

Heathrow Airport – Property Rents

Consultation Document

Date: 26th May 2011

Prepared By: Heathrow Airport Limited

Status: Final

Heathrow Airport Property Rents Consultation

Heathrow Property Rents 2011/12

Terminal 2 Rents and Fees

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 2011/12, the level of rents for new Terminal 2, and invite the Heathrow community to provide views on the proposals.

2.0 Heathrow Property Rents 2011/12

- 2.1. Heathrow consults every year with the airline community on setting levels of rent from 1st April.
- 2.2. Heathrow is proposing to maintain property rents for 2011/12 at 2010/11 levels, and carry forward the residual formula reduction to next year; the details are set out in Schedule A. The final published Guide Prices will take effect from 1st April 2011.

3.0 Terminal 2 Rents

- 3.1. Heathrow will shortly engage with occupiers of the new Terminal 2 to agree terms for their occupation of space in the new terminal.
- 3.2. In advance of engaging with occupiers Heathrow is proposing a list of Tariff Rents for T2A and T2B; the details are set out in Schedule B.

4.0 Consultation Programme

- 4.1. Heathrow is inviting comments from the Heathrow property customers on the proposal so that these can be considered when we make our final decision.
- 4.2. The AOC Rents Group consultation meeting will be held on 3rd June 2011, the closing date for written comments is 30th June 2011. Heathrow will then announce the final level of property rents on 8th July 2011.
- 4.3. The reason for the start of the consultation now after the start of the Guide Price year on 1st April is due to the availability of the IPD data for the rents formula. The IPD data is available from the end of April to mid-May. The consultation period of 7 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.
- 4.4. The publication of this consultation letter on 26th May 2011 is the start of our consultation on the annual setting of property rents for 2011/12 and the rents for Terminal 2.

- 4.5. The consultation programme is as follows: The consultation meeting will continue to be held with the AOC Rents Group

Date	Milestone
26 th May 2011	HAL publish consultation letter on Heathrow 2011/12 rental proposals and Terminal 2 rental proposals
3 rd June 2011	Consultation meeting
30 th June 2011	Property customer written responses due
8 th July 2011	HAL publishes 2011/12 rents effective from 1 st April 2011 HAL publishes rents for Terminal 2

- 4.6. The consultation programme is as follows: The consultation meeting will continue to be held with the AOC Rents Group. If you would like to have your views represented at this forum please contact, Andrew Gilling, AOC Rents Group Chairman (andrew.gilling@cbre.com or in writing to CB Richard Ellis, Abbey House, 450 Bath Road, Longford, Heathrow, UB7 0EB) or in writing to Heathrow details below.

- 4.7. Interested parties can submit written responses to the proposals set out in this document by 30th June 2011. Responses should be sent to: hal_property@baa.com

- 4.8. Alternatively, comments may be posted to the following address:

Heathrow Property Department
Heathrow Airport Ltd
The Compass Centre
Nelson Road
Hounslow
Middlesex
TW6 2GW

- 4.9. 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 with the AOC Rents Group.
- 1.3. With the agreement of the AOC Rents Group 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 bi-annually on the same basis as rents, the next review is 2012.

