

International Business Districts 2015: Where Should You Be?

A study by Goodwill Management

About Goodwill Management

Goodwill Management is a consulting firm that specializes in Responsible Economic Performance, with intangible asset management being their core competency. We help companies better understand their core resources that help them generate sustainable competitive advantage which leads to superior economic performance.

In France, Goodwill Management is the established leader in the business of measuring intangible assets and measuring the economic and social performance of cities, buildings and company CSR policies. For more than a decade now, GWM has been evaluating CSR policies for major French companies such as **SNCF**, **La Francaise des Jeux**, **ErDF**, **Federation Nationale des Caisses d'Epargnes**, as well as multinationals listed in the private sector.

GWM was founded in 2004, at the behest of **Christine Lagard**, then **French Minister of Economic Affairs and Finance**, who commissioned **Alan Fustec**, founder and CEO of GWM, to elaborate on the official French Intangibles Accounting Standard: Thesaurus Bercy. The French standard is considered to be superior to the intangible accounting standards proposed by other countries such as Japan, Germany and Denmark, as it is the only one that actually proposes to extend the regular accounting standards so as to include intangible assets, and it does this by quantifying the value of these assets. The other methodologies are usually more qualitative and narrative in nature, which is where the GWM methodology stands out.

What are intangible assets?

Intangible capital is originally a micro-economic concept that represents all of the extra-financial wealth of a company. In France, the Thesaurus Bercy mechanism is used to evaluate intangible capital. It has been produced by *l'Observatoire de l'Immaterial*, in order to meet the demands of the Financial and Economic Ministry. Alan Fustec, president of Goodwill Management is the director of l'Observatoire de l'immaterial.

Thesaurus Bercy enables the measurement of the value of clients, teams, brands, patents and know-how, information systems and so forth. Today, intangibles constitute around two-thirds of the total value of enterprises. Their book value, on average is only about a third of their market value. Conventional accounting standards do not take this into account as intangibles are deemed to be very volatile in nature.

Why are intangible assets important for your company?

Accountants generally tend to overlook the economic value of teams, organizations and systems. However, objects such as cars, phones, stationary and buildings find their way on to the balance sheet. It is this discrepancy that triggered the demand for a system that can be used to evaluate and integrate a firm's intangible assets into the firm's main balance sheet.

A very good example of the concept above is a mobile phone. The value of a phone is not the sum total of the materials that were used to make it – the silicon, glass, plastic and microchips. *Au contraire,* its value is derived from the intelligence and the services it provides to the users – therefore a mobile phone is an intangible asset.

Intangible Capital of Business Districts

There is more than what meets the eye

As intangible capital management gains more and more recognition in the business world, governmental and private organizations have decided to extend the application of this method to geographical areas; business districts, cities, regions and countries. The Thesaurus VIT (Valuer Immaterielle de territoires) allows for the financial and extra financial evaluation of 13 different kinds of assets for business districts.

Why is it important to evaluate the intangible capital?

We find ourselves in the midst of a transition from a techno-service economy to knowledge-based economy, and cities are the epicenters of this transition. Therefore, it is highly recommended to study and analyze cities from a viewpoint based on intangible assets and intellectual capital. For this, we need tools that can provide a complete future vision of a city. With ever increasing global opportunities and ever decreasing barriers of mobility, for business and citizens alike, it is high time that multinational businesses asked themselves the following critical questions before planning to expand to new frontiers.

- **Which is the most attractive district to invest in?**
- **Which is the most attractive district for us to expand to?**
- **Which is a district that promotes and develops the spirit of entrepreneurship?**
- **Which district is the most likely to attract the best talent from around the world?**
- **Which district is the most dynamic and is adaptable to changes?**

For a business, depending on what their specific requirement may be, there could be one particular district or there could be five different districts that fulfil the specific requirements. Through our service, we can help you make informed investment decisions based on your specific needs. Our experience with the EPADESA and our extensive research on business districts around the world enables us to completely understand the complexities of the interplays between the multitudes of factors that make a business district what it is.

The results given by these tools can give us a long-term picture supported by a comprehensive development strategy for the city. We can also help business by showing them the value they create by choosing a particular district over another.

Our study about business districts
13 business districts 11 cities on 4 continents

Goodwill Management, in collaboration with three students from HEC Paris, a French business school, carried out a study to assess the intangible asset valuation of 13 business districts across the world. This was done as a continuation of the project undertaken by Grigor Hadjiev, consultant at GWM. In his project, he evaluated the intangible capital of La Defense in Paris, relative to three other business districts in Europe and Asia.

