States of Jersey
States Assembly

États de Jersey
Assemblée des États

Corporate Services Scrutiny Panel

Jersey International Finance Centre

States of Jersey

Financial Viability (Interim Report)

Presented to the States on 30th October 2015

S.R.7/2015

CONTENTS

1 INTRODUCTION

The Corporate Services Scrutiny Panel has received the report from its independent expert advisers Ernst and Young LLP ("EY") in relation to its work on the Jersey International Finance Centre ("JIFC"), assessing the viability of the first building to be constructed known as Building 4 (B4).

The Panel considers it constructive that it should report to the Assembly on its adviser's work at the earliest opportunity. Accordingly, we are pleased to publish the full report of our adviser, which is appended in full to our own interim report. Informed by that work, the Panel's interim report contains its own findings and recommendations in relation to the financial viability of B4 in particular but also the wider JIFC.

The Panel's full report covering all of the aspects examined as part of the Terms of Reference of this Review will follow in due course.

Panel Membership

Deputy J.A.N. Le Fondré, Chairman

Deputy S.M. Brée, Vice-Chairman

Connétable C.H. Taylor

Deputy K.C. Lewis

2 EXECUTIVE SUMMARY

The Panel presents its interim report on the proposed Jersey International Finance Centre. During this phase of the Review the Panel has focussed on financial viability, and has received professional advice from EY.

The conclusions and recommendations contained in the EY report should be read thoroughly in order to have a full appreciation of the detail and the form and context of their appraisal and advice. Their full report, complete with their conclusions, is attached in Appendix 2, page 15.

EY were instructed by the Panel to provide advice upon the viability of B4 and to comment upon the implications which their conclusions may have for the remainder of the JIFC, and also for the Esplanade Quarter proposals as a whole. From this the Panel has drawn its own conclusions as they relate to B4, the JIFC, and the Esplanade Quarter.

A summary of the key points of the Panel's interim report and conclusions is as follows:

The Panel's Conclusions

JIFC: Overarching

1) The overall project for the delivery of the JIFC is not considered viable.

2) The project will not deliver sufficient return to fund the basic public realm improvements.

3) The project will not deliver the basic public realm promised as part of the scheme, namely the underground car parking – to replace the car park being removed by the development – nor will it deliver the park.

4) The development has been commenced on a speculative basis, which is against the undertakings of little or no risk to the public purse.

5) Our advisers have severe reservations as to whether there will be sufficient demand to fill the JIFC in any reasonable time period and question the ability of the market to absorb the total amount of space proposed.

6) The JIFC and the wider Masterplan for the Esplanade Quarter must be reviewed by the States of Jersey.

Building 4

7) EY have undertaken an appraisal of Phase 1A - Building 4 ("B4") in order to identify the potential profit contribution from the development of this building. This assesses the likely value of the completed development once fully let, against which are offset the total costs of development including allowances for finance costs, leasing incentives and timing.

   On this basis EY calculate that B4 may return a 'profit' of £3,040,000 assuming the land is contributed at nil value. This figure will further reduce once site decontamination costs are known.

   Due to the restrictions of the Non-Disclosure Agreement, this figure does not take account of the actual incentives provided to UBS but does reflect 'market' rental incentives. Attention should be made to the more detailed remarks in both our report, and that of EY on this matter.

   EY observe that a profit of £3,040,000 represents 12.04% of total development costs and a land value of zero. This is below the likely target profit of 20% which would normally be required by a private developer prior to undertaking a speculative office scheme of this kind.

   The Panel notes that even the figure of £3,040,000 is significantly less than figures previously reported.

8) In addition, on the basis that the scheme does not proceed, of the £5 million spent to 31st December 2014, the Panel calculates that costs of between £2.6 million and £2.9 million will have to be written off.

9) As recommended by our advisers, the Treasury and Resources Minister as shareholder representative should seek an updated assessment of the viability of B4, taking full account of actual tenant incentives (agreed or proposed); applying realistic assumptions together with due allowance for all known and planned costs of delivery.

"A later phase of JIFC requires the delivery of public realm improvements including a park and four level basement car park. The current forecast cost of this is £27.25m and it is very difficult to see how this can be funded by the level of profits that are likely to be generated, even if demand for these later phases could be demonstrated and the development delivered"[1].

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[1] EY Report, p54

3 PANEL FINDINGS AND RECOMMENDATIONS

These key findings and recommendations serve to act as the Panel's own formal conclusions on which we will receive a published response from the Minister for Treasury and Resources in due course.

We will continue to follow up accordingly and we recommend that all interested parties take the opportunity to reflect (as we have done and will continue to do) on all of the conclusions drawn by EY in their report and the accompanying analysis that they present.

PANEL FINDINGS

Viability of the JIFC

Key Finding 1
The JIFC as presently planned is not considered viable.

Key Finding 2
The JIFC is unlikely to fund the cost of the planned replacement underground car park.

Key Finding 3
It is highly improbable that the JIFC will generate the stated return of £50 million (or higher).

Key Finding 4
The valuations undertaken by both DTZ (April 2015) and BNP Paribas Real Estate (March 2014) do not examine viability and development risk.

Speculative Development

Key Finding 5
The development of B4 by the States of Jersey Development Company ("SoJDC") is without doubt speculative in nature, contrary to undertakings previously given regarding 'minimal' risk to the Public.

Demand and Competing Supply

Key Finding 6
There are severe reservations as to whether there will be sufficient demand to enable development of the full JIFC proposals over the medium term (5-10 years).

Development of B4

Key Finding 7
It is considered highly unlikely that a private developer would undertake the development of B4, as the profit margins and risk factors are not at a level at which such a development would normally be undertaken.

Key Finding 8
The likely 'profit' of B4 (i.e. completed development value assuming fully let less development costs but with no allowance for land value) produces an estimate of £3,040,000, before costs of contamination.

Key Finding 9
This 'profit' of £3,040,000 is significantly lower than previously, publicly reported returns for B4.

Key Finding 10
The Panel notes that the £3,040,000 does not include the following items:

a) provision for the value of the land;
b) the actual incentives provided to UBS, but does reflect 'market' rental incentives. [2]
c) provision for decontamination costs of the site;
d) provision for the write off of costs incurred by SOJDC of between £2.6 million and £2.9 million in respect of B1, B2, B3, B6, the public realm and possibly B5 if the scheme does not proceed as envisaged;
e) provision for any proportion of costs incurred in producing the Esplanade Quarter Masterplan;
f) provision for any element of operating costs arising within SOJDC (e.g. management costs) that relate to the JIFC project.

Key Finding 11
SoJDC must demonstrate to the States Assembly that the scheme for B4 will deliver no loss to the public purse, taking account of the effect upon profit of any rent free or equivalent tenant incentives, (both agreed and proposed), together with due allowance for all known and planned costs of delivery.

Key Finding 12
In the event that B4 were only to 'break even', it would not deliver sufficient 'profit' to fund its proportion of the proposed public realm (including the underground car park).

[2] Due to the terms of the Non-Disclosure Agreement signed by EY with SOJDC, the viability analysis only allows for rent free periods which in the view of EY are representative of the market. Any actual incentives beyond this would be likely to have an impact on the viability of the scheme.

Consequences for the Wider Masterplan for the Esplanade Quarter

Key Finding 13
The Masterplan for the Esplanade Quarter is not viable.

Key Finding 14
Burying the road (La Route de la Libération) is not viable.

Key Finding 15
The Masterplan for the Esplanade Quarter will need to be re-appraised, and then presented to the States Assembly for debate.

Key Finding 16
The key issue of having seamless connectivity between the Esplanade Quarter scheme (in particular to the South of La Route de la Libération) and the town will need to be resolved in a different manner.

PANEL RECOMMENDATIONS

Recommendation 1
An updated viability assessment of B4 must be immediately undertaken by the Minister for Treasury and Resources, taking account of the effect upon profit of any rent free or other tenant incentives both agreed and proposed together with due allowance for all known and planned costs of delivery.

Recommendation 2
Such a viability assessment must be presented to both the Corporate Services Scrutiny Panel and the States Assembly.

Recommendation 3
Regardless of the outcome of the fully-disclosed viability assessment for B4, appropriate processes for the re-appraisal of both the full JIFC proposals and the wider Esplanade Quarter Masterplan, as recommended by EY, should be implemented. Such re-appraisal should also take into account development proposed by the private sector along the Esplanade immediately adjoining the JIFC site.

4 JIFC FINANCIAL VIABILITY: KEY ISSUES

4.1 Introduction: Background to the Masterplan for the Esplanade Quarter

The Masterplan for the Esplanade Quarter ('the Masterplan') was approved by the States, the ultimate landowner of the site, in April 2008. Aside from a relatively minor amendment in March 2011 relating to commercial office space the Masterplan remains largely unchanged from the document approved that year.

It sets out amongst other objectives the desire to see the delivery of more than 600,000 sq. ft. of office space, over 350 residential apartments, ancillary retail, restaurant and leisure uses (including a hotel), 1,420 underground parking spaces, notable public realm initiatives (including two new public squares and a winter garden), and the sinking of part of La Route de la Libération, seen as vital to improve connectivity and pedestrian access between the waterfront and St Helier town centre, at the same time maximising the land available for development.

4.2 Profit Levels

Since 2008 assurances have been given publicly and within the States Assembly by a number of Ministers and SoJDC about the profitability associated with the delivery of both the overall Masterplan for the Esplanade Quarter and, specifically, the JIFC.

These have ranged from estimates of £75million generated from the overall Masterplan[3] that would be re-invested in the rest of town, to often repeated claims of an approximate £50+million profit expected to be realised by delivery of the JIFC[4]. It is apparent that such claims should now be considered to be unsupportable.

The calculated weak profit return by EY of £3,040,000 for Building 4 (see below, and which already assumes that the site is contributed at zero cost to SOJDC amongst other potentially cautious assumptions) erodes confidence in any prospect that the necessary returns will be achieved to fund aspects of the wider scheme such as the public realm commitments.

The JIFC's wider viability is further compromised by doubts expressed by EY over limited market demand; existing private sector capacity to deliver required office accommodation within the vicinity of the JIFC; and a current lack of clarity about site decontamination costs amongst other matters.

4.3 Risk and Speculative Development

It has been assessed by our advisers that this 'weak' profit margin for B4 is below the level "*at which a developer would normally undertake a speculative office development with a pre-let of only circa 24% of the total floor space.*"[5]

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[3] Senator Freddie Cohen – rapporteur – 3rd June 2008 – Min for Planning & Env – Hansard 13.1 [debate on P60/2008]

[4] "*The successful delivery of the project will generate an independently assessed £50 million net receipt*" Statement by the Board of SOJDC, 11th March 2015; included in the published Accounts 31 December 2014, published 28th April 2015 (R48/2015)

[5] EY Report, p51

This assessment, that the development is speculative in nature, with margins that would be unattractive to a private developer, is in keeping with analysis seen by the Panel in documentation provided to it by SoJDC.

This appears, to the Panel, to be a very unsatisfactory approach to development by a publicly owned company and not in keeping with repeated assurances by the current and previous Minister for Treasury and Resources, and other Ministers since 2008, that development would be approached with minimal risk to the public purse.

4.4 Demand and Competing Supply from the Private Sector

EY have noted the level of office space with planning permission and remark that "*...there is clearly a risk of market saturation if other developments are advanced and brought to the market within a similar timeframe. Should there be an oversupply of office accommodation relative to occupier demand in Jersey, a stabilisation or reduction of existing rental values/terms may result as landlords seek to offer competitive deals to secure potential tenants...*"[6]

EY "*...have severe reservations as to whether there will be sufficient demand to enable the full JIFC proposals totalling 480,000 sq ft to be developed in the medium term, say 5-10 years...*"[7] and "*...question the ability of the market to absorb the total amount of space proposed for JIFC....*"[8]

EY also comment on the competing supply by the private sector, and note that whilst it is "*...perhaps not BREEAM excellent,* [private sector development will] *still provide high quality Grade A accommodation...*"[9] for the Island.

This assessment as to the uncertainty caused by the quantum of development that is potentially in the pipeline is also in keeping with analysis seen by the Panel in documentation provided to it by SoJDC.

Accordingly the Panel believes that it is highly questionable as to whether there is sufficient demand to enable the JIFC to be completed within a realistic and reasonable timeframe.

4.5 Building 4

EY have assessed the financial viability of B4 by undertaking a development appraisal of the proposed scheme and identifying the likely profit that will be generated from the development. This assesses the Gross Development Value (i.e. the capitalised rent of the completed and fully let office building) from which are deducted the total costs of development including build costs, professional fees, finance, timing and leasing incentives.

If a conventional 20% target profit is allowed, EY arrive at a negative 'residual' or 'land' value, which means that a private sector developer would not consider B4 to be a viable development.

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[6] EY Report, p28
[7] EY Report, p53
[8] EY Report, p53
[9] EY Report, p53

"...Adopting our target assumption of rent, yield, leasing void and tenant incentives, it is clear that this scheme does not return a target development profit of 20%, together with a 'reasonable' positive input for the site.."[10]

The same analysis, assuming no land value, identifies a 'profit' of £3,040,000 for B4, but the following matters are critical to the interpretation of this figure.

a) The land is valued at zero cost to SOJDC.
b) Due to the restrictions of the Non-Disclosure Agreement, the calculation does not take account of the actual incentives provided to UBS but does reflect 'market' rental incentives.[11]
c) There is no provision for any decontamination costs.

"...it is important to appreciate that the additional costs associated with managing decontamination are only fully becoming apparent as the site is excavated for development. Such costs are not provided for within the agreed construction contract (with Camerons, [the main contractor]) *and this will therefore have a future cost impact on the development....Owing to the uncertainty surrounding the decontamination costs we have specifically not allowed for additional costs in our analysis but it is important that these are taken into account when arriving at a view on the potential profit generated by the scheme...Whilst the contingency may be able to absorb some of these costs, it would not be prudent to enter the next stage of development with the contingency allowance used for an already identified issue..."*[12]

d) The 'profit' figure is before any allowance for costs that need to be written off.[13]
e) The figure is also before any allowance is made for the management/staff costs incurred within SOJDC itself that might relate to the project.[14]

The low profit warning for B4 should be the catalyst for an immediate financial update of the scheme to be required by the Minister for Treasury and Resources from SoJDC, as recommended by our advisers.

"...Given that the development of Phase 1A has begun, and provided that it can be demonstrated that there are no future costs not identified in this analysis which reduce overall profit to a nominal level, then we believe it appropriate to continue with the development even if it will generate only a marginal return.

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[10] EY Report, p51
[11] EY Report, p6 "*...For the avoidance of doubt, our analysis of viability does not represent the actual out-turn as will be experienced by SoJDC in terms of actual profit. This can only be achieved by a direct correlation with the data held by SoJDC which is necessarily confidential from the public domain...*"
[12] EY Report, p14
[13] As at 31 December 2014, costs totalling £2,570,576 will need to be written off (on the basis that B1,B2,B3,B6 and the car park do not proceed) which increases to £2,965,117 if B5 also needs to be written off. These figures are EXCLUDED from the 'profit' figure of £3,040,000, as are any costs for decontamination.
[14] The accounts of SOJDC to 31 December 2014 show annual operating costs of £1.7million, including annual employee costs of £800,000. The Board of Directors received remuneration of £405,000 in respect of 2014.

Indeed, a factor influencing such a decision will no doubt be that to halt the scheme at this stage would result in non-recoverable costs being incurred in aborting the development and terminating existing agreements…"[15]

"*…This presupposes that SoJDC can demonstrate that the scheme will deliver at least a profit or no cost to SoJ. This will require their disclosure to their shareholder of an updated viability review focused on Phase 1A – Building 4 above, taking account of the effect upon profit of any rent free or equivalent tenant incentives, both agreed and proposed together with due allowance for all known and planned costs of delivery….*"[16]

We agree with EY that in the first instance, SoJDC should be required to demonstrate that the scheme for B4 will not deliver a loss to the public purse.

It should be noted that EY conclude it may be advisable to continue with B4 given the likely costs that would be incurred if it were to be aborted. This assumes that it can be demonstrated B4 will be delivered to a profit, albeit not at the level conventionally required by private developers. They go on to comment that it may also be advisable to develop B5, the adjoining proposed building along Castle Street, if it can also be shown to deliver a profit. However they recommend that the proposals for the development of the wider JIFC be revisited to arrive at a more balanced and commercially viable mix of uses, infrastructure and public realm improvements.

If neither B4 nor B5 can be demonstrated to be delivered to a profit, then the Panel recognises that it will be unpalatable to cease development at this stage, particularly given that at least £5million has been spent to date on the project (excluding costs spent on the Masterplan). In addition there are likely to be significant financial penalties payable to pre-let tenants and the contractor for non-completion of the building.[17]

Nevertheless, the Panel is of the opinion that the consequences of continuing with a development that cannot demonstrate such basic commercial viability are even more unacceptable.

This will require the disclosure by SoJDC to the shareholder representative of a full and up to date viability review focused on Phase 1A. Furthermore, the Panel would expect that any report from SOJDC together with supporting data must be shared with the Panel in full.

4.6 Viability of the Jersey International Finance Centre & Consequences for the Masterplan

The implications of the result of the viability assessment on B4 upon the assessment of the overall viability for the JIFC are significant. The JIFC as presently constituted is not considered viable, and is unlikely to even fund the cost of the underground car park needed to replace the parking on site, let alone generate the previously stated return of £50 million.

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[15] EY Report, p54
[16] EY Report, p7
[17] Minister for Treasury and Resources, Official Hansard, States Assembly, 16th June 2015

"...A later phase of JIFC requires the delivery of public realm improvements including a park and four level basement car park. The current forecast cost of this is £27.25m and it is very difficult to see how this can be funded by the level of profits that are likely to be generated, even if demand for these later phases could be demonstrated and the development delivered..."[18]

"...there is an insufficient size to the market and little prospect for this to be able to grow to sustain the size of scheme as proposed. Furthermore, it is clear that unless there are dramatic changes to the office market, office development alone will not generate sufficient surpluses to fund even a small proportion of the public realm and highway improvements currently targeted, namely the 3½ basement level public car park and the lowering of La Route de Liberation at possible combined cost of circa £90m..."[19]

"...the parties should seriously review their aspirations for both the JIFC and the Esplanade Quarter as a whole to arrive at a more balanced and commercially viable mix of uses and public realm improvements..."[20]

Regardless of the outcome of the fully-disclosed viability assessment for B4, appropriate processes for the re-appraisal of both the full JIFC proposals and the wider Esplanade Quarter Masterplan, as recommended by EY, should be implemented.

Such re-appraisal should also take into account development proposed by the private sector along the Esplanade immediately adjoining the JIFC site.

[18] EY Report, p54
[19] EY Report, p55
[20] EY Report, p54

5 PANEL CONCLUSION

The EY report represents the first independent and objective assessment of the **viability** of B4, and indicates concerns about the outlook for the wider JIFC.

The findings and recommendations of the Panel in its interim report and the conclusions of EY themselves based on their objective analysis are significant and require serious and considered attention, not least from the Minister for Treasury and Resources.

The Panel recommends that an updated viability assessment of Building 4 is required to be undertaken by the Treasury Minister, taking account (as recommended by EY) of the actual tenant incentives (both agreed and proposed), together with due allowance for all known and planned costs of delivery, with immediate effect.

The Panel expects the States Assembly and itself to be fully supplied with that assessment and the underlying data.

6 APPENDIX 1 - ADVISER

The Panel commissioned the services of EY in April 2015 to impartially assess the feasibility of the proposed development of the JIFC and comment upon the financial viability of B4 (the first building proposed to be built on the site of the JIFC), together with a high level assessment of the viability of the wider scheme for the Esplanade Quarter as established by the Masterplan for the Esplanade Quarter 2008. Despite significant challenges faced by the Panel and its advisers in accessing the required information (these matters will be dealt with in detail in the Panel's full report), the advisers were able to complete their work with the submission of a final report in October 2015.

EY were represented by Mr Mark Gerold BSc FRICS and Mr Joe Clinton BSc MRICS who conducted their work in accordance with the RICS Valuation Professional Standards (the 'Red Book'). Mr Gerold is a Director within EY's Valuation & Business Modelling team and is a former chair of the Royal Institution of Chartered Surveyors ('RICS') Valuation Standards Board from 2003 to 2008. He retired from the post as chair of the RICS Global Valuation Board in December 2014. Until July 2015, he was a member of the RICS Governing Council and its Knowledge Board. Mr Clinton is a Senior Executive within Mr Gerold's team, and, like Mr Gerold, is a RICS Registered Valuer.

We thank EY for the objectivity, thoroughness and professionalism that they have demonstrated during the course of this work, and are very pleased to publish their report as attached in Appendix 2.