2.0 2011/12 Rental Proposal

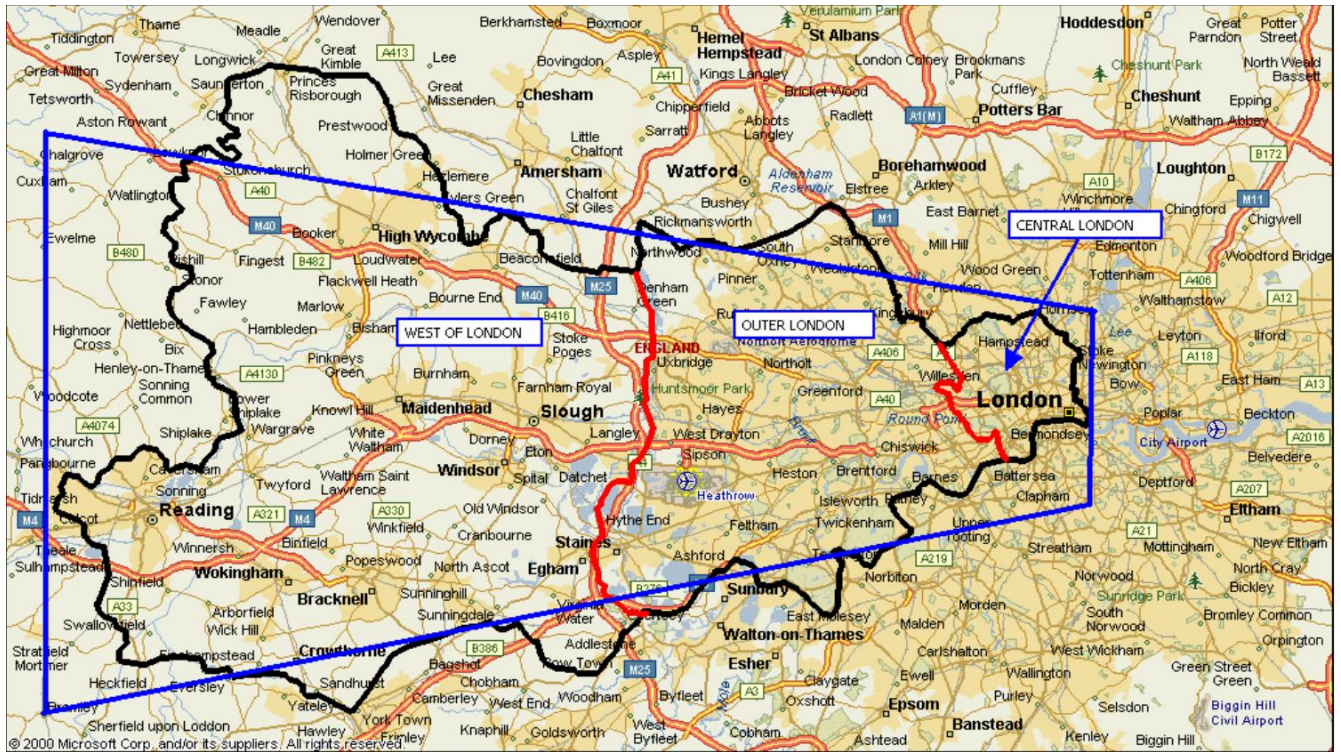
- 2.1. Heathrow is proposing to hold property rents for 2011/12 at the same level as 2010/11. The desk licence fees remain unchanged from 2010 in line with the bi-annual review pattern. A full schedule of the proposed rents is attached at Appendix 3.

3.0 2011/12 Rental Calculation

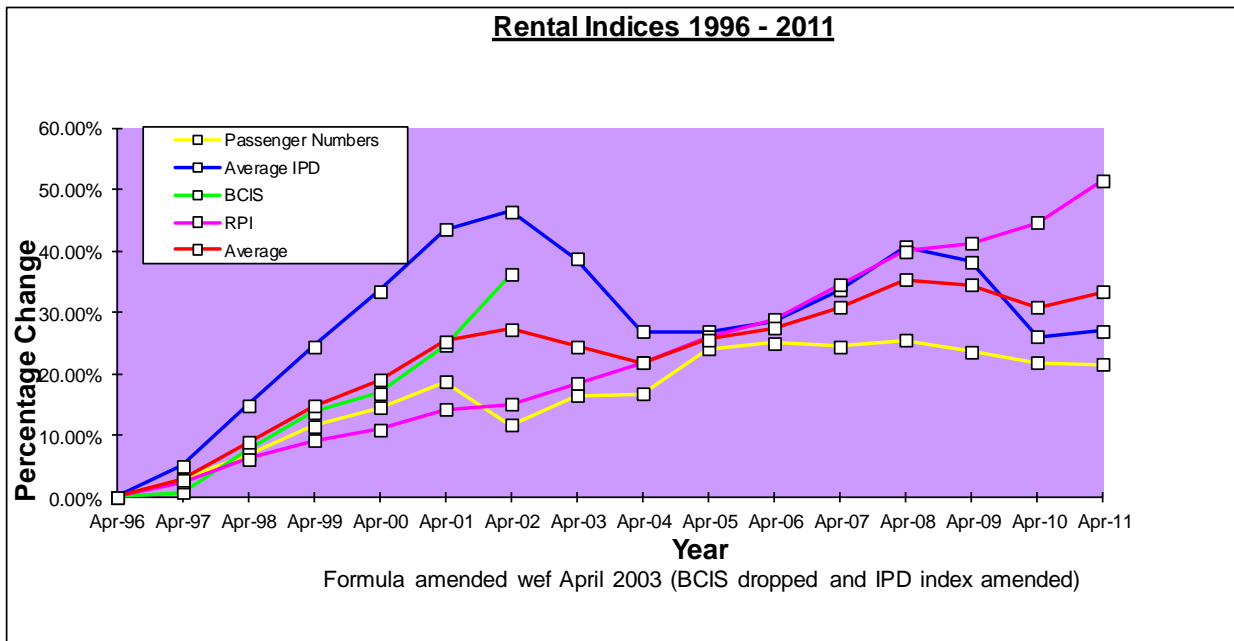
- 3.1. The rental formula has produced an overall increase of +2%, the calculation is set out in Appendix 4.
- 3.2. Property rents were also held in 2009/10 and 2010/11.
- 3.3. A commitment was made by Heathrow in 2009 and 2010 not to increase rents in future years until the reduction in the formula for those years was fully offset by increases in future years.

