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British Land: Economic Footprinting Study

May 2011

Methodology

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Introduction

- The report "British Land: Economic Footprinting Study" estimated the UK gross value added[1], employment[2] 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. 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 a portion of those impacts would have happened anyway (are "non-additional") has not been undertaken. British Land may consider carrying out an additionality analysis in the future.
  - This study considered the full economic impact of British Land (called "**own**" impacts), and the direct, indirect and induced impacts of British Land's tenants (called "**enabled**" impacts). These have been presented separately.
  - In order to estimate impacts "enabled" by British Land through its tenants, an **attribution principle** was broadly followed, which is:

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

  - In addition, British Land's tenant 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] *Gross Value Added (GVA) is a measure of a company or industry's contribution to the economy*

[2] *2009-10 Construction and Operational employment was measured in annual gross jobs. Estimated future construction employment was measured as cumulative man-years over 2011-15 and estimated future operational employment as annual and cumulative gross jobs over 2011-20.*

[3] *See slide 8 for exceptions*

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 the 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 in amount and it is not immediately clear why

Business Rates

Methodology

PwC estimated tenant 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 was 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 are very much in the minority)

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 generate 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.)

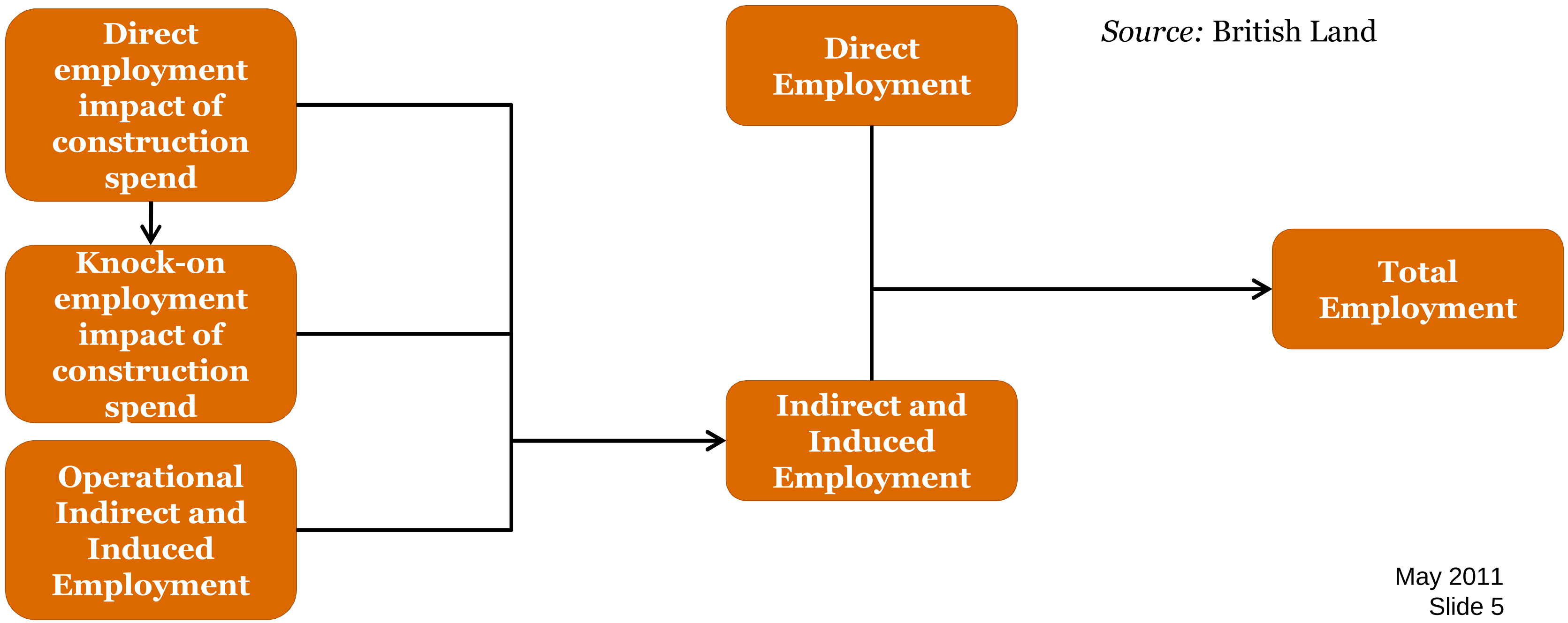
Direct construction employment was calculated by dividing direct GVA estimates (see next slide) by GVA per worker figures (*Source:* UK Input-Output tables.) Type II employment multipliers for the construction industry were then applied to calculate indirect and induced impacts.