In this project, we have tried to propose a simpler and more unified model that can be applied to any business district in the world, to find out its intangible asset valuation.

So far, we have implemented this method on the following 13 business districts.

Beijing *Central Business District*

Chicago *The Loop*

Frankfurt *Bankenviertel*

Hong Kong *Central*

London *Canary Wharf*

London *City*

Moscow *International Business Center*

Mumbai *Nariman Point*

New York *Manhattan*

Paris *La Defense*

Paris *Val de Seine*

Singapore *Marina Bay*

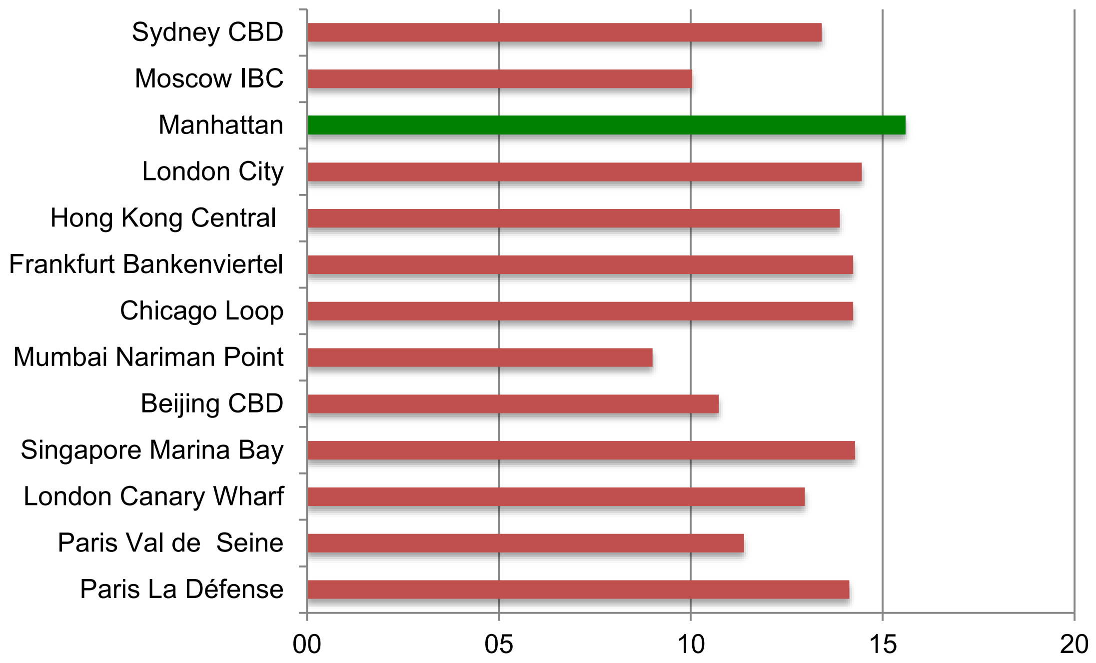
Sydney *Central Business District*

Among the 13 business districts, we found that Manhattan in New York ranks the highest, with a score of 15,6 on 20. Following New York, in 2nd and 3rd place are London City (14.5) and Singapore Marina Bay (14.3) respectively.

Results of the study

New York triumphs over the rest, lives up to its name as 'The Empire City'.

Our study yielded some exciting results about which we will talk in this section. In its essence, our project is a competitive benchmark that helps us to better compare business districts against each other on a wide variety of assets. The results have been well visualized in the form of graphs, which allow us to easily analyze the strengths and weaknesses. Below is a graph that gives us the global overview of our study.



According to our study, the best business district as of 2014 is Manhattan in New York. With a total score of 15.6, Manhattan outperforms all the other districts. Its strengths are many and highly varied – right from connectivity, central location, and number of tourists, to more macro-economic factors such as low tax rates and a relatively higher growth rate in the GDP.

So what is it that makes Manhattan the best business district in the world? It could be the fact that the average household income in Manhattan is more than USD $160,000, far greater than any of the other business districts we studied. The closest contender is the Chicago Loop, at just above USD $80,000 per annum. From a demand asset point of view, Manhattan is an attractive destination for foreign investment from businesses and individuals alike. Business are investing in office space, for which rents can go as high as USD $70 per square foot per annum.

How did we do it?

