

Heathrow

H8 COMMERCIAL PROPERTY DEVELOPMENT

21 November 2025

Recap: Landside property has been deprioritised resulting in detriment to consumers and airlines; ‘do nothing’ is not an option

Background:

- Within a fixed capital envelope **investments in commercial property neglected** as “non-core”.
- The current capital framework and its **risk/reward treatment reduce incentives** for Heathrow and airlines to invest in commercial property.
- Consequently, Heathrow’s commercial property estate is **in disrepair or nearing end-of-life**, causing **lost income opportunities** and a **worse airport experience** for airport users.
- We must modernise our portfolio and **align it with standards set by our European peers**.
- Heathrow is proposing **trailing an alternative approach in H8 that builds on the single till, rebalances risk and reward and generate revenues for the till – with no increase to charge, and airlines never worse off**.
- Airline engagement has been mixed: after initial openness, the airline community eventually refused to engage in discussions.
- However, we continue open to develop a solution collaboratively as **one [redacted] airline has approached Heathrow bilaterally** to explore this area.

Objective:

- Outline **design principles** and a **worked example** of proposed approach to inform discussions in next stages of H8.

Heathrow



Competitor Airports



Local Landowners



PROPOSED SOLUTION

Purpose

To outline the case for a new process to enable Property Development in H8, creating the option to reallocate risk if traditional “On RAB” development is not prioritised.

Content

- Design Principles
- Example: Eastern Business Park
- Example: 15-year Development Programme
- Example: Residual Land Valuation



Design Principles & Defining “Win-Win”

There is a way to re-allocate risk to the benefit of all stakeholders

1. **Right of First Refusal:** Customers (airlines) have right of first refusal on property programmes and projects. On refusal, Heathrow has the *option* to proceed under a different model that reallocates risk entirely to them.
2. **No Worse Off:** Once rejected, the development should not leave customers any worse off, the RAB should not increase and any future capital risks are borne exclusively by Heathrow.
3. **Market-led:** The “sharing rate” should be objectively determined by a third party(s) – not an additional burden to regulatory engagement.
4. **Fair Bet:** The “sharing rate” for properties should not retrospectively be reopened, and nor can properties be retrospectively added to the RAB.
5. **Trial:** The H8 period is an opportunity to trial this new model in advance of H9+ expansion period.

