Corporate Services Scrutiny Panel

Jersey International Finance Centre

THURSDAY, 11th JUNE 2015

Panel:

Deputy J.A.N. Le Fondré of St. Lawrence (Chairman)

Deputy S.M. Brée of St. Clement (Vice-Chairman)

Deputy K.C. Lewis of St. Saviour

Connétable C.H. Taylor of St. John

Witness:

Group Property Director, C. Le Masurier Limited

[13.31]

Deputy J.A.N. Le Fondré of St. Lawrence (Chairman):

Thank you very much for coming today. To start off the formalities, if I run through them. As you are aware, we operate in a public manner where possible. As you are also aware, we accept information on a confidential basis and we are sensitive to do that and will continue to do so. However, the expectation of transparency and co-operation does not mean that we expect you to disclose particularly sensitive commercial information to us in a public forum. Should the need arise, we will allow you to provide that information to us separately, on as speedy a basis as possible, and all such information received will be handled by us in confidence in accordance with the procedures that all scrutiny panels are expected to adhere to. What I would like to draw your attention to - I do not know if it is the first time you have been in front as a witness to a scrutiny panel - is the notice to your right, which I shall read out again just for the benefit of the tapes, et cetera, which is that the proceedings of the panel are covered by parliamentary privilege through Article 34 of the States of Jersey Law 2005 and the States of Jersey (Powers, Privileges and Immunities) (Scrutiny Panel PAC and PPC) (Jersey) Regulations 2006. Witnesses are protected from being sued or prosecuted for anything said during hearings unless they say anything that they know to be untrue. This protection is given to witnesses to ensure they can speak freely and openly to the panel when giving evidence without fear of legal action, although the immunity should obviously not be abused by making unsubstantiated statements about third parties who have no right of reply. The panel would obviously like you to bear this in mind when answering questions. There is also a notice I would draw the attention of members of the public to, which is around the room, which is that we do expect members of the public and the media in the public gallery to remain seated and to remain quiet at all times while the hearing carries on. I think that is the end of the most formal matters. For the purposes of the tape, of the recordings, we will just go round and state name and position. I shall start, which is Deputy John Le Fondré, Chairman of the Corporate Scrutiny Panel.

Connétable C.H. Taylor of St. John:
I am Constable Chris Taylor, a member of the Corporate Scrutiny Panel.

Group Property Director, C. Le Masurier Limited:
Ben Ludlam, Group Property Director of Le Masurier and also a member of the public.

Deputy K.C. Lewis of St. Saviour:
Deputy Kevin Lewis, panel member.

Deputy S.M. Brée of St. Clement (Vice-Chairman):
Deputy Simon Brée, Vice-Chairman of the panel.

Deputy J.A.N. Le Fondré:
Two other matters. One is you have obviously given your name, Mr. Ludlam, but can you just clarify the name of the company you represent?

Group Property Director, C. Le Masurier Limited:
C. Masurier Limited.

Deputy J.A.N. Le Fondré:
Thank you. Could you give us your professional qualifications, please, if any?

Group Property Director, C. Le Masurier Limited:
I am F.R.I.C.S., Royal Institution of Chartered Surveyors.

Deputy J.A.N. Le Fondré:
The F is Fellow?

Group Property Director, C. Le Masurier Limited:
It is.

Deputy J.A.N. Le Fondré:
One other matter particularly relevant to yourself and your company is obviously we cannot discuss any areas that are currently subject to a third-party planning appeal, particularly in relation to building 5. We will start with the questions.

The Connétable of St. John:
Do you perceive that there is a demand for grade A office space in St. Helier?

Group Property Director, C. Le Masurier Limited:
Yes, there is a demand for grade A office space in St. Helier. The level of that demand is subjective, questionable, and it really depends on how much demand is realistic demand or how much is hoped or optimistic demand as to whether that would allow the master plan or other buildings to be occupied and developed. It is not all about grade A space. There seems to be a bit of a fixation about grade A space. There is over 500,000 square feet of grade B, for want of a better phrase, accommodation. At the moment, if everybody was to move out of their space to the waterfront and occupy 470,000 square feet of new space, you would still be left in St. Helier with 1 million square feet of older space. So it is very difficult just to concentrate on grade A space because the majority of businesses, some local businesses, will not want grade A space because they will not want to pay £35 a square foot with a service charge and be tied down for a long-term lease, which you may have to if you are going into a new development. They may want flexibility; they may want that for business growth.

The Connétable of St. John:
Thank you. In your opinion, is the location of such office space an important factor?

Group Property Director, C. Le Masurier Limited:
Yes. Location, location, location, and that is the same in the office market as it is in the residential market.

The Connétable of St. John:
Would being within a perceived finance centre be important or if you have any offices anywhere else in St. Helier and you are a finance operator that does count?

Group Property Director, C. Le Masurier Limited:

If you are a finance or any other operator, I think if you are within 5 minutes walking distance of King Street where it meets at New Street, close to Mark & Spencer if you struck that as the centre of St. Helier ... if you are within 5 minutes north, south, east or west of that you are in St. Helier. You do not need to be in an international finance centre. You could be on the Esplanade, you could be anywhere, as long as you are within literally 5 minutes if you wanted to say to staff: "We are centrally located."

