

# PRIME HEATHROW CROSS-DOCKED DISTRIBUTION INVESTMENT OPPORTUNITY



DHL Exel, Lakeside Industrial Estate, Lakeside Road, Colnbrook SL3 0EL

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## Investment Summary

- Rare opportunity to purchase a prime Heathrow cross-docked distribution facility.
- Prime location within a 10 minute drive time to Heathrow Terminal 5 Airport, and 5 minute drive time to the M25 and M4 motorways.
- Freehold.
- Let to Exel Europe Ltd (5A1 covenant), now part of DHL, the largest distribution company in the world, for an unbroken term of 19.3 yrs.
- Minimum rental uplifts throughout the term.
- The tenant spent approximately £12m on a substantial refurbishment in 2009 including a new decked car park providing approximately 253 car spaces, a ratio of 1:463 sq ft.
- Cross-docked facility which is rarely speculatively developed.
- British Airways awarded DHL Exel a 10 year contract to handle in-flight meal preparation for short haul and domestic flights from Heathrow.
- Low site cover of only 38%.
- Totals approximately 117,142 sq ft GIA.
- Quoting offers in excess of £24,000,000 (twenty four million pounds), subject to contract and exclusive of VAT.
- Based on the topped up rent until 2013, this reflects a NIY of 5.85%, rising to a minimum reversion of 5.98% in 2015 and 6.87% in 2018.



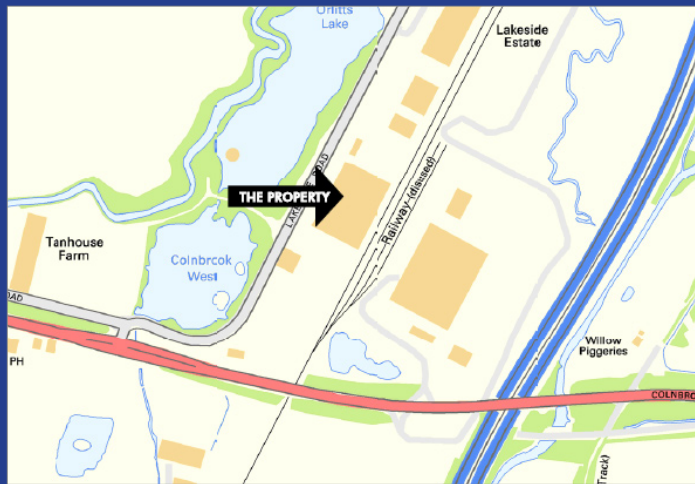


## Location

Colnbrook is situated on the west side of the M25, near to junction 14 which joins the M4, 3.5km to the north. The Colnbrook location provides short journey times for all of the Heathrow terminals. The unit is excellently positioned to provide access to Heathrow airport (approximately 10 minute drive), including the cargo terminal. Many of the local occupiers are international freight and logistics companies, as well as firms which service airport based businesses.

## Situation

The property is located on the west side of Lakeside Road, Colnbrook, approximately 400 metres from the junction of the A4 within an industrial/distribution area.



## Description

The buildings were originally constructed in the 1970s. The unit provides efficient large span distribution space benefitting from 9m eaves with tail dock and surface level loading situated on the southern and northern elevations. Within the main facility there is an element of office / staff accommodation, however the main office element is located in a detached building situated to the north of the main facility.

DHL Exel provide all short haul catering services, as part of a 10 year contract from British Airways at London Heathrow in partnership with its sub contractor, Northern Foods, who are responsible for preparing in-flight meals for 220 flights per day.

Reflective of the high quality standards demanded by the BA Contract the tenant completed a substantial refurbishment upgrading the building specification. The works involved constructing a new detached 2-storey decked car park (providing approximately 253 spaces), installing additional loading doors to the northern elevation creating a cross-docked facility and installing a freestanding chill / cold store in part of the warehouse area.

The warehouse is treated as an 'on airport facility' therefore full security checks must take place as personnel enter the facility.

The facility is situated on a rectangular shaped site which extends to approximately 7.39 acres, resulting in the unit having a site coverage of approximately 38%. This is low coverage for the Heathrow market with most competing units having a site cover of 50% plus.

## Cross-docked facility

The northern elevations have created a 'cross-docked' facility. This type of building is rarely speculatively developed, due to the increased land take, but especially in the Heathrow area where land values are higher than the majority of UK locations. The unit's low site density is a significant advantage and differentiates it from the competition. The land values and rents achieved in the Heathrow area ensure that most speculative developments maximise density, circa 50%.

Attributing this ratio would allow the site to accommodate a unit of approximately 161,000 sq ft, an additional 46,000 sq ft to the existing facility.



# Refurbishment Works

In 2009 approximately £12m was spent by the tenant on an extensive refurbishment which included the following:

## Administration block

The 3-storey office block was stripped back internally, floors strengthened, and staircase moved. New toilet accommodation was formed, together with a food kitchen for the purpose of preparing trial meals for clients. The externals were also redecorated.