Passengers

Better spaces
More choice

Airline Customers

No increase to charge
No more risk
Single Till integrity

Shareholders

New investment
opportunities

Local Communities

Better spaces
More choice

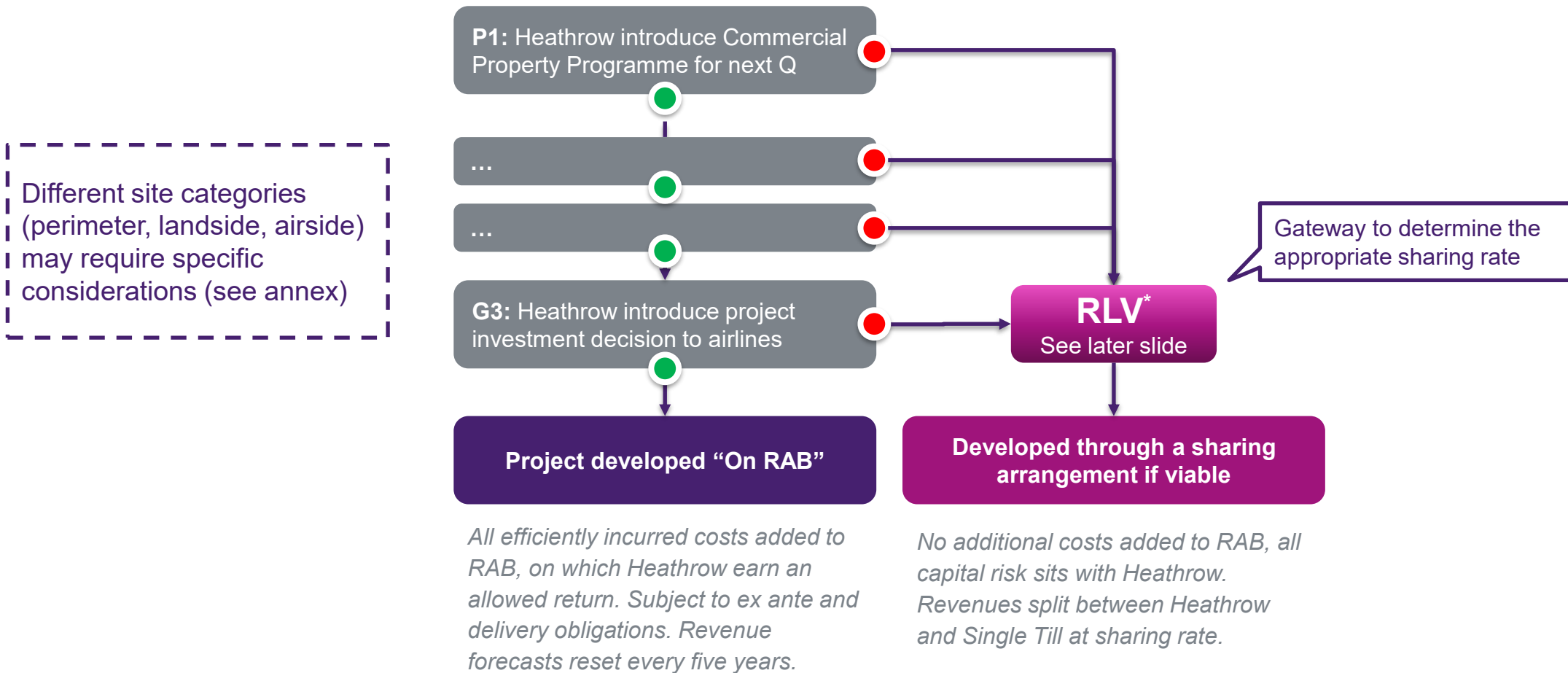
Team Heathrow

Better spaces
More choice

“Right of First Refusal”

Heathrow can use optional process only after initiative has been rejected by airlines

Airlines retain control of what is developed through single till or not.



“No Worse Off”: Eastern Business Park

Approved by the airline community at G3, now being developed “on RAB”

A typical perimeter project where buildings of 1940s were to be mothballed without redevelopment – at a loss of revenue to single till. Redevelopment promised minimal impact to charge, low revenue risk and capital required <1% of H7 total.



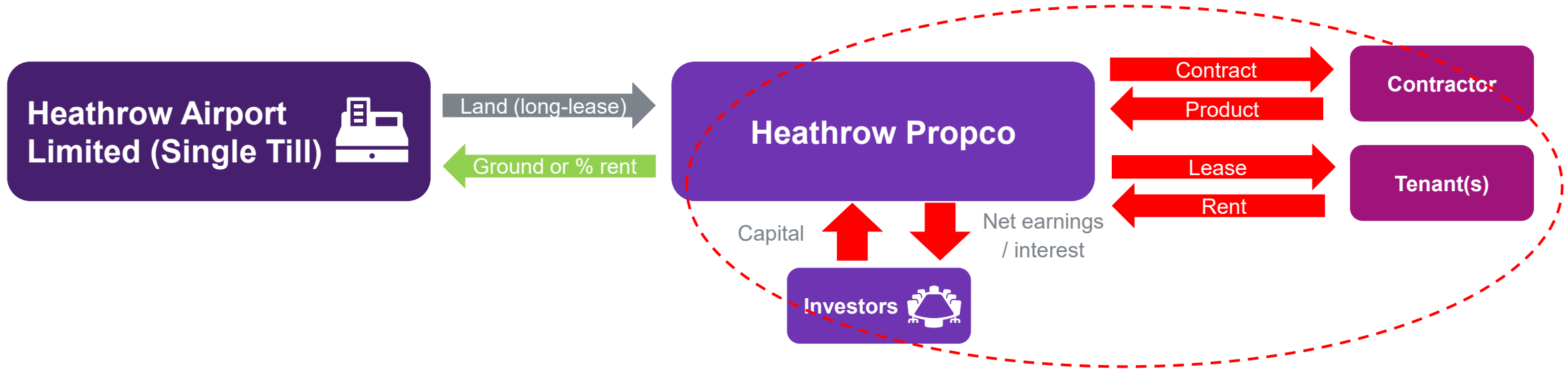
Model available on request

All modelling illustrative only- not verified by Heathrow finance

“No Worse Off”: Eastern Business Park

...if rejected it could have been pursued through a different model

“Heathrow Propco” takes forward project, takes all capital and revenue risk – pays HAL (and single till) a revenue equivalent to residual value of land. Airlines/Single Till are never worse off than if development had not taken place.