The Connétable of St. John:

So a specific square block is not a particularly advantageous concept in your mind?

Group Property Director, C. Le Masurier Limited:

No, because the heart of town is somewhere up and down King Street and that is the centre of town. If you want to pop out for a sandwich or you need to go and get something, that is where you want to go. You do not want to be sort of 15 minutes down the road, so if you are 5 minutes from the centre of St. Helier that is enough. You do not need to be in a specific location.

Deputy J.A.N. Le Fondré:

That is from the perspective of businesses that are already present? Is that a fair comment or do you think that would also apply for businesses coming into the Island?

Group Property Director, C. Le Masurier Limited:

No, I think that would also apply to businesses coming into the Island. They want to know where the taxi rank is, they want to know where the coffee shop is, where their staff are going ... it is all about staff happiness and retention and working environment at the end of the day and a large part of that is the ability to get into town, use the facilities that are there. If you are 10 minutes away from the centre of town, that is not attractive to your staff, so back to if you are within 5 minutes that is far enough.

The Connétable of St. John:

If you perceive there is some demand and you currently have planning permission to build, why have you not started any construction?

Group Property Director, C. Le Masurier Limited:

The J1 project has planning consent. It has planning consent for 280,000 square feet of office accommodation with ground floor ancillary restaurant, coffee bar, et cetera. It will be built in 2 phases, so each phase being roughly 140,000 square feet. We have spoken to numbers of tenants who may be potentially interested, but it is very early conversations to have with businesses and trying to then translate that into actual terms, pre-letting arrangements in the current market conditions is virtually impossible. You could be speaking to the local team here, as we have done, with various different banks and you get quite far down the road. They are quite excited by taking 20 to 30,000 square feet, and then they have to go and take it to somewhere in Canary Wharf or somewhere else to get it signed off or you have to look at the capital expenditure and you have to say: "Well, our current rent is £25 a square foot and we would need to be paying £35 a square foot", and those conversations very, very quickly come to an end. So we would like to develop our scheme but the strength of the office market at the moment is not strong enough to have significant blocks - and when I say significant blocks I am talking of 20,000 to 30,000 square feet or above - in order to provide you with enough pre-letting to help fund or get external funding for construction. So that is the point we are at. We have spoken to many, many tenants but those conversations have led not to agreements to lease, heads of terms, and we do not expect that position to change. So, at the moment we would wait for the market conditions to improve, whether that be 2 years, 5 years, 10 years. Nobody can tell.

Deputy J.A.N. Le Fondré:
I have got 2 questions. You make reference, Mr. Ludlam, to current market conditions. Is that local or international or both?

Group Property Director, C. Le Masurier Limited:
It is both, but the majority is local market conditions because that is where you would see the potential tenants in some form of relocation from. There is not substantial demand. I think S.o.J.D.C. (States of Jersey Development Company) in their various reports have said there is not demand from overseas, let us call it, and anybody from overseas may be 5,000 square feet. They are very much smaller requirements. They are certainly not going to come with 50,000 or 60,000 square feet, so in the overall scheme of things they are relatively irrelevant.

Deputy J.A.N. Le Fondré:
The other question was just picking up on something you said. It was that you were not seeing sufficient interest to establish pre-lets to allow you to commence, I presume even in phase 1. What percentage of pre-lets would you normally require as a developer to commence?

Group Property Director, C. Le Masurier Limited:
In order to get funding you would be close to 70 per cent to 75 per cent in order to get from the pre-lets.

Deputy J.A.N. Le Fondré:

Is that your own requirement or do you think in your professional experience that is a kind of norm for a market?

Group Property Director, C. Le Masurier Limited:

It depends on the risk appetite of the particular developer. There has been locally, 37 Esplanade being an example, development on a more speculative basis but that was with a more aggressive developer who has got a very good track record. They saw a particular point in the market, size of floor plate and delivery at that particular time, but for a conservative, risk averse developer I would say that 70 per cent to 75 per cent is normal to have pre-let in order that you can get funding as well.

Deputy J.A.N. Le Fondré:

Just to understand, you made reference to 37 Esplanade: was that a lower percentage then or is that similar to your 70 per cent?

Group Property Director, C. Le Masurier Limited:

I think it would have been lower, but there were a number of tenants showing interest. I don not know the figures for that particular building but I know that it certainly was not at 70 per cent, but it was more of an aggressive developer with a larger risk appetite.

Deputy K.C. Lewis:

Mr. Ludlam, do you believe it makes sound economic sense to build the 6 buildings as envisaged within the master plan?

Group Property Director, C. Le Masurier Limited:

Yes, if you have enough demand and you knew within 5 years to 10 years you could deliver that and it followed planning policy. The problem is that it does not follow planning policy. It is a breach, in my opinion, of planning policy that says, WF38: “This shall not be a commercial showpiece”, and having something that is called the Jersey International Finance Centre, which last night was described as being similar to Canary Wharf, the Dubai International Finance Centre or Wall Street, is therefore a breach of the master plan. So it is a very difficult question to give a yes/no answer to.

Deputy K.C. Lewis:

What is your feeling on building just one block?