7 APPENDIX 2 – ADVISER'S REPORT

EY were instructed by the Panel to provide advice upon the viability of B4 and to comment upon the implications which their conclusions may have for the remainder of the JIFC, and also for the Esplanade Quarter proposals as a whole. From this the Panel has drawn its own conclusions as they relate to B4, the JIFC, and the Esplanade Quarter.

The conclusions and recommendations contained in the EY report should be read thoroughly in order to have a full appreciation of the detail and the form and context of the appraisal.

The EY report was prepared by Ernst & Young LLP for the Corporate Services Scrutiny Panel, (the Client).

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Proposed Jersey International Finance Centre: Phase 1A Building 4
Assessment of Potential Viability

6 October 2015

Reliance Restricted

Final

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6 October 2015

Mr Tim Oldham
Scrutiny Office
Corporate Services Scrutiny Panel
Sates Greffe
Morier House, Halkett Street
St Helier, Jersey JE1 1DD

Dear Sir

PROPOSED JERSEY INTERNATIONAL FINANCE CENTRE
PHASE 1A – BUILDING 4 – ASSESSMENT OF POTENTIAL VIABILITY

The Corporate Services Scrutiny Panel is undertaking a review of the proposals for the Esplanade Quarter and in particular the proposed Jersey International Finance Centre (JIFC) in order to determine, amongst other matters, whether the proposals represent the best socio-economic value to SoJ and, in particular, the commercial viability of the implementation of the 2008 Masterplan, and specifically the JIFC as now proposed.

In order to assist you in your review, you have instructed us to undertake an examination of the current proposals for the JIFC and to advise you upon the potential viability of Building 4, construction of which is about to be commenced by the States of Jersey Development Company (SoJDC).

We have pleasure in enclosing our report which, as agreed, focuses upon our conclusions regarding the potential viability of Building 4, together with an overview of our conclusions regarding the current strategy for the JIFC and the implications/context for the Esplanade Quarter Development as envisioned by the 2008 Masterplan.

Limitation of scope

Our advice is provided for you and your use only. Our work should not be discussed or shared with any other third party without our prior written consent. This valuation may only be shown to a third party on a non-reliance basis further to our written consent and subject to the signing of a third party release letter acknowledging the terms on which the review is being shown to the third party and recognising that Ernst & Young LLP owe no duty of care to that third party.

At this stage of our work, and in the knowledge that the Scrutiny Panel is likely to wish to make public the outcome of our conclusions, we shall be pleased to discuss and prior agree with you, the form and context in which that disclosure will occur. For the time being, therefore, this report is subject to the above limitations upon disclosure.

Should you have any questions or require any additional information, please contact Mark Gerold on +44 (0) 207 951 6793.

Yours sincerely

Mark Gerold
Director
For and on behalf of Ernst & Young LLP
United Kingdom

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1. Executive Summary

Executive Summary

- The masterplan for the Esplanade Quarter was adopted in 2008 at a time when the commercial outlook and market expectations in Jersey were very different than they are today.
- SoJDC are about to embark upon a ‘phased’ development of Phase 1 of the Quarter, namely by the construction of Building 4 providing 68,173 sq ft of Grade A office accommodation.
- We are instructed by The Scrutiny Panel to provide advice upon the viability of Building 4 and to comment upon the implications which our conclusions may have for the remainder of JIFC and also for the Esplanade Quarter proposals as a whole.
- As part of our work, we have received information from SoJDC which is commercially sensitive and necessarily confidential. The Scrutiny Panel has agreed that, in order that we may receive this important information, we may enter a Non-Disclosure Agreement with SoJDC. This was exchanged on 15 July 2015.
- Consequently our analysis contained in this report, whilst informed by this confidential data, does not disclose any of this confidential information. It is important to note that this confidential data alone has not driven our conclusions which are also based upon our findings in relation to the office market in Jersey.
- For example, we refer in our analysis to tenant incentives which could be agreed to secure tenants. In reality our analysis only allows for rent free periods which in our view would be representative of the market. Therefore, should it be necessary to correlate our analysis with the actual situation, it will be necessary to obtain this direct from SoJDC.
- For the avoidance of doubt, our analysis of viability does not represent the actual out-turn as will be experienced by SoJDC in terms of actual profit. This can only be achieved by a direct correlation with the data held by SoJDC which is necessarily confidential from the public domain.
- We detail below and in the body of our report the outcome of our analysis together with our observations and conclusions. It is important to appreciate that we have not carried out an audit of the actual costs, both incurred and proposed, for the scheme.
- Given that there remain costs which are material to the viability of the scheme which are either unresolved or confidential in nature, we would expect that SoJ, as sole shareholder of SoJDC, ensure that they are fully briefed upon the potential impact of these matters through their normal channels of communication.
- We assess the gross development value of Building 4, net of purchaser costs (i.e. reflecting the anticipated sale price), assuming a stabilised rental profile, (I.e. all rent frees ‘washed’ through) of £32.65m. In other words this is our view of the potential price at which the building could be sold once complete and fully income producing.
- This assumes full rent received of £2.428m per annum, i.e. £34 per sq ft, and an investment yield of 7%.

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- Assuming the fourth and fifth floors are pre-let with the equivalent of 24 months rent free with the remaining floors leasing up between 6 to 18 months post practical completion, all with 18 month rent free agreements, we calculate that the development will return a profit of £3.04m. This represents a return of 12.04%on costs incurred, and specifically assumes that the site is contributed at zero cost.
- Our analysis provides sensitivities to this outcome varying the investment yield and the leasing voids.
- You will note that we have also provided an analysis of the potential profit based upon the views which have been expressed by SoJDC, namely a lower yield of 6.5% and assuming the building is fully let on completion.
- Although we do not agree with these assumptions, they do demonstrate that if the building was fully let prior to completion (with tenant incentives of 18 – 24 months) and the investment is then saleable at a yield of 6.5%, an acceptable profit including site contribution would be delivered.
- This demonstrates the upside potential as suggested by SoJDC although in our view it does not fully reflect the likely outcome based upon the evidence of current market conditions.
- That said, we also consider that this weak profit performance is not a reason alone to not proceed with the development.
- We believe it appropriate to embark upon this first step, largely as a catalyst to the commencement of this regeneration project which is so important to Jersey.
- This presupposes that SoJDC can demonstrate that the scheme will deliver at least a profit or no cost to SoJ. This will require their disclosure to their shareholder of an updated viability review focused on Phase 1A – Building 4 above, taking account of the effect upon profit of any rent free or equivalent tenant incentives, both agreed and proposed together with due allowance for all known and planned costs of delivery.
- In particular at the time of this report being finalised SoJDC had begun site excavation works. It has become clear that additional and unbudgeted costs are being incurred to decontaminate the site. Our analysis makes no allowance for environmental issues. It follows that, once established, this will further reduce the profit from the scheme below that which we have indicated above and detailed in our analysis which follows.
- A contingency allowance of 2.5% is included in our appraisal but we believe that this should not be absorbed in its entirety for the purposes of allowing for the cost of decontamination given that these costs, whilst unbudgeted, are now partially known.
- We also believe that it is reasonable to plan for the development of Building 5 to follow as this will complete the frontage to Castle Street.

Executive Summary

- However we would strongly advise that a review of both the JIFC proposals and the wider Esplanade Quarter masterplan be undertaken. This must not be at the cost of the current phase but rather to achieve a balanced and commercially based review of the wider scheme.
- In addition, if the cost of site decontamination proves to be a disproportionate cost to developing the wider scheme, then the alternative of capping the site and developing ground and above should be explored as a more realistic and cost effective solution.
- There are currently proposals to sink the road beneath the development which we consider to be commercially unrealistic and arguably a burden upon the whole project. The associated public realm, including the creation of landscaped amenity areas, should also be considered in the context of a revised masterplan of the wider scheme.
- An updated review of the masterplan with more economically deliverable objectives should achieve most of the original aims whilst retaining the prospect for the generation of surpluses which the SoJ could apply to capital projects elsewhere on the Island.A key to this will be releasing land for residential development, probably to the south side of La Route de la Liberation, much earlier than will be currently possible and to achieve the linkage of this to the JIFC/car park site by other means than the very costly lowering of the road.

Background

1. Terms of engagement
2. Extent of due diligence
3. Background to the proposed development

Terms of engagement

The subject of the valuation analysis

The subject of our valuation analysis is Phase 1A of the Jersey International Finance Centre (JIFC), which is located in the Esplanade Quarter of St Helier, Jersey. The proposed development is also known as Building 4. We have undertaken an assessment of potential development viability of this first part of the first phase of development. We also comment upon the implications of our conclusions upon the viability and related issues associated with the development of the proposed subsequent sub-phases of JIFC scheme, together with possible implications for the development of the remainder of the Esplanade Quarter.

Purpose of valuation analysis

This analysis together with related advisory services is required by the Scrutiny Panel for the purposes of assessing the feasibility of the proposed development of the JIFC as described in the 2008 Masterplan for the Esplanade Quarter, subject to subsequent amendments.

We have been asked to comment upon the financial dynamics, viability and associated risks of Phase 1A now proposed, together with a high level assessment of the viability of the wider scheme.

Status of the valuer

We are acting in the capacity of an External Valuer.

Date of valuation

The date of our valuation analysis is concurrent with the date of this report and reflects information which has become available to us during the course of our enquiries. The importance of the date of assessment must be stressed as conclusions upon viability and related values may change over a relatively short period, particularly should events occur which change the basis for these conclusions.

Basis of value

Our valuation analysis has been prepared reflecting a basis of Market Value (MV), an internationally recognised basis of value, as defined by the Royal Institution of Chartered Surveyors (“RICS”) as at the valuation date as:

“The estimated amount for which a property should exchange on the valuation date between a willing buyer and a willing seller in an arm’s length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.”

The MV is the price that would be agreed, with no adjustment made for costs that would be incurred by the parties in any transaction, including any liability for stamp duty or other taxes. It is also gross of any mortgage or similar financial encumbrance.

Terms of engagement

Accordance with Red Book standards

We confirm that our work has been undertaken in accordance with the RICS Valuation – Professional Standards (the Red Book) – January 2014, the relevant professional standards in force as the date of this report.

Our analysis has been conducted by Mark Gerold BSc FRICS, a Director within EY's Valuation & Business Modelling team; assisted by Joe Clinton BSc MRICS, a Senior Executive in the same team.

Both are RICS Registered Valuers and we can confirm that they have sufficient knowledge, skills and understanding to undertake this valuation analysis.

Disclosure of Material Involvement and Independence

We are not aware of any conflict of interest in relation to this engagement which would impact on our ability to provide an independent and unbiased opinion.

We confirm that we had no material involvement with the subject of the valuation analysis, that we are acting objectively and that this report represents our independent objective opinion.

Limitations of scope

Our valuation analysis and the related assumptions stated within this report are in accordance with our Statement of Work and the limitations contained therein, as provided within our engagement letter dated 1 April 2015. Our valuation analysis is based on our research and independent enquiries. Information was also ascertained by stakeholders and other market participants in Jersey which was facilitated by the Scrutiny Panel during our site inspection on 13 – 14 May 2015. We detail below a list of the relevant personnel with whom we met.

Our advice is limited to the extent of our reliance on the accuracy of the data provided, although our valuation analysis is supplemented by our own market enquiries and valuation expertise.

Our technical valuation advice reflects our professional opinion and is also interpreted relative to the relevant RICS Valuation Standards as at the valuation date. Where information has been relied upon we have assumed that it is accurate and complete in all material respects.

A copy of our paper entitled "Valuation Procedures and Assumptions" is attached at Appendix B which sets out the extent of investigations and the sources of information on which we have relied.

Publication & Reliance

Notwithstanding the purpose of this valuation, neither the whole nor any part of our report, nor any references thereto may be included in any published document, circular or statement in any way without our prior written approval of the form or context in which it will appear. No responsibility is accepted to any third party for the whole or any part of its contents

Extent of due diligence

Information

In undertaking our work we have been provided with a large volume of data regarding the proposed development and the commercial office market in St Helier. We summarise the main information provided in Appendix D

As part of our research and information gathering, we have also met with key stakeholders and active market participants in the Jersey Real Estate market to gain a better understanding of, amongst other issues, supply and demand dynamics, economic trends and site specific details concerning the proposed development. We summarise below the organisations and personnel with whom we met and the principal functions that these organisations undertake.

Extent of due diligence

Organisation	Personnel	Comments
Corporate Services Scrutiny Panel	CSSP members	▶ Remit of CSSP detailed within the Background section of this report.
States of Jersey Development Corporation	Lee Henry Simon Neal	▶ Lee Henry - Managing Director of SoHDC ▶ Simon Neal - Finance Director ▶ A full description of SoJDC is provided in the background section below.
BNP Paris Real Estate	Chris Daniels	▶ BNP are an international Real Estate professional services firm. The company established an office in Jersey in November 2001 and is one of the Island's leading commercial real estate consultants. They provide commercial property consultancy, investment, property management, valuation and development advisory services. ▶ Chris Daniels is the appointed agent of the JIFC scheme and has provided valuation and Real Estate advisory services to SoJDC.
Sarre and Co.	Alistair Sarre	▶ Alistair Sarre is a Director of Sarre and Co. ▶ Sarre and Company is a specialist commercial property practice, providing professional Real Estate and advisory services. The company specialises in commercial offices, warehouses and retail. ▶ Sarre and co. have acted on both occupier and investment transactions of prime office buildings within St Helier.
CBRE	Jon Carter	▶ Jon Carter is Managing Director of CBRE Jersey ▶ CBRE are an international Real Estate professional services firm and have been established in Jersey since 1994. ▶ CBRE has acted on behalf of office developers within St Helier, including Dandara to whom they provided advice in respect of the acquisition of 88,000 sq. ft. of office space at 37 Esplanade and the development of the mixed-use scheme on Castle Quay
Economic Development and Financial Services Unit, Chief Minister's Department	Mike King Joe Moynihan	▶ Mike King - Chief Officer for Economic development ▶ Joe Moynihan - Director of Financial Services. ▶ The Economic Development and Financial Services unit advises States departments on economic policy and Jersey's economy, both on micro and macro-economic issues. They also analyse factors, both domestic and international, affecting the performance of the Jersey economy.
Le Masurier Ltd	Ben Ludlam	▶ Ben Ludlam is Group Property Director of La Masurier ▶ Le Masurier is one of Jersey's oldest and largest property companies and owns real estate assets across Jersey, the United Kingdom and throughout continental Europe. It is also a potentially significant supplier of Grade A office space in Jersey.
Dandara	(Martin Clancy, Managing Director)	▶ Martin Clancy is Managing Director of Dandara ▶ Dandara are the major private sector developer in Jersey and have developed a number of prime office developments in St Helier, including large scale office schemes on The Esplanade.
Jersey Property Holdings	Ray Foster	▶ Director of Estates ▶ Manages the operational assets of the States of Jersey

Extent of due diligence

Confidentiality

We have been provided with information which the States of Jersey Development Company (SoJDC) consider to be commercially sensitive. This information includes details of the lease terms of a pre-letting within Building 4 together with a briefing upon discussions ongoing with other potential tenants, and information regarding construction costs and proposed timings of the project. We are also in receipt of valuations undertaken by DTZ and BNP Paribas on behalf of SoJDC, dated 2 July 2015 and 14 March 2014 respectively.

The information referred to above is critical for our analysis. In order to overcome SoJDC's concerns regarding the confidentiality of this information, EY entered into a Non-Disclosure Agreement (NDA) dated 15 July 2015 a copy of which is included at Appendix C. Whilst our analysis is informed by the information provided by SoJDC, we have not specifically referred to it in the body of this report in order to comply with the agreed NDA. We also confirm that the Scrutiny Panel has approved our entering into an NDA directly with SoJDC but reserves the right to request this information from SoJDC at a later date if so required.

Inspection

The site was inspected by Mark Gerold and Joe Clinton on 13 March 2015. It should be noted that at the date of inspection the site was still an operational car park and no ground works or construction had commenced on site. However, works were in hand to divide the site required for Building 4 from the remainder of the car park in order to facilitate a separate and secure site for development.

Condition

In due course, the entire car park site will be developed by the JIFC, although as a first sub-phase, Building 4 is to be developed on this recently separated section. This will be constructed to a Category A BREEAM excellent office specification, as supported by the documentation we have received from SoJDC. We have further assumed that the building will comply with all necessary legal and planning requirements for its intended use. As the site is effectively held for the purposes of development, we would refer you to our commentary in respect of environmental investigations, as detailed below.

Environmental investigation and flood risk

Whilst we have not been instructed to conduct any environmental or archaeological investigations in relation to the subject property, we have been provided by SoJDC with copies of reports commissioned to advise upon both site, environmental and flood risks. We describe below the background of the site and the environmental investigations that have been commissioned to date. However, it is important to appreciate that the additional costs associated with managing decontamination are only fully becoming apparent as the site is excavated for development. Such costs are not provided for within the agreed construction contract (with Camerons) and this will therefore have a future cost impact on the development.

Extent of due diligence

At present there is uncertainty as to what the full costs of these works might be and SoJDC are unable to quantify the end position on the extra over cost of the contamination until the contractor has completed the excavation stage (as the exact quantities that need to be dealt with as contaminated will not be known). To date the Contractor has put SoJDC on notice for additional costs associated with the contaminated ground conditions that were excluded from the main contract. This ongoing dialogue between SoJDC and the contractor is confidential and we are not at liberty to disclose the amount of costs being discussed, particularly as the outcome is unsure. However, no doubt SoJDC will be providing briefings on these matters to the appropriate department in SoJ responsible for oversight and routine engagements with SoJDC. Owing to the uncertainty surrounding the decontamination costs we have specifically not allowed for additional costs in our analysis but it is important that these are taken into account when arriving at a view on the potential profit generated by the scheme. We comment on this in greater detail later in the report.

Extent of due diligence

Site History

Until the 1980's, the JIFC site and surrounding land was undeveloped and comprised beach foreshore deposits. After this time, a programme of land reclamation commenced.

Enquiries made by Waterman, environmental risk advisors, in discussion with various parties familiar with the site, led them to conclude that the materials used for land reclamation comprised approximately 94% non-hazardous construction and demolition rubble and 6% waste incinerator ash. Records reviewed by others as part of previous investigations indicated that after 1987, the incinerator ash was deposited separately and was restricted to the top 2m of fill, above the height of the mean spring high tide. The land fill was completed by 1995 and after this time the Esplanade car park was constructed within the Site boundary.

Environmental and ground conditions

We have been provided with a copy of a report dated June 2014 from Waterman Energy Environmental & Design Limited titled 'Generic Quantitive Environmental Risk Assessment'. This examines the environmental risks associated with the site taking account of the proposed JIFC development.

Their focus was upon the potential pollution risks which may be faced in the following categories:

- Human health – future site users
- Property – site structures, plants/landscaping
- Controlled waters – surface waters, groundwater

We attach, at Appendix E the executive summary of their report. In summary, they reached the conclusion that, as the site is to be developed by a commercial end use and taking account of the significant proposed basement excavations, the overall risk rating for the Site is low. At the time of reporting, they were awaiting further investigations upon the ground gas and groundwater monitoring which would lead to an update of their conclusion. We do not have a copy of that update.

It should be noted that this conclusion was reached having regard to both the commercial end use proposed and the fact that much of the landfill would be removed to facilitate the basement car parking. Clearly it is not possible to contemplate their likely conclusion had the site been proposed to be developed by say residential uses, possibly leading to a requirement for a higher decontamination standard, particularly if large areas of the site were no longer to be excavated to facilitate basements which, of course, add significantly to development costs.

Flood Risk

We have been provided with a copy of a Flood Risk Assessment report by Ove Arup & Partners Ltd, dated 18 January 2013. This report was commissioned in support of the Environmental Statement for the Development of the JIFC and to assist SoJDC in making an informed judgement of the commercial risks associated with the

Extent of due diligence

potential flooding of the site. In particular the report assesses the risk of flooding from wave overtopping and sewer flooding.

This report concludes that the sea wall at Victoria Avenue can be expected to overtop at least once a year on average but that generally the storm drainage system or other losses will prevent this water reaching the site. Ove Arup went on to model more extreme events and concluded that the flood water would have to reach 7.2m above OD level to flow to the Town Marina and the Route de la Liberation underpass. The ground floor levels of the proposed buildings were set to a minimum of 8.15m above OD level and therefore should have sufficient freeboard to protect the buildings. Should flood waters flow into the adjoining streets, it was considered that the basement entrances, set at 8m above OD level should also prevent water flowing into the basements from these access points. However the report went on to suggest certain design aspects of the development to accommodate safety measures to minimise/prevent any flood risks.