Model available on request

All modelling illustrative only- not verified by Heathrow finance

“No Worse Off”: Hypothetical Construction Programme

Same yield as EBP, but at larger scale, over 15 years = more risk to till

A significant capital programme competing against other “core” airport investments, with significant outlay over early periods, keeping charge high until H12/13. Worst case scenarios not attractive investment for the till.



Model available on request



All modelling illustrative only- not verified by Heathrow finance

“No Worse Off”: Hypothetical Construction Programme

Reallocating risk realigns objectives

Same principle as before, where all risk is taken by Heathrow Propco (who want to take it) and single till receives a revenue equivalent to the residual land value. In all scenarios, the till is better off with development than without it.



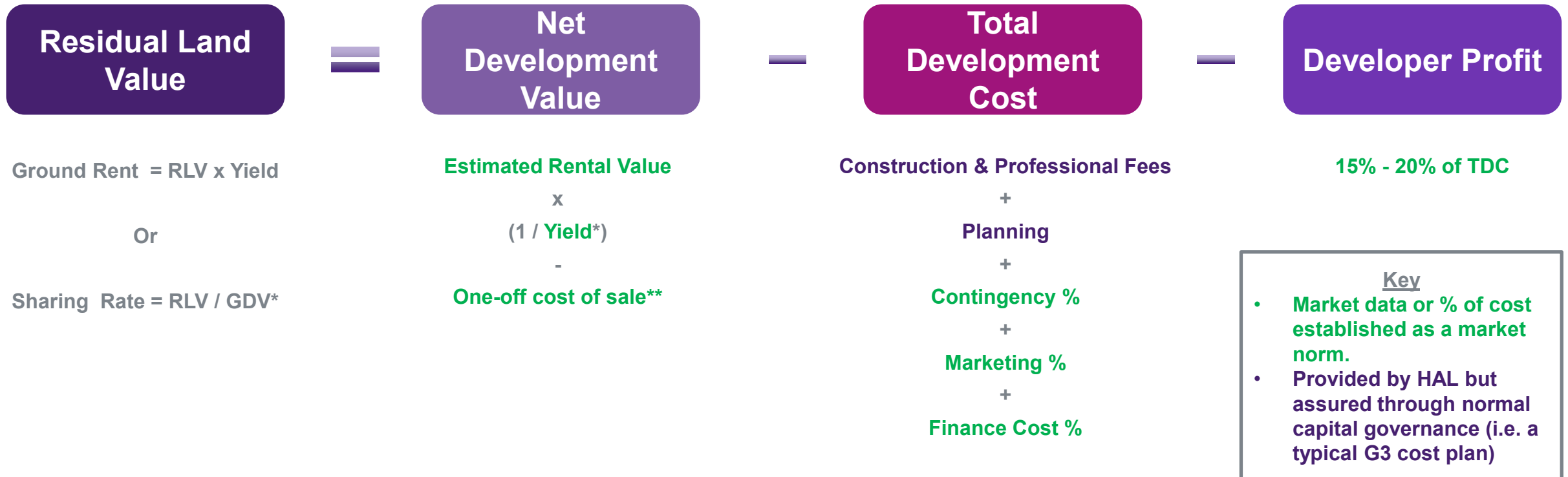
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“Fair Bet”: Residual Land Valuation

Objective approach to determining sharing rate – for discussion

A simple equation to determine fair land price, and from that, the appropriate sharing rate – recognised by RICS and procured from external valuation agents.



**Yield” is the capitalisation rate of a revenue, i.e. the relationship between rental value and asset value. This varies for type of let and location, but at Heathrow it is typically around 5%.

**typically new tenants are offered 9 months rent free at the start of their tenancy to enable them to undertake fit out works.