Group Property Director, C. Le Masurier Limited:

If you built a single block, I think it would be highly embarrassing for the States of Jersey 3 years down the line to say: “Come and visit our new international finance centre” and you have a single building that is not potentially at that time fully let. If you only think you can get as far as one building, and that in my opinion is realistically where the market is at the moment, it is an embarrassment for the Island and we should not even be starting the project.

The Connétable of St. John:

The only follow-up I would have on that: do you believe it would then ruin that particular site for any other type of development?

[13:45]

Group Property Director, C. Le Masurier Limited:

It would not ruin it but it would make it very, very, very difficult. The master plan, as you will be aware, was supposed to provide 1,420 car parking spaces in a dual car park underneath the entire site. If you started to develop on effectively the eastern end of that, you are already then limiting your future opportunities on the site because you are already hamstringing yourself and you have got one over-large office building which would then overshadow potential future buildings of maybe residential, community or other use. So, yes, unless you know that you are going to develop the whole thing, you cannot just start with one building that is going to be oversized at one end.

Deputy S.M. Brée:

Accusations have been made that your very vocal opposition to the Jersey International Finance Centre relates more to the fact that S.o.J.D.C. is a direct competitor of yours than to the viability of the international finance centre itself and that you are merely attempting to remove competition from the marketplace. How do you respond to such accusations?

Group Property Director, C. Le Masurier Limited:

Yes, you could view it that way and several people have viewed it that way and still do view it that way. However, in 2005 at the first presentation in the Town Hall Freddie Cohen and Jim Greaves from Hopkins Architects provided an overview of the master plan. I was not employed by C. Le Masurier at the time; I was employed elsewhere. I went as a member of the public. Towards the end of that presentation, the underground car parking and the road - and I am speaking personally at this particular point - that is my problem with the master plan. The sinking of the road, the underground roundabout is too large and not physically possible to develop in St. Helier. The cost of that, somewhere between £75 million and £90 million, therefore requires an over-large, over-scaled and totally inappropriate development above ground to pay for the below ground development. So in 2005 that was my opinion. In 2008 I, along with a group of chartered surveyors, submitted a report to all States Members asking that the master plan with and without the road was evaluated, because there could be development on the Esplanade site with or without the road, and then the master plan should be reviewed in 2008. It was only in 2010 did I become involved in an alternate scheme. So I think I have got, in the nicest possible way, a long track record before I became involved in an alternate scheme and I have been consistent all the way through that the master plan is not deliverable because of the major infrastructure problems underground.

Deputy S.M. Brée:

Thank you. Do you believe that if built the Jersey International Finance Centre will be a major contributory factor in growing the economy?

Group Property Director, C. Le Masurier Limited:

I do not think you can build it so, no.

Deputy S.M. Brée:

Okay. That is one way of looking at it . It has been said by various people that in order to grow the economy, which is the fundamental direction that the Government wishes to go in, we need to have something like the international finance centre. Do you not believe that it would be a very, very good brand for the Island to be able to market overseas?

Group Property Director, C. Le Masurier Limited:

If it is all about brand then, yes, but it is not all about brand. It is about substance, and it is all right saying we are an international finance centre, which we are, but I would say that our international finance is a mature industry. The banking industry in particular of that, or a large percentage of that finance industry is suffering - we saw, only yesterday, job cuts - and it is very difficult just to focus on an international finance centre. It may be better, given the States are looking for diversification of the economy for digital use and other uses that come with that, that those office requirements for digital are for people wearing jeans on high-tech machines and they do not want to be sitting in grade A air-conditioned offices. They want to be sitting in warehouse creative, space, so you are building, effectively, the wrong type of accommodation for the diversification of the economy that we are supposed to be looking for. Likewise, those start-up businesses that are young and entrepreneurial start in very, very small accommodation with cheap rents because there is a huge amount of risk. I remember Play.com started in the first floor above King Street and the directors there had D.V.D.s (digital video discs) across the floor and that is where they started their business from and look what a success that was. So I do not think the international finance centre for Jersey is the only way that you can say this is the way to grow the economy. It is not relevant for some of the other types of diversified business that we should be trying to attract.

Deputy J.A.N. Le Fondré:

To use the analogy you used previously, if there is more grade B space out there that is going to be more attractive to that type of business?

Group Property Director, C. Le Masurier Limited:

Yes. If you can take a lease for 5 years with a break at 3 and you are £17.50 to £22.50 a square foot and you take on 5 people and then it is going really well so you take on a few more. Then in 5 years' time you might need some more space, but you probably still will not be going to an international finance centre or taking an entire floor with a sea view, paying £35 a square foot, because that is not the type of businesses that are looking for that accommodation and there is only a limited amount, banks - I am struggling for another sector - who can pay £35 a square foot.

Deputy J.A.N. Le Fondré:

We will be calling on your professional knowledge hopefully at this stage. Do the R.I.C.S. have definitions of construction costs?

Group Property Director, C. Le Masurier Limited:

No, I do not believe they do.

Deputy J.A.N. Le Fondré:

In terms of what they might comprise, or I presume they have various methodologies as to how construction costs are calculated?

Group Property Director, C. Le Masurier Limited:

I think an industry norm would be construction costs are anything starting from development with demolition, taking out site spoil spill, site clearance and everything else. So you would literally start at that point, excavate your site, and anything from that point until you put the roof on is construction. Also including the fit-out of offices, if we are talking about offices specifically, within a building would be within the normal definition of construction costs.