Background to the proposed development

Background to proposed development

SoJ are the ultimate owner of a number of land parcels which together form this major regeneration project known as the Esplanade Quarter. It is located to the southwest of St Helier town centre and adjoins the waterfront and Marina. These land parcels have been leased to the States of Jersey Development Corporation (SoJDC), a development company owned by, but independent of, SoJ. Operating under the remit of the Regeneration Steering Group, SoJDC aims to enable the development procurement and management of the Esplanade Quarter, targeting the best socio economic value for the States. A major component of this is the development of a number of office buildings which it is proposed will together form the Jersey International Finance Centre (JIFC). Other proposed uses of the Esplanade Quarter include residential, leisure and retail uses together with local infrastructure improvements.

The original Masterplan for the Esplanade Quarter, endorsed by the SoJ, was put in place in 2008, just before the onset of the Global Financial Crisis (GFC). Consistent with many commercial property markets both internationally and in the UK, occupier demand in Jersey reduced significantly, resulting in the postponement of the development of the JIFC and the regeneration of the wider Esplanade Quarter. SoJDC now feel that the occupier and investment market in Jersey has sufficiently recovered in order to support the development of the JIFC, but only on a phased basis commencing with 1A, a single office building known as Building 4.

The Scrutiny Panel is undertaking a review to,amongst other things, assess the commercial viability of the implementation of the 2008 Masterplan for the Esplanade Quarter, with particular reference as to whether the Minister for Treasury and Resources/SoJDC have appropriately undertaken an up-to-date assessment of whether the external market has changed from earlier analysis, an assessment of current demand and supply of office accommodation within St Helier and the ability or otherwise of the private sector to deliver this. We refer you to our detailed Scope of Work but, in summary, our valuation analysis and assessment of development viability is intended to inform the Scrutiny Panel of the commercial viability of the scheme, as proposed under the 2008 Masterplan and its subsequent amendments, notably in March 2011.

Our analysis specifically centres on the first sub-phase (Phase 1A – Building 4) of this development but we also comment on the potential viability of the proposed JIFC scheme.

Background to the proposed development

We set out below the respective roles of the Scrutiny Panel and SoJDC

Respective roles

Corporate Services Scrutiny Panel	The Corporate Services Scrutiny Panel is made up of States members none of whom are ministers or assistance ministers in the States Assembly. Their remit is to examine draft policies, legislation or matters of public importance relating to the work of the Chief Minister and Minister for Treasury and Resources. Where an issue is considered to be in the public interest, the CSSP are able to undertake an independent and objective examination of States policies and public services using evidence-based enquiries. In so doing, it is intended that the delivery of public services will be improved by ensuring that decisions are soundly based on evidence.
States of Jersey Development Corporation	Jersey Development Company (SoJDC) is owned by the States of Jersey with the responsibility for creating buildings and property investments using land transferred to the Company from the States. All of the profits realised from the developments undertaken by SoJDC are returned to the government. We understand the mandate of SoJDC is to manage and develop property on behalf of Jersey in order to: ▶ Develop attractive community spaces that will stand the test of time ▶ Support the economy by generating work and infrastructure for business to grow ▶ Provide returns to the taxpayer that are at least 50% higher than direct land sales In addition to the proposed Esplanade development, we understand that SoJDC are currently developing a 187 unit Residential scheme at College Gardens and will also manage the development of phase 2 of the Castle Quay development within the Waterfront Estate over the longer term. *Source: www.jerseydevelopment.je*

Background to the proposed development

Masterplan for the Esplanade Quarter, St Helier (April 2008)

A draft masterplan for the Esplanade Quarter was presented to the Council of Ministers in October 2007. A period of consultation followed and the masterplan was modified in light of this consultation, principally concerning the arrangement and location of public spaces and a downward reversion of the retail floor space initially targeted within the scheme. Maximum building heights were also established. The resultant masterplan, adopted in April 2008, sets out the principal objectives for the Esplanade Quarter, together with suitable uses, densities and massing. It also sets out the transport and infrastructure plans, design coding and the sustainability and environmental objectives to which the development will be subject.

In summary, the 2008 masterplan provides for the development of approximately 620,700 sq. ft. of office space, 388 residential apartments as well as ancillary retail, restaurant and leisure uses including a boutique hotel. It also provided for some 1,420 underground parking spaces and the promotion of the public realm, notably in the construction of two new public squares and a winter garden.

The most significant transport proposal outlined within the masterplan is the proposal to lower La Route de la Liberation, to the South of the subject site to enable traffic to pass through an underground tunnel from Gloucester Street to the eastern end of the existing underpass. In removing the current above ground dual carriageway, it is intended to improve the pedestrian access between the waterfront and St Helier town centre whilst also maximising the developable area of the scheme. It was further proposed that an underground roundabout would provide direct access from the new tunnel to underground parking, so reducing the need for vehicles to use the above ground road network.

Amendment to masterplan – March 2011

In July 2010 the Minister for Planning and Environment granted outline consent for the development of the Esplanade Quarter. In order for development to commence on-site, there was a requirement to secure pre-let agreements on the proposed buildings. In marketing the proposed office floorspace, it was realised that amendments were required to the 2008 masterplan, including the layout and scale of the scheme, to appropriately reflect the demand for commercial office space. The Minister determined that the core principles behind the masterplan should not be compromised and commissioned Hopkins Architects (authors of the original masterplan) to revise the scheme in light changes in occupier demand.

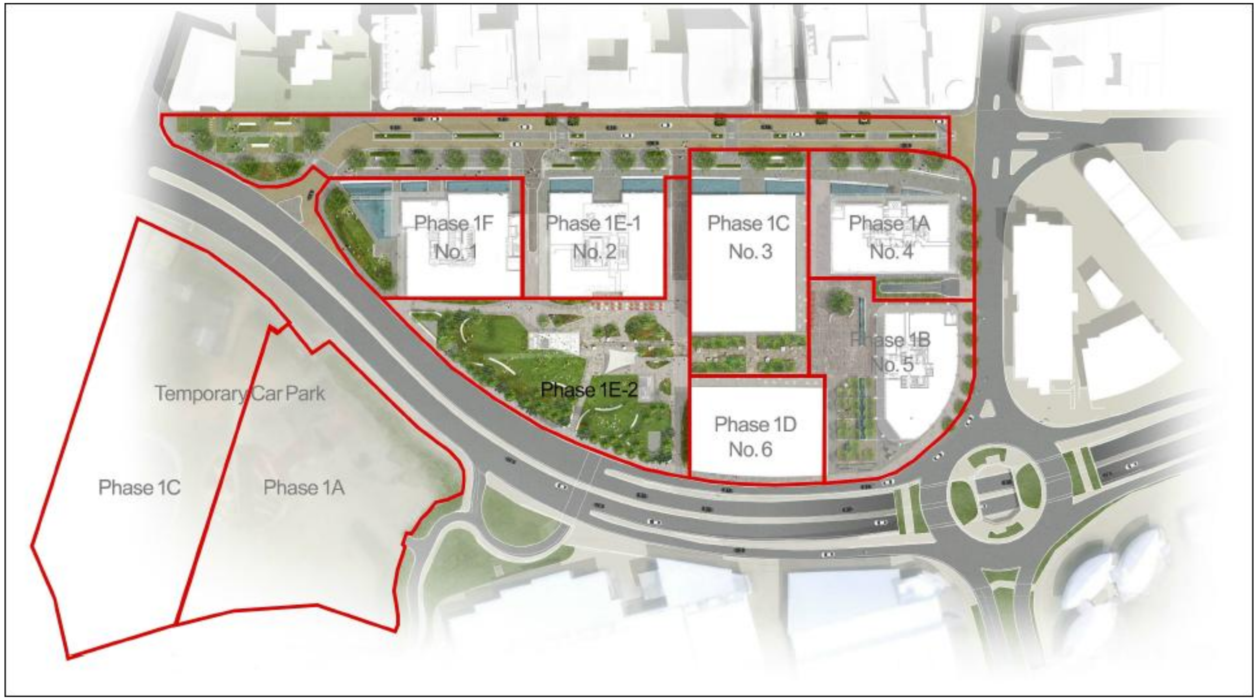
The resultant amendments changed the detail and scale of some of the proposed buildings and open spaces however they were considered by the Minister to still conform to the broad concept of the masterplan, namely the provision of a new waterfront regeneration scheme with a firm emphasis on design quality. The modern office buildings proposed in the JIFC were considered as being a key component of that concept. In the 2011 amendments it was further stated that the sinking of La Route de la Liberation would not be required to be undertaken at the commencement of development but in a later, unspecified, phase.

Background to the proposed development

The amendment resulted in a new layout to the site for the JIFC resulting in a provision of six office buildings providing a total of approximately 480,000 sq ft Grade A, BREEAM excellent, office accommodation, each with basement car parking, together with improvement to the public realm along the Esplanade, a public park, and a public car park below on 3½ basement levels, providing 520 spaces.

Phase 1 masterplan

Source: Masterplan Phasing Report Addendum – December 2014



The Jersey office market

1. Market overview
2. Rental market
3. Investment market
4. Development pipeline
5. Current requirements

Jersey office market

Overview

With a population of around 100,000 and a net immigration of less than 1,000 a year, the profile of population growth of Jersey is at best steady and certainly not rapid. This follows the necessary controls which SoJ have in place regarding residence and employment rights.

It follows that this in turn leads to a relatively benign or non-dynamic environment in the employment sector of which the financial services sector is a major contributor. There is almost full employment on the island with employment across the Island planned to grow by circa 325 heads of household per annum.

There are signs that demand is emerging from other sectors than financial services but these are not likely to be large employers. Their typical requirements are likely to be 5-25 people. The focus therefore tends to fall upon the financial services sector which is the main stay of the island's economy and employs just under 13,000 people. It is said that 80%-90% of organisations employ less than 10 people. That said, the major financial institutions who are represented on the Island employ well in excess of this number individually. The pre-letting of 80,000 sq ft to RBC is the largest ever single letting on the Island by some margin and it is generally recognised that amongst the likely Grade A space users, the average large space requirement falls in the 10,000 sq ft to 20,000 sq ft range.

If one assumes an average of one employee per 100 sq ft of new Grade A space, a letting of 10,000 sq ft implies an organisation employing say 100 people – clearly towards the upper end of companies by size.

With population growth limited and slightly rising, it follows that the majority of potential tenants for the new generation of Grade A office accommodation is likely to come from pre-existing employers looking to move to better quality space and to perhaps consolidate from more than one address.

We understand that the current total office stock stands at circa 2.8m sq ft across all grades. Of this, circa 1m sq ft is categorised as modern with circa 250,000 sq ft of that Grade A standard with an acceptable BREEAM rating.

Rental market

Rental market

We set our below a schedule of recent office transactions in Jersey and the principal terms to which these lettings were subject.

One of the key recent transactions of prime office space to have occurred is the April 2014 pre-let agreement on a Dandara scheme at 66 – 72 Esplanade, where Royal Bank of Canada (RBC) took approximately 80,000 sq. ft. of Grade A office space. Practical completion on the six storey building is expected at the end of 2016. Whilst the terms of the deal remain confidential, we understand that a headline rent of £34.00 per sq. ft. was agreed on a 21 year lease with a break option at year 15. We also understand that an 18 month rent free period was agreed and there is market rumour that the incentive package also included a ‘take-back’ on RBC’s existing office accommodation. However we would stress that, given the confidential nature of the letting, this is not yet confirmed. A ‘take-back’ is when the developer, in order to secure a letting, agrees to take an assignment of the lease(s) of the prospective tenants’ existing accommodation. If the tenants’ previous accommodation does not re-let rapidly this adds significant financial risk to the developer, often adding an un-quantifiable amount to the cost of the tenants’ incentive package.

We understand that SoJDC had hoped to secure RBC on Building 1 within the JIFC scheme and that negotiations between the parties had progressed in this regard. The failure to secure RBC, we understand, led to a revision to the phasing of the masterplan and development of the JIFC will now being initiated with the construction of the smaller Building 4 ‘Grade A’.

The most significant prime office building to have been completed in St Helier is 37 Esplanade which was also developed by Dandara and extends to approximately 88,600 sq. ft. of office space arranged over ground and six upper floors, with average floor plates of 13,500 sq. ft. The property is specified to a Grade A standard and has a BREEAM Very Good rating. The building set a new benchmark for prime office rents in Jersey with all completed lettings having achieved headline rents in excess of £30.00 per sq. ft.

The property is multi-let to a strong tenant mix including PwC, KPMG, First Names Jersey and Volaw Group (the latter two both guaranteed by RBS). Some of the lettings within this building comprised pre-let agreements entered into before the scheme completed. However they are considered to offer a good indication of the prevailing prime rental tone on the Esplanade. In summary, the terms of the lettings are as follows:

- First Names Jersey Ltd took 13,470 sq. ft. of third floor accommodation in November 2013 on a 21 year lease with a break in year 15. A stepped rent arrangement was agreed with a headline rent of £27 per sq. ft. payable in years one and two, rising to £35.00 per sq. ft. in years three and four and £38.00 per sq. ft. in years five and six. 15 months rent free was agreed.
- Volaw Group Services Ltd took 13,473 sq. ft. of fifth floor and 6,584 sq. ft. of part fourth floor office space in September 2013, together totalling 20,057 sq. ft. The headline rent agreed reflected £31.00 and £21.00 per

Rental market

sq. ft. on the fourth and fifth floors respectively. We understand that there is a stepped rental increase to £35.00 per sq. ft. in year 4 and £38.00 per sq. ft. in year five, presumably on the fourth floor.

- Collins Stewart agreed a pre-let on approximately 6,300 sq. ft. of space on part fourth floor at a headline rent of £34.00 on the office accommodation and £3,000 per car parking space. 9 months Rent Free was agreed on the deal. The lease runs for a term of 21 years, with tenant break options in years 9 and 15, with a 6 month rental penalty if the break in year 9 is activated. The lease is subject to 3 yearly upward only rent rents. The pre-letting was agreed in June 2011 and the lease commenced in November 2012.
- KPMG agreed a pre-let in April 2011 (the first to be signed within the building) on 13,466 sq. ft. of office space on the second floor of the building. The lease, which commenced in June 2012, runs for a term of 21 years with a tenant break in year 15 at a headline rent of £32.00 per sq. ft. A 12 month rent free period was agreed together with a £20.00 per sq. ft. capital contribution to some internal fittings.
- PwC agreed a pre-let on 17,662 sq. ft. in April 2011 with rent commencement in December 2012 for a 21 year term with a break in year 15. The headline rent reflects a rate of £32.00 per sq. ft. and a rent free period of 12 month was agreed. We also understand that the landlord was responsible for fit-out prior to the tenants occupation.

We detail on our schedule of evidence the terms of a number of office transactions to have completed on the Esplanade and have had regard to these lettings when forming our opinion of ERV. We comment in greater detail on our ERV assumptions in the valuation analysis that follows however given the location and specification targeted for the subject property, we consider that 37 Esplanade offers the most comparable indication of rental value. Whilst headline rents have surpassed the £30.00 per sq. ft. (and rising significantly ahead of this in future fixed rental uplifts) it should be noted that the incentive packages offered to secure these lettings will depress the resultant net effective rents.

In addition to the market evidence on comparable office buildings, we have also considered the agreed pre-letting within Building 4. We have modelled our valuation to reflect the salient terms of this letting but have also had regard to the completed rental transactions referred to above when assessing the rental value of the remaining floors which at the valuation date remained vacant.

We attach, at Appendix F, a schedule of rental evidence.

Investment market

Investment market

The office investment market in Jersey is arguably less established than prime regional centres in the UK and there has traditionally been a lack of institutional investment in the sector, partly as a result of the relatively limited availability of prime office stock on the Island. The domestic investment market is largely confined to sub £10,000,000 lot sizes and would not therefore have the ability to acquire prime office investments of large lot sizes. The buyer market therefore will need to come from off Island.

Notwithstanding the relative immaturity of the institutional investment market, Standard Life acquired 44 Esplanade in February 2015 for £27 million, reflecting a net initial yield of c. 7.98% (assuming purchaser's costs of 6.5%). The property is let to Ogier by way of a 24 year lease from 2009 with a break in Nov 2021 (6 month penalty on activating). This presents the most comparable investment deal to occur along the Esplanade (and indeed the wider St Helier market). However 37 Esplanade, which is multi-let to a number of strong covenants including PwC and KPMG, was also recently marketed. We understand that offers in the region of 7% were received but the owner, Dandara were only prepared to do a deal at a price reflecting a yield of circa 6.5% and the property was subsequently taken off the market.

45 – 47 Esplanade, which comprises two adjoining office buildings both let to tenants guaranteed by Carey Olsen on leases expiring in May 2023 and May 2026, was also brought to the market in 2014. The property is held in an SPV and was marketed at a quoting price of £17,200,000, reflecting a net initial yield of 7% assuming purchasers costs of 1.5%. We understand that whilst a number of offers were received for the property, they did not meet the vendors' expectations and the property was subsequently taken off the market.

We have concluded that at the present time the optimum investment yield for a modern, Grade A office investment in St Helier with a lot size in excess of £20m is in the region of 7%. This is a poorer yield than recent investment evidence on Guernsey which can be up to 0.5% stronger. This may be due to the very constrained nature of the office district on Guernsey coupled with established investor confidence in respect of large lot size investments. Over time we believe that there are prospects for a real improvement in yields on Jersey perhaps bringing this in line with Guernsey but this is not in evidence at the present time.

Investment market

We detail below a schedule of recent investment transactions in the St Helier office market:

Investment market

Address	Vendor	Purchaser	Date	Floor areas and parking	Terms	Price
17a/18 Esplanade	Roseanne Investment Holdings Limited	Channel Islands Property Fund	July 2013	Ground + 4 floors Offices 28,271.48 ft Half height 77 sq ft Tenant: SG Hambros	Rental £771,773.30 pa Offices £25 psf 42 year FRI lease from 31.10.2003 with tenant break options at 21, 28 and 35 years. 31 .10.12 rent review settled at £820,000 pa reflecting £26.25 psf and £3,000 ps	Purchase price £11.7m Gross initial yield 6.46% Net initial yield 6.6% Gross Reversionary yield 6.87% Net reversionary yield 7% Costs 2% Share capital purchase
44 Esplanade	Anthony Investments (Esplanade) Limited	Gref Jersey Esplanade Ltd	February 2015	Total 68,395 sq ft	24 year FRI lease from 7.11.09, with 3 yearly rent reviews to MV. Tenant's option to break the lease on 6.11.21, 6.11.25 and 6.11.29, upon giving 6 months prior written notice, giving 6 months rental penalty in respect of the first break date, if exercised. Current rent, set by Arbitration with effect from 7.11.2012 is £2,155,639.30 pa	Purchase price £27m freehold Gross initial yield 7.55 Net initial yield 7.98% Costs 6.5%

Development pipeline

Development pipeline

We detail a schedule of the principal consented office developments in St Helier. Consistent with the emerging pattern of office development being centred around the Esplanade, many of the proposed schemes are located in proximity to the subject property. Limited development proposals have been submitted outside of this core office location.

The vast majority of the development pipeline relates to schemes where construction has not commenced. It is highly unlikely that the proposed schemes would be developed speculatively without a partial pre-letting agreed. This reflects both developer's aversion to risk and potential requirements of external financing which may impose a threshold on pre-letting before construction can be progressed. It should also be noted that many of the development opportunities require the demolition of existing buildings which may require asset management strategies to secure vacant possession which may result in potential delays in site preparation.

Given the volume of consented office space within the local market there is clearly a risk of market saturation if other developments are advanced and brought to the market within a similar timeframe. Should there be an over-supply of office accommodation relative to occupier demand in Jersey, a stabilisation or reduction of existing rental values/terms may result as landlords seek to offer competitive deals to secure potential tenants.