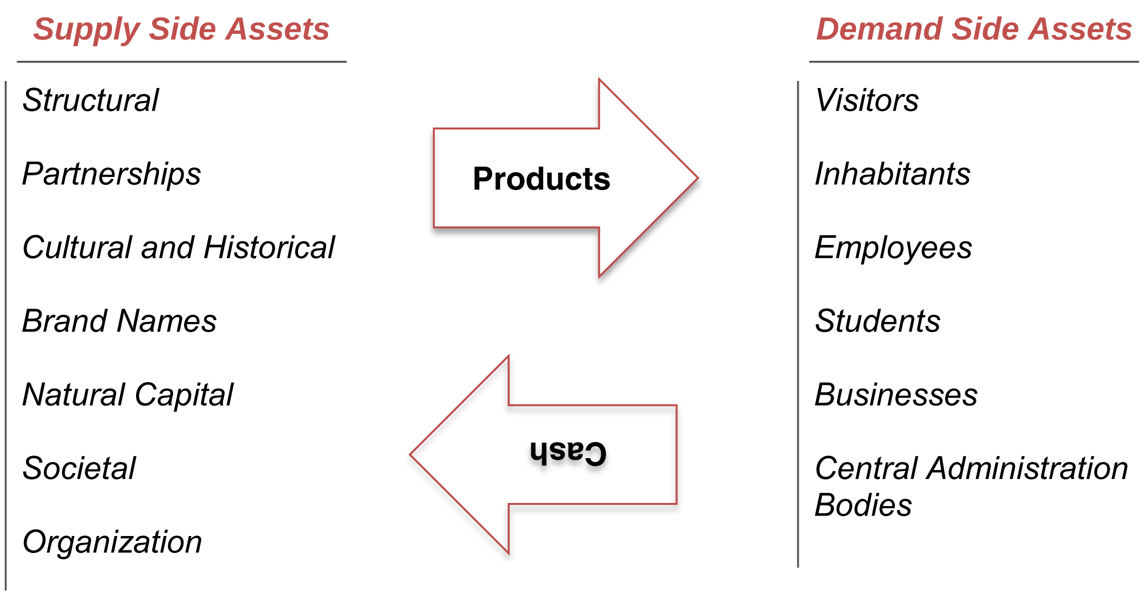
Identification, calibration and evaluation of key indicators.

The primary objective of this study was to identify and unravel the core competencies of each and every business district that we studied. In order to achieve this, Goodwill Management, in correspondence with the Thesaurus Bercy, has created a methodology that easily allows for the calculation of the value of a district's extra financial assets.

In totality, we have identified 241 indicators among 13 assets of every city. Each and every one of these indicators is assigned a numerical score that lies between 0 and 20. These intangible asset indicators influence the attractiveness of the district, and consequently its perceived value in the market.

What are the intangible assets of a business district?

An intangible asset of a business district is nothing but a set of attributes that help define it better. First, we will establish a clear and comprehensive classification of intangible assets. It is important before any evaluation exercise to designate assets as intangible elements if applicable. Our methodology, the Thesaurus VIT, is based on a clear distinction between the demand assets and supply assets. As in the model of measuring intellectual capital of a company or a building, we use a method based on a rating and a segmented into the following asset tree:



Supply Side Assets

What does the district have to offer?

Supply side assets are the ones that generate the services or products that attracts customers and business likewise. They are responsible for making the business district what it is as they are embedded into the very fabric of the district.

- **Structural Capital**: This represents the intangible capital of the firm that deals mostly with factors relating to infrastructure – physical organization of the district, road and transport networks, accessibility by different modes of transportation, presence of water, energy and telecom networks in the region, whether or not recycling of waste is prevalent, so on and so forth.

- **Partnership Capital:** In this sub asset we examine the partnerships in the business district, collaborations with different kinds of organizations to increase the value of human capital. Typically this sub asset includes institutions like hospitals, police facilities, entertainment, education and the likes.

- **Cultural Capital:** This sub asset delves into the presence of cultural icons and landmarks in the business district, cultural events, entertainment and sporting events are taken into account too.

- **Brand Capital:** The brands present in the district are part of this asset, as a high number of global brands operating out of the district perceivably make it a 'better place to be in', and thus the district becomes more attractive for investments.

- **Natural Capital:** Factors such as presence of open spaces and parks, air quality, water quality and presence of natural resources are taken into account in this asset.

- **Societal Capital:** The district is observed from a macroeconomic point of view, with factors like GDP of the district, growth rate of GDP, national GDP and unemployment rates taken into account.