Deputy J.A.N. Le Fondré:

Would that include professional fees?

Group Property Director, C. Le Masurier Limited:

No, you would say the professional fees are what are known as on costs and they are, on a typical construction project, somewhere between 11 per cent to 12 per cent to 15 per cent of your overall construction costs, which will be project managers, architects, lawyers, some legal fees in there. So, on top of your physical building cost, you have got 12 per cent to 15 per cent as an additional cost.

Deputy J.A.N. Le Fondré:

Right, but that would legitimately be part of the cost of construction of a building, would it?

Group Property Director, C. Le Masurier Limited:

It is normally the next. You write them down in your residual valuation. You normally put in construction costs and then, because it is a percentage of the construction, the next heading down is professional costs, on costs, and that is normally the 15-ish per cent.

Deputy J.A.N. Le Fondré:

In your opinion, would it be feasible to build a building when you only have a 25 per cent pre-let, based on today's market rental and construction costs?

Group Property Director, C. Le Masurier Limited:

Anything is possible. It depends on what your risk appetite, what your lending position is. Yes, anything is possible.

Deputy J.A.N. Le Fondré:

For a risk averse developer, would a risk averse developer use a higher level of pre-let or would a risk averse developer be satisfied with 25 per cent?

Group Property Director, C. Le Masurier Limited:

No. As we said earlier on, a risk averse developer would be looking for 70 per cent to 75 per cent to be pre-let even before you stuck your spade in the ground.

Deputy J.A.N. Le Fondré:

In your experience, is it normal practice to only fit out to cat A standard those floors in a new building that have been pre-let?

Group Property Director, C. Le Masurier Limited:

No. I saw comment in the media that it was standard practice to not fit out with ceiling, air conditioning, lighting, et cetera. That is not the standard. In 20 years locally, I can only think of 2 examples where that has been used, the first at Casa Melita office block on the Green Street roundabout, which everybody will know stood vacant for the best part of 10 years, and the second was at Salisbury House which is on the corner of New Street and Burrard Street. Way back in the day I was trying to let that space. You would take people on to the floor; it had a concrete finish; it had a concrete ceiling; it had no lighting; the only thing in the common areas was the lift. It was very difficult to sell. That building did eventually let but it was probably 5 years down the line. So it is not standard industry norm to not fit out all of the building.

Deputy J.A.N. Le Fondré:
Going back, which might be slightly difficult given the earlier comments, to construction costs, would they generally include cat A fit-out costs?

Group Property Director, C. Le Masurier Limited:
There is an element of a standard ceiling, air conditioning, floor boxes and you would put that in. If you were looking and had interest the tenant can, before the construction or during the construction, with a contractor then change that floor layout around, upgrade it or change it around, cellular offices. But, yes, you would effectively put in the main part of it and then if they wished to have offices or any further upgrades above that, that is what the tenant will pay ... sorry, and that is what the rent-free period will help. That is where the rent-free period has typically come from is a concession from the landlord given to the tenant to allow them as a company to fit out the offices in their own particular way.

Deputy J.A.N. Le Fondré:
The question I suppose is if you are going to incur cat A costs for fit-out, when you are estimating for a project would you normally, in your costs of construction, include an allowance for cat A fit-out?

Group Property Director, C. Le Masurier Limited:
Yes, you would normally put in cat A fit-out because as part of the construction you have obviously got the constructor firm on site and as soon as they finish the floor they are putting floor boxes on or likewise from the ceiling ...

Deputy J.A.N. Le Fondré:
So it is part of the construction costs?

Group Property Director, C. Le Masurier Limited:
It is all part of the construction process and it is more cost effective to do it that way.

Deputy J.A.N. Le Fondré:

I think we have covered this, but again in your professional experience could you just go through what elements, if that is possible, should be included in calculating construction costs when you are looking at project evaluation?

Group Property Director, C. Le Masurier Limited:

Everything from site hoarding, getting on to site, all the incidental costs, demolition, site spoil removal and everything else, and then from literally basement upwards until you have got the roof on, and as you are going through that process you are normally fitting out the floors as you go.

Deputy J.A.N. Le Fondré:

Just to go inside on that equation, in your professional experience - this is around pre-lets now - what elements are included in the calculation of the value of a pre-let agreement?

Group Property Director, C. Le Masurier Limited:

It is virtually everything in the lease other than it has not been signed at Royal Court. It is virtually the same document, other than the document that will be at Royal Court, which says: "We will deliver you an air-conditioning unit which has whatever technical specification. We will deliver you X lux level of lighting. We will deliver you a specification of floor that is maybe 250 ..." whatever the technical parts are. So it is effectively describing the building that you will get and the technical mechanics of that when you get it.

Deputy J.A.N. Le Fondré:

I think that has probably gone far different to what I was trying to ask in the question. If you were trying to assess the value of a pre-let, in other words just about project appraisal, how would you, using the R.I.C.S. and your experience, appraise a pre-let agreement you have gone into? So not what goes into the actual document but, for example, I assume it is rent times square foot and presumably yield. Is there anything else that should go into that calculation?

