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British Land: Economic Contribution 2011-2012

Methodology overview

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Contents

Introduction

- The report "British Land: Economic Footprinting Study 2012" prepared by PwC for British Land estimated the UK gross value added[2], employment and tax contribution of British Land Plc through its operations and construction activities, as well as the impacts enabled by British Land through the business tenants that occupy its buildings or its occupiers. Only the impacts of occupiers in British Land-owned businesses were estimated. This document is a brief note outlining the methodology used.
- The following points are important to note about this study:
  - **All impacts in this report are in gross rather than net terms.** This means that an analysis of the extent to which some proportion of these impacts would have happened anyway (i.e. the impacts quantified are in this sense "non-additional") has not been undertaken. British Land may consider carrying out an additionality analysis in the future.
  - This study considered the gross economic impact of British Land (called "**own**" impacts), and the direct, indirect and induced impacts of British Land's business tenants (called "**occupier**" impacts). These have been presented separately.
  - In order to estimate occupier impacts an **attribution principle** was broadly followed, which is:

    the percentage of occupier impacts attributed to British Land = the percentage equity share of British Land for the site where the occupier is located[3]

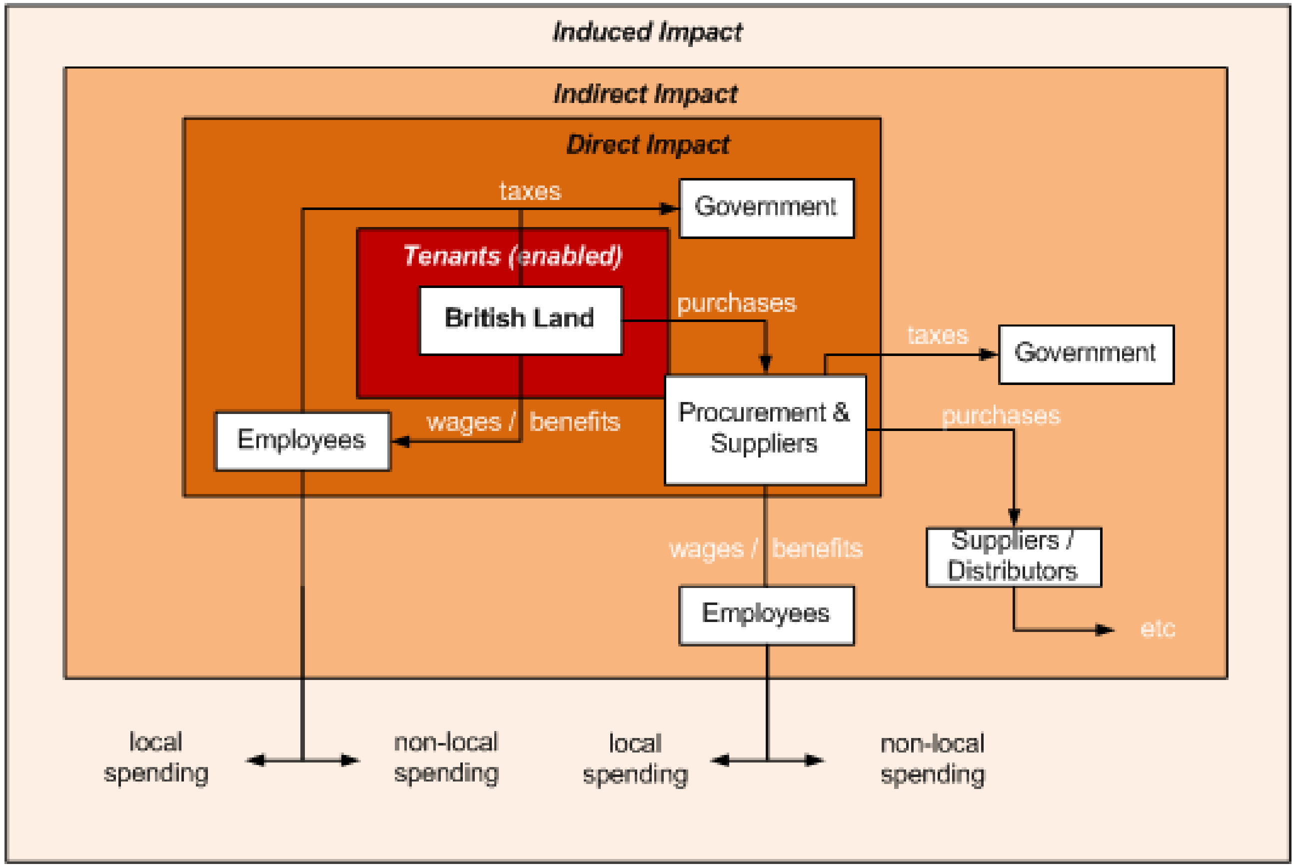
  - In addition, British Land's occupier impacts have been categorised on the basis of site types (office and retail) and British Land's own impacts have also been separated between operational and construction activities, which generate different types of impacts.