- **Organizational Capital:** The district is observed from a geographic point of view in this asset class, with factors such as connectivity to the main city and multi modal accessibility.

Demand Side Assets

These are considered to be assets that have the potential to generate revenues for the business district. They are:

- **Visitors**: Either tourists or professionals who visit the district for a day or two for work related matters
- **Inhabitants:** People who live in and/or in the immediate vicinity around the business district
- **Employees:** Number of employees working in the business district on a regular basis.
- **Students:** Number of students studying in universities and higher education institutions based in the business district.
- **Businesses:** Number of organizations that operate out of the said district
- **Central Administration Bodies:** Public agencies that are situated in the business district, trade bodies and financial regulatory agencies for instance.

Our offer for the intangible capital evaluation of your district:

i) Research

- Collect data (internally and externally if necessary)
- Use our tool to benchmark your district against the ones we have already studied.

ii) Integration

- Calibrating our framework so that it perfectly fits the needs of your organization.
- Integrating our tools and research with your processes.

iii) Consulting

- Personal advice on the utilization of the tool and its various possible uses.
- Support for communicating the project carried out between Goodwill Management and your organization.
- Advice for how to successfully leverage your intangible assets to create tangible value.

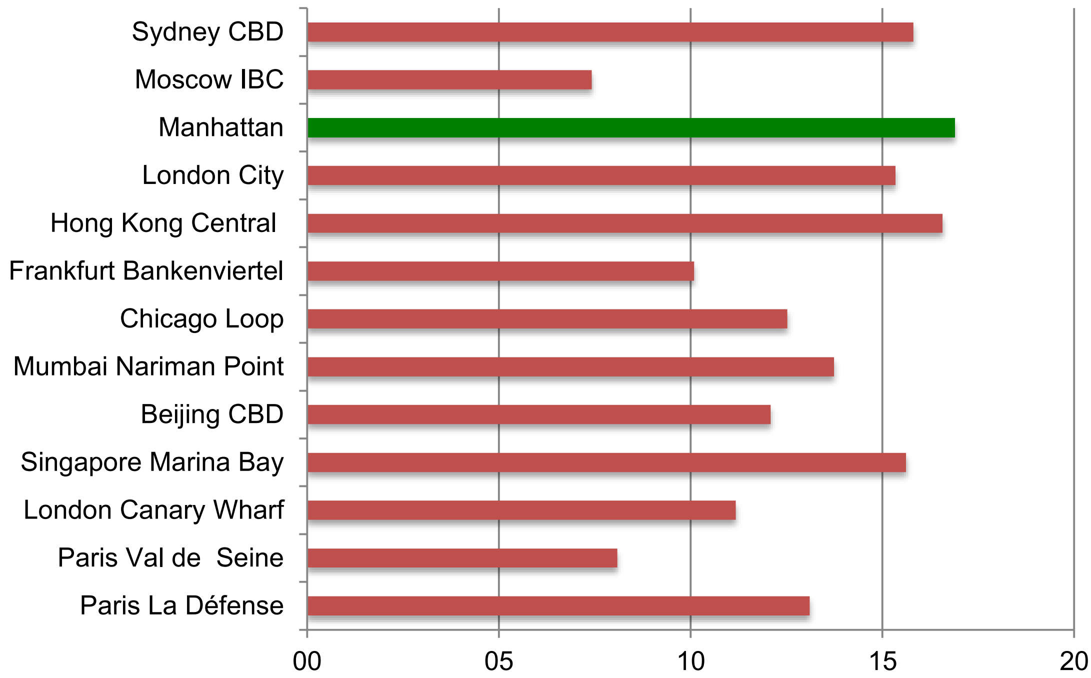
Breaking down the results by assets

What is it exactly that makes one district stand out from the others?

In this section, we will have a look at the **Visitor** asset capital of Manhattan in New York. Visitor capital is one of the six demand side assets. Visitors are crucial to the success of a business district as they boost retail spending and spending on hotels, restaurants and commercial services which in turn has a multiplier effect on the business district and creates the demand for a greater number of such establishments.

As we can see from the graph below, Manhattan attracts the highest number of visitors per annum, followed by Hong Kong Central and Sydney Central Business District. Even though Paris is the city that sees the highest number of tourists per year, La Defense is not among the top business districts in terms of visitors.