Development pipeline

Site	Planning history	Application details	Applicant	Office floorspace (Est. gross internal)
Southampton Hotel (14-16 Weighbridge Square)	P/2011/0840 Approved March 2013 Under construction	Demolish existing buildings. Retain part façade of No 14. Construct new building comprising basement ground floor restaurant, four storey offices and fifth floor plant/storage.	Comprop Ltd	18,500 sq ft
5/6 Esplanade	P/20131/1144 Approved December 2013 Not commenced	Demolish existing building. Retail part façade of No 14. Construct new building comprising basement, ground floor restaurant, four storey offices, and fifth floor plant/storage.	6 Esplanade Holdings	69,600 sq ft
8/9 Esplanade	P/2010/1124 Approved Aug 2012 Not Commenced	Demolish existing buildings. Construct five storey office, with basement parking	John Terry Ltd	71,400 sq ft
19/21 Esplanade	P/2011/1201 Approved Oct 12 & P/2013/1154 Approved Nov 2013 Not commenced	Demolish existing buildings. Construct six storey office building with basement car park	Tital Properties	47,000 sq ft
22/23 Esplanade	P/2012/1344 Approved March 2013 Not commenced	Demolish existing buildings at 22-23 Esplanade & 38-40 Commercial Street, (retain and refurbish façade to 38 Commercial Street). Construct six storey office building to include basement parking.	Denchel Holdings	38,500 sq ft

Development pipeline

Site	Planning history	Application details	Applicant	Office floorspace (Est. gross internal)
27 Esplanade	P/2011/0647 Approved April 2014 Due to commence imminently	Refurbishment of historic façade to 27 Esplanade and first three bays. Re-modelling of 28 Esplanade. Demolition of remainder of buildings through to La Rue des Mielles. Construct new seven story office building. Construction of basement car park	Beverley Ltd	98,400 sq ft
66/72 Esplanade	P/2013/1185 Approved March 2014 Under construction	Demolish 66-72 Esplanade, 60 Kensington Place and part of 14 patriotic Street. Construct six storey office development, incorporating ground floor parking and retention of 14 Patriotic Street listed façade	Dandara Jersey Ltd	215,800 sq ft
29 Seaton Place	RP/2012/1015 Approved Oct 2012 Commenced (with part demolition)	Demolish existing warehouse and flats. Construct four storey office building with car parking.	IG Properties Ltd	24,600 sq ft
'J1' 19/21 Commercial Street & 31/41 Broad Street	P/2011/0817 Approved Dec 2011 Not commenced	Demolish existing buildings. Construct six storey building comprising of retail units and offices with basement parking. Remove 33 Broad Street. Restore facades of 35-37 Broad Street and 'Harbour Wall' structure.	LMN Jersey Investments Ltd	419,560 sq ft
Esplanade Quarter – Building 4	P/2012/1141 Approved Aug 2013 Commenced (with temporary car park)	Construct six storey office block with associated basement and landscaping. Temporary relocation of existing public car park	SOJDC	97,000 sq ft
Esplanade Quarter – Building 1	P/2013/0993 Approved Jan 2014 Not commenced	Construct six storey office block with associated basement and landscaping. Temporary relocation of existing public car park	SOJDC	119,300 sq ft
Esplanade Quarter – Building 5	P/2014/2192 Current application	Construct six storey office block with associated basement and landscaping. Temporary relocation of existing public car park	SOJDC	101,000 sq ft

Current requirements

Current requirements

During the course of our enquiries we have met with a number of parties who have expressed views concerning the proposed development of the JIFC, with specific reference to building 4. They have provided information upon the likely demand from potential tenants for new build accommodation in St Helier. This follows on from views expressed by a number of parties in their submissions to the Scrutiny Panel.

We do not propose to reproduce a distilled list of possible requirements from this data provided for the very reason that it may be neither up to date nor accurate.

We have concluded that the most likely source of tenants for the JIFC will be from organisations already present on the Island. We have met with agents in St Helier who clearly monitor this situation and maintain a list of organisations who are known to have lease expiries approaching as well as those who have expressed a wish to potentially relocate.

It is impossible to provide an accurate list of current requirements in St Helier for Grade A office accommodation but clearly, we would expect demand to come from those major organisations already on the Island, probably employing at least 50 people, and most likely where their accommodation is currently substandard and/or where the lease is due to expire within the next 3 years.

For example, we are informed that, in July 2015, a Request for Proposal (RFP) was issued to developers regarding a requirement for 31,000 sq. ft. of office accommodation with a target completion date of October 2017. We also understand that a further RFP for 35,000 – 38,000 sq. ft. is expected to be issued shortly.

Clearly there will be demand from organisations who are seeking to establish representation on the Island but we believe these are more likely to employ up to 10 staff initially and not therefore probable target tenants for the JIFC building as their space requirements would be too small.

Property information

1. Property information
2. Construction contract
3. Remainder of Phase 1, JIDC

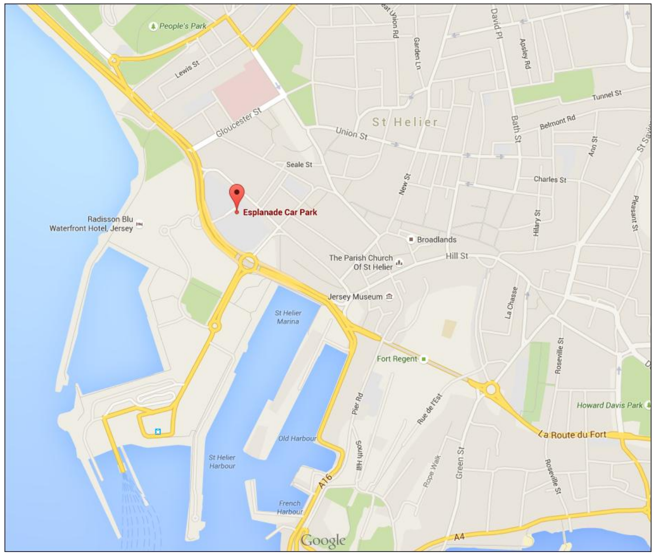
Property information

Map of Jersey

Source: Google maps

Location map of subject property

Source: Google maps



Location and situation

Jersey

The subject property is located on the island of Jersey (population circa 100,000), which is the largest of the Channel Isles with an area of approximately 45.5 square miles (118 sq. km). It lies in the Bay of St Malo, approximately 19 miles (30.5 km) from the northwest coast of France and 85 miles (137 km) south of the England. It is the most southerly of the Channel Isles. The Island is divided into 12 parishes comprising St Helier, St Brelade, St Clement, Grouville, St John, St Lawrence, St Martin, St Mary, St Ouen, St Peter, St Saviour and Trinity.

Jersey is self-governing and has its own financial and legal systems and its own courts of law. The States Assembly is made up of 49 elected members. Jersey is a British Crown Dependency, and is defended and internationally represented by the UK government. In 2013, Jersey had a Gross Domestic Product (GDP) of £3.7 billion and States Net General Revenue income of £628 million. Jersey is an established offshore financial centre and the Financial Services industry remains the predominant contributor to the Island's economy, accounting for 43% of Gross Value Added in 2013. This was followed by Public Administration and Wholesale and Retail which accounted for 9% and 7% of GVA respectively.

The subject property

The Esplanade Quarter is situated in St Helier, the capital of Jersey, which lies on the southern cost of the island overlooking St Aubin's Bay. Over 30% of Jersey's inhabitants live within the parish of St Helier and it supports the main commercial and administrative functions of the island.

The prime retail pitch is centred around the mostly pedestrianised King Street and Queen Street and, together with the adjacent parish of St Saviour, St Helier also accommodates most of the public and administrative buildings. Whilst there are pockets of commercial office space located around St Helier, some close to the core retail thoroughfares, these tend to be secondary stock, with the prime office accommodation now predominantly located in and around the Esplanade. The area has been the focus for much of the newly developed prime office buildings in St Helier and has become, in effect, the Central Business District of the island.

The subject property (site for proposed Building 4) is located at the junction of Esplanade and Castle Street at the eastern aspect of the existing car park site. The surrounding area is predominately commercial in nature, with a number of existing (and proposed) commercial offices located on the Esplanade itself and the Liberation House development located immediately opposite the subject site along Castle Street. The town centre and main retail streets lie to the north whilst the harbour and coastline, which accommodate a number of leisure uses and residential apartments, lie to the south of the property.

Property information

Artist impression of Building 4

Source: States of Jersey Development Company

Artist impression of Building 4

Source: States of Jersey Development Company

The principal mode of transport is by road and the site lies in close proximity to A1 and A2, the main arterial routes which run along the coast. Jersey airport is situated approximately 4.3 miles to the northwest of the subject property in the parish of St Peter.

JIFC overview and proposed phasing

Phase 1 of the proposed Esplanade Quarter comprises a multi-phased development of six office buildings extending to a total floor area of approximately 480,000 sq. ft. Together they will form the JIFC which it is intended will create a world-class business hub. The development will be environmentally sustainable with all six buildings having been designed to achieve a BREEAM Excellent rating.

Owing to changes in tenant requirements since the detailed phasing of the scheme was first planned, the order in which the buildings in Phase 1 will be delivered was reassessed in December 2014. SoJDC now proposes to deliver Building 1, which includes an underground public car park, in a later phase and instead now proposes to initiate development of Building 4 in the eastern portion of the JIFC site. This will be followed by Building 5 and a new public square will be provided to the west. SoJDC contend that from a planning perspective it is preferable to develop across the site from east to west which would appear logical and does not unduly prejudice the development of the remaining site for other uses should an office scheme on the whole prove unviable. The proposed layout of buildings can be seen in the plan on page 21.

This report principally concerns development of Phase 1A - Building 4 as the first building to be constructed within the JIFC.

Description of Phase 1A (Building 4)

The development of the JIFC will be initiated by the construction of a single office building known as Phase 1A or Building 4 with proposals to develop subsequent buildings over a phased period. Detailed permission was granted in August 2013 for the development of Building 4 and as at the date of reporting we understand that the site has been cleared in readiness for construction to commence. Practical completion of the building is targeted for Q2 2017.

Building 4, which has been designed by MJP Architects, will comprise 6,333 sq. m (68,173 sq. ft.) of net internal office accommodation arranged over ground to fifth floors with plant accommodated at roof level. The building will be of steel frame construction with external cladding and pre-cast concrete columns and transom panels. The office accommodation will benefit from floor to ceiling windows on all four elevations of the building. A car park providing 38 spaces will be at basement level.

A central core will provide a lobby, two internal staircases to all floors as well as three 17 person passenger lifts. Male and female WC provision will be accessed from the central core at each floor level. The office accommodation will principally be provided at first to fifth floors, with individual floor plates extending to

Property information

Phase 1A – Building 4
Schedule of floor areas

Demise	GIA (sq m)	GIA (sq ft)	NIA (sq m)	NIA (sq ft)
Basement	1,746.33	18,798	50.16	540
Ground Floor	1,017.63	10,954.00	736.51	7,928
First Floor	1,300.51	13,999.00	1,117.77	12,032
Second Floor	1,300.51	13,999.00	1,117.77	12,032
Third Floor	1,300.51	13,999.00	1,113.59	11,987
Fourth Floor	1,300.51	13,999.00	1,113.59	11,987
Fifth Floor	1,268.92	13,659.00	1,083.86	11,667
Total	8,234.92	99,407.00	6,333.25	68,173

approximately 1,113 sq. m (11,987 sq. ft.) of lettable office space. The floors have been designed to allow flexible subdivision of circa 3,000 sq. ft. suites should occupier demand be focused on smaller floor plates.

The office accommodation will be fitted out to a Category A specification including 150mm raised floors and demountable 600 x 600 grid metal tile suspended ceilings. Heating and comfort cooling will be provided by way of a high COP 3-pipe VRF DX air source heat pump system whilst the main office lighting will comprise 600mm square luminaires utilising a LED lamp light source. The office floor to ceiling height will be 2.65m and column spacing of 9m x 9m from core to outside wall will be targeted on each floor.

At ground floor level the Property will have a reception area and an external walkway around the perimeter of the building to enable pedestrian movement, resulting in a smaller ground floor office floor plate relative to the upper floors. Car parking for 38 car parking spaces will be provided on a single basement level to be accessed by a ramp off Castle Street. It will also accommodate ancillary storage and plant areas.

As stated earlier, the property will have a BREEAM ‘Excellent’ environmental rating on completion, the first office building in Jersey to achieve this.

Schedule of proposed floor areas

Set out on the left hand side of this page, we have been provided with the following breakdown of floor areas which are reported on a Gross and Net internal area basis.

Site area

It is proposed that the existing site will be developed in six sub-phases with a single office building being developed in each phase. The site has therefore been notionally divided into land parcels which will be released as each phase comes forward for development.

The initial land parcel on which Building 4 will be developed comprises a regular shaped site with a frontage to Esplanade and Castle Street and extends to a site area of 0.13 hectares (0.324 acres).

Tenure

Although the freehold of the car park site as a whole is owned by SoJ, a 150 year ground lease was granted to SoJDC in December 2008 at a peppercorn rent. In turn, as described above, each of the six plots which will accommodate the individual JIFC office building will be subject to a separate sub-ground lease for a term expiring 17 December 2158.

Construction contract

Construction contract

We have been provided with a copy of a Contract Sum Summary dated 16 March 2015 and produced by Camerons, an established building contractor in Jersey who has been engaged by SoJDC to undertake the construction project management of the scheme. The contracted works provide for, amongst other items, the necessary demolition and ground works to the existing car park and full construction costs of the proposed building, including internal fittings and mechanical and electrical items. Consultant fees, design contingencies and a contractor profit allocation have also been included.

The terms of the contract and agreed sum are confidential but as indicated we have had sight of this documentation and agreed costings. These are reflected within our valuation analysis.

Remainder of Phase 1, JIDC

Although our detailed analysis focuses on Building 4, it is perhaps worth noting the proposed sequencing and extent of the remaining five sub-phases which together will comprise the JIFC as a whole.

Over the JIFC will comprise

Phase	Building No	Net Internal Area	Timing/Start
1A	4	68,173 sq ft	June 2015
1B	5	65,000 sq ft	March 2016
1C	3	104,000 sq ft	March 2018
1D	6	85,000 sq ft	January 2019
1E	2	75,000 sq ft	January 2020
Public real car park, Esplanade/public park	-	-	January 2020
1F	1	81,561 sq ft	January 2021
Total		477,998 sq ft	

The likely cost and value modelling for Phase 1B-F follows the same criteria as 1A – hence our focus on 1A. Viability, of course, will be dependent upon demand which we address later. However, a major component of Phase 1, as a whole, is the development of the Public Realm, the most costly part of which is the underground car park on 3½ levels providing 520 spaces. The total budgeted costs of the public realm element is currently £27.25m.

There will be a 'value' contribution for the underground car park which has not been calculated as part of this assessment. We understand that the value contribution of this element is expected to be between £9m to £10m.

If the original Esplanade Quarter masterplan were to be followed, it is logical that in order to facilitate the next phase beyond the JIFC, it would be necessary prior to any further work beyond JIFC, to lower "La Route de la Liberation". We understand that the cost of this element had been forecast at £45m in 2008 which would equate to approximately £63m at current prices, using public sector road tender price index (last updated Q2 2014).

Generic approach development appraisal

1. Generic approach to a development appraisal
2. Appraisal impact - gross development value
3. Development costs

Generic approach to a development appraisal

Background

A development appraisal can be used to determine/analyse either:

1. The likely site value assuming a target developer's profit, normally 15%-25% of costs; or
2. The likely developer's profit assuming the site already acquired and taken as a fixed or actual cost.

The focus of our analysis is to assess the likely developer's profit taking site value as fixed. We explain this later.

Viability or profit is essentially, a function of the target values of the completed scheme (Gross Development Value) set against the total costs of delivery including site cost construction, fees and finance. It will also include the impact of rent free periods, and other tenant incentives such as capital contributions which may be necessary to secure tenancies. This will also include other tenant incentives such as 'take back', namely the developer taking assignment of the proposed tenants existing leasehold interest thereby relieving them of that risk/liability. All of these factors must be taken into account when assessing the viability of a development.

The sensitivity of residual appraisals

The residual method requires the input of a large amount of data, which is rarely absolute or precise and also involves a number of valuation assumptions. Residual appraisals are inherently sensitive to changes in valuation inputs, with relatively minor changes in any of the inputs having the ability to cumulatively lead to a significant change in the resultant land value.

Whilst some of the inputs within a residual appraisal can be assessed with reasonable objectivity, others are more challenging. For example, the profit margin, or return required, may vary dependent upon whether the land is held by a developer, investor, lender or owner occupier. The risks associated with the development can also change over the course of a development period which may be challenging to accurately model within an appraisal, for example the speed at which the completed development lease up or is sold.

We examine below the primary inputs to the appraisal process in order that you can better understand the impact of these upon viability and their potential sensitivity to variance

Appraisal impact - gross development value

Value of completed development – the Gross Development Value

The Gross Development Value (GDV) is the estimated value of the proposed development assessed on the special assumption that the development is complete as at the date of valuation in the market conditions prevailing at that date.

For some developments, particularly residential, the GDV would be determined by an assessment of the sales values of the individual buildings within the development. For commercial properties such as offices, retail and industrial, the GDV is more likely to reflect the capitalised value of the income generated when the properties are let.

The GDV reflects the price that would be paid by an investor to acquire the completed and let development. This price, which would be net of the purchasers costs of acquisition (stamp duty, agent and legal fees) is also likely to be ‘clear’ of any rent frees or other incentives that had been necessary to secure the letting. The GDV would therefore represent the optimised investment value assumed rent receivable at the time of purchase.

Therefore, any costs such as rent frees, take backs or capital contributions will need to be taken into account as equivalent cost elsewhere in the development appraisal.

Development costs

The following examines the various cost components for which an allowance needs to be made when examining viability.

Site cost

Dependent upon the purpose of the development appraisal, the site cost is either the actual cost incurred to acquire the site or an assessed ‘value’ as a consequence of the development appraisal, making an allowance for a set developers profit target which can generally range from 15% to 25% of total development costs. For the avoidance of doubt, this includes all professional fees, construction and finance costs and, if applicable, the cost of land acquisition.

For the subject property, the land cost is assumed to be fixed in order to allow the examination of the developers’ profit which becomes the variable for this examination of viability.

Planning permissions and associated matters

Where there is no existing planning permission for a development project, it is necessary to allow for the time and costs of obtaining that permission. If a development opportunity is contentious, additional allowances may be needed to reflect increased costs and delays resulting from potential appeals and/or planning inquiries.

Developments will also usually give rise to legally binding agreements linked with the grant of planning permission such as Planning Gain Supplements (commonly administered through the Section 106 agreements of the Town and Country Planning Act 1990 on the UK mainland) or other contractual obligations. These commonly include the provision of affordable housing, highway improvements or other contributions to enhance local community amenities or the public realm.

Other statutory and regulatory obligations which may impact on development viability include any requirements to gain listed building consent or archaeological and/or environmental matters. Planning policy may also prescribe the use, density and massing of a development within a given area or on a site specific basis.

Acquisition costs (site)

Acquisition costs will ordinarily include agents’ fees, legal costs and stamp duty land tax that would be incurred on the acquisition of the land prior to the commencement of the development.

Site-related costs

Before construction can proceed, the site may require certain ground works to enable development. These can include, but are not limited to decontamination, archaeological investigations, environmental provisions (such as noise abatement or control emissions), and conservation or flood protection requirements. There may be ground improvement works needed before the main construction period begins to make the site suitable for development.

Development costs

Vacant possession and other costs

It may be necessary to reflect in the residual appraisal the costs associated in securing vacant possession, acquiring necessary interests in the subject site or adjacent property, extinguishing easements or removing restrictive covenants, together with potential rights of light compensation and party wall agreements. The financial implications of these considerations, and their consequent impact on development viability should be appropriately reflected based on the reasonable expectation of related third parties to share in the potential development value.

Phasing of the development

Larger schemes are likely to be phased over time. Phasing of the infrastructure provision or distinct elements of a complex development site may be as a result of planning requirements (for example, that the car parking provision and highways improvements are complete prior to occupancy) or from a commercial perspective, to maximise cost savings in labour or materials. These are reflected in the developers' cash flows when formulating their bids and will flow through to the valuation of the underlying land. The residual appraisal will defer the associated revenue and costs in line with a reasonable estimation of when they are likely to be incurred.

In developments where individual buildings or units may be separated or sold, such as residential houses on a multi-phases housing estate, the sales may be achieved over a period that may start before the development is completed and be phased over a long period of time. In standalone commercial buildings, such as offices, the practical completion of the entire building will often be targeted prior to the letting of its constituent parts. In the case of JIFC, the appraisal of all phases to deliver the six proposed buildings, the public realm and car park, would be complex and involve the making of a range of assumptions regarding particularly the timing of the phases and when the non-recoverable costs for such as the public realm would be incurred. For the purposes of this study we will focus only on a single sub-phase, Building 4.

Building costs

As accurate an estimation of the building costs as possible, at the valuation date, of the development is a major component in a residual valuation. As a development opportunity progresses to completion, these should be informed by an appropriately qualified expert or reflect the agreed contract tender to which a development is subject. Build costs are conventionally based on the Gross Internal Area (GIA).

We comment below on the sensitivity of residual appraisals to changes in key inputs, where construction costs are an important component. The estimated costs and the accuracy with which costs can be assessed may vary greatly according to the specific site characteristics or building specifications and the extent to which a new building reflect relevant sustainability policies.

