Jersey Development Company

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27 February 2015

Deputy John Le Fondré
Chairman, Corporate Services Scrutiny Panel
Scrutiny Office
States Greffe
Morier House
St. Helier
JE1 1DD

Dear Deputy Le Fondré

<u>A review into the planned Jersey International Finance Centre.</u>

The Board of the States of Jersey Development Company ("SoJDC") submits the following response to the Corporate Services Scrutiny Panel for its review of the Jersey International Finance Centre.

1. *<u>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.</u>*

The Esplanade Quarter Masterplan sets a mixed use development for the area containing the following quantum/mix of uses (extract from page 19 of the Masterplan dated 15 April 2008 – Attached as Appendix 1):-

Use	Total area (ft²)/ Number of spaces/units
Offices Car parking spaces	620,706 585
Retail comparison	12,240
Restaurants	26,515
Retail convenience	15,000
Residential Units Area Car parking spaces	388 291,128 220
Leisure self-catering Car parking spaces	76,800 65
Leisure boutique hotel Car parking spaces	53,760 30
Public car park	520
Total car park	1,420

The dominant two uses in the Masterplan are office (57% of the total excluding parking) and residential (27%) and these uses remain valid today. A plan included within the Esplanade Quarter Design Code (page 19) set out the location of the major uses (please see attached as Appendix 2).

The uses set out in the Esplanade Quarter Masterplan will have taken into account the Island's needs, the uses of the completed developments at the Waterfront and the surrounding area and proposed residential developments bordering St. Aubin's Bay and Les Jardins de la Mer and commercial developments bordering other offices. From a town planning perspective the Esplanade car park site is a natural extension to the Central Business District, the north side of the Esplanade having seen consistent development since the 1990's as financial services and legal businesses sought larger floorplate offices, partly as a result of consolidation reflecting an increasingly global marketplace.

The Esplanade car park provides the only blank canvas opportunity to deliver modern Grade A office accommodation in St. Helier. The site is able to deliver regular shaped floor plates and excellent natural light on all four elevations as a result of the buildings being standalone; these features will provide occupiers with efficiency and flexibility.

The JIFC will also provide floorplates, and buildings of a size suited to the Island's financial services businesses. SoJDC has received positive feedback from prospective tenants on the size, design and specification of the office buildings in the JIFC.

SoJDC is in regular dialogue with a number of prospective occupiers for new office accommodation. All of these prospective tenants require new office accommodation within the next 5 years with a total requirement of about 330,000 sq. ft.

Office is the highest value use for the Esplanade car park site and will provide SoJDC with the greatest return in order to fund the delivery of the public infrastructure provided for in the Esplanade Quarter Masterplan.

Residential accommodation is best suited on the seaward land plots of the Esplanade Quarter site from an end value perspective. The Island continues to have demand for new residential accommodation and the States Strategic Plan is to focus residential (and commercial) development in St. Helier. Creating new residential accommodation in close proximity to the central retail and business districts is favourable from an environmental perspective with less reliance on the motor car.

One of the successes of the Waterfront to date has been the delivery of extensive areas of high quality public realm that can be enjoyed by the people of Jersey. It is important to get the right balance between private space and public civic space; 45% of the JIFC will be devoted to new areas of public realm. If the JIFC site was developed as densely as the equivalent land area on the north side of the Esplanade, the amount of office accommodation would almost double to approximately 800,000 sq. ft.

The uses contained in the Esplanade Quarter Masterplan remain valid today and provide the Island with the best socio-economic value.

2. *<u>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:</u>*

   a) *<u>An up to date assessment of the benefit to the Island of the proposed Jersey International Finance Centre</u>*

   SoJDC commissioned an Environmental Impact Statement (EIS) to accompany its planning applications for the JIFC. With regard the new office accommodation, the EIS estimated a displacement effect of 85% with 15% being occupied by new businesses. Taking into account the multiplier and displacement effects, the JIFC Development is anticipated to result in a net increase in employment of 612 jobs and a net increase in GVA of £74.89 million.

   The EIS also identified the potential for inward investment (catalytic employment effects) whereby there may be additional finance organisations that choose to relocate facilities to Jersey resulting from the proposed Development. It is estimated that an office occupier(s) requiring 45,000 sq. of floorspace would create an additional 366 FTEs and an additional £45.19m GVA. Whilst the catalytic employment effect is hard to quantify, it is anticipated that there would be a moderate beneficial effect.