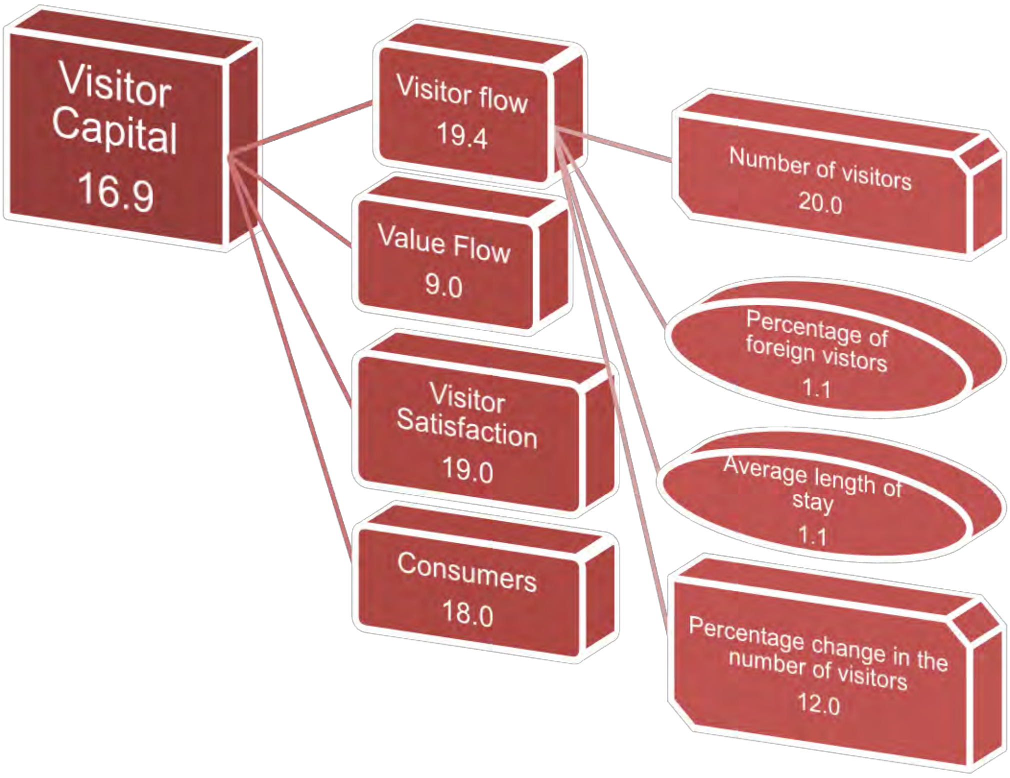
An explanation for this would be that Manhattan and Hong Kong Central are vibrant downtown metropolitan areas that are well located in the hearts of their respective cities and are always bustling with activity, thanks to the high number of hotels, restaurants, landmarks and cultural icons situated in this vicinity which make them obvious choices for tourists.



In visitors alone, Manhattan receives around 40 million unique visitors to the district on an annual basis. The percentage of foreigners visiting is relatively higher as well, at 21%, and the average visitor stays for 7 nights. In Hong Kong, the closest contender, the same figure stands at 3.5 nights.

A diagrammatic explanation of what constitutes an asset

The visitor asset is composed of 4 sub assets, each one of which is composed of its set of indicators that helps us understand the asset better. The diagram below better illustrates the visitor asset and it's component indicators.