[1] *The results of the study will be published by British Land in a socio-economic contribution report in September 2012*
[2] *Gross Value Added (GVA) is a measure of a company's or industry's contribution to the economy*
[3] *See slide 8 for exceptions*

Introduction

In the report “British Land: Economic Footprinting Study 2012”, the following impacts have been estimated, and the methodology to estimate them has therefore been outlined in this document:

British Land's direct, indirect & induced impacts



British Land's Own Economic Footprint can be mapped in three tiers:

- ***Direct impact*** - the increase in value added and employment as a result of British Land's services
- ***Indirect impact*** - the increase in value added and employment as a result of British Land's suppliers' goods and services.
- ***Induced impact*** – the increase in value added and employment in the wider economy as a result of wages being spent by British Land's employees and its suppliers' employees

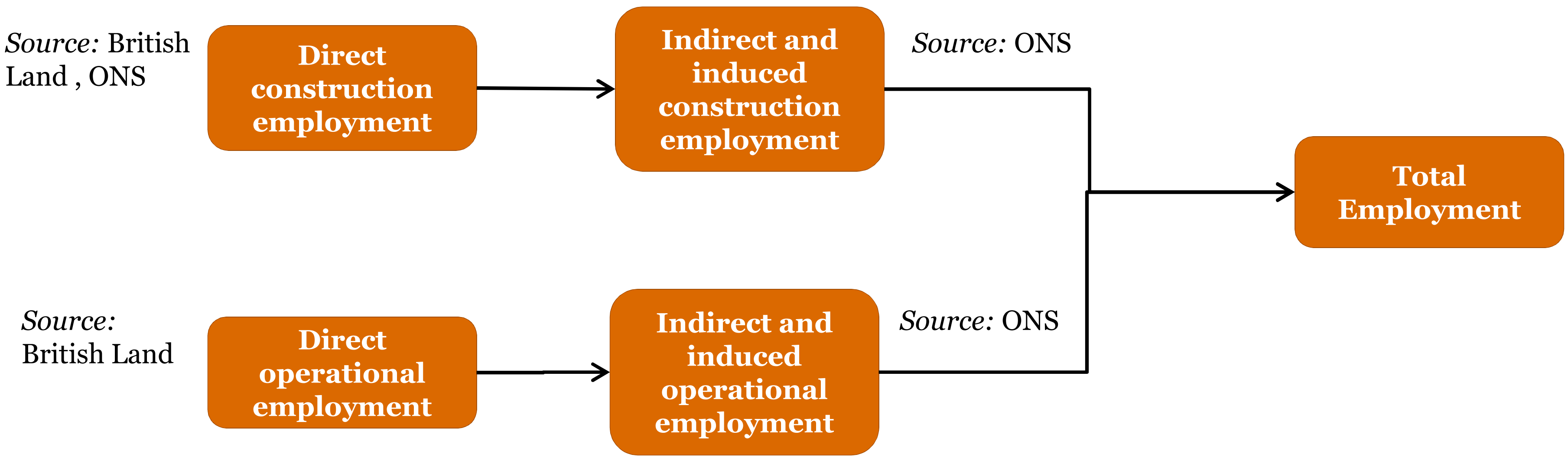
Occupier economic impacts can also be mapped similarly.

British Land's Own Economic Impact

Employment

Employment impacts were estimated using data provided by British Land and publicly available data from ONS. British Land provided us with the number of direct jobs they support through their operations. The number of indirect and induced operational jobs was estimated by multiplying the direct jobs by a Type II Employment Multiplier for the real estate sector. The multiplier was scaled down to reflect the fact that construction impacts were counted separately in this report. (Type II multipliers estimate the impact of direct economic impact on *indirect and induced* impact. For example, an employment multiplier of 3 would mean that for every 1 direct job created, a further 2 were created by suppliers and employee spending, creating 3 jobs in total.)