In March 2014, SoJDC commissioned a third party (BNP Paribas Real Estate) to prepare a development appraisal to assess the net return to the Company of the current proposed JIFC scheme. This report (redacted extracts provided as Appendix 3) concluded that a net receipt of £55m at today's values could be achieved.

Jersey Finance Chief Executive, Geoff Cook, provided a letter to the Planning Minister in respect of SoJDC's planning application for Building No.4 JIFC on 15 April 2013. Following are pertinent extracts from the letter which is attached as Appendix 4:-

"Jersey is home to some of the largest international banking brands...[..]. These sophisticated businesses service clients on an international basis and are themselves, internationally agile and mobile. Our long-standing experience suggest that these firms choose Jersey as a platform for a wide range of factors; including the quality of infrastructure and it is therefore vital that Jersey is able to offer facilities that are at least equal to those that may be found in comparable and rival centres, including London, Hong Kong and Singapore. Whilst there may be a range of office solutions at any one time, the provision of so-called Grade A space is a key component of retaining existing businesses over the long-term and potentially attracting new companies to the Island.

In addition, and as a final point, our experience in looking around the world and benchmarking ourselves against other international finance centres, is that wherever a jurisdiction makes a successful investment in developing a dedicated financial services district, that region, whether it be the Square Mile and Canary Wharf in London, or the Dubai International Finance Centre acts as significant positive attractor for company location, business flows and jurisdictional substances and reputation. As such, I believe that a dedicated financial district in Jersey along the lines envisaged by the JIFC development would be a positive step for the Island's finance industry and by extension, a positive step for the Island's long-term economic prospects."

b) <u>*An up to date assessment of whether the external market has changed from earlier analysis regarding the provision of such centres*</u>

The financial services industry is incredibly important to Jersey and remains the Island's premier industry generating 42% of the Islands GVA in 2013. The sector employs the most workers, 12,510 people in 2013 (25% of the Island's total private workforce).

There is today very limited Grade A office space available (c.15,000 sq.ft. spread amongst several buildings, which is less than 1% of the total office stock). This is not a good position for the Island to be in with Jersey Finance and Locate Jersey promoting the Island to new businesses and limited stock available for new entrants.

The JIFC development provides a number of benefits for the Island:-

1) State-of-the-art modern office accommodation of a specification that is on par with other leading financial services centres.
2) Regular shaped floorplates.
3) Natural light on all four elevations as a result of the buildings being standalone.
4) Floorplates and buildings of a size that occupiers require.
5) A flagship development to provide the Island with an identifiable district from which to promote its premier industry.

c) <u>*An up to date Assessment of the local demand v's supply*</u>

SoJDC is in discussion with 13 prospective tenants that cumulatively have requirements for new accommodation totalling in excess of 330,000 sq. ft. These businesses require new offices within the next 5 years.

In timing terms, there are requirements for up to 135,000 sq. ft. by the end of 2017 (excluding any new businesses that may relocate to the Island) and there are limited developments that are on the starting blocks with all necessary building approvals and ready to deliver for this level of requirement.

Furthermore, some of the permitted office development sites have existing tenants in place, some of which are financial services businesses occupying office accommodation whose leases do not expire until 2017 at the earliest. SoJDC is of the opinion that these developments are unable to start until the existing leases expire as there is not enough available Grade A space for these businesses to move out earlier. Attached as Appendix 5 is a schedule prepared by SoJDC (using information that is in the public domain) setting out the permitted office developments and SoJDC's estimate of start on site dates as a result of existing tenancies.

The importance of the JIFC development has been recognised by some of the Island's surveyors that are not associated with the JIFC project, as other developments cannot be physically produced in time for certain tenants' requirements. In the absence of the JIFC, these tenants may be left with no option than to negotiate an extension on their current premises and this may impact on their future growth plans in Jersey. Many businesses operate in multi-jurisdictions and they may choose to focus growth in jurisdictions that have the available infrastructure.

d) *An up to date Assessment of the ability or otherwise of the private sector to deliver such a centre*

There are no other development site(s) within St. Helier that are capable of providing such a centre.