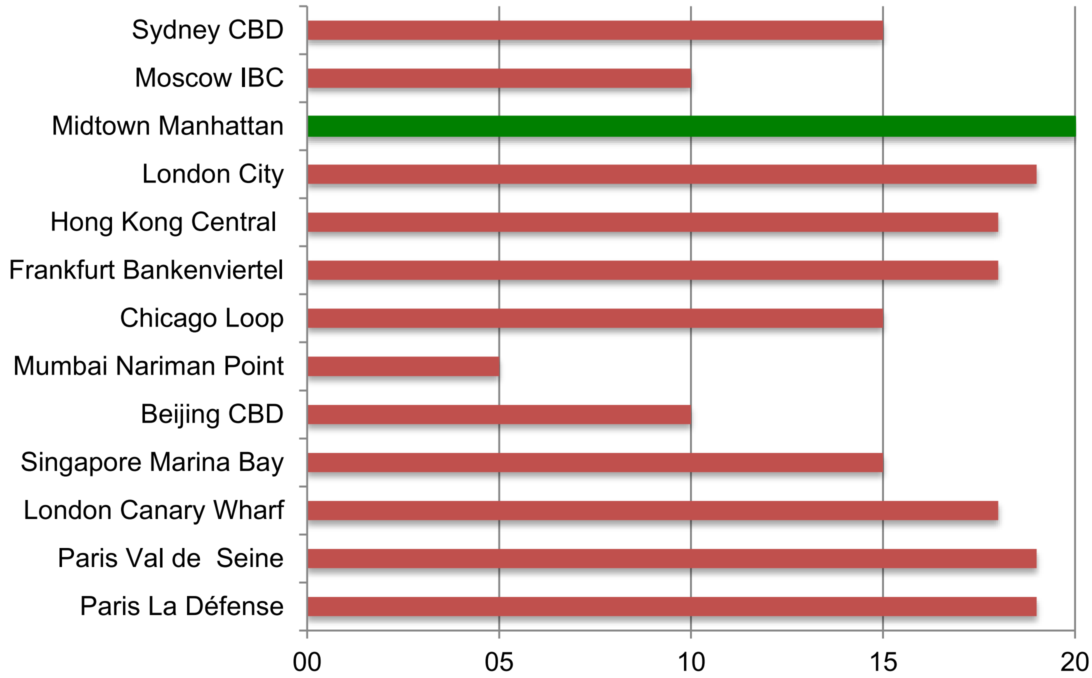


As we can see above, the **Visitor Flow** sub asset consists of 4 indicators under it. The two circular boxes represent **Indices**, as opposed to a numerical score on 20, as has been used in the **Number of Visitors** and **Percentage Change in the number of Visitors** indicators. An indexed indicator is one where the average of all the corresponding data from the other 12 business districts is assigned a value of 1. Therefore, a value of 1.1 signifies that the business district performance in the relevant indicator is exemplary.

Sub Assets

Zooming in on to the nuances of a business district

Another sub asset we will have a look at right now is **Partner Capital**, which is a supply side asset. Like the **Visitor** asset that we had a look at just before, partner capital is one of the 13 assets of a city. In Partner Capital, we look at the presence of Partner establishments in the territory; establishments that make the territory a more livable place and not just a center of business. Hospitals, schools, police stations, hotels and restaurants are examples of some partner establishments that can lend the district a higher rating. The **sub-asset under partners** that we will look at in the next graph is **Innovation Index**. This sub asset measures every city's potential as an innovation economy at this point of time.



As the graph above suggests, New York is the current leader in the innovation economy, and is closely followed by London and Paris, both of which have a score of 18. This simply implies that New York is more open to implementing innovative practices in comparison to the other districts.

The lowest scoring cities are Beijing, Moscow and Mumbai – all three of which are from BRIC countries. Their scores are lower as innovation is not very well fostered in developing economies, where most companies are still trying to find their bearings.

Intangible Asset Valuation: Why should you do it?

Using intangible capital as an art and a science for strategic development of the business district.

What we have here is a very powerful tool that gives us a quantitative analysis of a business district's intangible assets. These numbers, or scores as we like to call them, are very potent in the sense that they are a set of indicators for urban leaders and decision makers to understand the district's performance in the 13 key areas mentioned above. In the context of business districts, intangible assets are embedded in the district's location, accessibility, organization, culture, and brand name.

Many cities' intangible assets tend to remain neglected, deserted, abandoned, ignored and, perhaps worse, overlooked and unrecognized. Regardless, those embedded assets may well have the potential for being re-captured, re-conceived, re-invested, re-incarnated, and ultimately re-branded to produce and deliver powerful, attractive, and broadly dispersed value to a business district, providing, that is, when decision makers genuinely recognize, understand, and initiate viable strategies to effectively exploit the existing intangible assets of a district.

This is a multi step procedure that begins with identifying a district's intangible assets, unraveling them, investing in them, positioning them, leveraging them, managing them, and putting best practices in place to sustain them along with monitoring their contributory value. So, in today's increasingly competitive municipal governance environments, the viability and sustainability of city projects does not lie solely in the production of patents and other intellectual property centric practices that tend to be quite linear. Instead, it's the consistent production, exploitation, and delivery of the competitive advantages of a district and a community. Intangible assets can deliver long-term strategic value and direction when addressed early and if managed well.

As our study is a competitive benchmarking study, business districts always have the opportunity to connect and engage with each other, in order to learn the best practices. Rather than seeing other business districts as competition, building strong connections with them can pave the road towards mutual development. There are large benefits from being able to tap into the experience of other cities. The business districts that will win in the new networked economy are those that make themselves porous to new ideas and talent, and which demonstrate the humility to understand that there is always something that can be learned from someone else, someplace else.

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