Direct construction employment was calculated by dividing direct GVA estimates (see next slide) by GVA per worker figures (*Source:* UK Input-Output tables.) Type II employment multipliers for the construction industry were then applied to calculate indirect and induced impacts.



British Land's Own Economic Impact

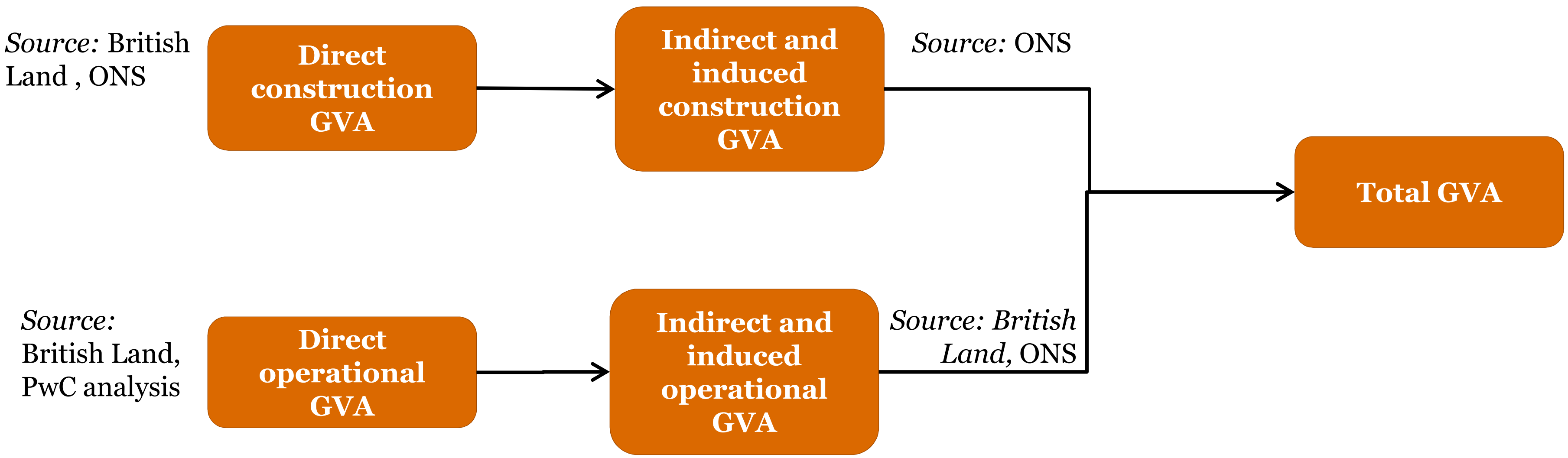
GVA

The direct economic impact of British Land's day-to-day operations was determined from its balance sheet, using the equation:

Direct GVA[4]= Gross operating surplus + Employee costs + Depreciation + Amortisation

This was multiplied by a Type II GVA Multiplier for the real estate sector to get the indirect and induced operational impact, and again scaled down to account for the fact that this national multiplier would already include the impact of construction spending.

The construction portion of indirect and induced GVA was ascertained from British Land data on construction capital expenditure, and GVA to construction turnover ratios presented in UK Input-Output tables. Type II GVA multipliers for the construction industry were then applied to calculate knock-on impacts.



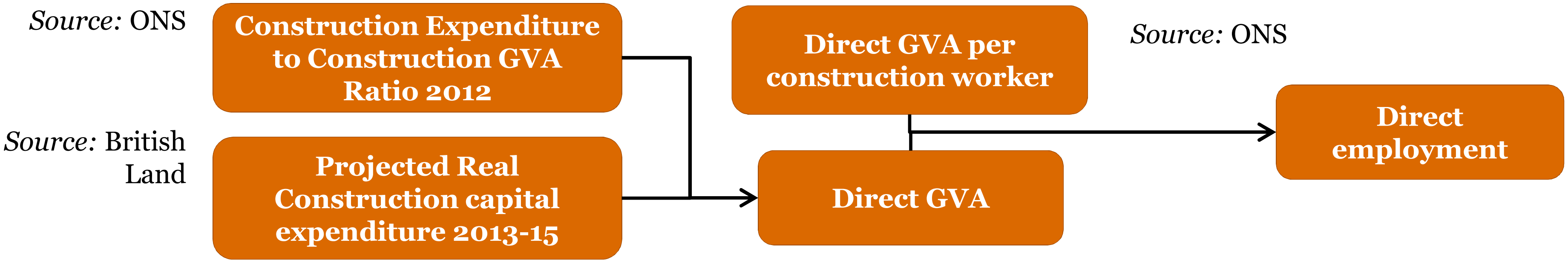
[4]GVA is the difference between the value of goods and services produced (output) and the cost of raw materials and other inputs which are used up in production (intermediate consumption). This is calculated gross of any deductions for depreciation or consumption of fixed capital.