*** GDV is gross development value, which is the same as net development value without accounting for one-off cost of sale.

“Fair Bet”: Residual Land Valuation

Example: EBP

A simple equation to determine fair land price, and from that, the appropriate sharing rate – recognised by RICS and procured from external valuation agents.

ILLUSTRATIVE ONLY – we can commission a third party valuation of EBP land if helpful.






*assume G3 cost estimate reflects construction, professional fees, planning and contingency

**marketing assumed to be 1% of GDV, as per industry standard (1% - 3%).

***finance assumed to be 6% of all other TDC, as per industry standard.

Conclusion: we have the outline of a “win-win” process

There is a way to re-allocate risk to the benefit of all stakeholders

1. **Right of First Refusal:** process aligned to existing capital governance, no dilution of airline rights to approve or reject capital investments. 
2. **No Worse Off:** “sharing rate” approach gives single till a fair revenue while taking no risk. 
3. **Market-led:** the RICS approved residual land valuation method can determine a sharing rate, and can be undertaken by third party valuer. 
4. **Fair Bet:** license change that embodies principle that sharing rates cannot be reopened or properties returned to RAB post development. 
5. **Trial:** attempt in H7 period for a limited set of properties with view of validating or improving model for H9+ (and expansion). 

Passengers	Better spaces More choice
Airline Customers	No increase to charges No more risk Single Till integrity
Shareholders	New investment opportunities
Local Communities	Better spaces More choice
Team Heathrow	Better spaces More choice

DEVELOPMENT SITES CATEGORIES

Purpose

To outline further thinking on how to apply the proposed alternative investment route across different areas / types of sites at Heathrow.