Group Property Director, C. Le Masurier Limited:

You will look at the pre-let agreement which, as I said, is effectively the lease and it is exactly the same as value in the lease because, as you say, you look at the term, you look at the covenant, the substance of the tenant behind it, which are the 2 key items, the rent, the amount of space that they are taking, any car parking or ancillary use, length of lease, breaks and anything that is slightly unusual within the lease, penalty or anything else.

Deputy J.A.N. Le Fondré:

Reference has been made in the past to ... some people have used the word incentives. You have made reference to rent free. Is rent free taken into account in the valuation of a pre-let?

Group Property Director, C. Le Masurier Limited:

Yes. If somebody is not going to pay rent for 5 years then that has got an obvious impact on the cash flow.

[14:00]

The Connétable of St. John:

When you are assessing the return on the building, you have obviously got the pre-lets and you know what value the pre-lets are. How would you value those areas of the building which are vacant, for want of a better term?

Group Property Director, C. Le Masurier Limited:

It is very difficult, it is very subjective and, going back to your earlier point about the level of demand within the office market, timing, your construction timing for delivery. You would very heavily discount those areas because unless you have got specific tenants lined up, all you are doing is effectively having an out cost with no in cost.

The Connétable of St. John:

Leading on from that, do you see that there is sufficient demand at the moment to fill the remaining 50,000 square feet in the first building, building number 4, that is to be built shortly?

Group Property Director, C. Le Masurier Limited:

As far as I am aware from S.o.J.D.C.'s own figures, they have interest in 5,000 square feet which I think would probably fill up the remaining half floor that is not pre-let, which would leave them with 4 floors to let of 40,000 square feet. No, I think they will struggle and I think that is part of the difficulty in the market. It is part of the difficulty also relating to the size of floor plates. The building that we talked about earlier on, 37 Esplanade, has a floor plate of about 12,500 to 15,000 square feet. It is very efficient. It is like a small football pitch and that particular building has good natural light. If you want to put lots of - excuse my French - bums on seats it is perfect because it is very efficient and you can go and it is a multi-let building. In terms of building 4, the floor plates are much smaller. It is a multi-let building and you may have a range of smaller tenants, but smaller tenants do not really know their requirements until they are almost at their lease expiry or they are looking for new premises whereas for larger requirements they have had to go through various different ... if it is a bank, an internal process. They have had to have that signed off. So the larger tenants know theirs are coming down the track. The smaller tenants do not really know until almost the point that it is too late and they need new accommodation or premises.

The Connétable of St. John:

But then it is much easier to find a small area of rental office than it is a large area in one block.

Group Property Director, C. Le Masurier Limited:

Yes.

Deputy K.C. Lewis:

You mentioned earlier the problems you could encounter letting a building that was not fitted out: concrete floors, concrete ceilings. It has been suggested by S.o.J.D.C. that this could be a bonus, that any perspective new tenant could fit it out or have it fitted out to their own specification. What problems would you foresee or extra expense in fitting out a building retrospectively?

Group Property Director, C. Le Masurier Limited:

You just hit the nail on the head there: retrospectively. If you have already got contractors on site and you have already partially got the fit-out in place of, let us call it, £100 a square foot of value in suspended ceiling, the air conditioning or the floor boxes, you may wish to upgrade that to £200 a square foot of value because you want a better quality air conditioning, but that is far easier to put in when you have got the builder on site. Trying to retrospectively fit something, you have got to get a specific fit-out team on to site. They have to take it up and down the lift. You may have XYZ bank on the top floor and they are not very happy that you have got people coming in with light fittings or air conditioning boxes, there is noise. The lifts are always an absolute problem. If you are taking everything up to the third floor and Mr. Business Suit is trying to get in the same lift because he is trying to take somebody to a meeting or the lift is broken, you are creating yourself a larger problem because the physicality of building once the building is occupied is far more difficult. You have got out of hours working; you have got a cost element to that, noise element to that. It is much more difficult.

Deputy S.M. Brée:

I did have one area I would just like to go back to. Regarding the level of pre-lets a developer has on a proposed construction and then looking at obtaining funding from normally banks, in your experience what is the normal level, the minimum level that banks are looking for when it comes to pre-let agreements before agreeing to provide funding?

Group Property Director, C. Le Masurier Limited:

On a standard case, I think banks will be looking at 50 per cent to 60 per cent of a pre-let arrangement in order for them to provide construction cost funding.

Deputy S.M. Brée:

That is the sort of minimum level. Obviously one of the things that a bank will look to do if providing funding for construction costs is security against the lending. Once again in your experience, what types of security do banks tend to look for?

Group Property Director, C. Le Masurier Limited:

Banks will tend to look for security over the land, which I believe is the case in this particular point. They may look for a guarantee from the parent company if it is a subsidiary company who is doing the development. They may look for a cash bond. They may look for a charge against other assets or properties owned by that particular company. So there is a wide range of security that a bank could take in order to give them comfort that, should the development for whatever reason have a problem, they have either got the security of the land, other assets, funding ...

Deputy S.M. Brée:

Or some form of guarantee, a letter of comfort?

Group Property Director, C. Le Masurier Limited:

Yes.

Deputy S.M. Brée:

In your experience, were you to go to a bank today and put a proposal forward to them that they should lend to you based on 25 per cent only of pre-lets, do you think you would be successful?

