

# Joint Ventures Review

## Introduction

British Land currently has 12 (2002: 14) active joint ventures which hold £2.8 billion (2002: £3.2 billion) of properties in the principal areas of retail, office and development. British Land's share of £1.4 billion (2002: £1.6 billion), is financed to the extent of £632 million (2002: £792 million) by external net debt, of which only £12 million (2002: £33 million) is guaranteed by British Land. The net investment in joint ventures at the year end is £700 million (2002: £727 million).

## Joint venture model

All British Land's joint ventures share a common framework:

- a separate entity formed to own property;
- the joint venture entity is controlled on a 50:50 basis by a board on which each partner is equally represented (with no casting votes);
- the joint venture is established with a specific term, at the expiry of which, unless otherwise agreed, it will terminate in accordance with the terms agreed at the outset. There are, however, provisions for early termination if the partners reach deadlock; and
- the joint venture is funded by a varying combination of equity and subordinated loans (which enable income to be received gross) from the two joint venture partners, and by external debt.

British Land has proven its sustained ability to work constructively with other major companies, and its reputation enables it to continue to attract new ventures.

## Joint venture rationale

Joint ventures benefit British Land because:

- they have provided access to desirable properties that were not on the market and enhance contacts with tenants across a greater number of locations;
- they are able to raise finance on the strength of their own balance sheets with minimal or no support from either partner, thereby significantly lowering the initial equity investments and enhancing the returns on capital;
- they restrict the risks associated with a specific property investment or development by sharing the investment with a partner; and
- British Land earns fees from services provided to joint ventures.

## Joint venture activity

The key activities of the joint ventures during the year are:

- the acquisition in December 2002 of the remaining 50% interest in London & Henley, from the joint venture partner, Security Capital, for approximately £27 million; this residential portfolio is now entirely owned by British Land;
- BL Universal has further rationalised its portfolio, with sales of 27 properties, primarily high street shops, realising proceeds of £55 million;
- BL Rank Properties disposed of the remaining properties in its leisure portfolio, with the proceeds of £109 million being used to repay debt and return funds to the joint venture partners;
- The Public House Company continued with its programme of auction sales, in which 24 public houses were sold in the year, raising £29 million. Additionally, a further 79 public houses were sold to Scottish & Newcastle for £90 million in March 2003;
- BL Gazeley sold completed developments at Enfield and Thatcham, realising total proceeds of £71.9 million, substantially above cost; and
- British Land's interest in the Cherrywood joint venture, comprising the Dublin mixed commercial development, was sold in April 2003 to Dunloe Ewart the joint venture partner.

Other joint ventures have continued to rationalise and upgrade their portfolios through acquisitions, disposals and development of assets.

The summary profit and loss account and balance sheet information for the major joint ventures is set out later in this report.

## Summary of British Land's share in joint ventures

|                                 | 2003<br>£m | 2002<br>£m | Change<br>£m |
|---------------------------------|------------|------------|--------------|
| <b>Profit and loss account</b>  |            |            |              |
| Gross rental income             | 102.2      | 98.5       | 3.7          |
| Operating profit                | 92.3       | 88.6       | 3.7          |
| Disposal of fixed assets        | 20.4       | (2.5)      | 22.9         |
| Net interest – external         | (56.4)     | (50.0)     | (6.4)        |
| Net interest – shareholders     | (8.9)      | (16.1)     | 7.2          |
| Profit before tax               | 47.4       | 20.0       | 27.4         |
| <b>Balance sheet</b>            |            |            |              |
| Gross assets                    | 1,470.3    | 1,689.6    | (219.3)      |
| Gross liabilities               | (770.1)    | (962.4)    | 192.3        |
| Net investment                  | 700.2      | 727.2      | (27.0)       |
| Number of active joint ventures | 12         | 14         |              |