Source: ONS

Source: ONS

Source: British Land , ONS

Source: British Land



British Land's Own Economic Impact

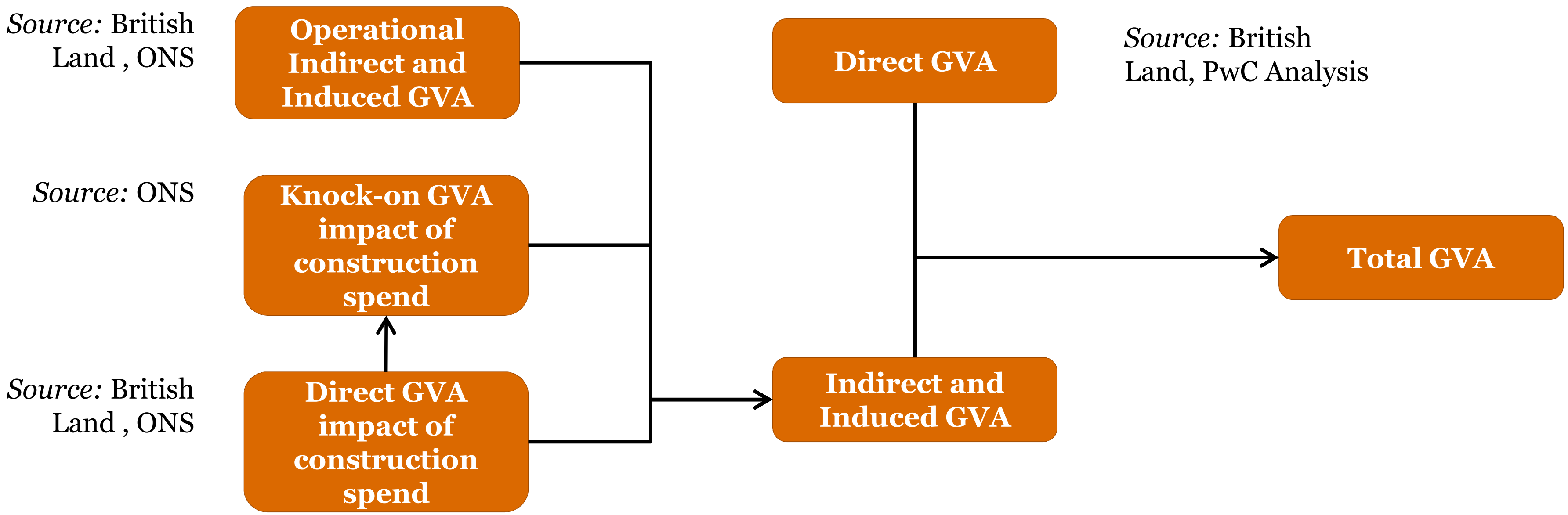
GVA

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

Direct GVA[3] = 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.