## External yard

A 2-storey car park was constructed providing 253 spaces.

The yard was repaired and upgraded substantially in front of the north and south docks. Heavy duty grade asphalt was laid around the circulation routes.

A large single storey gatehouse was constructed.

Major drainage works were implemented, including the provision of a new interceptor / attenuation tank.

An additional £3.7m (approx.) was spent on 41 bespoke Malagan trucks to transport the in-flight meals straight to the airplanes.

## Warehouse

New dock doors and levellers were constructed on the north dock face, together with 3 level access doors, two being recessed into the warehouse.

A food preparation area was formed to food hygiene standards.

2 chill areas.

New offices were formed along one side of the facility. A canteen was formed on a mezzanine structure above the offices.

A new sprinkler system was installed.

A full mechanical and electrical installation was designed and installed to meet temperature and ventilation requirements.

The tenant is obliged to reinstate the premises and remove the works, making good all consequential damage to the landlord's reasonable satisfaction. The tenant is under no obligation to reinstate the workshop that existed on the premises on 29 April 2009 that was demolished as part of the works (to create the two storey car park) and is only obliged to resurface, with tarmac or other similar material, any areas that are left by any buildings that are demolished or works that are removed as a result of the reinstatement of the premises.





## Accommodation

A Plowman Craven area measurement report was carried out in May 2009 and is assignable to the purchaser.

The gross internal areas of the property, prior to the tenants works in 2009, as set out in the Plowman Craven survey are as follows:

Warehouse	Sq m	Sq ft
Ground Floor	9,125	98,221
First Floor	105.2	1,132
Sub-Total	9,230	99,353
Office Building		
Ground Floor	231.6	2,493
First Floor	233.8	2,517
Second Floor	273.8	2,947
Sub-Total	9,969.2	107,310
Workshop		
Ground Floor*	913.4	9,832
<b>Total</b>	<b>10,882.6</b>	<b>117,142</b>

\* As detailed in the 'refurbishment works' on the previous page, the workshop was demolished and replaced by the two story car park during the 2009 tenant works.

## Site Area

The property occupies a rectangular shaped site of approximately 7.39 acres, resulting in a low site coverage of 38%.

## Car Park

There are approximately 253 designated onsite car parking spaces which provide an excellent overall ratio of 1:463 sq ft.

Many Heathrow operations are labour intensive and whilst the actual airport is well served by public transport, Underground, Paddington Express and numerous bus services, the outlying locations are not. Consequently most employees are reliant on private transport, i.e. cars. The amount of car parking is therefore always an issue. Unit 1 Polar Park, Heathrow the 122,000 sq ft warehouse facility provides 114 car parking spaces, a ratio of 1:1,070 sq ft. The new decked car park provides approximately 253 car spaces, a ratio of 1:463sq ft. This ratio is significantly better than competing buildings and of significant importance to occupiers.





# Heathrow Airport

Heathrow is the world's busiest international airport and is regarded as the hub of the aviation world serving over 92 airlines to and from 180 destinations. In 2008 the airport handled approximately 473,000 flights (an average of 1,300 a day) with 66.9 million passengers passing through the gates each year.

Terminal 5 opened in March 2008 and is capable of handling 35 million passengers a year which could increase passenger capacity by 50%. The airport employs circa 70,000 people with a further 100,000 jobs related to it (source BAA).

Heathrow distributes over 1.4 million tonnes of cargo a year which is more cargo than all other UK airports combined. This cargo needs to be stored and packaged prior to being moved from and into the airport creating a strong demand for well located facilities.

As a result of planning restrictions (principally Green Belt) there is limited land supply in the area.

The airport has recently benefited from passenger gains arising from the Open Skies Air Transport Agreement resulting in a number of US airlines now operating at Heathrow.

There are a number of proposed initiatives at Heathrow which will further strengthen its dominant position;

1. Further expansion at Terminal 5: a second satellite building known as 5c is due to open in 2011.
2. Heathrow East: this is a proposal to replace Terminals 1 and 2 with a state of the art terminal (Phase 1 is due to open in 2012 in time for the London Olympics).
3. Terminals 3 and 4 will both have significant upgrades.
4. Airtrack: this is a proposal to create a new direct rail link between Terminal 5 and the national rail network to the south and west of the airport.
5. Crossrail: This could be implemented by 2017 and will provide direct rail links from Heathrow to Central London and onto Essex and Kent.



## Tenure

The property is held on three separate freehold titles.