British Land's Own Economic Impact

Future Impacts (2013-2015)

A report was produced last year by PwC for British Land[5] which included analysis of future impacts for the period 2011-2015, where the national average ratio of construction expenditure to construction employment was used to estimate person years worked, which was then multiplied by GVA per construction worker to estimate GVA. The first step of this methodology required data from the 'New Orders in the Construction Industry' publication. However, there has been growing public concern regarding this dataset's reliability, with multiple revisions of data and criticism from the construction industry[6]. Hence, to ensure that our estimates of construction jobs and GVA are robust, a new methodology has now been adopted which does not use this dataset.

The new methodology involves taking forecast construction capital expenditure for each year 2013-2015 (converted to 2012 prices using PwC Inflation forecasts[7]), and dividing it by the ratio of construction output to construction GVA in order to obtain direct GVA. The forecast GVA for each year is then divided by GVA per construction worker in order to obtain job forecasts. Both total impacts, and impacts attributed to British Land on the basis of equity share, were reported. Knock-on impacts of second-round spending by suppliers and employees (i.e., the indirect and induced impacts) were not estimated for future impact forecasts. The lifetime impacts of British Land's current development programme were also estimated, using total construction expenditure data over the construction lifecycle of the current developments. The same methodology as described above was employed in order to obtain direct GVA and employment, then the indirect and induced impacts were estimated by applying construction multipliers.

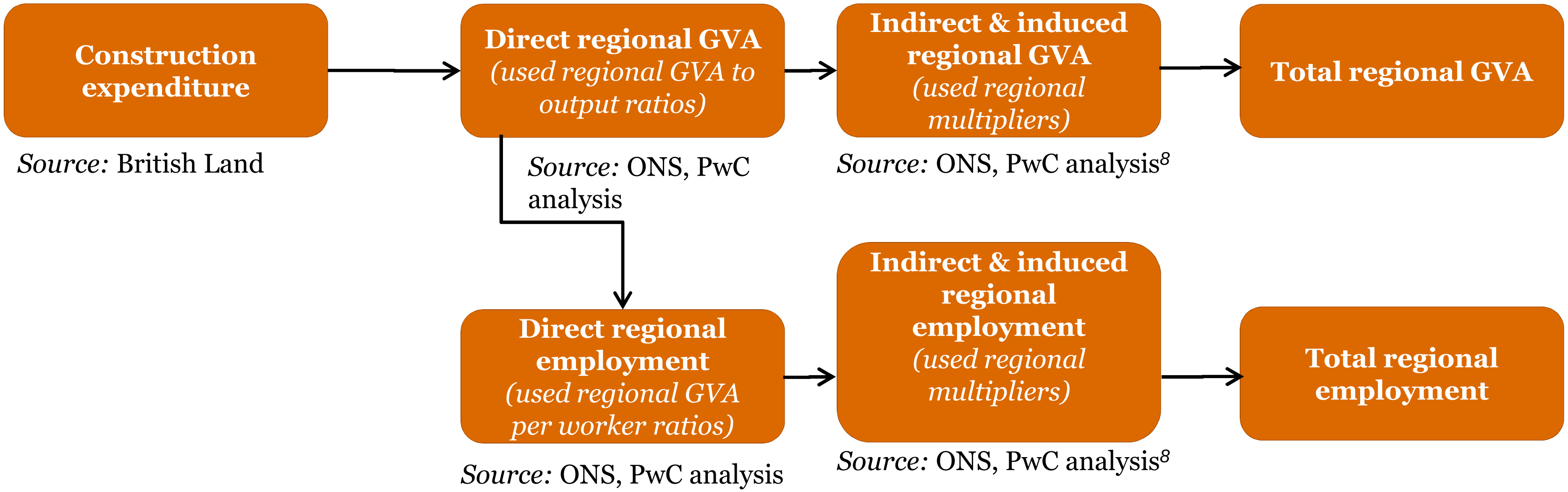


[5]*The report was titled 'Our Economic Contribution' and is available at http://www.britishland.com/files/pdf/responsibility/bl_our_economic_contribution.pdf*
[6] *See http://www.telegraph.co.uk/finance/newsbysector/constructionandproperty/8511810/We-still-dont-believe-it-says-construction-industry-as-ONS-revises-down-contraction-in-the-first-quarter.html*
[7]*PwC Inflation Forecasts are available from PwC's UK Economic Outlook publication: http://www.pwc.co.uk/the-economy/publications/uk-economic-outlook/index.jhtml*