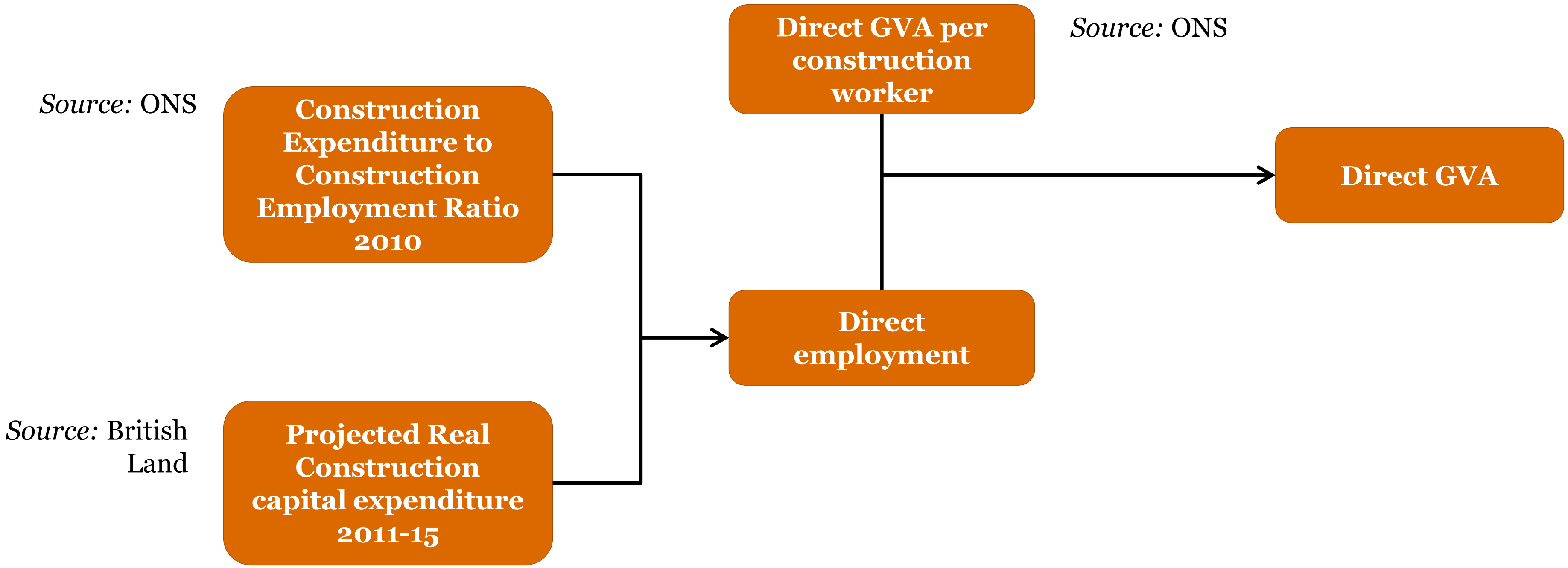


[3]GVA is the difference between the value of goods and services produced (output) and the cost of raw materials and other inputs which are used up in production (intermediate consumption). This is calculated gross of any deductions for depreciation or consumption of fixed capital.

British Land’s Own Economic Impact

Future Impacts (2011-2015)

Future impacts generated by British Land’s expenditure on construction were calculated by taking the projected construction capital expenditure[4] over the period 2011-15 of British Land’s developments, and dividing by the national average ratio of construction expenditure to employment (*Source:* ONS Construction Statistics Annual). These job forecasts were multiplied by average GVA per construction worker (*Source:* ONS 2010). 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) where not estimated for impact forecasts.



[4] *Converted to 2010 prices using PwC in-house inflation forecasts*

British Land's Tenants' Economic Impact

GVA and Employment for 2009-10

PwC estimated employment using typical employment density figures (*Source:* English Partnerships and the London Plan) and floorspace data provided by British Land. British Land estimates of direct employment were also used to validate results. 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 tenant. We translated these in turn into estimates of indirect and induced GVA and employment using multipliers derived from UK Input-Output tables. For retail tenants, we used the retail industry classification to derive multipliers, and for office tenants we used a PwC-defined "professional services" multiplier[5].

