

Heathrow: the growth story

Following the UK's longest-ever planning enquiry, work on Terminal 5 - Heathrow's newest terminal – is underway. At an expected cost of £3.7bn, T5 will underpin Heathrow's position as a world-beating hub airport. The airport is a vital driver of economic growth for the South East of England and a major reason why companies choose to locate here.

Today, it's the world's busiest international airport.

- Serving 90 airlines, it has 1,250 flights a day to around 190 destinations in 85 countries.
- In 2002, 63m passengers passed through Heathrow.
- That compares with Schiphol with around 40m and Charles de Gaulle and Frankfurt with approximately 50m passengers each.
- Demand for air travel in the South East is forecast to double in the next 20 years.
- When Terminal 5 becomes operational, capacity will increase by a further 30m passengers – that's up to 95m people - to cope with that demand.
- And if the proposed short 3rd runway becomes reality, then passenger traffic may reach an estimated 116m by 2030.

With such huge projected growth, the challenge now is to deliver infrastructure that can cope.

Transport links are to be upgraded. For example:

- A scheme to widen the M25 past Heathrow is underway
- The Heathrow Rail Express and Piccadilly tube line will be extended
- A spur road will connect the new terminal to the M25
- And there's a proposal for a new rail link through Staines to Waterloo

A wide range of businesses have to be close to the airport. This strong demand for space is why Heathrow property values continue to outperform, delivering the UK's highest rentals for industrial and warehouse real estate. As Heathrow prospers, so the demand for property grows.

This demand is driven to a large extent by Heathrow's status as one of the world's largest cargo airports. Over 1.2m tonnes of cargo is flown in and out each year, more than all the other UK airports combined. More than 90% of Heathrow's freight cargo is carried by passenger aircraft - in total its worth as much as £50 billion. In the last ten years freight volumes have increased by over 60% at a time when the number of dedicated freight flights has been declining. This shows the changing nature of freight handling and that the prospects for cargo growth are closely linked to the increase in passenger numbers. Whilst some forecasts suggest that cargo growth at Heathrow could more than double in the next decade, it is reasonable to assume that with T5 the growth will certainly be at least 50%

the UK from here, turning round high volumes at speed. And like the other air freight handlers on the estate, SFS is prepared to pay a premium for warehousing just minutes from the airport.

Andre Jason, Property Consultant to SFS:

“This is an ideal location because it’s right on the edge of the airport, which means we have direct access on to the public highways and also private access straight into the centre of the airport. Once the freight is processed through this building it’s put onto trucks and sent through the motorway network throughout the country or alternatively it’s sent down to the ports and processed straight the way through into central Europe very quickly.”

Bax Global works with British Airways to manage the supply of spare parts for BA planes at Heathrow and around the world. Time-critical parts sent from this warehouse at Heathrow Corporate Park must get to the BA maintenance hangers within 20 minutes of receiving the order. For Bax, location is everything.

Tom Scanlon, Bax Logistics Manager:

“This is BA’s hub airport. If they have aircraft with technical problems elsewhere in the world and they can’t source the parts, there are more flights and the world is served better, from Heathrow than from anywhere else in Britain. To be on airport rents are prohibitive and escalating year on year. To be further away we couldn’t meet the time constraints for the critical parts. The normal supply of parts that we can deliver within 24 hours would not be a problem, but the 60 minute and 20 minute categories we could not meet if we were further away.”

The Royal Mail is also here because of Heathrow’s transport links. Axis Park is the location for its new 470,000-square foot Worldwide Distribution Centre, where mail is flown in to Heathrow, automatically sorted and in some cases flown straight out again.

Heathrow is an economy in itself: 68,000 people are currently employed here, with almost 300 companies and organisations represented – from airlines and support services, to security and retailers.

Less visible are the 110,000 employed close to the airport by companies like logistics specialists Exel, which has a contract to supply retail outlets in the airport with stock held for them at The Hatton Cross Centre. It’s not economic for retailers to have their own stock room in the terminal building – this is how they get round the problem. Exel has full stock holding facilities here for about 50 companies, including WH Smith and HMV, as well as a chillroom for the likes of Starbucks and Pizza Express.

International companies looking for a UK base continue to be drawn to the area around Heathrow. Siebel and Fujitsu have, for example, recently relocated to new office developments at The Causeway Corporate Centre in Staines

For instance, a proposal to build a 2.25m-sq ft freight distribution centre on this land, not far from the Terminal 5 site, failed to get planning consent after six years and a planning enquiry because of its Green Belt status.

These areas which encircle Heathrow are all Green Belt – where there is little prospect for expansion. Development of Green Belt land can only take place in very special circumstances.

Planning expert Mike Brundell worked on the T5 enquiry as a Deputy Inspector, and he believes that the supply of property around Heathrow will remain constrained.

Mike Brundell:

“Government policy at the moment is all about regenerating the existing urban area and redeveloping brownfield sites. That means that it’s almost impossible to get planning permission to build on open land particularly when that open land is in the Green Belt, as most of the open land around Heathrow is. It’s almost impossible to envisage that there’ll be any large new releases of land around Heathrow, even though the demand for additional land is bound to carry on growing.

“Terminal 5 will be a reality, it’s already under construction, and the result will be that there’ll be many more new companies and expanding companies all chasing after a finite supply of offices, warehouses and other support accommodation within easy reach of Heathrow.”

A new third runway – potentially to be built just north of the existing runway to handle regional and close European routes, has recently been proposed by the Government.

Mike Brundell:

“Only a few years ago, it looked highly unlikely that there would be any new runways at Heathrow, but a third runway is now firmly on the agenda and it’s been put there by the Government itself.’

Q: So why the change of heart do you think?

“I believe it’s a recognition of the very strong economic benefits of providing more capacity at Heathrow. If it is approved, however, it will have to be accompanied by very strict conditions limiting its impact on the environment.”

Mike Brundell believes that with Terminal 5 already under construction, the possibility of a third short runway, and at the same time strict Green Belt limits on any further land releases, the consequences are inevitable.

Mike Brundell:

“There will be an ever-increasing demand for offices and warehouses, and that will drive up rental and capital values around Heathrow.”

The demand/supply imbalance will continue to favour property owners who have existing holdings - and particularly those with approved development projects.

In 1997, Brixton plc owned less than half-a-million square feet of industrial and warehousing property in four estates at Heathrow.

Today it has eight times that much space across 12 main estates, making it one of the largest owners in the Heathrow area.

With nearly 4m sq ft of space, the Brixton portfolio is well-positioned to meet future demand. It offers everything from small, functional warehousing and flexible business support accommodation through to the largest, modern, "Big Box", high-bay buildings and major new development opportunities.

Occupiers choose this area, not *just* because of Heathrow, but because it is at the heart of the UK economy; close to London, with excellent communications and access to a skilled labour market. Many international and major UK corporates have located administration, back-up, sales, processing, and distribution facilities at Brixton's Heathrow properties.

Because of Heathrow's success and strong future prospects, the property market that serves the airport is expected to continue to outperform - and Brixton is a major player in that market.