Development costs

It is prudent to include a contingency allowance for unexpected construction costs. The quantum which is usually reflected as a percentage of the building contract sum is dependent upon the nature of the development, the procurement method and the perceived accuracy of the information obtained.

Fees and expenses

The incidence of fees and expenses can vary significantly according to the size and complexity of the development. In most development projects however the professional team will comprise environmental and/or planning consultant, architect, quantity surveyor and a civil and/or structural engineer. Additional specialist services may be supplied as appropriate by mechanical and electrical engineers, landscape architects, traffic engineers, acoustic consultants, project managers and other disciplines, depending on the nature of the development.

Holding costs

The residual appraisal will reflect the associated costs (excluding interest) in holding the completed building up to the assumed date of the final letting or sale, including such items as insurance, security, cleaning and energy costs. A proportion of the service charge on partially let properties may be included together with any potential liability for empty rates. For example, unless the market is particularly strong with a building pre-letting 100% in advance of completion, allowance will need to be made for leasing voids. This is the vacant period post completion of construction which occurs before a tenant is identified.

Leasing costs/incentives

As described earlier, if the GDV has been assessed at the optimised value – i.e. the assumed headline rent receivable at the time of sale, an allowance will be needed to reflect the cashflow impact of any tenant incentives which will normally comprise rent free allowances, stepped rents, ‘take-backs’ of a tenant’s existing lease(s) and capital contributions/allowances.

Developer’s profit

The nature and complexity of a development and the perceived occupier and/or investor demand for the completed scheme will ultimately determine the level of profit targeted by developers. Such influencing factors include, but are not limited to, the ability to secure pre-lets or pre-sales, the scale of development, the amount of financial exposure and the timescale to complete.

In normalised market conditions this might range from 15% profit on the total development cost (including interest) for a relatively secure development opportunity to 25% for a development exposed to a greater profile of risk. The determination of the profit margin, or rate of return, will vary and be dependent on site specific considerations.

Development costs

In the case of our analysis of Building 4, we have analysed the viability of the scheme in order to assess the amount of profit rather than a site value assuming a set developer's profit.

Whilst it is market practice to assume that the developer seeks a capital profit expressed as a percentage of the total development cost (including interest), it may also be targeted as a proportion of GDV. Other mechanisms by which a developer might target a return on investment include an initial yield on cost, interest on capital employed or Discounted Cashflow (DCF).

Interest or financing costs

Interest is incurred on land and development costs. It is either paid when due or deferred (rolled up) throughout the projected programme of development. An allowance is made to reflect the opportunity cost of the monies, even if the developer is funding the project internally, on the assumption that the completed fully let and income producing development will be sold, or long-term finance obtained on its transfer to an investment portfolio.

It is usual for interest to be treated as a development cost up to the assumed letting date of the last unit. In the case of residential developments the sales of individual units may occur at various stages during the development and capital receipts may be used to service interest payments prior to completion. This may be more challenging to achieve in other development schemes such as office and industrial buildings, where it may be impractical to let space until a whole building is constructed.

The rate of interest adopted will reflect the level achieved in the market relative to the type of scheme being developed. Conventionally the chosen interest rate is usually compounded, either quarterly or annually, on the basis of either straight line, whereby the principal development costs are incurred in equal tranches throughout the development, or by way of an S-curve to reflect more accurately the incidence of the costs in a particular scheme.

Valuation analysis

Approach to assessing value

Our assessments of value are upon the basis of Market Value (MV).

Market Value is an internationally recognised basis of value as defined by the Royal Institution of Chartered Surveyors ("RICS") as at the valuation date as:

"*The estimated amount for which a property should exchange on the valuation date between a willing buyer and a willing seller in an arm's-length transaction after proper marketing wherein the parties had each acted knowledgeably, prudently and without compulsion.*"

The MV is the price that would be agreed, with no adjustment made for costs that would be incurred by the parties in any transaction, including any liability for VAT (if applicable), stamp duty or other taxes. It is also gross of any mortgage or similar financial encumbrance

Development viability of Building 4

Development Viability

We have been provided with copies of valuations which have been undertaken by both DTZ as at 27 April 2015 and BNP Paribas Real Estate (March 2014) which examine and advise upon the GDV of the JIDC and/or Building 4. In neither case is there a focus upon development viability.

Both valuations report the Gross Development Value of the completed scheme only and are subject to special assumptions such as assuming the scheme is fully let on practical completion. This is a hypothetical value and does not represent the Market Value of the development opportunity nor does this examine viability and development risk.

We have focussed on the viability of the Phase 1A (Building 4) in order to identify the likely profit and associated risks. Specifically, we have focused on the following components of value/viability:

Gross Development Value

- Rental value
- Capitalisation rate/Investment yield

Development Costs

- Rental or equivalent incentives
- Marketing/leasing voids
- Site excavation and decontamination
- Construction costs including associated public realm
- Professional fees
- Finance
- Profit
- Land cost
- Other site specific development costs (such as provision of temporary car park)

Development appraisal

Our inputs and adopted values are as follows

Rental value:	
Offices	£2,299,522 (£34 pfs)
Storage	£5,508 (£10.20 pfs)
Car parking	£123,500 (£3,250 per space)
Total	£2,428,530 pa
Investment yield	7%
Gross development value (gross of purchaser's costs)	£34,693,000
Purchaser's costs:	
Stamp duty	£1,694,230 (4.88%)
Legal and agents fees	£343,498 (1%)
Total	£2,037,728
Gross development value (net of purchaser's costs i.e. price on sale contract)	£32,655,272
Say	£32,650,000

Leasing assumptions

Floor	Area	Void	Rent free
Fifth	11,667 sq ft	0	24 months
Fourth	11,987 sq ft	0	24 months
Third	11,987 sq ft	6	18 months
Second	12,032 sq ft	12	18 months
First	12,032 sq ft	12	18 months
Ground	7,928 sq ft	18	18 months

Development appraisal

Costs

In appraising the subject development we have adopted the following assumptions:

Other tenant incentives

These can take the form of either or both capital contribution to enhance fit out, stepped rental and 'take backs' of the tenant's existing leases. Our analysis assumes no further tenant incentives other than the rent frees referred to above. We comment upon this later in our analysis of conclusions.

Site excavation and decontamination

The cost of site decontamination is not included within the Camerons construction contract. At present there is uncertainty as to what the full costs of these works might be and SoJDC are unable to quantify the end position on the additional over cost of the contamination until the contractor has completed the excavation stage (as the exact quantities that need to be dealt with as contaminated will not be known). We have been provided with both the accepted costs to date and the contractor's remaining budgeted cost for decontaminating the site. Given the NDA to which this report is subject, we are unable to disclose these costs at this time.

Due to the uncertainty surrounding the decontamination costs, we have specifically not allowed for additional costs for this item in our analysis but it is important that these costs are taken into account when arriving at a view on the potential profit generated by the scheme.

As set out below, we have included a contingency allowance of 2.5% (circa £500,000) within our appraisal. Given that a fixed price contract has been agreed on all construction works, it is reasonable to assume that the greatest area of remaining uncertainty concerns the excavation and site preparation works. Whilst the contingency may be able to absorb some of these costs, it would not be prudent to enter the next stage of development with the contingency allowance used for an already identified issue.

Construction

As indicated earlier, the contract sum and related agreement is confidential and therefore subject to our NDA with SoJDC. Our valuation analysis takes account of the agreed sum but, in the interests of confidentiality, we do not disclose this within our report. We confirm that the contract sum includes a Category A fit-out to all floors.

The total construction cost adopted within our appraisal also reflects additional market inputs, the salient items of which we refer to below.

Developer's contingency

2.5%

Development appraisal

Professional Fees

10% of construction costs

Market and letting

Marketing budget	£250,000
Letting agent fee	10%
Letting legal fee	4%

Finance

Debit rate of 4%

Site-specific development costs

Most development sites will have site-specific costs associated with development. We have identified the following as being the most material to the subject property:

1. Provision of temporary car park - we understand that SoJDC has incurred costs in separating the sites of buildings 4 and 5 and creating part of the temporary car park which will replace the parking displaced by these buildings. This cost was outside of Camerons scope and therefore not included in their tender sum. For the purpose of our valuation, we have allocated 50% of this cost on the assumption that the balance will be reasonably set against Phase 1B/Building 5.

2. Additional public realm – We have been informed by SoJDC that there are additional public realm costs outside of the Camerons construction contract, principally comprising a water feature and an art contribution. These are included within our appraisal.

Our analysis allows for a total of just over £750,000 for these site specific issues.

Site

Normally, in a development appraisal which is structured to identify developer's profit, the site will by that stage have an identified cost/acquisition price. In this case, the parties, i.e. SoJ and SoJDC, have not recognised one. In order to assist understanding a potential outcome for both profit and "site cost", we have adopted two approaches to the analysis of development viability:

1 Inputting site at zero focussing the analysis on the profit implied including site.

2 Targetting a development profit of 20% on costs (typical of development with this risk profile) leaving the site 'value' as the output of the appraisal.

Analysis

Analysis

As a consequence of adopting the above inputs we have concluded the following:

- Basis 1 : Zero site value – focus on potential profit including site value:

  Profit including site £3,040,000 (12.04% of cost)

In order to allow consideration of the sensitivity of this potential profit, we have flexed the yield rate by+/- 0.125%

Sensitivity on profit (nil land value)

Letting void / Cap Rate	6.750%	6.875%	7.000%	7.125%	7.250%
- 6 months	£4,876,000	£4,266,000	£3,679,000	£3,113,000	£2,566,000
- 3 months	£4,552,000	£3,943,000	£3,357,000	£2,792,000	£2,246,000
As per base case	£4,233,000	£3,626,000	£3,040,000	£2,476,000	£1,931,000
+ 3 months	£3,919,000	£3,313,000	£2,729,000	£2,166,000	£1,622,000
+ 6 months	£3,611,000	£3,006,000	£2,423,000	£1,861,000	£1,318,000

and the leasing void by +/- 3 months

- Basis 2 : Assuming a target 20% developer's profit on cost allowing the site value to 'float':
  - Profit £4,716,721 (20%)
  - Site value (£1,586,000)

In order to allow consideration of the sensitivity of this potential outcome, we have flexed the yield and leasing void assumptions as above. Development profit at 20% remains the same.

Sensitivity on land value (20% profit on cost)

Letting void / Cap Rate	6.750%	6.875%	7.000%	7.125%	7.250%
- 6 months	(£142,000)	(£621,000)	(£1,082,000)	(£1,529,000)	(£1,960,000)
- 3 months	(£397,000)	(£875,000)	(£1,336,000)	(£1,782,000)	(£2,212,000)
As per base case	(£647,000)	(£1,124,000)	(£1,586,000)	(£2,031,000)	(£2,460,000)
+ 3 months	(£894,000)	(£1,370,000)	(£1,831,000)	(£2,275,000)	(£2,705,000)
+ 6 months	(£1,136,000)	(£1,613,000)	(£2,073,000)	(£2,516,000)	(£2,946,000)

Conclusion

SoJDC position

We refer above to the valuations which have been provided to SoJDC by BNP Paribas Real Estate and DTZ, the most recent being the DTZ valuation as at 27 April 2015. We are aware that SoJDC, based upon advice from DTZ, believe the completed development would attract an investment yield of 6.5%. Whilst we do not agree that this concluded yield reflects current market conditions, we have modelled the impact on value of adopting this lower yield, all other assumptions remaining consistent with our analysis as described above.

On this basis, the completed development value of the building fully let and income producing (i.e. after the washing through of marketing voids and incentive periods) would be in the region of £35,300,000 assuming purchasers costs of 4.85% and agents and legal fees of 1%.

We have also modelled the impact of adopting this lower yield on development viability.

Adopting a yield of 6.5% and assuming the building is fully let on practical completion (i.e. no marketing voids) would result in the following:

- Basis 1 : Zero site value – focus on potential profit including site value:
  - Profit including site £6,716,000 (26.55% profit on cost)
- Basis 2 : Assuming a target 20% developer's profit on cost allowing the site value to 'float':
  - Profit £5,335,500 (20%)
  - Site value £1,230,000

We would stress that this analysis has been carried out in order to demonstrate the impact of these assumptions on the profitability of the scheme if the views of SoJDC come to pass. This does not represent our opinion of value and market conditions as at the valuation date.

Conclusion

Adopting our target assumption of rent, yield, leasing void and tenant incentives, it is clear that this scheme does not return a target development profit of 20%, together with a 'reasonable' positive input for the site.

This analysis demonstrates that if the land is inputted at zero, the potential profit stands at £3.04m i.e. 12.04% profit on cost.

This profit margin is below the level at which a developer would normally undertake a speculative office development with a pre-let of only circa 24% of the total floor space.

A 20% developer's profit and a positive site value contribution is achieved if the SoJDC views on the timing of leasing and investment yields are met. In our view, this outcome is unlikely. We believe the leasing voids adopted

Conclusion

in our valuation analysis are reasonable and reflect the local market. Furthermore, with a lot size of £30m it is unlikely that a sale could be achieved at a yield better than 7% given the proven difficulties of persuading the investment sector that, notwithstanding the quality of the proposed scheme, it would still represent a substantial single investment in a relatively small, albeit steady, local market.

Implications for JIFC

Implications for JIFC

The uncertainty surrounding the regeneration of this area of St Helier has lasted for many years. During our review of SoJDC proposals for the JIFC, we have met with a wide range of local stakeholders and received a considerable amount of information and opinion, made detailed enquiries of the market and gained a perspective of the likely demand and supply. We have also set this against our understanding of the aims and objectives of both SoJ and SoJDC not just with the JIFC proposals but more importantly the Esplanade Quarter and the target to regenerate this part of St Helier.

We have concluded that, provided the development of Building 4 does not expose SoJ to a loss, and that a profit can be delivered, albeit at a level lower than would be required by a private developer seeking a 'normal' return, it makes sense to initiate the JIFC by the development of this building. It is sensibly located as a first development on that part of the site and is complimentary to the other buildings immediately adjoining. The subsequent development of Building 5 would logically complete the frontage to Castle Street providing that it too can be proven to be a viable development opportunity. We believe that these two buildings would not compromise a review of the uses proposed for the JIFC site as a whole.

However, as demonstrated by the development appraisal, the development of office accommodation when due allowance is taken for development costs on the Island , the local market dynamics (of rentals values and investment yields) do not readily produce an acceptable return. Indeed, this position is exacerbated by the JIFC site which is landfill. A developer of this site is faced either with a removal of the landfill thus creating a more expensive building than would be the case with surface parking or alternatively the need to incur clean-up costs prior to development. This is particularly important in view of the ongoing uncertainty surrounding decontamination of the site, as referred to earlier in this report.

We have severe reservations as to whether there will be sufficient demand to enable development of the full JIFC proposals totalling 480,000 sq ft of office accommodation over the medium term, of say 5-10 years.

The accommodation which will be delivered by SoJDC will undoubtedly provide some of the best available Grade A space in Jersey. However, we do not expect the overall stock of offices to grow but rather we expect to see a move towards an improvement in the quality of the existing stock and a consolidation of existing office occupiers. Other schemes have been delivered by the private sector, such as by Dandara, which whilst not BREEAM excellent, still provide high quality Grade A accommodation and JIFC is by no means the only development in the pipeline.

With a gradual, rather than dynamic, improvement in the office stock, we would question the ability of the market to absorb the total amount of space proposed for JIFC.

With prevailing prime office rents of £34 per sq. ft. and investment yields of 7% coupled with the additional cost of providing basement car parking, it is clearly a challenge to deliver a conventional developer's return unless the

Implications for JIFC

accommodation can be very substantially pre-let and de-risked. Even under these circumstances, this does not produce a return capable of funding substantial public realm improvements.

A later phase of JIFC requires the delivery of public realm improvements including a park and four level basement car park. The current forecast cost of this is £27.25m and it is very difficult to see how this can be funded by the level of profits that are likely to be generated, even if demand for these later phases could be demonstrated and the development delivered.

It follows, therefore, that whilst we believe that it is the correct strategy to embark upon JIFC by constructing Building 4, we advise that SoJ and SoJDC should review their strategy of delivering 480,000 sq. ft., of office accommodation as currently proposed in Phase 1 of the Masterplan.

Given that the development of Phase 1A has begun, and provided that it can be demonstrated that there are no future costs not identified in this analysis which reduce overall profit to a nominal level, then we believe it appropriate to continue with the development even if it will generate only a marginal return.

Indeed, a factor influencing such a decision will no doubt be that to halt the scheme at this stage would result in non-recoverable costs being incurred in aborting the development and terminating existing agreements.

However a review of the remaining scheme and the development viability of Phase 1B should also be undertaken in light of better information which will then be available regarding the likely excavation/decontamination costs (as evidenced within Phase 1A) and the occupier demand for additional office space.

With office redevelopment also proposed by the private sector along the Esplanade immediately adjoining the JIFC site, a review should be undertaken which aims to consolidate this sector of the town as one which provides a focus for the Grade A office accommodation yet also promotes other complementary uses, eg. residential and leisure.

It appears to us that both SoJ and SoJDC have to date been constrained by a need to deliver/comply with the 2008 Masterplan.

In our view, whilst embarking upon the delivery of part of JIFC makes sense, the parties should seriously review their aspirations for both the JIFC and the Esplanade Quarter as a whole to arrive at a more balanced and commercially viable mix of uses and public realm improvements.

Implications for Esplanade Quarter

Implications for the Esplanade Quarter

As indicated above, we believe that SoJ and SoJDC should use this as an opportunity to review the development strategy of not just the JIFC but also of the Esplanade Quarter.

The site on both sides of La Route de la Liberation which make up what is termed the Esplanade Quarter offers the Island an opportunity to deliver a high quality mixed use development enhancing the profile of St Helier.

Offices should not be seen as a sole driver to this – there is an insufficient size to the market and little prospect for this to be able to grow to sustain the size of scheme as proposed. Furthermore, it is clear that unless there are dramatic changes to the office market, office development alone will not generate sufficient surpluses to fund even a small proportion of the public realm and highway improvements currently targeted, namely the 3½ basement level public car park and the lowering of La Route de Liberation at possible combined cost of circa £90m.

Rather, the opportunity should be explored, whilst partly delivering the offices as described, to design a more realistic and commercially appropriate mix of uses and infrastructure.

The proposal to lower La Route de la Liberation beneath the development proposed at a cost of £45m (2008) is commercially unrealistic. The ways by which the site to the south of this road can be linked to the JIFC site should be revisited, perhaps by bridging a section at a very much lower cost. Certainly it makes sense to explore how to bring forward the development of the residential components of the Quarter as we would expect a healthy market for residential uses in this locality and a strong likelihood that this would deliver a profit to the SoJ, potentially assisting the funding of other capital projects on the Island.

Appendices

1. Appendix A: Signed Engagement Letter
2. Appendix B: Valuation procedures and assumptions
3. Appendix C: Non-disclosure agreement
4. Appendix D: Information provided
5. Appendix E: Environmental risk assessment
6. Appendix F: Schedule of rental evidence

Signed Engagement Letter

Corporate Services Scrutiny Panel – States of Jersey

Agreement for Provision of Consultancy Services

Parties to the Agreement

1. This contract is between the States of Jersey Corporate Services Scrutiny Panel (hereinafter called "the Panel") of Morier House, Halkett Place, St Helier, Jersey, JE1 1DD and Ernst & Young LLP (hereinafter called "the Consultant") of 1 More London Place, London, SE1 2AF.

Duration

2. This Agreement will be effective from the date of signature until completion of the Review or until the Scrutiny Officer confirms to the Consultant that all the services that the Consultant has been engaged to provide have been completed to the satisfaction of the Panel. The Agreement may be extended by mutual agreement in writing between the Scrutiny Panel and the Consultant.

Introduction

3. The Corporate Services Scrutiny Panel has agreed to undertake a review process of the Proposed Jersey International Finance Centre. Terms of reference for the review are appended to this Agreement.

4. This Agreement outlines the terms on which services are to be provided to the Panel by the Consultant. It is understood that throughout the course of the review the Consultant will act as expert adviser to the Panel.

General Background to Scrutiny

5. Scrutiny is an evidence-based process whose principal function is to hold the Executive to account for its policies and actions. In reviewing Executive policy Scrutiny does not act as a political opposition but seeks to clarify key elements of the policy and its impact on the population through examination of evidence provided by the States of Jersey government departments, stakeholders and the general public.

The Role of the Consultant

6. The role of the Consultant in this process is –

   - to apply specialist knowledge to the review in order to assist the Panel in assessing the evidence presented to it; and

   - to advise the Panel on further research it might undertake to develop a broad understanding of the issues involved.