## BL Universal

|                                       |   |
|---------------------------------------|---|
| JV Partner:                           | GUS PLC   |
| Date Established:                     | February 1997   |
| Portfolio value:                      | £796m, comprising 121 principally retail properties   |
| Finance:                              | £300m listed debentures and £45m bank loan provided by Eurohypo; the loan is without recourse to the joint venture partners |
| Annualised net rent:                  | £53m  |
| Value of British Land net investment: | £212m   |

When this joint venture was established, it acquired 982 properties from the GUS group. Since then, the joint venture has sold or relinquished 861 properties and has reinvested the proceeds primarily in retail parks, as well as using the proceeds to repay debt and return cash to the partners. The largely repositioned portfolio now totals 121 properties, comprising retail warehouse parks, prime high street shops, shopping centres, superstores and offices.

During the year, 27 properties have been sold, for total proceeds of £55 million. Additionally, at the year-end, three further sales were exchanged and three agreed at an aggregate price of £15 million.

A redevelopment was completed in Donegall Place, Belfast to provide an 800 sq m (8,600 sq ft) shop for River Island. At New Cross Gate, London, a 2,300 sq m (25,000 sq ft) former bingo unit has been refurbished to provide retail-warehousing accommodation, divided and let to Currys and JJB Sports.

| Principal Properties |  |  | Area sq m |
|----------------------|--|--|-----------|
| Supermarkets         | London, New Cross Gate                           | Suburban J Sainsbury store.  | 8,400     |
| Supermarkets         | Lincoln  | Edge of town Tesco supermarket with petrol filling station.  | 6,500     |
| Supermarkets         | Coleraine, Riverside Retail Park                 | Edge of town supermarket with two retail warehouse units.  | 6,500     |
| Shopping Centres     | Aberdeen, St Nicholas Centre                     | Covered City centre shopping mall with two floors of offices above.                                | 7,200     |
| Retail Warehouses    | Cambridge, The Beehive Centre                    | Edge of town retail warehouse park with supermarket and petrol filling station.                    | 21,300    |
| Retail Warehouses    | Birmingham, Castle Vale Retail Park              | Out of town retail park.   | 15,240    |
| Retail Warehouses    | Wakefield, Westgate Retail Park                  | Edge of town retail and leisure park.  | 19,500    |
| Retail Warehouses    | Leeds, Westside Retail Park                      | Out of town retail warehouse.  | 10,600    |
| Retail Warehouses    | Cardiff, Wenvoe Retail Park                      | Two retail warehouses in an edge of town location.   | 3,900     |
| Retail Warehouses    | Bath Weston Lock Retail Park                     | Two retail warehouses in an edge of town location.   | 2,300     |
| Retail               | London W1, 187-195 Oxford Street                 | Two retail properties with offices and ancillary areas above.                                      | 2,800     |
| Retail               | Glasgow, 43-55 Argyle Street                     | Three City centre retail units.  | 4,200     |
| Retail               | Newcastle-Upon-Tyne, 78-92 Northumberland Street | City centre variety store.   | 8,400     |
| Retail               | Liverpool, 58-72 Church Street                   | Five storey retail and office property in the city centre.   | 5,500     |
| Retail               | Newcastle-Upon-Tyne, 72-76 Northumberland Street | Two retail units on basement ground and three upper floors.  | 3,100     |
| Retail               | Glasgow, 78-90 Buchanan Street                   | City centre retail on ground and basement with three floors of offices above.                      | 3,700     |
| Retail               | Kingston-Upon-Thames, 51-52 Clarence Street      | Two town centre retail units within the pedestrianised area.                                       | 2,000     |
| Offices – West End   | London W1, 251-256 Tottenham Court Road          | Office building of seven floors with ground floor retail.  | 3,200     |
| Offices – Other      | Reading, Microsoft Campus                        | Three self contained office buildings on an office park.   | 21,500    |
| Offices – City       | London EC3, 133 Houndsditch                      | Office building arranged over ground and five upper floors with a leisure element at ground floor. | 19,200    |

### Joint ventures with Tesco plc

British Land has three joint ventures with Tesco plc, which together own £717 million of retail properties, comprising 13 superstores, four retail parks and four shopping centres, all of which are anchored by Tesco stores.