- 3.4. The stored up reduction of -5.03% (-0.88% in 2009 and -4.15% in 2010) has been reduced by +2% in 2011 leaving a balance of -3.03% to be carried over for future years.

APPENDIX 1 – IPD Index Geographical Areas



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



APPENDIX 3 – Proposed Guide Prices 2011/12

	Rent £ / sq. ft.		Rent £ / sq. M	
	Min	Max	Min	Max
Terminal 1				
Second floor office		£62.46		£672.36
CIP		£70.30		£756.65
Piers - standard ramp	£35.14	£41.61	£378.27	£447.86
Piers - first floor	£36.55	£43.02	£393.42	£463.02
Terminal 3				
North Wing		£56.23		£605.23
South Wing		£62.46		£672.36
East Wing		£60.45		£650.69
Departures ground floor R/O check-in		£47.80		£514.54
Departures ground floor off back corridor		£42.17		£453.92
Infill Offices		£62.46		£672.36
CIP - Departures		£70.30		£756.65
CIP - Arrivals	£66.76	£70.30	£718.60	£756.65
Piers - standard ramp	£35.14	£41.61	£378.27	£447.86
Building 820				
First and Second floor		£50.00		£538.22
Ground floor		£52.71		£567.41
Bays		£32.78		£352.79
D'Albiac House				
Bays		£29.50		£317.54
Offices (Outer offices)		£45.27		£487.32
Offices (Inner offices)		£44.01		£473.67
Terminal 4				
NE Extension, Balcony		£62.46		£672.36
Departures rear of check in		£47.80		£514.54
Mezzanine airside		£45.00		£484.34
Standard ramp	£35.14	£41.61	£378.27	£447.86
CIP		£70.30		£756.65
Terminal 5				
CIP - T5A		£77.31		£832.19
CIP - T5B/C		£73.46		£790.66
T5A - Landside offices/support accom		£67.77		£729.49
T5A - Airside offices/support accom		£55.73		£599.84
T5A - Airside apron level support accom (Ramp)		£43.69		£470.31
T5B/C - Airside offices/support accom		£53.08		£571.33
T5B/C - Apron level support accom (Ramp)		£42.65		£459.09
Desk Frontage Rates - All Terminals		Rent £ / Foot		Rent £ / Metre
Check-In		£499.12		£1,637.51
Sales and Reservation		£1,033.39		£3,390.35
Transfer		£499.12		£1,637.51
Information		£766.26		£2,513.95
Unless otherwise stated:				
Typically, new build will be at the top of range.				