## Tenancy

The property is let in its entirety for a term of 22 years from 24th June 2008 on two co-terminus FRI leases to Exel Europe Limited, with a guarantee from Exel Holdings Limited until 24th June 2030 (19.3 yrs unexpired) at a passing rent of £1,320,000 pa (£11.26 psf) which is reviewed to the higher of the open market rent or fixed rental uplifts as stated below;

June 2013	£1,485,000
April 2015	£1,518,000
June 2018	£1,745,000
June 2023	£2,007,000
June 2028	£2,300,000

The vendor will top up the day one rent to £1,485,000 reflecting the minimum uplift in June 2013.

## Schedule of Rental Comparable Evidence

Property	Occupier	Date	Area Sq Ft	Office %	Rent (psf)	Term (Inc. break)	Incentives	Age of Building	Landlord	Comments
Unit 6 Radius Park Faggs Road Hatton Cross	Agility	May 10	54,368	20	£11.50	10 years (TBO 5)	9 months rent free	1990's	AIPUT	Existing tenant, but served break option in previous lease. Deal agreed Oct 09.
Catering facility Southampton Road Stanwell	Gate Gourmet	May 10	177,000		£19.77	15 years (TBO 10)	Equivalent of 7 months rent free	2000	AIPUT	Re-gear of existing lease as tenant required removal of mutual break option to bring lease commitment in line with BA contract.
DC4 ProLogis Park Off Stockley Close West Drayton	Gate Gourmet	Apr 10	68,778	10	£12.50	15 years (TBO 10)	Equivalent of 21 months rent free	2007	ProLogis	New Heathrow North facility. Deal included providing a further 0.53 acres of yard area. Rental on base building reflected £11.50 psf.
DC3 ProLogis Park Off Stockley Close West Drayton	City Link	Jun 09	75,310	10	£13.11	10 years (TBO 5)	2 months rent free	2007	ProLogis	Deal included providing a further 0.88 acres of yard, plus undertaking close to £1m worth of works to the unit. 3 month penalty on the break option.
Units 1-3 X2 Southern Perimeter Road	Airline Handling	May 09	82,313	14	£13.61	5 years	12 months rent free	2008	Brixton	Deal also included taking a surrender of approx 70,000 sq ft at The Heathrow Estate.
LHR1 Faggs Road Hatton Cross	Geodis Wilson	Mar 09	96,563	17	£14.00		24 ½ months rent free	2007	SEGRO	Terms confidential.

## The British Airways Contract

In April 2008 British Airways awarded DHL Exel a 10 year contract to handle in-flight services for short haul and domestic flights from Heathrow. The contract was made effective in April 2010.

## ERV

There is rental evidence in the Heathrow market ranging between £13 psf for new space to £10 psf for secondary accommodation. The current rent on this building assuming the topped up rent equates to £12.67 psf.

Part of the refurbishment works reflect EXEL's occupation / operation, but the majority of the works will be of benefit to other occupiers and increase the unit's estimated rental value, i.e. the additional loading to the northern elevation and decked car park.

Below we set out details of recent lettings that have taken place.





# Covenant

DHL purchased Exel Plc in December 2005 for approximately £3.8 billion becoming the largest logistics company in the world.

The tenant, Exel Europe Limited, has a Dun & Bradstreet rating of 5A1, company number 00528867 reported the following financial figures:

	21.12.09	31.12.08	31.12.07
Turnover	£2,712,447,000	£2,523,754,000	£2,323,127,000
Pre-tax Profit	£42,858,000	£898,000	£17,793,000
Net Assets	£144,850,000	£102,181,000	£151,581,000
Net Worth	£124,600,000	£78,931,000	£125,331,000

The guarantor, Exel Holdings Limited, company number 01505040 reported the following financial figures:

	21.12.09	31.12.08	31.12.07
Turnover	£63,434,000	£275,708,000	£252,337,000
Pre-tax Profit	£78,849,000	£43,084,000	-£32,183,000
Net Assets	£132,761,000	£56,010,000	£17,077,000
Net Worth	£132,761,000	£56,010,000	£17,077,000

(Source; Credit Safe)





## Planning

The site is located within an existing business area, within which B2, B8 and other non-town centre employment uses are encouraged.

## Environmental

We have been supplied with a Phase I environmental assessment carried out by WSP dated March 2009. The opinion of WSP is that the site represents a low/medium risk with respect to contaminated land liability issues.

## VAT

The property is elected for VAT and is intended that the transaction will be treated as a TOGC.

## Proposal

We are instructed to seek offers in excess of £24,000,000 (twenty four million pounds), subject to contract and exclusive of VAT, for the freehold interest in the property.

The vendor will top up the rent until the 2013 fixed rental uplift.

Based on £1,485,000 pa, a purchase at this level will show the following yield profile, assuming standard purchasers costs of 5.75%:

Net initial yield	5.85%
Equivalent Yield	6.41%

Minimum net reversionary yield, June 2015	5.98%
Minimum net reversionary yield, June 2018	6.87%
Minimum net reversionary yield, June 2023	7.90%
Minimum net reversionary yield, June 2028	9.06%

## Contact

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