The Scrutiny Panel's Responsibilities in a Review

7. It is the responsibility of the Panel to define the terms of reference for each review and to present the final report to the States of Jersey; to agree the detailed scope of the review; to brief the relevant Departments on the objectives of the review; to call for evidence from the public and stakeholders; as required, to decide on appropriate witnesses; to question those

witnesses in Public Hearing sessions if required, and to prepare a report including any recommendations arising from a review.

8. The Panel is currently supported by one or more Scrutiny Officers, who will act as the regular point of contact with the Consultant throughout the review. The Officer will carry out administrative and executive functions on behalf of the Panel and will draft the Panel's report.

9. The Officer will liaise with the Consultant regarding the nature, scope and timetable for the review. In addition, the Officer will advise of the dates of any Public Hearings that the Consultant is required to attend. The Panel reserves the right to request that the Consultant attend Public Hearings other than those initially planned. In such circumstances the Consultant will be given a minimum of 7 days notice. Although the Consultant will be expected to make reasonable efforts to be present at any additional Public Hearings, failure to attend such Public Hearings will not be regarded as a breach of contract.

10. All contact with the media and any public statements regarding a Panel review are the responsibility of the Panel Chairman.

11. Further information upon the conduct of a review can be found in the Scrutiny Code of Practice, a copy of which will be made available by the Scrutiny Office upon request.

The Consultant's Responsibilities

12. The Consultant will be expected to provide an independent and impartial professional analysis of the evidence received by the Panel in the course of a review and to assist in directing the Panel's ongoing research of matters falling within its terms of reference. Specific responsibilities will include some or all of the following -

- to study documentation provided by the Scrutiny Office and any written submissions from stakeholders and members of the public and to provide in a timely manner a written critical independent analysis of the same;
- to assist the Panel in drawing conclusions from the evidence received;
- to brief the Panel in advance of public hearing sessions with the Minister, local stakeholders or other witnesses on key issues arising from the evidence submitted;
- to assist, as required by the Panel, with the preparation of a question plan for the public hearing sessions;
- to attend public hearing sessions as required and thereafter to discuss with the Panel, as appropriate, the oral evidence received; and
- to advise on the preparation of the Panel's report and any recommendations arising from the review

13. The written analysis prepared by the Consultant, together with any other written commentary on the evidence received, may be published on the Scrutiny website and may be included in full or in part as reference information in the Panel's report on its review.

14. The Consultant's attention is drawn to the provisions of the Official Secrets (Jersey) Law 1952 ("the Official Secrets Law"). All consultancy work is strictly confidential until publication in accordance with clause 13 above, and the Consultant acknowledges that information received may be governed by the Official Secrets Law, except in so far as such matters are properly in, or come into, the public domain. The Consultant must not divulge or communicate any confidential information to another party without the express consent of the Panel both during and after termination of the contract.

15. This Agreement to provide services does not imply that the Panel necessarily agrees with the assessment and conclusions provided by the Consultant in any written reports provided during the course of a review. Equally, the Panel has responsibility for the findings and recommendations produced in its report at the end of the review and these do not necessarily represent the views of the Consultant.

Budgetary Control

16. The total budgeted amount of fees that can be paid to the Consultant under this contract is up to and not exceeding £25,000. This total includes a budgeted amount up to and not exceeding £2,000 for the payment of reasonable expenses, to which expenses the conditions outlined in items 19 to 24 will apply.

17. The Panel must be advised in advance if, in the opinion of the Consultant and the Officer, this budget is likely to be exceeded due to the requirements of the review. Written agreement must be reached with the Panel before any additional unbudgeted work is undertaken and no payment will be made for additional unbudgeted work unless this agreement has been reached.

18. The total fee rates agreed by the Panel with the Consultant are maximum hourly rates of £915 (Director), £795 (Assistant Director) and £565 (Senior Executive), subject to a discount of 30% and capped at £25,000, for the services as described at item 12 and any other specific requirements agreed separately with the Panel within the total budgeted amount.

Meals and accommodation

19. The Panel will meet the cost of meals for the Consultant when travelling solely for the purposes of the review. Where travel is required:

    - Up to three meals a day may be claimed for. If a full evening meal is taken then it is expected that lunch would be a light snack or vice-versa. If breakfast is included in the hotel room rate, an additional breakfast may not be claimed.

    - Reimbursements will only be made on production of valid receipts.

    When meals are not provided the following is the maximum amount per person per day that will be refunded:

• Breakfast	up to £10.00
• Main meal (either lunch or dinner)	up to £30.00
• Light refreshments	up to £10.00

20. When overnight accommodation is required in Jersey hotel accommodation will normally be booked for the Consultant by the Scrutiny Office and paid for directly by the Office.

Travel

21. Consultants will be expected to demonstrate that they have used the most economical means for travel to and from ports or airports in the UK and abroad. The Scrutiny Office will reimburse the use of private motor cars where necessary at a rate of 62.7p per mile. Costs of train travel in second class will be accepted; the use of taxis other than for very short journeys will not be supported unless no other method is available.

22. All flights to and from Jersey will normally be booked on behalf of the Consultant and paid for directly by the Scrutiny Office. Travel by air or sea will normally be in economy class and any request for upgrade to a higher class of travel will require the Consultant to pay the difference between economy and business fares.

23. Taxis in Jersey may be used if this is the most appropriate form of transport.

24. Receipts must be provided for all expense claims with an explanation of the expenditure.

Payment

25. The Consultant is expected to keep a record of all work undertaken under this Agreement and to make a copy available to the Panel on request. A copy of the record must be submitted with any invoices submitted to the Scrutiny Office for payment. The record should include dates of work undertaken, notes of attendances at meetings and its purpose.

26. Payment will be made within 30 days of receipt of an invoice accompanied by a record of work undertaken in accordance with clause 25 above.

Relationship between Parties

27. The Consultant shall not be entitled to any pension, bonus or other fringe benefits from the Panel and it is agreed that the Consultant shall be responsible for all income tax liabilities, social insurance or similar contributions in respect of his fees.

The Agreement is governed and construed in accordance with the laws of the Island of Jersey and the parties submit to the non-exclusive jurisdiction of the Courts of the Island of Jersey.

Annual Leave and Sickness

28. The Consultant will not be entitled to claim for any paid annual leave or sick leave.

Force Majeure

29. Notwithstanding any other provisions herein, no default, delay or failure to perform on the part of either party shall be considered a breach of this contract if such fault, delay or failure to perform is shown to be due entirely to events beyond the reasonable control of the party charged with such default.

In the event of a material breach of any provision of this Agreement, including the case that the Consultant fails to fulfil a significant proportion of the agreed consultancy work, or in any other way fails to perform the duties in a suitable manner, then the other party reserves the right to terminate this contract by immediate written notice.

Termination

30. Either party may terminate this Agreement if they so elect prior to the expiry of the duration of the contract, subject to one month's notice in writing.

Chairmen's Committee Approval

31. This document will be forwarded to the Scrutiny Chairmen's Committee for ratification.

Signed	Date	Signed	Date
	13-4-2015		17 April 2015
Mr. M. De La Haye Greffier of the States on behalf of the Corporate Services Scrutiny Panel		Mr. M. Gerold Ernst & Young LLP	

Please return a signed copy of this agreement for the attention of Tim Oldham at the Scrutiny Office.

Corporate Services Scrutiny Panel: Jersey International Finance Centre Review
Terms of Reference

1. To consider whether the 2008 Masterplan for the Esplanade Quarter continues to represent the best socio-economic value to the States of Jersey on behalf of the Public of the Island.

2. To assess the commercial viability of the implementation of the 2008 Masterplan for the Esplanade Quarter, with particular reference as to whether the Minister for Treasury and Resources/SoJDC have appropriately undertaken:

    I. An up to date assessment of the benefit to the Island of the proposed Jersey International Finance Centre

    II. An up to date assessment of whether the external market has changed from earlier analysis regarding the provision of such centres

    III. An up to date Assessment of the local demand v's supply

    IV. An up to date Assessment of the ability or otherwise of the private sector to deliver such a centre

3. To establish the current position of the Minister for Treasury and Resources/SOJDC regarding the pre-letting of office space prior to construction of the initial buildings of the proposed Jersey International Finance Centre.

4. To examine whether that position is consistent with previously established pre- let conditions, and with comparable market/industry expectations.

5. To assess the Minister for Treasury and Resources' consideration of financial risk and liability management in relation to the proposed Jersey International Finance Centre (to include the consideration of any such risk in the context of the overall financial position of the States, and also in relation to the proposed capital program).

6. To consider whether there are any other points of note which arise from the examination of the Esplanade Quarter / SOJDC and / or the delivery structure presently envisaged, particularly in the context of previous undertakings, permissions, decisions or approved propositions.

7. To consider recommendations from any previous Scrutiny reports regarding SOJDC or the Esplanade Quarter and assess if they have been implemented, and if not, whether such implementation would still be desirable.

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Building a better working world

Private and confidential

9 April 2015

Mr Tim Oldham
Scrutiny Officer
Corporate Services Scrutiny Panel
States Greffe
Morier House
Halkett Street
St Helier
Jersey JE1 1DD

Direct Line: 020 79516793:

Email: mgerold@uk.ey.com

Dear Sir

Scrutiny Panel
Provision of Valuation Services
Proposed Jersey International Finance Centre, The Esplanade, St Helier

I was pleased to receive your briefing upon the above project from you recently and to discuss your requirement for the valuation and related advice summarised below and as described in the attached Statement of Work. Thank you for choosing Ernst & Young LLP ("we" or "EY") to perform these professional services (the "Services") for the States of Jersey ("you" or "Client"). We appreciate the opportunity to assist you and look forward to working with you.

This covering letter, together with its appendices, (collectively, this "Agreement"), describes and documents the arrangements between us, including our respective obligations. The scope of the Services is set out in the Statement of Work at Appendix A, together with details of our fees and billing arrangements. Any additional terms and conditions specific to the Services are set out in Appendix B, our General Terms and Conditions, including restrictions on the disclosure and use of our advice and reports.

The valuation and related advisory services required are explained in more detail in the accompanying Statement of Work ("SOW), but, in summary, we are to provide you with our opinion of the feasibility of the proposed development of the Jersey International Finance Centre, on land owned by the States of Jersey, and as described in the 2008 Masterplan for the Esplanade Quarter.

If you are in agreement with the Statement of Work and our associated terms, please sign and return the enclosed copy of this Agreement to confirm your acceptance. If you have any questions about these arrangements, please contact me on 020 7951 6793.

Yours sincerely

Mark Gerold
Director
For and on behalf of Ernst & Young LLP

AGREED
States of Jersey
By (Authorised Representative):

Signature: ______________________________

By: M.N. DE LA HAYE

Title: GREFFIER OF THE STATES

Date: 13-4-2015

Encl:

Appendix A – Statement of work

Appendix B – General terms and conditions

Appendix A

Statement of work

This Statement of Work describes the scope of our work, our fees and other relevant factors relating to the Services provided under this Agreement to the States of Jersey ("SOJ").

Background

We understand that SoJ are the ultimate owner of a number of land parcels which, together, form a major comprehensive regeneration project known as the Esplanade Quarter, located immediately alongside the town centre of St Helier and adjoining the waterfront and Marina.

These land parcels have been leased to Jersey Development Corporation (JDC), a development company owned by, but independent of, SoJ. Operating under the remit of the Regeneration Steering Group, JDC aims to fulfil a development procurement and management role for the Esplanade Quarter, targeting the best socio economic value for the States. A major component of this is the development of a number of office buildings which together will form the Jersey International Finance Centre (JIFC). Other proposed usesinclude a significant residential content, leisure and retail together with local infrastructure improvements.

The original Masterplan for the Esplanade Quarter endorsed by the States of Jersey, was put in place in 2008, just before the onset of the Global Financial Crisis (GFC).The latter led to major falls in many markets around the world. In the UK, including Jersey, some of the most affected markets were the property markets, commercial and residential, with the consequence that many proposed developments were either abandoned or postponed, as demand and availability of funding evaporated.

For a range of reasons, development was not initiated and we understand that only now, 7 years on, does JDC feel confident to commence development, albeit of the JIFC only as a first phase.

In the interim, markets have changed considerably since the days before the GFC when far more optimistic forecasts were being made in many sectors than would be appropriate today. The JIFC, even as a first phase, comprises 470,000 sq ft of office accommodation. SoJ as sole shareholder, ultimately takes responsibility for this development and the associated financial risks. Your Scrutiny Panel has been tasked by SoJ with the following terms of reference:

1. To consider whether the 2008 Masterplan for the Esplanade Quarter continues to represent the best socio-economic value to the States of Jersey on behalf of the Public of the Island.

2. To assess the commercial viability of the implementation of the 2008 Masterplan for the Esplanade Quarter, with particular reference as to whether the Minister for Treasury and Resources/SoJDC have appropriately undertaken:

a) An up to date assessment of the benefit to the Island of the proposed Jersey International Finance Centre
b) An up to date assessment of whether the external market has changed from earlier analysis regarding the provision of such centres
c) An up to date Assessment of the local demand v's supply
d) An up to date Assessment of the ability or otherwise of the private sector to deliver such a centre

3. To establish the current position of the Minister for Treasury and Resources/SOJDC regarding the pre-letting of office space prior to construction of the initial buildings of the proposed Jersey International Finance Centre.

4. To examine whether that position is consistent with previously established pre- let conditions, and with comparable market/industry expectations.

5. To assess the Minister for Treasury and Resources' consideration of financial risk and liability management in relation to the proposed Jersey International Finance Centre (to include the

consideration of any such risk in the context of the overall financial position of the States, and also in relation to the proposed capital program.

6. To consider whether there are any other points of note which arise from the examination of the Esplanade Quarter / SOJDC and / or the delivery structure presently envisaged, particularly in the context of previous undertakings, permissions, decisions or approved propositions.

7. To consider recommendations from any previous Scrutiny reports regarding SOJDC or the Esplanade Quarter and assess if they have been implemented, and if not, whether such implementation would still be desirable

Advice required

It is in items 2, 3, 4 and 5 where you require our advisory support albeit you recognise that we will not be able to address all aspects of these questions.

Preliminary work has already been commissioned by JDC in preparation of development. This has included the closure of part of the surface car park, which forms the proposed site for JIFC, and its relocation across the Esplanade. It follows that the work of the Scrutiny Panel is against a tight timetable and our scope of work described below takes into account that you require our work to be completed, if at all possible, by the end of April.

As discussed, the components of the review with which the Real Estate Valuation team at EY can assist the Scrutiny Panel entirely relate to valuation, feasibility and viability issues. The RE Valuation team are not planning or cost consultants nor do we undertake independent research of market supply and demand. Other teams from EY may be able to provide this, if required.

We have provided separately a briefing upon our credentials and experience but, in summary, we are all Chartered Surveyors, Registered RICS valuers, with many years experience in the valuation of commercial and residential property, including major multi use and multi phase development projects.

As a consequence of the briefing we have received from you, we have concluded that our work will fall into two components:

1) A current understanding of the financial dynamics and viability of that part of the development now proposed. This will include an overview of current and potential demand for the accommodation to be developed together with a briefing of the competing development pipeline. We would provide the Scrutiny Panel with our opinion of the financial viability of the development proposed and the associated risks. These will be illustrated by modelling sensitivities to certain development scenarios/outcomes.

This element of our work will focus both upon the buildings to be immediately developed but also the balance of the JIFC phase as a whole. Presumably having started development to the original layout, there is likely to be an effective commitment to its completion in due course.

2) A second key aspect for the Scrutiny Panel to consider is that it may not be prudent to judge the JIFC phase in isolation of the proposals for the much larger area of land targeted by the original masterplan. To commit to one component may impact upon the remainder. We will undertake enquiries and research in order to advise upon whether it would be appropriate to review/refresh the masterplan. It may be necessary to have an updated vision for the Esplanade Quarter in order that JDC, together with SoJ, can determine whether it is appropriate to commence the JIFC as originally designed or whether changes in design, use and/or density will be required to accommodate an updated version of the Masterplan.

Scope of Work

In order to provide the advice described above we will undertake the following:

- A separate briefing upon the Esplanade Quarter, history of the proposals leading to today's position from appropriate stakeholders within the SoJ and also to seek advice from the private sector property professionals. This is a complex matter and we would expect that a range of individuals and stakeholders from within the SoJ will have an engagement with the proposed development. It is important that we are briefed upon relevant aspects which influence both the social and financial strategy/policy relating to the Esplanade Quarter.

In addition it would be necessary to meet with JDC and Jersey Property Holdings (JPH) to receive a briefing not only upon their current proposals and timetable but also to hear the development of their thinking and strategy from 2008 to today's date. This will be a key element to our work and will require their time and cooperation. JDC/JPH will undoubtedly be the primary source for much of the relevant data required. This will cover such aspects as ownership, site plans detailing boundaries, masterplan details including layout, mix and quantum of uses, infrastructure improvements and related challenges/costs, their modelling of the development both originally proposed, any subsequent variations leading up to their current proposals. In addition a briefing upon their negotiations for pre lets, sources of demand and timing, their current development cashflow modelling and so on. This is not an exhaustive list but you will note that a full and accurate briefing will be key. Without this, the accuracy of our work will be serious inhibited.

- We will seek to verify and gather, so far as possible in the limited time available, the data and views which we will receive from those related to the project on matters such as potential demand and competing supply. There will be publicly available statistics and related data but, in addition, we will contact a range of companies and professional firms, based in Jersey and engaged in the property markets, with a view to confirming as much information as possible related to demand and supply issues.

- Although we will provide you with regular briefings as an update of our progress and to address any issues identified en route, our work will culminate in the preparation of a draft report which we will present to you in order that we can agree final structure and format.

Basis of Valuation Approach

Our work will be conducted in compliance with the RICS Valuation - Professional Standards (the Red Book) – January 2014.

Our valuation advice will adopt Market Value criteria – the basis for assessing value is Market Value (MV). This is defined by International Valuation Standards, which, in turn, are incorporated into the Red Book

Limitations to Scope

We will not, except to such extent as you request and we agree in writing, seek to verify the accuracy of the data, information and explanations provided by yourselves and your wholly owned company JDC, and you are solely responsible for this data, information and explanations. We will therefore rely on the information provided by you to be accurate and complete in all material respects.

The valuation advice will be provided to you for the above purpose only and should not be used or relied upon for any other purpose, nor should it be disclosed to, or discussed with, any other party without our prior consent in writing, save as set out in Section 12 of the attached terms of business.

Conduct of the Services

Timetable

We did not discuss your timetable, but we propose to provide you with our first stage indicative advice within 20 working days of receiving your confirmation to proceed and of receiving the necessary information and briefing. Our report will follow once we have agreed an appropriate format with you and whether any further work is necessary to complete the review required. We describe this later.

Fees

Given the nature of this assignment, where the amount of work required will only become apparent once we have been able to hold detailed briefing meetings with those involved which in turn will enable us to gauge the amount and quality of information/data that will be made available, we propose that a fee arrangement calculated on a time expended basis.

To this end, we propose that our fees be based on the following hourly rate card, subject to a discount of 30%.

Director - £915
Assistant Director - £795
Senior Executive - £565

We will provide budgets for the work and regularly update you on the progress of the engagement.

We understand that, as this service is being provided from the mainland, our fee will not be subject to the addition of VAT.

In order that you may have a known maximum cost to this exercise, we propose to cap our fee to a maximum of £25,000 which includes a budget of £2,000 for disbursements.

As described in our proposed scope of work, we have identified a need to provide advice in two components. The first is upon the current viability of the development, now proposed by JDC, of the JIFC which is only part of the larger development plan. A review of the wider strategy and implications for the Esplanade Quarter as a whole would form the second component

Based upon our current expectations, we have estimated that this capped amount should be sufficient to provide you with our advice regarding component 1 described above, ie the valuation and financial analysis of the JIFC proposals. Subject to the manner in which our work evolves, we would hope to provide initial views under component 2, although it may not be possible to conclude this element within the capped amount. Nevertheless, we will do as much as we can to bring it to a close within the agreed cap.

In the event that either you require us to carry out further work after the delivery of our final report or to provide additional advice or input, the most appropriate fee arrangement to address this will be on a continued time basis. In the event that you require any further input, we will discuss and agree with you an appropriate rate at the time.

Fees – additional terms and conditions

Our fees are subject to the provisions set out in the General Terms and Conditions contained in Appendix B and to the following additional terms and conditions.

1. Except to the extent that more specific fee arrangements are stated above, our fees will be based on:

   - The number and seniority of staff required
   - The degree of skill and responsibility involved
   - The resources required to complete the Services
   - The fee rates for the appropriate personnel

2. Any fee estimate agreed with you is necessarily based on the assumption that the information required for the Services is made available in accordance with agreed timetables and we have access to you and your key staff as required. If delays or other unanticipated problems which are beyond our control occur this may result in additional fees for which invoices will be raised, including where we need to carry out substantial further work due to changes in law or tax authority practice.