#### BLT Properties

|                                       |  |
|---------------------------------------|--|
| JV Partner:                           | Tesco plc  |
| Date Established:                     | November 1996  |
| Portfolio value:                      | £239m, comprising two retail parks and eight Tesco superstores   |
| Finance:                              | £111 m loan provided by a syndicate of banks, led by HSBC; with recourse to the joint venture partners limited to £12 million each |
| Annualised net rent:                  | £15m   |
| Value of British Land net investment: | £68m   |

One of the first joint ventures, BLT has been active in extending the properties, making capital contributions to the cost of development and achieving increases in rental income.

During the year, the extension programme has continued: the Tesco store at Harlech Retail Park, Newport, has recently been extended by 2,500 sq m (26,600 sq ft), resulting in a substantial

increase in rental income from the enlarged store. The joint venture has also agreed an extension of 500 sq m (5,400 sq ft) at Formby. Rent reviews have been settled at four properties, while two distribution units at Nursling, Southampton were profitably sold in June 2002 for approximately £37 million.

| Properties        |                                   |  | Area sq m |
|-------------------|-----------------------------------|--|-----------|
| Supermarkets      | Bristol, Brislington              | Out of town store with petrol filling station.   | 8,400     |
| Supermarkets      | Newton Abbot                      | Out of town store with a petrol filling station.   | 6,600     |
| Supermarkets      | Ashford                           | Out of town store.   | 7,100     |
| Supermarkets      | Feltham                           | Suburban store with a petrol filling station.  | 5,800     |
| Supermarkets      | Pontypridd                        | Out of town store with a petrol filling station.   | 7,100     |
| Supermarkets      | Nottingham, Bulwell               | Suburban store with a petrol filling station.  | 4,900     |
| Supermarkets      | Barnstaple                        | Out of town store.   | 5,800     |
| Supermarkets      | Formby                            | Suburban store.  | 5,000     |
| Retail Warehouses | Plymouth, Marsh Mills Retail Park | Out of town retail park.   | 10,400    |
| Retail Warehouses | Newport, Harlech Retail Park      | Suburban retail park including a Tesco store of 4,747 sq m and a petrol filling station. | 15,100    |

#### Tesco British Land Property Partnership

|                                       |   |
|---------------------------------------|---|
| JV Partner:                           | Tesco plc   |
| Date Established:                     | February 1998                                       |
| Portfolio value:                      | £109m, being two shopping centres anchored by Tesco |
| Finance:                              | No external finance                                 |
| Annualised net rent                   | £7m   |
| Value of British Land net investment: | £47m  |

The partnership with Tesco was originally established to acquire 12 retail properties from the partners, and in November 1999 it sold nine properties to the newly formed Tesco BL Holdings, retaining three properties. In 2001, one of these properties was sold.

The remaining two properties are now undergoing a significant programme of refurbishment. At Weston Favell, Northampton, an

extension adding 5,200 sq m (56,000 sq ft) has recently completed with 70% now let or under offer. Following successful completion and letting of an extension at Beaumont Leys, Leicester, which included an addition to the Tesco store, a redevelopment of one of the malls is under consideration.

| Properties       |  |   | Area sq m |
|------------------|--|---|-----------|
| Shopping Centres | Northampton, Weston Favell Shopping Centre | District shopping centre including a Tesco store of 13,543 sq m and a petrol filling station. | 22,100    |
| Shopping Centres | Leicester, Beaumont Leys Shopping Centre   | District shopping centre including a Tesco store of 9,896 sq m and a petrol filling station.  | 21,700    |