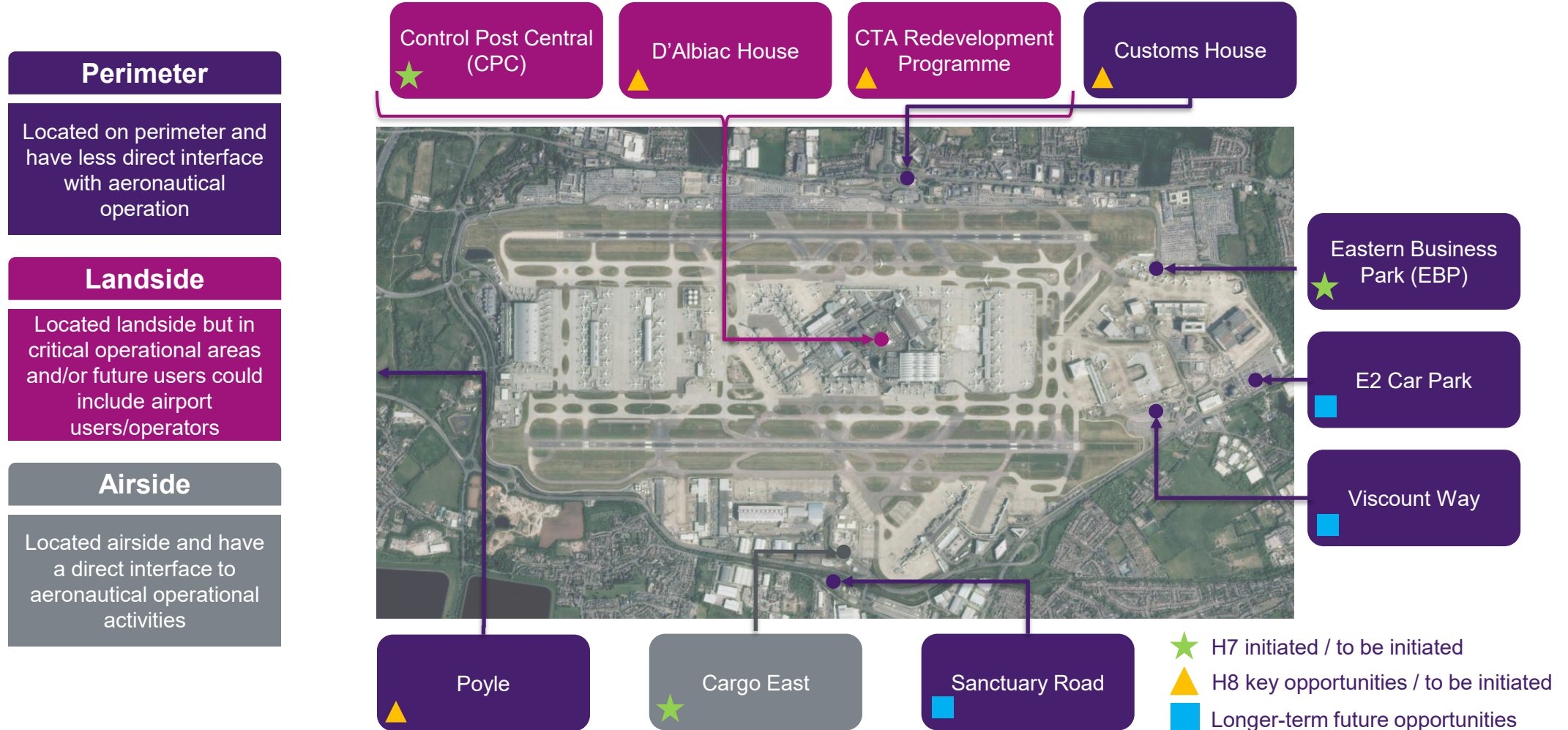
Content

- Property development pipeline
- Principles for categorising opportunities
- Proposed approach to landside developments through alternative development route: enabling works and operational use of space
- Hypothetical worked example



Property development pipeline and alignment to different categories

We have a pipeline of property development opportunities located in the three different types of sites and available for vacant possession and redevelopment at varying time periods (from now, to 10+ years' time).



Considering current mapping, potential property development sites for H8 (and beyond) fit three categories:

Category	Perimeter	Landside	Airside
Definition	Sites on perimeter have less direct interface with aeronautical operation activities and likely to be used for commercial purposes	Sites located landside but in critical operational areas and/or where future users could include airport users/operators	Located airside and have a direct interface to aeronautical operational activities
Example	Eastern Business Park (EBP)	Control Post Central (CPC)	Cargo East
Initial view on viability for alternative investment route	Clearest case – if airlines reject business case at G3, Heathrow should have option to develop given the lower interface with aeronautical activity.	The sites currently mapped (previous slide) are likely to be developed for predominantly commercial use. These pose a case for alternative investment given predominant use-case, whilst also considering how any operational use is accounted for.	Given these sites' direct interface with operation, they are unlikely candidates for this route.
Considerations	Consider process efficiency opportunities if, based on context and competing priorities, project is likely to be rejected through governance but still valuable to pursue.	Further consideration needed: <ul style="list-style-type: none"> • Costs for enabling infrastructure. • Potential HAL/operational tenancy. 	

How do we propose approaching the 'Landside' sites category?

Consideration needed on two key areas:

1) Costs of enabling infrastructure / site clearance

Description: HAL/airlines could take the view that delivery of enabling works, affecting critical infrastructure, services and utilities should be done through the RAB, to retain control and provide protection to this critical element.

Approach: Concept of Residual Land Value (RLV) and Sharing Rate to apply, with two options for delivery:

A Propco invests in and delivers enabling works
= lower land value =
lower sharing rate

B HAL invests in and delivers enabling works –
= higher land value =
higher sharing rate

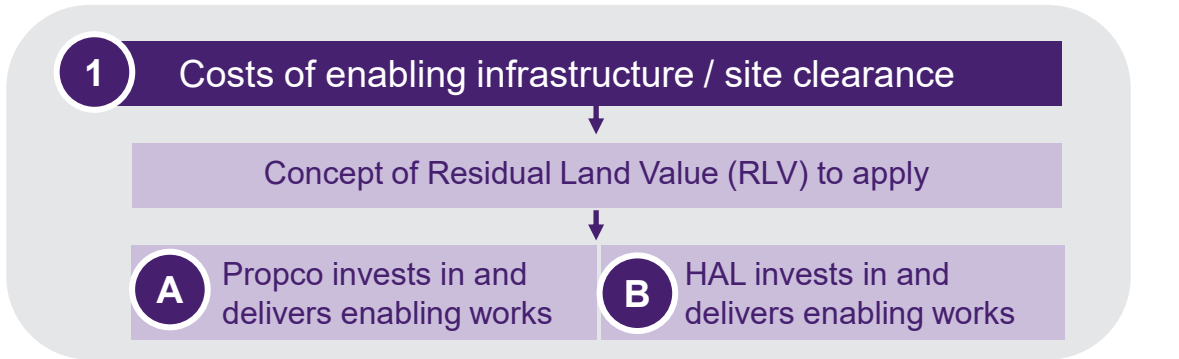
2) Operational use of part of "Propco developed" properties