3. If at any point you decide to terminate this engagement, we will be entitled to charge you for any unbilled work that we have undertaken up to the date of termination, in accordance with the General Terms and Conditions.

Invoicing arrangements

We will issue an invoice based upon the above budget on completion of the first phase of our work. Subsequent phases will be invoiced upon an agreed basis, at no greater frequency than monthly. Expenses and any applicable taxes will be added to each invoice as incurred.

Payment

Invoices are payable immediately upon presentation. We shall be entitled to charge monthly interest at a rate of 2% above the base rate for the time being of Barclays Bank Plc on all invoices which remain unpaid 14 days after the invoice date.

Presentation of results

The precise form of our deliverable to you may need to be discussed, dependent upon your requirements. Normally, the results of our work will be documented in a single narrative report ("Report") outlining the valuation methodologies, our approach, assumptions and conclusions.

We will discuss our draft report before finalising the Report. Our recommendations and the Report should not be used other than for the Purpose.

Informal oral comments made in discussions with you or presentations to you about any Report will not have any greater significance than explanations or other material contained in the Report and reliance should only be placed on information and comments set out in the final Report.

During the course of this assignment, we may provide status reports or show drafts of our Report to you. This is done on the basis that they are provided to inform you of progress and significant findings identified to date, and draft Reports are subject to revision and alteration as further work is performed or further information received.

By its very nature valuation work cannot be regarded as an exact science and the conclusions arrived at in many cases will necessarily be subjective and dependent on the exercise of individual judgment. There is therefore no indisputable single value and we normally express our assessment of value as falling within a likely range. Although the recommendations expressed in our Report will be based on methods and techniques that we consider appropriate under the circumstances, we cannot guarantee that such values or ranges of value will be accepted by other parties.

Use of name

Notwithstanding section [48] of the General terms and conditions, EY and other EY entities may use your name as reasonably necessary to perform the Services and in correspondence, including proposals, from EY or other EY entities to you

General terms and conditions

Our Relationship with You

1. We will perform the Services using reasonable skill and care.

2. We are a member of the global network of Ernst & Young firms ("**EY Firms**"), each of which is a separate legal entity.

3. We will provide the Services to you as an independent contractor and not as your employee, agent, partner or joint venturer. Neither you nor we have any right, power or authority to bind the other.

4. We may subcontract portions of the Services to other EY Firms, who may deal with you directly. Nevertheless, we alone will be responsible to you for the Reports (as defined in Section 11), the performance of the Services, and our other obligations under this Agreement.

5. We will not assume any management responsibilities in connection with the Services.

Your Responsibilities

6. You shall assign a qualified person to oversee the Services. You are responsible for all management decisions relating to the Services.

7. You shall provide (or cause others to provide) to us, promptly, the information, resources and assistance (including access to records, systems, premises and people) that we reasonably require to perform the Services.

8. To the best of your knowledge, all information provided by you or on your behalf ("**Client Information**") will be accurate and complete in all material respects. The provision of Client Information to us will not infringe any copyright or other third-party rights.

9. We will rely on Client Information made available to us and, unless we expressly agree otherwise, will have no responsibility to evaluate or verify it. We shall not be treated as having notice of information which may have been provided to EY Firms or EY Persons (as defined in Section 21) who are not involved in this engagement.

10. You shall be responsible for your personnel's compliance with your obligations under this Agreement.

Our Reports

11. Any information, advice, recommendations or other content of any reports, presentations or other communications we provide under this Agreement ("**Reports**"), other than Client Information, are for your internal use only (consistent with the purpose of the particular Services).

12. You may not disclose a Report (or any portion or summary of a Report), or refer to us or to any other EY Firm in connection with the Services, except:

    (a) to your lawyers (subject to these disclosure restrictions), who may review it only in connection with advice relating to the Services,

    (b) to the extent, and for the purposes, required by law (and you will promptly notify us of such legal requirement to the extent you are permitted to do so),

    (c) to other persons (including your affiliates) with our prior written consent, who may use it only as we have specified in our consent, or

    (d) to the extent it contains Tax Advice, as set forth in Section 13.

    If you are permitted to disclose a Report (or a portion thereof), you shall not alter, edit or modify it from the form we provided.

    An "affiliate" of an entity (for the purpose of this Agreement) shall mean an entity or individual that controls, is controlled by, or is under common control with, the first entity, and "control" means the ability to direct the policies or operations of an entity, whether by contract, ownership of equity interests, or otherwise.

13. You may disclose to anyone a Report (or any portion thereof) solely to the extent that it relates to tax matters, including tax advice, tax opinions, tax returns, or the tax treatment or tax structure of any transaction to which the Services relate ("**Tax Advice**"). With the exception of tax authorities, you shall inform those to whom you disclose Tax Advice that they may not rely on it for any purpose without our prior written consent.

14. You may incorporate into your documents our summaries, calculations or tables based on Client Information contained in a Report, but not our recommendations, conclusions or findings. You must assume sole responsibility for the contents of those documents and you must not externally refer to us or any other EY Firm in connection with them.

15. You may not rely on any draft Report. We shall not be required to update any final Report for circumstances of which we become aware, or events occurring, after its delivery.

Limitations

16. You (and any others for whom Services are provided) may not recover from us, in contract or

tort, under statute or otherwise, any amount with respect to loss of profit, loss of data or damage to goodwill, or any consequential, incidental, indirect or special loss in connection with claims arising out of this Agreement or otherwise relating to the Services, whether or not the likelihood of such loss or damage was contemplated.

17. Our liability to you in respect of breach of contract or breach of duty or fault or negligence or otherwise whatsoever arising out of or in connection with this Agreement and the Services shall be limited in total to £2 million (or, if greater, the total amount of the fees charged by us to you under this Agreement) to cover claims of any sort whatsoever (excluding interest and costs) arising out of or in connection with this Agreement and the Services.

    Where there is more than one party to this Agreement (other than us), the limit of liability will have to be allocated among you. It is agreed that, save where an allocation is expressly agreed between you and stated in the Statement of Work, the limit of liability will be allocated such that you will each have an equal share of it. You shall not dispute the validity, enforceability or operation of the limit of liability on the ground that no allocation was expressly stated in the Statement of Work.

18. If we are liable to you (or to any others for whom Services are provided) under this Agreement or otherwise in connection with the Services, for loss or damage to which any other persons have also contributed, our liability to you shall be several, and not joint, with such others, and shall be limited to our fair share of that total loss or damage, based on our contribution to the loss and damage relative to the others' contributions. No exclusion or limitation on the liability of other responsible persons imposed or agreed at any time shall affect any assessment of our proportionate liability hereunder, nor shall settlement of or difficulty enforcing any claim, or the death, dissolution or insolvency of any such other responsible persons or their ceasing to be liable for the loss or damage or any portion thereof, affect any such assessment.

19. You shall make any claim relating to the Services or otherwise under this Agreement no later than 3 years after the act or omission alleged to have given rise to the claim.

20. The limitations in Sections 16 to 19 will not apply to any liability (including vicarious liability) for death or personal injury or arising as a result of fraud on our part nor to any liability which cannot lawfully be excluded or limited.

21. You may not make a claim or bring proceedings under this Agreement or otherwise relating to the Services against any other EY Firm or our or its subcontractors, members, shareholders, directors, officers, partners, principals or employees ("**EY Persons**"). You shall make any claim or bring proceedings only against us.

Indemnity

22. To the fullest extent permitted by applicable law and professional regulations, you shall indemnify us, the other EY Firms and the EY Persons against all claims by third parties (including your affiliates) and resulting liabilities, losses, damages, costs and expenses (including reasonable external and internal legal costs) arising out of a third party's use of or reliance on any Report (including Tax Advice) disclosed to it by or through you or at your request. You shall have no obligation hereunder to the extent that we have specifically authorized, in writing, the third party's reliance on the Report.

Intellectual Property Rights

23. We may use data, software, designs, utilities, tools, models, systems and other methodologies and know-how ("**Materials**") that we own in performing the Services. Notwithstanding the delivery of any Reports, we retain all intellectual property rights in the Materials (including any improvements or knowledge developed while performing the Services), and in any working papers compiled in connection with the Services (but not Client Information reflected in them).

24. Upon payment for the Services, you may use any Materials included in the Reports, as well as the Reports themselves as permitted by this Agreement.

Confidentiality

25. Except as otherwise permitted by this Agreement, neither of us may disclose to third parties the contents of this Agreement or any information (other than Tax Advice) provided by or on behalf of the other that ought reasonably to be treated as confidential and/or proprietary. Either of us may, however, disclose such information to the extent that it:

    (a) is or becomes public other than through a breach of this Agreement,

    (b) is subsequently received by the recipient from a third party who, to the recipient's knowledge, owes no obligation of confidentiality to the disclosing party with respect to that information,

    (c) was known to the recipient at the time of disclosure or is thereafter created independently,

    (d) is disclosed as necessary to enforce the recipient's rights under this Agreement, or

    (e) must be disclosed under applicable law, legal process or professional regulations. You agree that if you receive any request under the Freedom of Information Act 2000 (where you are subject to it) for disclosure of information provided by us, you will promptly notify us of such request prior to any disclosure.

If circumstances arise such that we disclose information to the National Crime Agency (**NCA**), due to the restrictions imposed by law we may be prevented from discussing such matters with you or from proceeding with the Services pending consent from NCA. If this arises we shall have no liability to you as a result of any suspension or termination of the Services.

26. Either of us may use electronic media to correspond or transmit information and such use will not in itself constitute a breach of any confidentiality obligations under this Agreement.

27. Unless prohibited by applicable law, we may disclose Client Information to other EY Firms, EY Persons and third parties providing services on our behalf who may collect, use, transfer, store or otherwise process it (collectively "**Process**") in the various jurisdictions in which they operate for purposes related to the provision of the Services, to comply with regulatory requirements, to check conflicts, for quality, risk management, or financial accounting purposes and/or for the provision of other administrative support services (collectively "**Process Purposes**"). We shall be responsible to you for maintaining the confidentiality of Client Information.

28. With respect to any Services, if U.S. Securities and Exchange Commission auditor independence regulations apply to the relationship between you or any of your associated entities and any EY Firm, you represent, to the best of your knowledge, as of the date of this Agreement, that neither you nor any of your affiliates has agreed, either orally or in writing, with any other advisor to restrict your ability to disclose to anyone the tax treatment or tax structure of any transaction to which the Services relate. An agreement of this kind could impair an EY Firm's independence as to your audit or that of any of your affiliates, or require specific tax disclosures as to those restrictions. Accordingly, you agree that the impact of any such agreement is your responsibility.

Data Protection

29. For the Process Purposes referred to in Section 27 above, we and other EY Firms, EY Persons and third parties providing services on our behalf may Process Client Information that can be linked to specific individuals ("**Personal Data**") in various jurisdictions in which we and any of them operate (EY office locations are listed at www.ey.com). We will Process the Personal Data in accordance with applicable law and professional regulations including (without limitation) the Data Protection Act 1998. We will require any service provider that Processes Personal Data on our behalf to adhere to such requirements.

30. You warrant that you have the authority to provide the Personal Data to us in connection with the performance of the Services and that the Personal Data provided to us has been Processed in accordance with applicable law.

Fees and Expenses Generally

31. You shall pay our professional fees and specific expenses in connection with the Services as detailed in the **applicable Statement of Work**. You shall also reimburse us for other reasonable expenses incurred in performing the Services. Our fees are exclusive of taxes or similar charges, as well as customs, duties or tariffs imposed in respect of the Services, all of which you shall pay (other than taxes imposed on our income generally). Unless otherwise set forth in the applicable Statement of Work, payment is due upon presentation of each of our invoices.

32. We may charge additional professional fees if events beyond our control (including your acts or omissions) affect our ability to perform the Services as originally planned or if you ask us to perform additional tasks.

33. If we are required by applicable law, legal process or government action to produce information or personnel as witnesses with respect to the Services or this Agreement, you shall reimburse us for any professional time and expenses (including reasonable external and internal legal costs) incurred to respond to the request, unless we are a party to the proceeding or the subject of the investigation.

Force Majeure

34. Neither you nor we shall be liable for breach of this Agreement (other than payment obligations) caused by circumstances beyond your or our reasonable control.

Term and Termination

35. This Agreement applies to the Services whenever performed (including before the date of this Agreement).

36. This Agreement shall terminate on the completion of the Services. Either of us may terminate it, or any particular Services, earlier upon immediate written notice to the other.

37. You shall pay us for all work-in-progress, Services already performed, and expenses incurred by us up to and including the effective date of the termination of this Agreement.

38. Our respective confidentiality obligations under this Agreement shall continue for a period of three

years following the termination of this Agreement. The other provisions of this Agreement that give either of us rights or obligations beyond its termination shall continue indefinitely following the termination of this Agreement.

Governing Law and Dispute Resolution

39. This Agreement, and any non-contractual matters or obligations arising out of this Agreement or the Services, shall be governed by, and construed in accordance with, the laws of **England and Wales**.

40. If at any time you would like to discuss with us how our service to you could be improved, or if you are dissatisfied with the service you are receiving, you may take the issue up with your usual partner or director contact. If you prefer an alternative route, please contact Steve Varley, our Managing Partner, 1 More London Place, London SE1 2AF. We undertake to look into any complaint carefully and promptly and to do all we can to explain the position to you. Should you remain dissatisfied with any aspect of our service, you may of course take matters up with our professional institute. We can provide further information on how you may contact our professional institute.

    Any dispute relating to this Agreement or the Services shall be subject to the exclusive jurisdiction of the **English** courts, to which each of us agrees to submit for these purposes.

Miscellaneous

41. This Agreement constitutes the entire agreement between us as to the Services and the other matters it covers, and supersedes all prior agreements and understandings with respect thereto, including any confidentiality agreements previously delivered. Save in respect of any fraudulent misrepresentation, in entering this Agreement you and we agree that neither of us have relied on statements other than those included in the Agreement and both of us give up any claims arising out of statements other than those included in the Agreement.

42. Both of us may execute this Agreement (including Statements of Work), as well as any modifications to it by electronic means and each of us may sign a different copy of the same document. Both of us must agree in writing to modify this Agreement or any Statement of Work hereunder.

43. Each of us represents that the person signing this Agreement and any Statement of Work hereunder on its behalf is expressly authorized to execute them and to bind each of us to their terms.

    You represent that your affiliates and any others for whom Services are performed shall be bound by the terms of this Agreement and the applicable Statement of Work.

44. You agree that we and the other EY Firms may, subject to professional obligations, act for other clients, including your competitors.

45. Neither of us may assign any of our rights, obligations or claims under this Agreement.

46. If any provision of this Agreement (in whole or part) is held to be illegal, invalid or otherwise unenforceable, the other provisions shall remain in full force and effect.

47. If there is any inconsistency between provisions in different parts of this Agreement, those parts shall have precedence as follows (unless expressly agreed otherwise): (a) the Cover Letter, (b) the applicable Statement of Work and any annexes thereto, (c) these General Terms and Conditions, and (d) other annexes to this Agreement.

48 Neither of us may use or reference the other's name, logos or trademarks without its prior written consent, save that we may use your name publicly to identify you as a client in connection with specific Services or otherwise.

49. The limitations in Sections 16 to 22 and the provisions of Sections 27, 29, and 44 are intended to benefit the other EY Firms and all EY Persons, who shall be entitled to enforce them. Otherwise a person who is not a party to this Agreement may not enforce any of its terms under the Contracts (Rights of Third Parties) Act 1999.

Valuation procedures and assumptions

VALUATION PROCEDURE AND ASSUMPTIONS

The investigations and enquiries on which our Real Estate valuations are based are carried out by valuation surveyors, making appropriate investigations having regard to the purpose of the valuation. Our reports and valuations are prepared in accordance with the RICS Valuation Standards (the "Red Book").

Subject to any variation expressly agreed and recorded in the accompanying letter, our work will be on the basis set out below:

1 Condition and repair

Unless specifically instructed to carry out a separate building survey, or commission a test of service installations, our valuation will assume:

(i) That except for any defects specifically noted in our report, the property is in good condition.
(ii) That no construction materials have been used that are deleterious, or likely to give rise to structural defects.
(iii) That no hazardous materials are present.
(iv) That all relevant statutory requirements relating to use or construction have been complied with.
(v) That any services, together with any associated computer hardware and software, are fully operational and free from impending breakdown or malfunction.

2 Ground conditions and environmental risks

Unless provided with information to the contrary, our valuation will assume:

(i) that the site is physically capable of development or redevelopment, when appropriate, and that no special or unusual costs will be incurred in providing foundations and infrastructure.
(ii) That there are no archaeological remains on or under the land which could adversely impact on value.
(iii) That the property is not adversely affected by any form of pollution or contamination.
(iv) That there is no abnormal risk of flooding.

3 Tenure and tenancies

We shall rely upon information provided by you or your solicitor relating to tenure and related matters. We will not commission a formal legal search and will assume the information provided to be accurate, up-to-date and complete.

4 Planning and highway enquiries

We shall make informal enquiries of the local planning and highway authorities and also rely on information that is publicly published or available free of charge. Any information obtained will be assumed to be correct. No local searches will be instigated. Except where stated to the contrary, we shall assume that there are no local authority planning or highway proposals that might involve the use of compulsory purchase powers or otherwise directly affect the property.

5 Floor areas

All measurements, where we are engaged to provide them, will be taken in accordance with the RICS Code of Measuring Practice. The floor areas in our report will be derived from measurements taken on site or that have been scaled from the drawings supplied and checked by sample measurements on site, unless otherwise stated in the report. Desktop assessments will rely on floor area information provided which we will assume is correct.

6 Plant and machinery

We will include in our valuations those items of plant and machinery normally considered to be part of the service installations to a building and which would normally pass with the property on a sale or letting. We will exclude all items of process plant and machinery and equipment, together with their special foundations and supports, furniture and furnishings, vehicles, stock and loose tools, and tenant's fixtures and fittings.

7 Tenant status

Although we reflect our general understanding of a tenant's status in our valuation, we will make no detailed enquiries about the financial status of tenants. We will assume that appropriate enquires were made when leases were originally exchanged, or when consent was granted to any assignment or underletting.

8 Development properties

For properties in course of development, we will reflect the stage reached in construction and the costs remaining to be spent at the date of valuation. We have regard to the contractual liabilities of the parties involved in the development and any cost estimates that have been prepared by the professional advisers to the project. For recently completed developments we will take no account of any retentions, nor will we make allowance for any outstanding development costs, fees or other expenditure for which there may be a liability.

Non-disclosure agreement

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Private and confidential
The States of Jersey Development Company Limited
Dialogue House
2-6 Anley Street
St Helier
Jersey JE2 3QE

15 July 2015

:

Direct line: 020 7951 6793

Email: mgerold@uk.ey.com

For the attention of The Managing Director

Dear Sirs

UNDERTAKING NOT TO DISCLOSE CONFIDENTIAL INFORMATION

1. For the purposes of this letter (this "Letter of Undertaking"), the expression "Confidential Information" shall include all information revealed or made available to us by you, The States of Jersey Development Company Limited ("SoJDC"), and any other information or details whatsoever relating to The Jersey International Finance Centre and / or the Esplanade Quarter and / or any proposed tenants of SoJDC (and its subsidiaries), together known as (the "JIFC Transactions"), whether made available in writing (including by fax, email and other forms of electronic transmission) or orally.

2. I, the undersigned, am duly authorised to sign this Letter of Undertaking for and on behalf of Ernst & Young LLP ("EY").

3. For the purposes of this Letter of Undertaking, Confidential Information shall not include information which:

   3.1 is publicly available at the time of its disclosure; becomes publicly available (other than as a result of disclosure in breach of this Letter of Undertaking); or

   3.2 was already in EY's possession free of any restriction as to its use or disclosure prior to its disclosure by you or any of your professional advisers as a consequence of this agreement.

4. EY undertakes to

   4.1 keep any Confidential Information private and confidential and not disclose any of it to any person whatsoever other than as may be required to be disclosed by law.

   4.2 use any Confidential Information for the sole purpose of our work in complying with our instructions from the States of Jersey Corporate Services Scrutiny Panel (CSSP) and not for any other purpose;

   4.3 ensure that when reporting to the CSSP") in fulfilment of our instructions, EY shall not disclose to the CSSP any Confidential Information, including without limitation the identity of potential tenants of SoJDC (or its subsidiaries), any specific detail concerning the proposed terms of any leases, agreements to lease or heads of terms, or any other information which may be used to identify any potential tenant(s) (with the exception being the DTZ abridged red book valuation of the No.4 JIFC (fully let) dated 2 July 2015, the un-redacted BNP Paribas Real Estate development appraisal dated 14 March 2014 and the JIFC summary construction costs and timing model(June 2015 – xls) as all have been previously provided to both the CSSP and EY under a Confidentiality Letter); and

4.4 keep any Confidential Information and any copies thereof secure and in such a way so as to prevent unauthorised access by any third party, and not make any copies of it or reproduce it in any form except for the purpose of supplying the same to those to whom disclosure is permitted in accordance with this Letter of Undertaking.