## Tesco BL Holdings

|                                       |  |
|---------------------------------------|--|
| JV Partner:                           | Tesco plc  |
| Date Established:                     | November 1999  |
| Portfolio value:                      | £369m, comprising two retail parks and two shopping centres each anchored by Tesco, and five Tesco supermarkets        |
| Finance:                              | £210m loan provided by a syndicate of banks, led by WestLB; the loan is without recourse to the joint venture partners |
| Annualised net rent:                  | £22m   |
| Value of British Land net investment: | £78m   |

This joint venture was established to acquire nine properties from The Tesco British Land Property Partnership in November 1999. The properties are actively managed and the joint venture is currently funding a 230 sq m (2,500 sq ft) extension to the Tesco store in Bury.

| Properties        |  |   | Area sq m |
|-------------------|--|---|-----------|
| Supermarkets      | London NW10, Neasden                     | Suburban store with a petrol filling station.   | 10,000    |
| Supermarkets      | Southampton, Bursledon                   | Out of town store with a petrol filling station.  | 11,200    |
| Supermarkets      | Bournemouth, Ferndown                    | Neighbourhood shopping centre including a Tesco store of 5,766 sq m.                              | 7,800     |
| Supermarkets      | London E3, Bromley by Bow                | Suburban store with a petrol filling station.   | 6,500     |
| Supermarkets      | Maidstone, Grove Green                   | Neighbourhood shopping centre including a Tesco store of 3,829 sq m and a petrol filling station. | 3,800     |
| Shopping Centres  | Peterborough, Serpentine Green           | Out of town shopping centre including a Tesco store of 12,077 sq m and a petrol filling station.  | 29,000    |
| Shopping Centres  | Londonderry, Lisnagelvin Shopping Centre | District shopping centre including a Tesco store of 4,025 sq m and a petrol filling station.      | 9,500     |
| Retail Warehouses | Milton Keynes, The Kingston Centre       | Out of town retail park including a Tesco store of 7,457 sq m and a petrol filling station.       | 21,600    |
| Retail Warehouses | Bury, Woodfields Retail Park             | Out of town retail park with Tesco store of 7,015 sq m and a petrol filling station.              | 13,400    |

## BL Davidson

|                                       |  |
|---------------------------------------|--|
| JV Partner:                           | Manny Davidson, his family and family trusts   |
| Date Established:                     | September 2001   |
| Portfolio value:                      | £459m, comprising circa 70 properties, principally retail warehouses and Central London offices  |
| Finance:                              | £114m investment, development and working capital loan facilities provided by Royal Bank of Scotland, which are without recourse to the joint venture partners. The joint venture group also has debenture financing of £124m, as well as other bank loans totalling £14m. |
| Annualised net rent:                  | £29m   |
| Value of British Land net investment: | £92m   |

This joint venture was established to acquire Asda Property Holdings plc, which owned a portfolio of approximately 80 properties, comprising principally retail warehousing and Central London offices.

During the year, the office and retail development programme has been completed (funded within the RBS facility) and sales with proceeds totalling £58 million have completed.

| Properties         |  |  | Area sq m |
|--------------------|--|--|-----------|
| Retail Warehouses  | Bradford, Forster Square Retail Park Unit 9-19 | Out of town retail park.   | 12,300    |
| Retail Warehouses  | Doncaster, Wheatley Centre                     | Out of town retail park.   | 16,500    |
| Retail Warehouses  | Bradford, Forster Square Retail Park Unit 1-8  | Out of town retail park.   | 10,000    |
| Retail Warehouses  | Woking, Lion Retail Park                       | Out of town retail park.   | 7,200     |
| Retail Warehouses  | Kingston-Upon-Hull, Kingswood Retail Park      | Out of town retail park.   | 12,000    |
| Retail Warehouses  | Mansfield, St Peter's Retail Park              | Out of town retail park.   | 7,400     |
| Retail Warehouses  | Cwmbran, Retail Park                           | Out of town retail park.   | 11,700    |
| Retail Warehouses  | Eastleigh, Retail Park                         | Out of town retail park.   | 5,600     |
| Retail             | Solihull, 20-66 Station Road                   | Retail and residential units.  | 3,700     |
| Offices – West End | London SW1, Ebury Gate                         | Office and residential building on basement, ground and six upper floors | 4,400     |
| Offices – City     | London EC2, 15-16 Bonhill Street               | Office building on basement, ground and six upper floors.                | 10,400    |