Group Property Director, C. Le Masurier Limited:

Absolutely not.

The Connétable of St. John:

You have partially answered this question earlier, but it is here so I will ask it again. In your opinion, is the master plan for the Esplanade Quarter, as approved by the States in 2008, still a viable option?

Group Property Director, C. Le Masurier Limited:

I do not think it was viable in 2008, which is why the report in 2009, which I have been seeking to get through the Freedom of Information law for the last 12 months, has been suppressed and has never been made public and certainly has not been given to all States Members, which is what Philip Ozouf, in 2008, promised. So there is no transparency of government or scrutiny from that particular time. It goes back to my earlier concerns about the master plan and the infrastructure that is required effectively below ground to make it work above ground and those handcuffs have always followed the master plan. The master plan was changed in 2011 by the Minister for Planning without reference back to the public or to States Members. That was at a time where in 2011 the Chairman of W.E.B. (Waterfront Enterprise Board) wrote to the Director of Planning, copied to the Chief Minister, copied to the Minister for Treasury, to say there is an oversupply, there is a mismatch, there is an oversupply of offices to potential demand, and the States did not try to spread the risk. They followed the wrong way. They took the residential block that was within the original first phase of the master plan. They removed that and they provided themselves with even more risk, despite the fact they had been told by W.E.B. at the time there is a mismatch in creating too many more offices. So, in fact, in 2011 the States went entirely the wrong way with the master plan and that has given them even more problems.

The Connétable of St. John:
Since 2008 the demand for office space obviously has changed. Do you believe that the master plan should be completely revised or reviewed?

Group Property Director, C. Le Masurier Limited:
Yes, the master plan should have been completely reviewed probably in 2009 should that report have been made public. It should certainly have been revised in 2011 as part of the proper planning process, which it was not. The letter that I referred to that was sent from Stephen Izatt at W.E.B. to Planning provided potential office space of, from memory, 550,000 square feet and on there was R.B.C. (Royal Bank of Canada) and many other occupiers. If you now go back to that same list, the only tenant that is on that list that has now taken space is UBS. So they have gone from 550,000 square feet of demand, which has either found space or, in the likes of several larger tenants on that potential office demand schedule, renegotiated terms with their existing landlords. From 550,000 square feet, they have gone down to 16,500 square feet. So it scares me when the figures of 330,000 square feet over the next 5 years are used because it is quite likely that we will look back on that 330,000 square feet requirement, supposed, in 5 years' time and 30,000 square feet may have come from that. So, therefore, we are not using realistic figures.

Deputy J.A.N. Le Fondré:
You made reference to UBS, and we can dig it out. Can you remember what the demand was, the estimated demand for UBS was in that particular list?

Group Property Director, C. Le Masurier Limited:

I think it was 30,000 but I would have to check.

Deputy J.A.N. Le Fondré:

But it was in the order of that and they have taken up ...

Group Property Director, C. Le Masurier Limited:

16,500.

Deputy J.A.N. Le Fondré:

Okay. I have got a follow-up question but ...

Deputy K.C. Lewis:

Just a brief one ...

Deputy J.A.N. Le Fondré:

This is on the question here, not the next question?

Deputy K.C. Lewis:

No. Regarding UBS, obviously which is a company relocating within the Island, without giving away any confidentialities with your own company, are you aware of many companies wishing to relocate from elsewhere to the Island?

Group Property Director, C. Le Masurier Limited:

No.

Deputy J.A.N. Le Fondré:

I just want to effectively get some clarification about spreading the risk and the States or not spreading the risk, in fact almost the opposite direction from the change in the first place. Just to clarify - this is obviously as a layman, me being the layman - in that terminology are you effectively saying that the risk could have been spread by changing the mix of residential and office on that site? Is that kind of what you are talking about?

Group Property Director, C. Le Masurier Limited:

Yes. The site pre-2011 change did have a residential block, which is in the site of where building 5 is proposed. It was a different layout with more a central square which has since been changed round. So, yes, the States went in entirely the wrong direction in 2011, making their development more risky, despite the fact that they had been advised, the Minister for Treasury knew and the Chief Minister also knew.

The Connétable of St. John:

Just to correct the record, you made mention that 540,000 square feet was the requirement at the time, or allegedly the requirement, and they had UBS in at 40,000 square feet not 30,000 square feet.

Group Property Director, C. Le Masurier Limited:

Thank you.

The Connétable of St. John:

So they have taken up significantly less than half of what they were going to.

Group Property Director, C. Le Masurier Limited:

That is a very good point raised there. In 2008, 2009, in the better times, it was a little bit of a wish list if you were a bank. You might say: "I have got X number of staff" and so you would draw a seating layout plan for that staff. You would not drive the thing as efficiently as you would now. There may be some more individual offices and in 2008 you may, if you were an individual member of staff, have got 150 feet for your particular area which would be your desk, your chair, a filing cabinet and you would have ... as part of the communal area, that would be the size, square footage allocated to you. That was 150 square feet. It is probably 125 square feet and now if you are in Canary Wharf it is 80 square feet. It is very much: "You gentlemen are sitting cheek by jowl hot-desking" and everything else. So, the banks in particular have reduced their size requirement by the technical way that they work, the different ways that they work, and what your requirement may have been 6 or 7 years ago for 35,000 to 40,000 square feet is now, as you quite rightly pointed out, virtually half because of the efficiencies, the different way of working and just the economies that the banks in particular are looking to drive through new office accommodation.