British Land's Regional Impacts

PwC estimated the regional impacts of British Land's construction expenditure by collecting expenditure data for each of its major developments. Details regarding the cost and location of construction packages were collected, including fabricated offsite packages such as steel and cladding and on-site services such as design. Over 75% of UK expenditure in packages was matched to regions of the UK, and the economic impacts of construction within each particular region were estimated.

To estimate these impacts, we used economic ratios and multipliers specific to each region and specific to the good/service provided. Average regional ratios and multipliers for expenditure which could not be matched to a particular region of the UK were also used. The diagram below shows how this was undertaken:



[8] *Drawing on third party data*

British Land's Total Tax Contribution

What is Total Tax Contribution (TTC)?

- TTC is PwC's methodology for companies to measure and communicate all the payments that they make into public finances - to any level of government
- By focusing on cash payments it provides a direct measure of a company's economic tax impacts
  - a different measure than the tax charge in the financial statements
- TTC covers all the different taxes and levies paid by companies
  - including business rates, stamp duties, employer and employee NIC, VAT, PAYE, s106 payments and others
- And includes both taxes and levies borne and taxes collected
  - taxes and levies borne are a cost when paid and affect the company's results
  - taxes collected are administered by the company and collected from others

British Land's TTC

- Through participating in PwC's annual TTC survey for the Hundred Group, British Land has UK TTC figures for the last 5 years
- These show that, notwithstanding REIT (Real Estate Investment Trust) status and the exemption from CT on the property rental business, British Land makes a significant contribution to UK public finances
- This analysis looks at trends in British Land's TTC over the last 5 years
  - taxes in respect of profits are higher in the years following REIT status than before
  - but payments of some other large taxes have fluctuated considerably

British Land's Occupiers' Economic and Tax Impacts

GVA and Employment for 2011-12

PwC estimated employment using typical employment density figures (*Source:* English Partnerships and the London Plan) and floorspace data provided by British Land. This methodology is illustrated overleaf.

PwC estimated GVA per worker figures using publicly available sources (ONS, Labour Force Survey). Combined with the employment estimates, we were able to estimate the direct GVA per occupier. We translated these in turn into estimates of indirect and induced GVA and employment using multipliers derived from UK Input-Output tables. For retail occupiers, we used the retail industry classification to derive multipliers, for office occupiers we used a PwC-defined "professional services" multiplier, and for leisure occupiers we used a PwC-defined "leisure services" multiplier[8].

PwC estimated the labour and corporation tax liability of British Land's occupiers from the direct GVA estimates, and publicly available data on corporation taxes paid, average wages by sector, and labour taxes paid on wages.