**BL West companies**

|                                       |  |
|---------------------------------------|--|
| JV Partners:                          | WestLB, WestImmo and Provinzial (together 50%)   |
| Date Established:                     | September 2000   |
| Portfolio value:                      | £333m, comprising four City of London office buildings   |
| Finance:                              | £257m bank loan provided by a syndicate, led by WestLB; the loan is without recourse to the joint venture partners |
| Annualised net rent:                  | £24m   |
| Value of British Land net investment: | £37m   |

In September 2000, British Land sold a 50% interest in four prime city offices to a new joint venture with WestLB, WestImmo and Provinzial. British Land retains a 50% interest in the venture. The properties comprise: three office buildings developed in 1992; 1 Fleet Place, Ludgate EC4, 10 Fleet Place, Ludgate EC4, 100 New Bridge Street, Ludgate EC4

and Watling House, Cannon Street EC4, an office building constructed in 1998.

During the year, further rent reviews have been settled at 10 Fleet Place and 100 New Bridge Street.

| Properties     |  |  | Area sq m |
|----------------|--|--|-----------|
| Offices – City | London EC4, Ludgate, 100 New Bridge St   | Office building on basement, ground and eight upper floors including basement and ground level retail. | 15,400    |
| Offices – City | London EC4, Cannon Street, Watling House | Office building including 957 sq m of retail and public house (long leasehold).                        | 9,000     |
| Offices – City | London EC4, Ludgate, 1 Fleet Place       | Office building on basement, ground and eight upper floors including basement and ground level retail. | 15,600    |
| Offices – City | London EC4, Ludgate, 10 Fleet Place      | Office building on ground and eight upper floors including basement and ground level retail.           | 17,000    |

**BL Fraser**

|                                       |  |
|---------------------------------------|--|
| JV Partner:                           | House of Fraser plc  |
| Date Established:                     | July 1999  |
| Portfolio value:                      | £230m, comprising 14 department stores   |
| Finance:                              | £140m loan provided by a syndicate of banks, led by Eurohypo; the loan is without recourse to the joint venture partners |
| Annualised net rent:                  | £14m   |
| Value of British Land net investment: | £50m   |

This joint venture was established to acquire and leaseback 15 House of Fraser freehold and long leasehold department stores, mostly in major provincial towns and cities. In 2001, the joint venture purchased a further store in Bristol from Bentalls, funded by an increase in the bank loan, which also assisted with a significant re-development of the Guildford store resulting in higher rental income for the joint venture.

All properties are let on 40 year full repairing and insuring leases to House of Fraser with minimum guaranteed uplifts for the first two rent reviews, based on the higher of 3% per annum uplift (since 1999) or open market value. During the year, the stores in Doncaster (4,800 sq m/51,700 sq ft) and Perth (5,500 sq m/59,200 sq ft) were sold for total proceeds significantly above their valuations.

| Properties |  |                                  | Area sq m |
|------------|--|----------------------------------|-----------|
| Retail     | Guildford, 105-113 High Street             | House of Fraser Department store | 15,400    |
| Retail     | Cardiff, St Mary's Street & Trinity Street | House of Fraser Department store | 26,000    |
| Retail     | Bristol, Horsefair                         | House of Fraser Department store | 26,000    |
| Retail     | Plymouth, 40-46 Royal Parade               | House of Fraser Department store | 17,100    |
| Retail     | Leeds, 138-142 Briggate                    | House of Fraser Department store | 10,700    |
| Retail     | Leamington Spa, 78-86 The Parade           | House of Fraser Department store | 9,300     |
| Retail     | Middlesbrough, 37 Linthorpe Road           | House of Fraser Department store | 12,100    |
| Retail     | Hull, 1 Paragon Square                     | House of Fraser Department store | 17,500    |
| Retail     | Camberley, Park Street & Princess Way      | House of Fraser Department store | 11,400    |
| Retail     | Carlisle, 26-40 English Street             | House of Fraser Department store | 8,900     |
| Retail     | Grimsby, Victoria Street West              | House of Fraser Department store | 8,500     |
| Retail     | Darlington, Blackwellgate                  | House of Fraser Department store | 12,600    |
| Retail     | Chichester West St & Tower St              | House of Fraser Department store | 6,500     |
| Retail     | Lincoln 226/231 High Street                | House of Fraser Department store | 7,600     |