Description: Were HAL to occupy space in a "Propco developed" building, rent could be treated as Opex, allowing single till to continue benefitting from Sharing Rate revenue from commercial tenants whilst retaining operational use of part of the building.

Approach: Application of market-validated tenancy agreement, cost treated as Opex

Approach to cost of enabling works / site clearance

HAL and airlines may prefer to retain control of enabling works to safeguard critical infrastructure and utilities. RAB investment in these works could be recovered through uplift in residual land value and a higher Sharing Rate, with single till no worse (or even better) off.



A Propco invests in and delivers enabling works

Per previously shared EBP example – Total Dev Cost: [REDACTED]

Propco invest to enable & develop, HAL invest nothing, RAB does not grow. Cost to enable considered as part of Propco's total development cost (within RLV formula) leading to lower land valuation ([REDACTED]) and lower Sharing Rate ([REDACTED]) with single till.



B HAL invests in and delivers enabling works

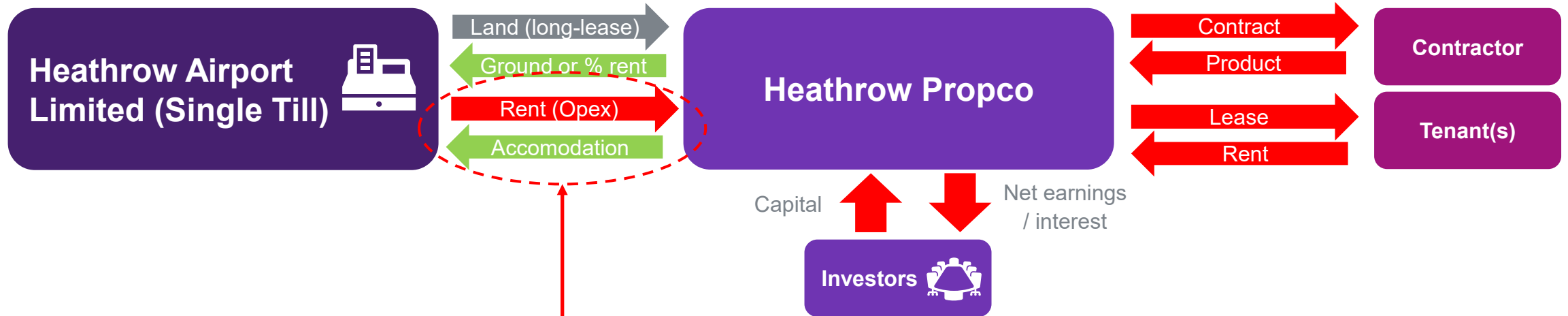


RAB invests [REDACTED] in enabling works to create a serviced plot. This raises land value and therefore Sharing Rate, generating single till income that offsets the RAB investment over time – airlines see net benefit even though RAB spent money upfront.



Proposed approach to HAL/operational use of a Propco-developed building:

2) Operational use of part of "Propco developed" properties



Worked Example: Control Post Central

Taking high-level assumptions for CPC – linking cost and returns to recently approved EBP business case – the alternative model gives a different charge profile path and less risk to the single till.

Control Post
Central

Development Appraisal

...Ops Requirements

1
On RAB Dev
Single Till Impact

2
Alternative Model
Single Till Impact

Model available here: [redacted] * cost estimate is aligned to EBP, with same sharing rate and development yield, it is therefore illustrative only for purposes of this deck and not to be used elsewhere.