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

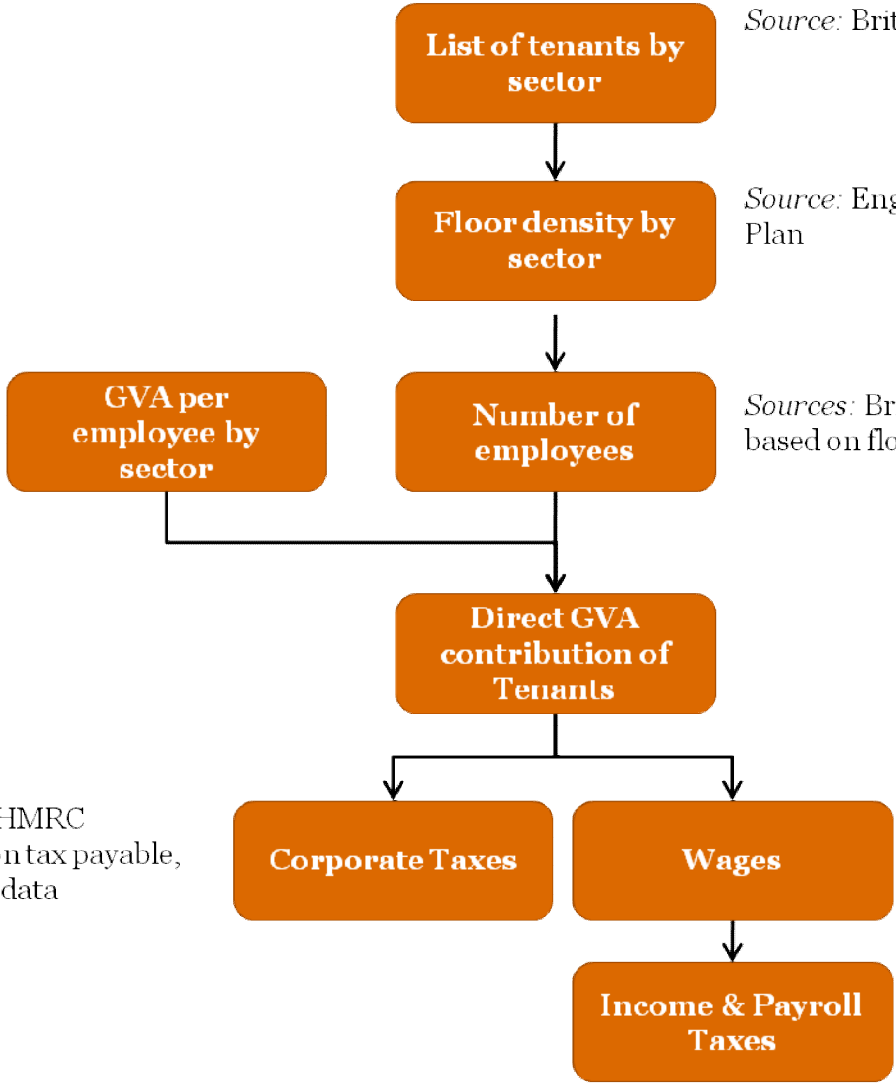
In attributing economic impact to British Land, the company received credit for GVA and employment impacts equal to its equity share, apart from 201 Bishopsgate and Broadgate Tower; the economic impact of which British Land received full credit, in light of its dominant historic role in developing and managing these properties.

Future Impacts (2011-2020)

The estimation methodology broadly followed the above steps, applied to British Land's seven committed development projects in London (including only office developments). Since future tenancy was mostly uncertain, PwC took the average GVA per worker figures from British Land's existing office portfolio in London for office properties. 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 until 2020 as some of the developments would be completed until 2014. 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) where not estimated for impact forecasts.

[5] *using sectors 99-114 under the UK SIC2007 Classification.*

British Land's Tenants' Economic Impact (Direct)



Source: British Land

Source: English Partnerships, London Plan

Sources: Labour Force Survey, ONS Regional Employment, ONS Regional GVA

Sources: British Land, PwC Analysis based on floor density

Sources: HMRC corporation tax payable, ONS GVA data

Sources: ONS National Accounts GVA to Gross Compensation Ratio

Sources: ONS Average Weekly Earnings Index, http://listentotaxman.com UK PAYE calculator