P.73/2010 stated that *"the prime purpose of The States of Jersey Development Company Limited is to act as the delivery vehicle for property development for the States of Jersey."*

P.73/2010 charged SoJDC with *"Procuring and managing project implementation, either via a joint venture with a third party developer or direct."*

In addition P.73/2010 states *"There may however be specific circumstances where it would prove financially and strategically beneficial for the SoJDC to undertake a development directly in order to fully control what is delivered and to take full advantage of the profits generated thereon provided the risk is minimal."*

Based on the latest land acquisition for an office scheme on the Esplanade, the land payment translated into £62.19 per sq.ft. of Net Internal Area of permitted office space. Based on this level of land payment, were SoJDC to sell the JIFC site, approximately £29million would be realised in the current market. However, to be deducted from this amount would be the costs of the public realm and the net cost of delivering the underground public car park, which total £17million. SoJDC would therefore be in receipt of about £12million by selling the site to a third party developer.

By undertaking the development directly, and supported by a third party development appraisal, SoJDC expects to realise in the order of £55 million (as set out in 2.a) above).

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.*

In accordance with the risk mitigation measures set down in P73/2010 and the Memorandum of Understanding between the SoJDC the Minister for Treasury and Resources:-

"If it is proposed that a specific commercial development is undertaken directly, before committing to construction costs SoJDC will have to secure a sufficient level of legally binding pre-lets to fund the costs of constructing the first phase of a scheme".

SoJDC will not commit to entering into the construction contract with a main contractor and/or commence the main construction until such time as a legally binding pre-let agreement is in place that will fund the costs of constructing the first phase of a scheme. A sufficient level of legally binding pre-let will need to be:-

i) sufficient to secure third party (private) finance for the construction of the building (using only the pre-let, the land for that building and expended pre-development costs as SoJDC equity);
ii) cover the interest costs of the third party financing on Practical Completion and expiry of rent-free period; and

iii) be sufficient so that if the building needed to be sold on Practical Completion with only the initial pre-let(s) in place, that the consideration (disposal value) would exceed the debt (construction loan).

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

SoJDC has secured finance from a third party (private) lender based on a certain level of pre-let. This funding has been provided without any additional security other than the development plot in question and pre-development expenses that SoJDC has funded from its cash resources. There are no guarantees or letters of comfort from the States of Jersey and therefore this level of pre-let is in line with market/industry expectations/norms.

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.*

JDC is carrying out the development in accordance with the Esplanade Quarter Masterplan and its remit set down by the States of Jersey in P73/2010.

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.*

On 13 March 2014 the Corporate Services Scrutiny Panel received a confidential briefing from JDC. During the debate on Proposition P15/2014, the Chairman of the Panel, Senator Ferguson stated:-

"the Corporate Services Scrutiny Panel received an in confidence briefing from SOJDC on the project last week. After the briefing, the panel discussed the way forward and the panel considered that they had received sufficient information to satisfy themselves as to the viability of the project and would not raise any further questions."

SoJDC therefore considers that the former Corporate Services Scrutiny Panel was satisfied as to the financial viability of the development.