Deputy J.A.N. Le Fondré:

As a rule of thumb, if I was looking at the square footage, if I wanted to estimate the number of employees that had been used for that, 100 square feet per workstation would be a rough indication. Would that be ...

[14:15]

Group Property Director, C. Le Masurier Limited:

Yes, as an average if you used one person to 100 square feet that would be about right.

Deputy K.C. Lewis:

In your professional opinion, do you believe there is a way to develop office blocks with no risk?

Group Property Director, C. Le Masurier Limited:

No, because development, even if it is fully pre-let, has a risk. The nature of development is a risk, just because of ground conditions. You are employing a contractor to build you a very technical piece of equipment, which is roughly what it is, and if it is 60,000 to 70,000 square feet or it is 150,000 square feet it is a very technical piece of equipment from air conditioning plant, electricity, as I said site conditions and everything that goes with it. So, even it is let to the States of Jersey, it will be very difficult not to say that any project does not have any risk. All construction has risk.

Deputy K.C. Lewis:

If you were advising a client, how would you advise that client to mitigate that risk or negate the risk as much as possible?

Group Property Director, C. Le Masurier Limited:

We are back to supply and demand, we are back to location, we are back to effectively building the right product, right time, right location, and you have to get all of those things. As we know, property cycles come and go. The cycles seem to be getting shorter and seem to be getting sharper and it is very difficult to get that spot on, spot right. It is very difficult. There are so many external factors affecting the local market that it is difficult and there is no way of removing risk. Sorry, there is no way of totally removing risk. There is only a way of mitigating as far as you can for risk.

Deputy S.M. Brée:

Using your experience, and obviously knowledge, can you advise us what levels of incentives your company currently offers to potential tenants in order to encourage them to enter into a pre-let agreement?

Group Property Director, C. Le Masurier Limited:

I cannot tell you about our particular company policy but I can talk generically about the market and the market norms, if that is satisfactory.

Deputy S.M. Brée:

Obviously if you can base most of your answers on the local market as opposed to international markets.

Group Property Director, C. Le Masurier Limited:

No, they are all local market. Depending on the length of lease, size of office take, if someone is only taking 5,000 square feet as opposed to 100,000 square feet, there is a big difference. It depends on what sector you are in, the covenant strength and quality, so it is very difficult to say it is X number of months, but as a general rule of thumb it will be heading towards one year rent free for a small but long-term lease with the right rent and lease terms. Only if you were taking, such as the Royal Bank of Canada development, where they took 80,000 square feet with an option for a further larger chunk, would you get over 12 months rent free.

Deputy S.M. Brée:

Are there any other kind of incentives that you would offer?

Group Property Director, C. Le Masurier Limited:

You can do very clever things in terms of the fitting out. You can agree, effectively, to do the tenant's fitting out on their behalf. Going back to Kevin's earlier question, there is a cost saving because if you are putting air conditioning unit A up, it does not matter whether you are putting A or B up, you are putting one up, you have got the same man there to do it, it is just a different unit. So you can make an agreement with the tenant in terms of their fit-out and there are various different ways of sweetening the deal but the typical way is the rent-free period. That is more the market standard norm.

Deputy S.M. Brée:

Do you feel that the level of incentives being offered in the local market has changed in recent years?

Group Property Director, C. Le Masurier Limited:

No. We have had a very consistent standard towards rent free, which is slightly less generous than the U.K. (United Kingdom) but again we are back to the market conditions. So, no, I do not think the conditions have changed locally over the last 10 years or so. You may, in the last few years, have had to give a little bit more away in order to tempt a tenant in, but you are certainly no more than 18 months maximum.

Deputy S.M. Brée:

That is for a large tenant?

Group Property Director, C. Le Masurier Limited:

A large let, yes.

Deputy J.A.N. Le Fondré:

I think you said the main incentive that is used is rent free and generally, unless you are R.B.C. or that sort of size of take-up, it is about a year. Just to clarify I suppose, in terms of market norms, because you then talked about what I think is referred to as tenant fit-out and things that could be done there, is it a market norm at present for landlords or developers to contribute to the tenant fit-out other than through rent free, or does it depend on the size?

Group Property Director, C. Le Masurier Limited:

It really depends on the size of office space take, what stage you are at in terms of the construction, because it is far easier to do earlier on in that programme than it is literally as you are fitting out and then they say: "Oh, but we need to change it all." It is easier with a longer lead time. It is very difficult to say. You could have 50 per cent as rent free, 50 per cent as capital contribution, in effect.

Deputy K.C. Lewis:

Bearing in mind the burying of the road and the underground car park are key elements to the master plan, at what point would you look to undertake these items to ensure they are delivered?