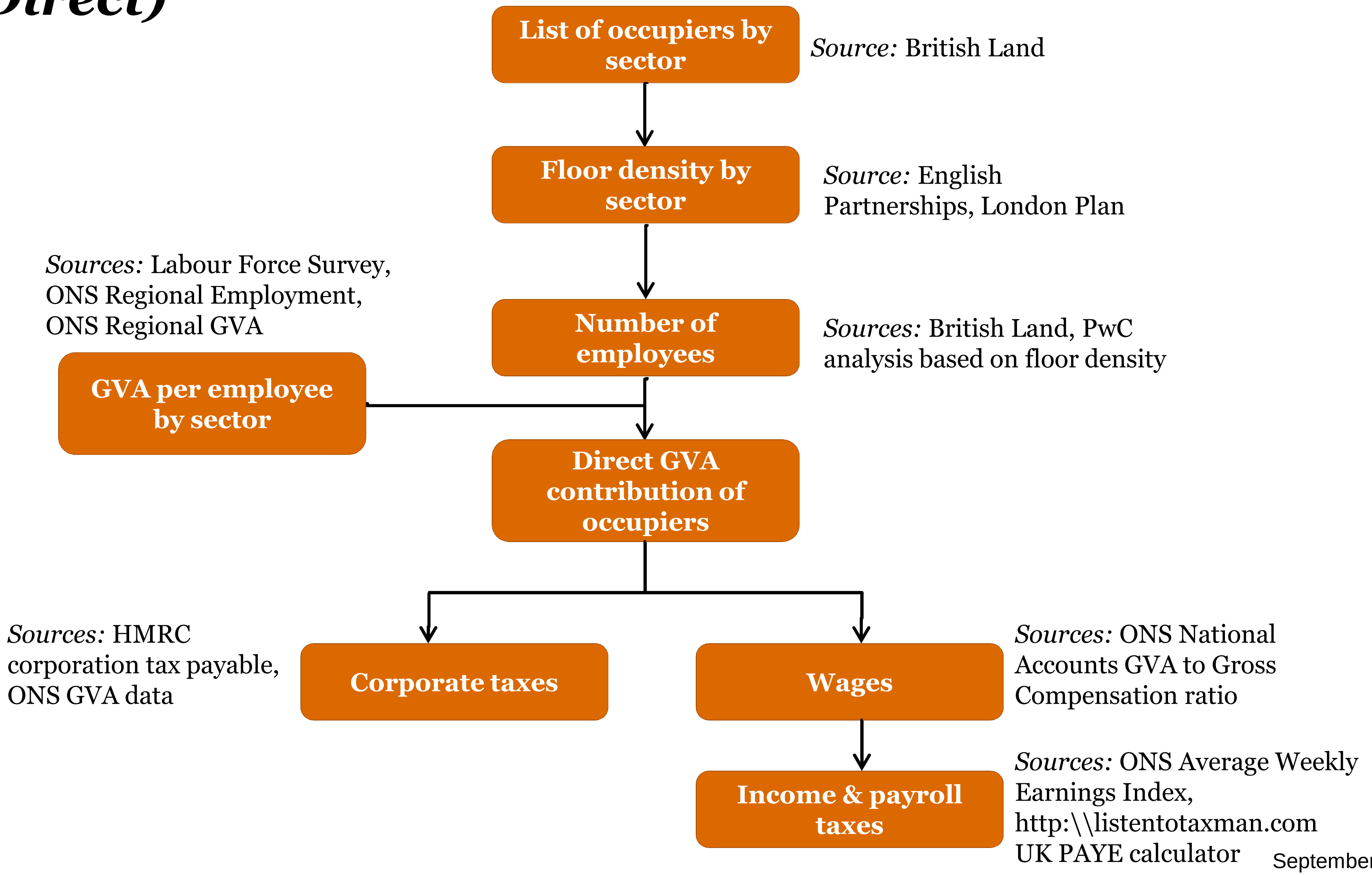
Impacts were attributed to British Land by multiplying GVA and employment by British Land's equity share at the relevant property. The two exceptions to this were 201 Bishopsgate and Broadgate Tower, which both received full credit in light of British Land's dominant role in developing and managing these properties.

Future Impacts (2013-2022)

The estimation methodology broadly followed the above steps, applied to British Land's nine major committed development projects. Since future tenancy was mostly uncertain, PwC took the average GVA per worker figures from British Land's existing portfolio for the relevant development type, for example office. Occupancy was not assumed to be 100% upon completion. An OLS regression was performed on provided British Land data to provide a time profile for occupancy build-up. The occupancy assumptions were refined this year by accounting for pre-let occupiers and adding an extra six months to allow for a suitable "moving in" period. Impacts were reported following the attribution rule (i.e. British Land's equity share). Knock-on impacts of second-round spending by suppliers and employees (i.e. the indirect and induced impacts) were not estimated for impact forecasts.

[8] *Using sectors 99-102 and 105-114 under the UK SIC2007 Classification for professional services, and using sectors 92 and 121 for leisure*

British Land's Occupiers' Economic and Tax Impacts (Direct)



British Land’s Occupiers’ Business Rates

Methodology

PwC estimated occupier business rates using our proprietary subscriber rating list query database “Analyse” and the VOA online rating lists. Both 2010 and 2005 rating list rateable values were considered in order to apply a formula to test for transitional adjustment and calculate the rates payable under transition. The same attribution principles were followed as elsewhere.

Inclusion Points

- Tests for transition
- Calculates transition
- Allows for City of London variations and Greater London variations
- Allows for Wales, NI and Scotland variations

Caveats

- Excludes slight variations on multiplier or transition for small properties with a rateable value under £18,000 (but the number of such properties is very small and the difference in the rate charge would be insignificant).
- Where we have been unable to find the exact rateable value we have defaulted to the rent × multiplier (these represent approximately 9% by amount paid)
- Where rents are used, there is an addition of £1 x multiplier in the totals which is not material.