Heathrow

ANNEX: SUPPORTING MATERIAL

Content

- Heathrow ambition
- Key results from consumer research
- Third-party development challenges





Passengers have told us that Heathrow needs investment landside to improve their experience

We have commissioned new research that heard c. 5,000 passengers and airport users

Better landside facilities

Airport users have told us they want better value landside facilities at Heathrow, indicating that there is a clear opportunity to improve

The airport needs improvements to the landside facilities	The airport needs more landside facilities	There are not enough facilities landside to meet basic needs
47%	45%	36%

Specific improvements

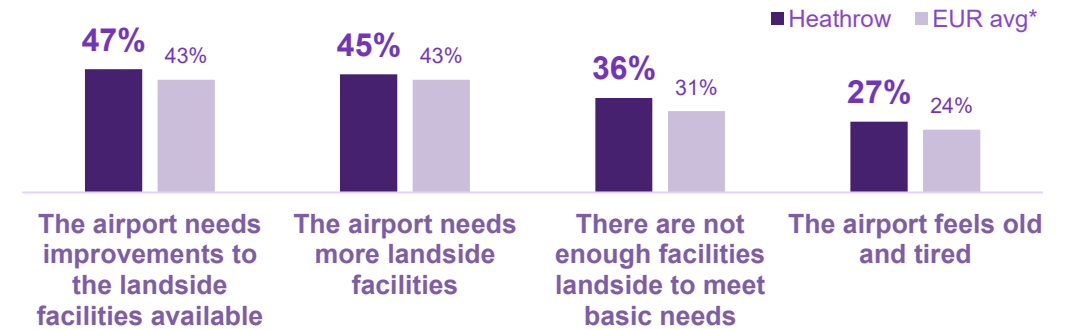
Heathrow passengers identify specific needs:

- Better Food & Beverage offer with wider set of retail and F&B options
- Better comfort and space with more seating areas

#1	Food outlets open 24 hours a day	12.3%
#2	Shops open 24 hours a day	10.7%
#3	Wide variety of food outlets	10.4%
#4	Convenience store / supermarket	9.9%
#5	More seating	8.6%

European competitors

Negative impressions of Heathrow are higher than in relation to European competitors (MUN, AMS, CDG*)



Hotel demand

Passengers, including those who don't currently use airport hotels, are willing to stay in them if a few elements are improved, fixing the perceived key barriers

Extra cost/Too expensive	#1	48%
No budget options available	#2	23%
Distance from airport terminal	#3	22%

Third-party model has proven highly suboptimal

Giving critical land to 3rd parties has misaligned incentives, impacting operations

Examples of T2 Garden Hotel, T5 Sofitel, SEGRO Cargo Southside are examples where third parties – responding to different incentives – have diminished value for Heathrow and Airlines

Terminal Adjacent Hotels



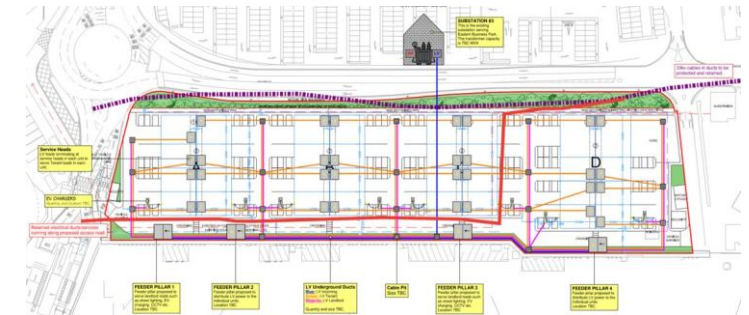
- Surface access policy non-compliance
- Operational incidents (T2 Hilton and runway lights)
- Exploitative pricing of customers (March 2025 power outage)
- Security Risk (BP conference @ T5 Sofitel)

Airside-Landside Cargo



- Historic underinvestment despite demand for new development from all tenants.
- Diminished cargo capacity = smaller aircraft = higher airport charge
- Security non-compliance risk.
- Health & Safety incidents.
- South of airport loss of water supply due to tenant mismanagement (2022)

What If? Eastern Business Park



- Delivery risk of HV cable, interrupting power supply to eastern airport (incl. BA maintenance base).
- Security risk (adjacent to airside land / BA maintenance base)
- Fire / smoke risk (immediately below arrivals approach, adjacent to BA maintenance base)