Yours sincerely

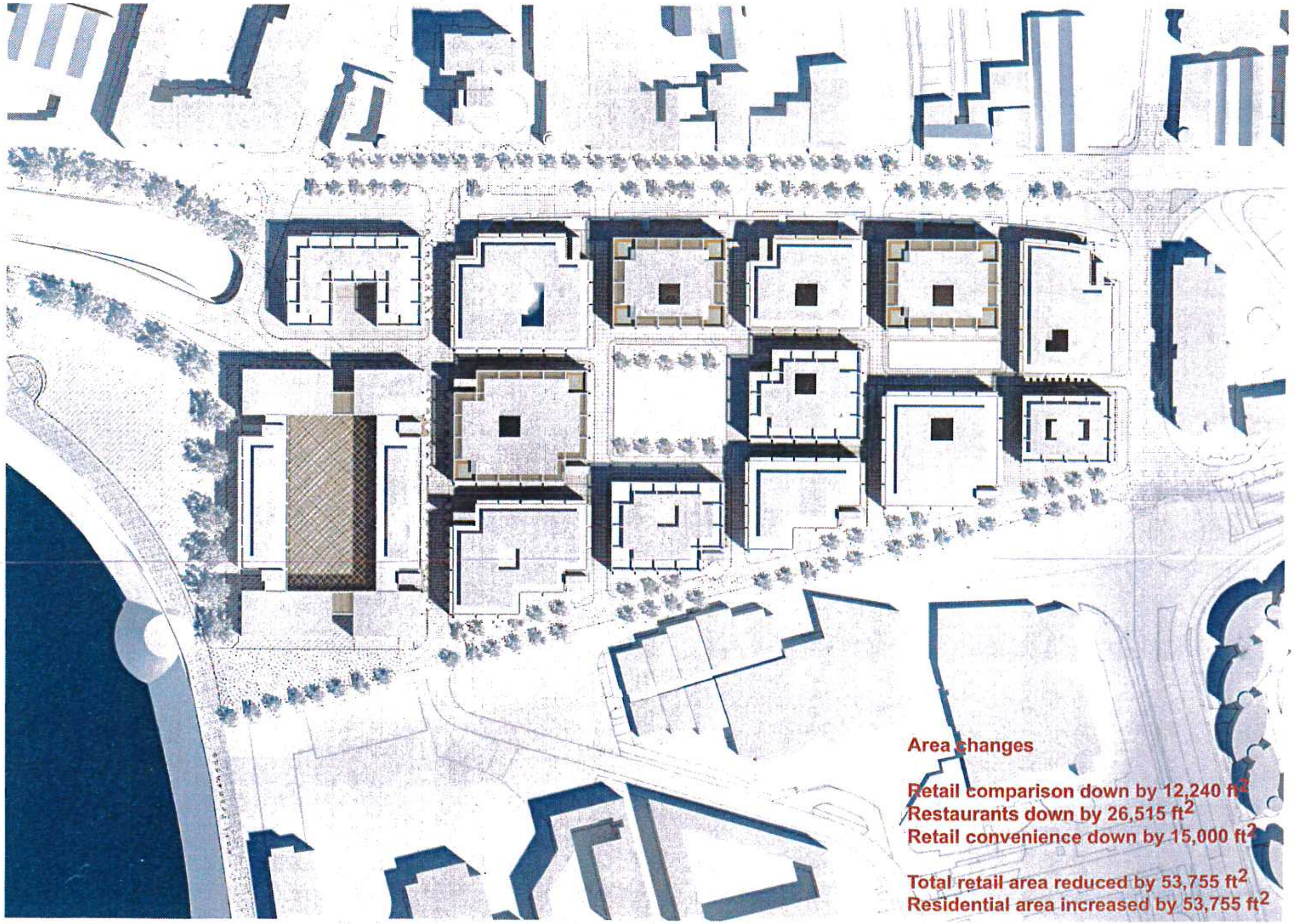
Lee Henry
Managing Director

Encs.

The amount of retail space within the scheme has been halved and the area reallocated to provide additional residential accommodation.

The Minister for Planning and Environment has approved a reduction in the quantum of retail by 50 percent based on the current ED retail assessments.
The revised mix of uses is described in the table below:

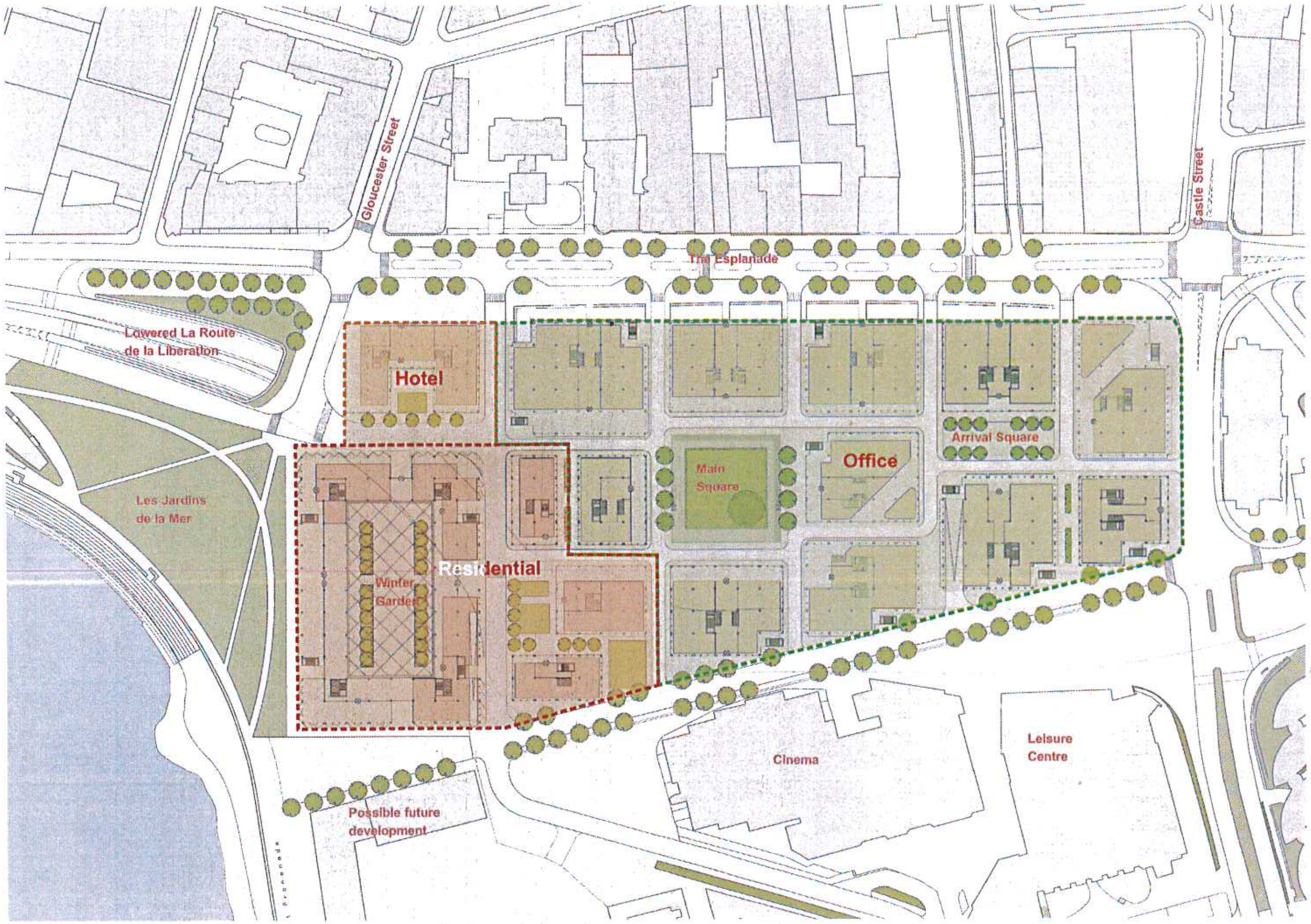
Class	Use	Total area (ft²)
1	Offices Car parking spaces	620,706 585
2	Retail comparison	12,240
2	Restaurants	26,515
2	Retail convenience	15,000
3	Residential units Area Car parking spaces	388 291,128 220
4	Leisure self catering Car parking spaces	76,800 65
4	Leisure boutique hotel	53,760 30
	Public car park	520
	Total car park	1,420
	Total (excluding car park)	**1,096,144**
	Total (including car park)	**1,610,000**



4.2 Zoning across the development

The zoning of the Esplanade site is based on the following principles, having taken account of the Space Syntax outputs;

- The office and commercial buildings form a distinct quarter to the east of the site, located closer to the existing St Helier town centre;
- The residential blocks are located towards the sea front to take advantage of the sea views and link in to the public gardens of Les Jardins de la Mer, promenade and potential cycle routes along the sea front connecting St Aubin with St Helier; and
- The hotel block takes the prominent position at the end of the Esplanade where it will provide a strong corner for the Esplanade Quarter as a whole and be visible on the approach to the town from the west.



Zoning diagram

Appendix 3

BNP PARIBAS
REAL ESTATE

Lee Henry
Jersey Development Company
Ground Floor
Harbour Reach
La Rue de Carteret
St Helier
Jersey, JE2 4HR

Chris Daniels

Managing Director
BNP Paribas Real Estate (Jersey) Limited

Jersey, 14 March 2014

Dear Lee,

Jersey International Finance Centre

Terms of Engagement

You have requested that we undertake a development appraisal of the above project to identify the potential level of profitability of the scheme under various assumptions.

This advice has been prepared in accordance with your instructions which have been appended to this report at Appendix 2.

This advice is provided in connection with development viability and as such does not comprise a formal valuation and therefore has not been prepared in accordance with the RICS Valuation Standards ("The Red Book"). .

This report has been prepared by Chris Daniels BSc MRICS and Peter Sudell MA FRICS who have the knowledge, skill and understanding to provide this advice.

We are currently engaged as sole letting agent by Jersey Development Company in respect of the Jersey International Finance Centre Development.