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**The Public House Company**

|                                       |  |
|---------------------------------------|--|
| JV Partner:                           | Scottish & Newcastle plc   |
| Date Established:                     | April 1995   |
| Portfolio value:                      | £53m, comprising 49 public houses  |
| Finance:                              | Loan provided by a syndicate of banks, led by Bank of Scotland, fully repaid in the year |
| Annualised net rent:                  | £4m  |
| Value of British Land net investment: | £29m   |

Since formation in 1995 to acquire a portfolio of 306 public houses let to Scottish & Newcastle, this joint venture has rationalised its portfolio through a large number of sales of smaller portfolios and single properties and purchase of further public houses. In June 2001 the joint venture completed the sale of 151 public houses to Scottish and Newcastle for £111 million.

In the current year, a further 79 public houses were sold to Scottish and Newcastle for £90 million in March 2003, while, as part of the ongoing disposals programme, 24 sales at auction have realised £29 million, well above valuation. In each case the sales proceeds have been utilised to repay debt and to return funds to the joint venture partners, with the result that the bank loan of £85 million has now been fully repaid.

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**BL Gazeley**

|                                       |   |
|---------------------------------------|---|
| JV Partner:                           | Gazeley Properties                            |
| Date Established:                     | January 2001                                  |
| Portfolio:                            | £17m, comprising two development properties   |
| Finance:                              | No external finance                           |
| Annualised net rent:                  | £nil – all properties still under development |
| Value of British Land net investment: | £8m   |

This joint venture is funded by the shareholders to acquire and develop sites at Thatcham, Redditch and Enfield, providing principally distribution and warehouse accommodation.

During the year the joint venture built, pre-let to Scottish & Newcastle and subsequently sold a distribution unit of 33,060 sq m (356,000 sq ft) at Thatcham for £38.5 million. At Enfield, the joint

venture has developed over 21,500 sq m (232,000 sq ft) of distribution units, of which 18,300 sq m (197,000 sq ft) has been let. The completed investment has been sold to Legal & General for £25.3 million. A further 10,500 sq m (113,000 sq ft) has been developed and pre-sold to Warburtons. Both sales showed a significant surplus over cost.

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**BVP Developments**

|                                       |   |
|---------------------------------------|---|
| JV Partner:                           | ProLogis Developments   |
| Date Established:                     | June 1999   |
| Portfolio:                            | £106m, comprising the Blythe Valley Business Park   |
| Finance:                              | £49m loan from Bank of Scotland; the loan is without recourse to the joint venture partners |
| Annualised net rent:                  | £6m   |
| Value of British Land net investment: | £23m  |

A total of 36,200 sq m (390,000 sq ft) of development has been completed to date. During the year, 1,760 sq m (19,000 sq ft) has been completed, of which approximately 700 sq m (8,000 sq ft) has been let. Additionally, negotiations are at a detailed stage for a 200 sq m (2,200 sq ft) retail/café facility to service the current park

tenants. Terms have been agreed for pre-let of a further 6,000 sq m (65,000 sq ft) and solicitors instructed.

In August 2002 the company purchased approximately four hectares (ten acres) of development land within the park, with planning consent for 15,500 sq m (167,000 sq ft) from Oracle Corporation.

**No it aint!**  
**Not if we can help it.**