764.72 |
| Departures ground floor R/O check-in | | £56.18 | | £604.71 |
| Departures ground floor off back corridor | | £49.56 | | £533.47 |
| Infill Offices | | £73.41 | | £790.18 |
| CIP - Departures | | £82.62 | | £889.31 |
| CIP - Arrivals | £78.46 | £82.62 | £844.53 | £889.31 |
| Piers - standard ramp | £41.30 | £48.90 | £444.56 | £526.35 |
| Building 820 | | | | |
| First and Second Floor | | £58.77 | | £632.54 |
| Ground Floor | | £61.95 | | £666.84 |
| Bays | | £38.52 | | £414.61 |
| D'Albiac House | | | | |
| Bays | | £34.67 | | £373.19 |
| Offices (Outer offices) | | £53.21 | | £572.72 |
| Offices (Inner offices) | | £51.72 | | £556.67 |
| Terminal 4 | | | | |
| NE Extension, Balcony | | £73.41 | | £790.18 |
| Departures rear of check in | | £56.18 | | £604.71 |
| Mezzanine airside | | £52.88 | | £569.22 |
| Standard ramp | £41.30 | £48.90 | £444.56 | £526.35 |
| CIP | | £82.62 | | £889.31 |
| Terminal 5 | | | | |
| CIP - T5A | | £90.86 | | £978.03 |
| CIP - T5B/C | | £86.33 | | £929.22 |
| T5A - Landside offices/support accom | | £79.65 | | £857.33 |
| T5A - Airside offices/support accom | | £65.49 | | £704.96 |
| T5A - Airside apron level support accom (Ramp) | | £51.35 | | £552.73 |
| T5B/C - Airside offices/support accom | | £62.38 | | £671.46 |
| T5B/C - Apron level support accom (Ramp) | | £50.12 | | £539.54 |
| Desk Frontage Rates - All Terminals | | | | |
| Check-In | | £567.04 | | £1,860.33 |
| Sales and Reservation | | £1,174.01 | | £3,851.71 |
| Transfer | | £567.04 | | £1,860.33 |
| Information | | £870.54 | | £2,856.05 |

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 2016/17

Heathrow Airport Rental Guide Prices - 2016/17

2016/7

(Effective 1st April 2016)

| | Rent £ sq ft per annum | | Rent £ sq M per annum | |
|--|------------------------|-----------|-----------------------|-----------|
| | Min | Max | Min | Max |
| Terminal 1 | | | | |
| Piers - standard ramp | £40.14 | £47.53 | £432.10 | £511.60 |
| Terminal 2 | | | | |
| CIP - T2A | | £84.78 | | £912.60 |
| CIP - T2B | | £80.55 | | £867.05 |
| T2A - Landside offices/support accom | | £74.32 | | £799.97 |
| T2A - Airside offices/support accom | | £61.11 | | £657.80 |
| T2A - Airside apron level support accom (Ramp) | | £47.91 | | £515.75 |
| T2B - Apron level support accom (Ramp) | | £47.53 | | £511.60 |
| Terminal 3 | | | | |
| North Wing | | £64.23 | | £691.36 |
| South Wing | | £71.35 | | £768.04 |
| East Wing | | £69.05 | | £743.29 |
| Departures ground floor R/O check-in | | £54.60 | | £587.76 |
| Departures ground floor off back corridor | | £48.17 | | £518.52 |
| Infill Offices | | £71.35 | | £768.04 |
| CIP - Departures | | £80.30 | | £864.39 |
| CIP - Arrivals | £76.26 | £80.30 | £820.86 | £864.39 |
| Piers - standard ramp | £40.14 | £47.53 | £432.10 | £511.60 |
| Building 820 | | | | |
| First and Second Floor | | £57.12 | | £614.81 |
| Ground Floor | | £60.22 | | £648.15 |
| Bays | | £37.44 | | £402.99 |
| D'Albiac House | | | | |
| Bays | | £33.70 | | £362.73 |
| Offices (Outer offices) | | £51.72 | | £556.67 |
| Offices (Inner offices) | | £50.27 | | £541.07 |
| Terminal 4 | | | | |
| NE Extension, Balcony | | £71.35 | | £768.04 |
| Departures rear of check in | | £54.60 | | £587.76 |
| Mezzanine airside | | £51.40 | | £553.27 |
| Standard ramp | £40.14 | £47.53 | £432.10 | £511.60 |
| CIP | | £80.30 | | £864.39 |
| Terminal 5 | | | | |
| CIP - T5A | | £88.32 | | £950.62 |
| CIP - T5B/C | | £83.91 | | £903.18 |
| T5A - Landside offices/support accom | | £77.42 | | £833.30 |
| T5A - Airside offices/support accom | | £63.66 | | £685.21 |
| T5A - Airside apron level support accom (Ramp) | | £49.91 | | £537.24 |
| T5B/C - Airside offices/support accom | | £60.63 | | £652.64 |
| T5B/C - Apron level support accom (Ramp) | | £48.72 | | £524.42 |
| Desk Frontage Rates - All Terminals | | | | |
| Check-In | | £567.04 | | £1,860.33 |
| Sales and Reservation | | £1,174.01 | | £3,851.71 |
| Transfer | | £567.04 | | £1,860.33 |
| Information | | £870.54 | | £2,856.05 |

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 – 2017/18 Rental Formula Calculation

| | 2015 | 2016 | % Change |
|--------------------------------------|------------|------------|---------------|
| Passenger No.s (1) | 74,959,048 | 75,676,223 | +0.96% |
| Retail Price Index (RPI) (2) | 260.6 | 267.1 | +2.49% |
| IPD Annual Property Index (3) | (3) | (3) | +5.20% |
| Average % Change | | | +2.88% |

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.

| | 2015 | 2016 | % Change |
|-----------------------|-------|-------|---------------|
| Central London | 276.0 | 304.5 | +10.34% |
| Outer London | 211.9 | 215.8 | +1.85% |
| West of London | 141.1 | 145.9 | +3.40% |
| Average | | | +5.20% |

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 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 | late 2017 | 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% |