Market Background

The total office stock in St Helier is approximately 2.8 million sq.ft of which roughly 35% (1m sq.ft) represents modern, Grade A accommodation. The office stock is dispersed geographically around St Helier in a number of pockets albeit since the early 1990's The Esplanade and area south of King Street has emerged as being the prime office area and this has been cemented by recent developments along the Esplanade and Waterfront. St Helier has a relatively low vacancy rate and this currently stands at circa 7% of total stock. It is notable that much of the available stock is inadequate and not appropriate for most modern users. The availability of Grade A stock is only some 25,000 sq.ft or 1% of total stock.

Whilst Jersey has not been immune from the global economic malaise there remains relatively strong demand from larger institutional occupiers which is largely being driven by mergers, acquisitions and the need to consolidate businesses from multiple locations and dated, inefficient stock. There are also a number of significant lease events such as expiries and breaks in the period from 2015 to 2020 which will give occupiers the opportunity to instigate relocation strategies. There is simply not the quantum of available stock to meet this potential demand and inevitably occupiers will have to look towards new developments such as the JIFC.

The Project

The Esplanade Quarter Masterplan provides for 620,000 sq.ft of office accommodation, 388 residential units, a 100 bed hotel, 75 self-catering units, 50,000 sq.ft of retail and restaurants, 1420 basement car parking spaces and lowering La Route de la Liberation. Jersey Development Company, a company wholly owned by the States of Jersey will undertake the direct development of the Esplanade Quarter in a number of phases.

The first phase will provide 6 standalone office buildings and has been re-branded "Jersey International Finance Centre". This is the subject of this appraisal.

This phase has been further divided to ensure that construction matches demand. Our appraisal is based on the following phasing:

Phase 1	Commence end April 2014	To comprise Buildings 1 and 4, public parking and park
Phase 2	Commence end April 2016	To comprise Building 2
Phase 3	Commence end April 2018	To comprise Building 3
Phase 4	Commence end April 2020	To comprise Building 5
Phase 5	Commence end April 2022	To comprise Building 6

The buildings will provide the following net internal floor areas:

Building 1	-	81,561 sq.ft with 38 parking spaces
Building 2	-	75,000 sq.ft with 40 parking spaces
Building 3	-	104,000 sq.ft with 40 parking spaces
Building 4	-	67,437 sq.ft with 47 parking spaces
Building 5	-	65,000 sq.ft with 40 parking spaces
Building 6	-	85,000 sq.ft with 40 parking spaces
Public parking	-	500 Spaces

Assumptions

- Phasing and timings as set out above.
- Floors areas and parking provision as above
- Properties to be let to institutional tenants on institutionally acceptable lease terms
- 23 month construction period for the office buildings
- 16 month construction period for the public car park and park
- Rent free periods of months will be granted to the respective tenants, whom will all be pre-lets, ie signed up before completion of the respective buildings.
- JDC have a long leasehold interest of the site. They will dispose of each asset on completion of the development phase and expiry of the tenant's rent free period.
- Land has been transferred to JDC at nil value
- The income derived from the public parking will be for the benefit of JDC
- We have adopted a blended finance rate of 4.5% with nil on credit balances
- The development is a phased one, therefore credit balances are used to fund subsequent phases
- We have relied on construction costs for Buildings 1, 4 and the car park which have been provided by SoJDC from the detailed cost analysis provided by their cost consultant EC Harris. The figures for buildings 2, 3, 5 and 6 are based on the costs for building 4 and inflation applied in accordance with the assumptions given.

- Based on the lack of Grade A accommodation and the quality of the product to be delivered at JIFC we have adopted the following headline rental values:

  1. Phase 1 - per sq.ft
  2. Phase 2 - per sq.ft
  3. Phase 3 - per sq.ft
  4. Phase 4 - per sq.ft
  5. Phase 5 - per sq.ft

- We have adopted a cap rate of % in relation to the investment disposals and purchaser's acquisition costs of 6.5%.

Summary

A copy of our residual appraisal and sensitivity analysis is attached at Appendix 1. You will note that the base case scenario for the whole development based on the above assumptions demonstrates an accrued total profit of £55,174,032 on completion of the final building.

I trust that this is sufficient for your purposes but should you have any queries, please do not hesitate to contact me.

Yours sincerely

Christopher J Daniels

JERSEY FINANCE

VOICE OF THE INTERNATIONAL FINANCE CENTRE

RECEIVED
19 APR 2013

15 April 2013

Mr Lee Henry
Managing Director
The States of Jersey Development Company Ltd
Ground Floor, Harbour Reach
La Rue de Carteret
St Helier
Jersey JE2 4HR

Dear Lee

Jersey International Finance Centre

Further to your letter of 11th April 2013, I am pleased to respond as follows.