APPENDIX 4 – 2011 Rental Formula Calculation

	2009	2010	% Change
Passenger No.s (1)	65,907,900	65,747,200	-0.24%
Retail Price Index (RPI) (2)	218.00	228.40	+4.77%
IPD Annual Property Index (3)	(3)	(3)	+1.48%
Average % Change			+2.00%

Notes:

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

	2009	2010	% Change
Central London	177.8	188.70	+6.13%
Outer London	170.8	169.70	-0.64%
West of London	132.1	130.70	-1.06%
Average			+1.48%

SCHEDULE B - Terminal 2 Rents and Fees

1.0 Background – Property Rents at Heathrow

- 1.1. Heathrow has had a schedule of published property rental and fees Guide Prices since 1996. As new terminal infrastructure is developed or demolished the schedule of Guide Prices is amended to reflect the changes in infrastructure.
- 1.2. The construction of Terminal 2A and 2B is now well under way and in advance of engagement with occupiers of the new terminal, Heathrow is consulting over the level of rents for the new property space.

2.0 Rental Proposal

- 2.1. The rental proposal for Terminal 2A and 2B (2011/12 rental level) is set out in Appendix 1.
- 2.2. The rental proposal is aligned with the rents and fees charged for the same types of space in other terminals at Heathrow and aligned to the rents and fees in Terminal 5A and 5B given this is similarly new terminal infrastructure.

3.0 Assumptions

- 3.1. The accommodation in Terminal 2A and 2B will be offered on the standard Heathrow property terms provided in the other terminals:
- 3.2. Standard Heathrow property agreements are used e.g. Standard Indefinite Tenancy for office and ramp accommodation.
- 3.3. Accommodation will be provided to the usual Heathrow property standards:
 - 3.3.1. Office Accommodation – Cat A Specification.
 - 3.3.2. Ramp Accommodation – Cat A Specification.
 - 3.3.3. CIP Lounge Accommodation – Shell and Core Specification.
 - 3.3.4. Desks (exc Check-in desks) – T2 Common Desk Standard.
- 3.4. Where accommodation does not have natural daylight (i.e. a window) a 10% rental discount will be provided (except where this type of accommodation does not inherently have natural daylight).
- 3.5. The Terminal 2A and 2B rents are in 2011/12 prices. When the rents are finalised they will shadow changes in the published Heathrow Guide Price schedule until they are added to the Guide Price Schedule.
- 3.6. The rents will be added to the Guide Price Schedule with effect from 1st April 2014.
- 3.7. The rents are exclusive of the standard Heathrow charges for Maintenance, Heating and Refuse.
- 3.8. Other Heathrow rents and fees are unaffected by this proposal.

APPENDIX 1 – Terminal 2A and 2B – Proposed Rents

Location / Space Type	Guide Price Rent per square foot p.a.	Specification	Agreement Type	Rental Commentary
T2A - CIP	£77.31	Shell & Core	Standard 9 year lease, subject to 3 yearly rent reviews.	As T5A. Non T5 equivalent = £70.30
T2B - CIP	£73.46	Shell & Core	Standard 9 year lease, subject to 3 yearly rent reviews.	As T5B. Non T5 equivalent = £70.30
T2A – Landside Office and Support Accommodation - all levels	£67.77	Category A	Standard indefinite tenancy.	As T5 landside. Non T5 equivalent = £62.46
T2A – Airside Office and Support Accommodation	£55.73	Category A	Standard indefinite tenancy.	As T5A Airside. Non T5 equivalent tariff.
T2A – Airside Apron Level Support Accommodation (Ramp)	£43.69	Category A	Standard indefinite tenancy.	As T5A. Non T5 equivalent = £41.61
T2B – Apron Level Support Accommodation (Ramp)	£42.65	Category A	Standard indefinite tenancy.	As T5B. Non T5 equivalent = £41.61

Terminal 2A and 2B – Proposed Licence Fees

Facility Type	Guide Price per linear foot frontage per annum	Comments	Agreement Type	Rental Tone Comments
Sales and Reservations Desks	£1033.39	Space at depth beyond 6 feet from front of desk and associated enclosure valued at enclosure rate.	Standard desk licence	Standard facilities on par with other Heathrow terminals.
Information Desks	£766.26	Space at depth beyond 6 feet from front of desk and associated enclosure valued at enclosure rate.	Standard desk licence	Standard facilities on par with other Heathrow terminals.
Check In and Transfer Desks	£499.12	Rate not used for Property contracts but is used within the CUTE desk charging model.	N/A	Standard facilities on par with other Heathrow terminals.