5. If, for any reason, you request the return or destruction of any Confidential Information EY agrees to as soon as reasonably practicable return such Confidential Information or confirm in writing that it has been destroyed, to the extent that this is practical and subject to the retention of proper professional records. The obligations of confidentiality set out in this Letter of Undertaking shall continue to apply in relation to any Confidential Information retained in accordance with this clause 5 for a period of no more than 10 years.

6. No failure or delay by you in exercising any of your rights under this Letter of Undertaking shall operate as a waiver, nor shall any single or partial exercise preclude any further exercise of such rights.

7. The invalidity or unenforceability of any provision of this Letter of Undertaking shall not affect the validity or enforceability of any other provision, so that each provision is severable from each other provision.

8. This Letter of Undertaking shall be governed by and construed in accordance with the laws of Jersey and EY submits to the exclusive jurisdiction of the courts of Jersey.

Yours faithfully

P M Gerold
For and on behalf of Ernst & Young LLP
United Kingdom

Information provided

- Confidential
  - Building 4 Agreement with Camerons Ltd
  - ER Appendix 1 planning dwg
  - ER Appendix 2 Planning permit
  - ER Appendix 3 setting out
  - ER Appendix 4 Soil investigation report
  - ER Appendix 5 Flood Risk Assessment
  - ER Appendix 6 Utility Connection Report
  - ER Appendix 7 Contract Amendments
  - ER Appendix 8 Preliminaries
  - ER Appendix 10 Spec dwgs
  - ER Appendix 11 Contract Sum Analysis
  - ER Appendix 12 Construction Programme
  - ER Appendix 13 Novation agreements and Fees
  - ER Appendix 14 CAT A Specifications
  - ER Appendix 15 Planning Conditions Tracker
  - ER Appendix 16 Option A
  - Design Team Novation agreements
  - Masterplan docs
  - No 4 JIFC Plans & Spec
  - Agreement dated 22 May 2015.pdf (UBS Agreement to lease)
  - HSBC - HoTs 27.3.15.pdf (Financing)
  - Schedule of future lease expiries.pdf
  - JIFC 2-5 year requirements.pdf

Information provided

- Non-confidential
  - 1.64 Updated Phasing Plan Dec 2014.pdf
  - Prime Office investment transactions in Jersey.pdf
  - 37 Esplanade Tenancy Schedule.pdf
  - Channel Island investment evidence - 2009 onwards.pdf

Environmental risk assessment

Executive summary from Waterman Energy, Environment & Design Limited’s report entitled “Generic quantitative Environmental Risk Assessment” June 2014

Objectives

This report has been prepared in support of a planning application for the redevelopment of a site at the Esplanade, Jersey, to assist with the discharge of planning conditions relating to the investigation and remediation of contaminated land and the monitoring of groundwater quality. In addition, the report was also designed to provide an assessment of excavation waste and excavation dewatering water disposal options.

Site setting	
Current use	There are two areas of the site, the larger of which is currently occupied by the Esplanade car Park. The area proposed for redevelopment as a temporary car park is currently waste ground.
History	The site was formerly occupied by beach foreshore until a programme of reclamation using a mixture of materials including incinerator ash was implemented between the1980s and mid-1990s.
Ground conditions	The exploratory holes revealed that the site is underlain by between 5.57m and 9.00m of made ground, with both granular and cohesive beach deposits present beneath this. Bedrock, either Jersey Shale Formation or St Saviours Andesite, was encountered at depths of between 7.61m and 14.50m below ground level.
Human health	A significant proportion of made ground is to be removed from the site to facilitate construction of the basement car parks. Potential risks associated with residual made ground were, however, assessed by comparing the results of laboratory analysis against the Waterman generic assessment criteria for human health in a commercial setting. Only limited elevated concentrations of lead were recorded during this assessment. In addition, asbestos fibres were recorded in much of the made ground, ranging in concentration from <0.1% to 0.38%.
Controlled waters	Samples of groundwater were recovered from within the made ground, natural beach deposits and bedrock. The results of laboratory analysis of these were compared against the EQS for saltwater and, where no EQS values existed, the UK and WHO drinking water standards. Elevated concentrations of metals and PAHs were recorded within all three horizons. The groundwater within the bedrock was noted to be more saline than the shallow groundwater bodies.
Ground gas regime	To date, a full set of ground gas monitoring results has not been received from the contractor Interim results recorded a maximum carbon dioxide concentration of 1.5%v/v. Both methane and gas flow rates were found to be below the limit of detection. An addendum ground gas risk assessment will follow on receipt of this information. It should be noted that basement car parks are considered to represent 4 points of ground gas protection (in BS8485) and this should afford adequate ground gas protection to the proposed development, unless the ground gas regime is found to exceed Characteristic Situation 4.
Preliminary waste classification	A Preliminary Waste Assessment was undertaken to determine if the made ground to be removed contained any substances at hazardous concentrations. Of the 50No. samples assessed, four were found to contain lead and/or zinc at concentrations considered to represent a risk to the aquatic environmental. These samples all appeared similar and contained concrete boulders. In addition, asbestos exceeded the hazardous threshold concentration in two of the samples assessed. Material segregation should be undertaken prior to disposal to landfill to ensure the hazardous materials are disposed of in a suitable licensed location. Disposal of water removed from excavations could either be via recirculation to groundwater or to surface water sewer. This discharge would be undertaken via an appropriate discharge permit issued by the Environment Department of the States of Jersey Government.

Conceptual model

Based on the information available to date and on the assumption that all environmental controls and working practices are adopted, no potentially significant pollutant linkages have been identified.

Conclusions

Given the proposed commercial end use and significant proposed basement excavations the overall risk rating for the Site is low. This will be revised on completion of the ground gas and groundwater monitoring.

The following actions are recommended:

- Whilst no specific soil remediation is considered necessary, any landscaped areas constructed directly over residual made ground should also incorporate a barrier layer, at least 600mm thick of soils to provide a suitable growth medium, to remove the potential risk;

Environmental risk assessment

- At present, the site would be classified as Characteristic Situation 1 with respect to ground gas. The ground gas risk assessment should be updated on receipt of the complete set of gas monitoring results. It is noted, however, that the creation of basement car parks for each of the structures should provide adequate protection up to Characteristic Situation 4 for commercial buildings. Should the gas regime be found to exceed this, additional measures will be required;
- All laboratory test results should be forwarded to La Collette landfill to ensure that they are able to deal with both the hazardous and non-hazardous materials appropriately. As the excavations for the basements proceed, additional analysis would be prudent to allow for the most efficient disposal of waste. It is noted that the hazardous properties (excluding the presence of asbestos) were associated with sand and gravel made ground with concrete boulders. The concrete boulder should be removed from this material for subsequent recycling and reuse and the residual material retested to confirm waste classification;
- A Materials Management Plan (MMP) should be created to track all waste created during the excavation works, from initial excavation through stockpiling to final deposition at La Collette;
- Further assessment of the groundwater quality should be undertaken once the second round of analysis has been undertaken. All of the results to date have been forwarded to the Environment Department at the States of Jersey to allow for discussions on groundwater disposal to be finalised and any permit applications to be submitted;
- Piled foundation installation should take into account the potential for creation of new migration pathways and a suitable method of installation should be adopted;
- All contractors working on the site should adhere to or develop the Environmental Management Plan (EMP) produced in support of the planning application for the development. This document should include full details of the safe procedures for working with asbestos containing soils, relating not only to excavation, but to transportation and disposal of these materials as well. All contractors on site must be made familiar with this document;
- The EMP would also communicate the procedures required for the storage and use of potentially hazardous substances such as fuel and would include a spills response procedure;
- Buried concrete should confirm to class DS2 AC2. Barrier pipes should comprise barrier pipe, such as composite PE/Al/PE and this should be agreed with the utilities provider;
- Groundwater level and quality monitoring during the creation of the basement excavations should be undertaken and any changes in quality reported to the Environmental Department. Standpipes should be preserved on site, or additional monitoring points installed to allow this to happen. It was previously suggested in communications to the client and main contractor that boreholes BH501, BH504, BH522, BH518, BH524 and BH801 are preserved if possible (email of 22 January 2014 from Jennifer Dobbin to the project team); and
- A copy of this report, together with any subsequent amendments and future monitoring reports should be submitted to the States of Jersey for consideration and comment in connection with discharging the relevant planning condition.

Schedule of rental evidence

Schedule of rental evidence

Address	Lessor	Lessee	Effective Date	Floor Area Se Ft	Rental Agreed	Terms
First Floor Rathbone House 15-17 Esplanade St Helier	Falles Holdings Limited	Whitmill (17E) Limited	New lease 14 July 2015 Transaction agreed July 2014	Offices – 7,686 sq ft Kitchen – 16 sq ft Basement Parking – 2 spaces Storage 135 sq ft	£222,657 pa Offices £28 psf Kitchen £14 psf Store £12 psf Parking £2,800 per spac3e NER £26.83 psf straight line to first break. No increase in parking rate or basement storage over existing lease.	9 year FRI lease from 14.07.2015. 3 year R/R's to OMV. Mutual break option on 26.06.2021, subject to 1 years notice. No penalty. Tenant can get deposit returned on suitable accounts 3 months rent free under current lease.
Second Floor 29-31 Esplanade St Helier	Not Known	Lacey	New letting October 2014	Second Floor Offices – 3,077 sq ft Currently fitted out board rooms and meeting room roller storage filing, kitchen/staff room 2 parking spaces	£81,255.74 pa £24.75 psf & £2,550 pa per space	New 9 year effectively FRI lease with 3 yearly R/Rs to OMV upwards only and T break option in 5th year. 3 months rent free. Sub-tenant (Schroder's paid head tenant 12 monhs reverse premium, and head tenant paid landlord 11 months to surrender this floor early. (Expiry 4.7.16)
First Floor 25-26 Esplanade St Helier	AIB Bank (CI) Limited	C5 Alliance Group Limited	Sub-letting 11 April 2014. Agreed at same time as ground floor sub-letting but effective from expiry of existing sub-lease	First Offices – 4,309 sq ft Kitchen – 20 sq ft Car parking 2 spaces	£120,048.50 pa £26.50 psf headline rent and £13 psf for the kitchen & £2,800 pa pcs. No rent free, but capital contribution by AIB of £128,453 initially, so assuming one straight deal NER £25.05 psf or £25.07 psf if no break	8 yr 10 months 187 days effectively FIR sub-lease from 13.8.16, expiring on 1.7.25. 3 yearly rent reviews in line with headlease. Sub-tenant break option 6.5 years after lease commencement. If not exercise 3 months extra rent free to be given.
Ground Floor 25-26 Esplanade St Helier	AIB Bank (CI) Limited	C5 Alliance Group Limited	Sub-letting 11 April 2014.	Ground Offices – 3,290 sq ft Kitchen – 20 sq ft Car parking 2 spaces	£93,575 pa. £26.50 psf headline rent and £13 psf for the kitchen and £2,800 pa pcs. No rent free, but capital contribution by AIB of £128,453 NER £23.75 psf or £25 psf if no break.	11 yr 2 months 19 days effectively FRI Sub-lease from 11.4.14, expiring on 1.7.25. 3 yearly rent review in line with head-lease. Sub-tenant break option 6.5 years after lease commencement. If not exercise 3 months extra rent free to be given
First & second floors 1 Esplanade St Helier	Wynbrook (Holdings) Limited	Salamance Group Trust (Jersey) Limited	New letting 25 March 2014	First Offices – 4,806 sq ft Second Offices – 4,811 sq ft Total – 9,617 sq ft	£250,000 pa £26 psf headline rent 4 months rent free £25.75 psf	9 year effectively FRI lease from 25.3.14, expiring on 24.3.23. 3 yearly rent reviews to OMV. Surrender of existing lease to Investec

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Second Floor 25-26 Esplanade St Helier	AIB Bank (CI) Limited	Pentera Trust Company Limited	Sub-letting 24 March 2014	Second Office – 4,129 sq ft Kitchen – 20 sq ft Car parking 4 spaces	£120,878 pa £26.50 psf headline rent and £13 psf for the kitchen & £2,800 pa pcs. Rent free 9 months. NER £24.06 psf or £24.54 psf if no break.	11 year 3 months effectively FRI sub-lease from 24.3.14, expiring on 1.7.25. 3 yearly rent reviews in line with headlease. Sub-tenant break option on 23.3.20. If not exercised 3 months extra rent free to be given.
Third & Fourth Floors 1 Esplanade St Helier	Wynbrook (Holdings) Limited	Equiom (Jersey) Limited	New Letting 1 March 2014	Third Offices – 4,818 sq ft Fourth Offices – 4,147 sq ft Offices ® - 115 sq ft Storage – 51 sq ft Total offices – 8,965 sq ft	£250,935.75 pa "28 psf headline rent 9 months rent free on whole of 4th floor £26.70 psf NER	9 year effectively FRI lease from 1.3.14, expiring on 28.2.23. 3 yearly rent review to OMV. Tenant break on 28.2.20. Stepped rent
1st & 2nd Floors Liberation House Castle Street St Helier	Liberty Wharf 4 Limited	Ernst & Young Property (Jersey) Limited	Rent review 21 December 2013	First and second Office – 21,978 sq ft Basement Parking – 10 spaces	£645,384 pa Offices - £28 psf Parking - £3,000 ps	24 year effectively FRI lease from 11.12.2007, expiring on 10.12.2031 with 3 yearly rent reviews to OMV assuming residue of term or 9 years, whichever the greater. Tenant break option on 11.12.2022 and 2027.
Third Floor 37 Esplanade St Helier	Dandara (36 Esplanade) Limited	Brevan Howard Group Holdings	Lease passed before the Royal Court on 1.11.13	Sixth Offices – 11,788 sq ft Basement Car parking – 5 spaces	£409,898 pas £33.50 –psf headline rent. £3,000 per car spaces 15 months rent free NER £31.93 psf (SL)	21 year effectively FRI lease. Tenant break after 15 years. 3 yearly rent reviews to MV. Minimum rent to £35 psf at first review
Sixth Floor 37 Esplanade St Helier	Dandara (36 Esplanade) Limited)	Bevan Howard Group Holdings	Lease passed before the Royal Court on 1.11.2013	Sixth Offices – 11,788 sq ft Basement Car parking – 5 spaces	£409,898 pa 333.50 psf headline rent. £3,000 per car pace 15 months rent free NER £31.93 psf (SL)	21 year effectively FRI lease. Tenant break after 15 years. 3 yearly rent reviews to MV. Minimum rent to £35 psf at first review
Third, Fourth & Fifth Floors Liberation House Castle Street St Helier	Liberty Wharf 4 Limited	CPA Holdings Limited	Rent review 1 October 2013	Third Offices – 11,069 sq ft Fourth Offices – 11,058 sq ft Fifth Office – 8,655 sq ft Total – 30,782 sq ft Basement Parking – 20 spaces	£921,896 pa Offices - £28 psf Parking – £3,000 ps	21 year effectively FRI lease from 1.10.2007, expiring on 30.9.2028 with 3 yearly rent reviews to OMV assuming residue of term or 9 years, whichever the greater. Tenant break option on 1.10.2023

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Part Fourth and Fifth Floor 37 Esplanade St Helier	Dandara (36 Esplanade) Limited	Volaw Group Services Limited	Lease passed before the Royal Court on 29.9.2013	Fourth Offices – 6,584 sq ft Fifth Offices – 13,473 sq ft Basement Store 3 – 88 sq ft Store 5 – 69 sq ft Store 6 – 69 sq ft Car parking – 8 clear spaces and 3 blocked	£666,750 pa £31 psf (fourth) & £32 psf (fifth) headline rent. Stores £10 psf. £3,000 per car space & £1,750 per blocked car pace. Stepped increase to £35 psf for years 4 and 5 and £38 psf from year 6 onwards. NER £30.33 psf and £29.33 psf (SL)	21 year effectively FRI lease. Tenant break after 15 years. 3 yearly rent review to MV. 15 months rent free.
13/14 Esplanade St Helier	Legal & General	Appleby Management Services Limited	Rent review 1.9.13. Transaction agreed on 28.2.13, based on a surrender of a tenants break option	Ground Offices – 5,748.86 sq ft First Offices – 6,736.7 sq ft Kitchen – 9 sq ft Second Offices – 6,940.04 sq ft Kitchen – 9 sq ft Basement Car parking – 16 spaces	Rent review agreed at £775,000 pa. Offices £27.61 psf Kitchenettes – half office rate. Car parking – £3,000 ps NIA £26 psf	24 year FRI lease from 1.9.2004, with 3 yearly rent review to OMV. Tenant break option at end of 18th year (2022) removed and new tenant break inserted on 2.3.2029. Lease extended to 31.8.2034. 10 months rent free at half rent.
Fourth Floor 25-26 Esplanade St Helier	AIB Bank (CI) Limited	Rathbone Investment Management International Limited	Sub-letting 25 March 2013	Fourth Offices – 3,860 sq ft Car parking – 2 spaces	£108,290 pa £26.50 psf headline rennet and £3,000 pa pcs. Rent free 11 months NER £25 psf	12 years 3 months effectively FIR sub-lease from 25.3.13, expiring on 1.7.25. 3 yearly rent reviews in line with headlease.

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Address	Lessor	Lessee	Effective Date	Floor Area Se Ft	Rental Agreed	Terms
11/12 Esplanade St Helier	Commercial Street (Jersey) Limited	Lloyds TSB Offshore Limited	Rent review 23.2.13 Tenant represented	Ground Reception – 596 sq ft Offices – 5,021 sq ft Kitchen – 20 sq ft First Offices – 6,181 sq ft Kitchen – 20 sq ft Second Offices – 6,215 sq ft Kitchen – 20 sq ft Total Offices – 23,444 sq ft Reception – 596 sq ft Kitchen – 80 sq ft Basement Car parking – 16 spaces	Revised rental £677,023 pa No breakdown agreed, just a nominal sum offered. My analysis: Offices - £26.50 psf Reception - £13.25 psf Kitchens - £13.25 psf Car parking - £2,925 ps	21year FRI lease with 3 yearly rent reviews to OMV. Tenant break option at end of 15th year. Minimum uplift at first review to £26.50 psf. Commercial rental £634,550 pa £2,000 pa increase offered by the tenant
Dialogue House 2-6 Anley Street St Helier	Masini Investments Limited	Banque National de Paris	Rent review 23.1.13	Ground Offices – 2,633 sq ft First Offices – 3,613 sq ft Second Offices – 3,307 sq ft Eaves – 57 sq ft Third Offices – 1,458 sq ft Eaves – 179 sq ft Total – 11,247 sq ft Car parking – 4 spaces	£292,180 pa. Nil increase eon the offices off £25.32 psf and additional £100 pa per car space (£2,850 ps)	24 year effectively FRI lease from 23.1.199, expiring on 22.1.2022. 3 yearly rent reviews to MV (aggregate), assuming residue or 9 years, whichever greater.
Part Ground and First Floors 37 Esplanade St Helier	Dandara (36 Esplanade) Limited	PWC	Pre-let agreed April 2011. Lease passed before the Royal Court on 17.12.12	Ground Offices – 4,807 sq ft Store – 28 sq ft First Offices – 12,855 sq ft Basement Store Car parking – 9 spaces Bicycle spaces – 16	£594,584 pa £32 psf headline rennet Stores £16 psf £3,000 per car space 12 months rent free NER £29.87 psf (SL)	21 year effectively FRI lease. Tenant break after 15 years. 3 yearly rent reviews to MV. Landlord does fit out prior to occupation.

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Address	Lessor	Lessee	Effective Date	Floor Area Se Ft	Rental Agreed	Terms
Part Fourth Floor 37 Esplanade St Helier	Dandara (36 Esplanade) Limited	Collins Stewart	Pre-let agreed June 2011. Lease passed before the Royal Court in November 2012.	Part Fourth Offices – 6,300 sq ft Basement Store – 172 sq ft Car parking – 3 spaces	£229,136 pa £24 psf headline rent Store £10 psf £3,000 per car paces 9 months rent free NER £30.98 psf (SL)	21 year effectively FRI lease. Tenant break after 9 years and 15 years. Penalty payment on 9 year break of 6 months rent. 3 yearly rent reviews to MV. Landlord does fit out prior to occupation.

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