Firstly, I should like to highlight that Jersey Finance Limited is an apolitical organisation and as such, the views I outline here are based solely on our mission to promote and develop the Island's financial services industry and are not aligned to any particular political view, or organisation, States owned or otherwise.

In relation to your proposed Jersey International Finance Centre (JIFC) development, you ask for my views on the scheme and pose a specific question, which is whether I think it would be an issue for the Island's finance industry if the JIFC was stopped. I am not an expert in matters of development or planning, but in answer to your question, I believe that if the JIFC was stopped for any reason it would indeed be an issue for the finance industry and I would predict the overall long-term impact to be negative.

Over the past 50 years, Jersey has deliberately and successfully built a substantial and sophisticated financial services sector. We are also fortunate to have created an industry that is diverse, both in terms of the number of sub-sectors, including banking, funds, private wealth, capital markets, insurance and the range of sizes of firm, from expert consultants to global blue chip brands employing many hundreds of people. The latter group, the larger firms, are particularly relevant in considering the merits of the JIFC development. Jersey is home to some of the largest international banking brands, a selection of leading international law firms and offices of the 'Big 4' accountancy practices, as well as number of significant private wealth and fund administration companies. These sophisticated businesses service clients on an international basis and are themselves, internationally agile and mobile. Our long-standing experience suggest that these firms choose Jersey as a platform for a wide range of factors; including the quality of infrastructure and it is therefore vital that Jersey is able to offer facilities that are at least equal to those that may be found in comparable and rival centres, including London, Hong Kong and Singapore. While there may be a range of office solutions at any one time, the provision of so-called Grade A space is a key component of retaining existing business over the long-term and potentially attracting new companies to the Island.

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In addition, and as a final point, our experience in looking around the world and benchmarking ourselves against other international finance centres, is that wherever a jurisdiction makes a successful investment in developing a dedicated financial services district, that region, whether it be the Square Mile and Canary Wharf in London, or the Dubai International Finance Centre, acts as significant positive attractor for company location, business flows and jurisdictional substance and reputation. As such, I believe that a dedicated financial district in Jersey along the lines envisaged by the JIFC development would be a positive step for the Island's finance industry and by extension, a positive step for the Island's long-term economic prospects.

Yours sincerely

Geoff Cook
Chief Executive

Prepared by SoJDC

Potential Office Developments in Jersey - February 2015

Appendix 5

Offices with Planning Permission	NIA - ready to commence	NIA - schemes that could be ready to commence in 2015/2016	NIA - schemes unlikely to proceed in the next 3 years	Comments
7 Esplanade		45,026		Currently a nightclub and parking
9 Esplanade		48,500		Currently tenanted
20 Esplanade	32,000			Ready to start - site also rumoured to be for sale.
24 Esplanade		38,000		Currently tenanted. Was for sale via tender process last July but did not sell.
28 Esplanade		69,865		Currently tenanted
66 - 72 Esplanade	20,000			c. 160,000 scheme commenced in 2014. Estimated pre-let of 90,000 sq.ft. with 50,000 sq.ft option. 20,000 sq.ft available
J1 (36 Broad Street)			280,000	Leases in place until 2017 and 2019. SoJDC presume that existing office tenants would need to be decanted for earlier start.
27 Seaton Place	20,000			Not considered to be prime. Has been on the market for pre-let for at least 3 years.
3rd Party total	**72,000**	**201,391**	**280,000**	
No 1 JIFC	80,000			Ready to start
No 4 JIFC	67,000			Ready to start
SoJDC sub-total	**147,000**	**-**	**-**	
Total office space with planning permission	**219,000**	**201,391**	**280,000**	
Offices without Planning Permission				
No 2 JIFC			80,000	
No 3 JIFC		120,000		
No 5 JIFC		68,000		Detailed planning application submitted December 2014.
No 6 JIFC			100,000	
Total of proposed known offices without planning permission	**-**	**188,000**	**180,000**	
TOTAL	**219,000**	**389,391**	**460,000**	

Key:

- Schemes that are either ready to go / could be ready within 3 months
- Schemes that could be ready subject to planning / relocation of tenants
- Scheme unlikely to get off the ground in the next 3 years