Group Property Director, C. Le Masurier Limited:

I was not a supporter of the master plan, as I think I have made clear, because of the infrastructure difficulties risk problem. However, if that was going to be delivered to you for free with guaranteed returns by a developer of substance then - and this is almost 10 years ago - I think it would have probably been worth the pain to put the infrastructure in and then build above ground. However, we have turned the whole thing quite literally on its head and we are now trying to deliver the master plan within the car park site, let us call it, and then we are trying to retrospectively create an underground roundabout, relocate a road after we have done everything above ground. It does not make any sense whatsoever. So, unless you have provided the infrastructure, you cannot retrofit that without excessive on costs, difficulty and effect to St. Helier. I do not think anybody has quantified the effect to St. Helier. Lee Henry in the town hall meeting last night said when there was the problems with the flags blowing off on Victoria Avenue and that created however much traffic chaos, and we all remember Mount Bingham when a few rocks falling down Mount Bingham literally brought St. Helier to a standstill for about 3 to 4 months, those were very, very minor items. Relocating the main road east/west going through St. Helier, which is going to take you 2 to 3 years, it is physically impossible. I would say to the panel now, and I will put it on public record, the road will never be sunk. The master plan, therefore, can never be delivered because without sinking the road you cannot do the development on top of the land you have created and the way that the plan is now post the 2011 amendment means you cannot deliver the 388 homes, you cannot deliver the hotel, the self-catering, the winter garden and everything else that the public was promised. So the master plan is fundamentally flawed.

Deputy J.A.N. Le Fondré:

It is looking to have been slightly doubtful if there is any element of doubt in what you just said there. I suppose the question does arise if we then focus on the underground car park, the 520-space one, just again I think I can guess the direction you are taking, but what certainty in your experience, or it is an opinion actually, do you think that we have as the States Assembly that that underground car park is going to be delivered?

Group Property Director, C. Le Masurier Limited:

Going back to the earlier question, if you develop one building at one end it then gives you difficulties with how you deal with the rest of the site. The development of the 3.5 storey basement car park is now proposed after the fifth office building. So you have got 5 office buildings on the Esplanade site before you then start to go 14 metres underground into effectively a tidal zone with environmental difficulties that you need to deal with. We are back to the reverse engineering solution again. It is far more costly. I do not know of a single contractor on Island who can physically do that. You would have to go off Island to get specific tendered, hopefully, operators to do that car park and T.T.S. (Transport and Technical Services) have said by shoehorning it in the top corner, effectively on the curve of the existing road, you are creating inefficiencies because of the space. In order that you could potentially, although I do not believe physically it can, link it at a later date to an underground road, you have to design it in a certain way in terms of the levels towards the road, so there are further cost implications. If you go to Sand Street car park and you drive round it, the spaces are too small and you have to go round this car park to get in and it is not fit for purpose. All we are doing is building an unfit for purpose car park but sinking it 3.5 storeys into effectively a tidal zone. It is just nonsense. The car parking is a fundamental element. The original master plan had 1,420 car parking spaces. We have now got 520 at best, so there is no correlation from what was to be delivered as to what might be delivered. Sorry, coming right back to the question, there is a cost implication, it might not be built and if it is built it is costing us, the taxpayer, even more money to do it because we have built 5 office buildings and those tenants are not going to want to be shaken all day long as they are sitting there busy working. They are going to want some comfort that the works are going to be outside office hours or the construction element of that, which is what Royal Bank of Canada insisted on. They insisted on the car park was going to be delivered as part of the first phase because they did not want to be sitting next to a hole in the ground that took 2 years to build because they thought sitting there, the building is quite literally shaking as they are piling, is not going to be good for the staff. So we are going to build an international finance centre, supposedly, if we get that far, and then we are going to shake it to bits for 2 years. It is a joke.

Deputy J.A.N. Le Fondré:

Just for the record, when you mentioned Mount Bingham I think Kevin probably still bears the scars from that one.

Deputy K.C. Lewis:

It actually belongs to the parish of St. Helier so we will not go there.

Deputy J.A.N. Le Fondré:

We have done very well on time. We are just on the hour mark. I think we are okay for a couple more minutes. The question I have is really a wrap-up question. Obviously the panel is looking at this review from a financial and feasibility perspective as opposed to a planning perspective, but do you have any other salient points you wish to raise on those areas at this point in time?

Group Property Director, C. Le Masurier Limited:

Yes. If we use, again for transparency, S.o.J.D.C. either their own figures or those from their independent valuers, BNP, the submission that I believe that they made to the panel included a valuation dated March 2014. They provided that to you in roughly March 2015 I believe, so a valuation that is one year out of date. The valuation itself says: "This does not comprise a formal valuation." It is a very technical subject but in layman's terms some parts of it are very, very easy to understand and these are on the second page, the assumptions, the basis upon which you have created your valuation. The land has been transferred to J.D.C. (Jersey Development Company) at nil value. Everybody knows the land was transferred to J.D.C. in 2009 at £1. The current quoted value, so to speak, is £15 million.

[14:30]

The rental income from that site every single year since 2009 is £759,000, which has gone, as far as I am aware, to S.o.J.D.C. So you have bought a prime site with a value of £759,000 capital income each year for £1. I wish I could be doing deals like every single day of the week. If you go through the BNP valuation following the assumptions, the assumptions are starting construction in April 2014 - well, we are obviously one year on from that - and buildings 1, 2, 3, 4, 5, 6 literally follows, so they are very successful in their letting policy, which is fantastic, the Jersey International Finance Centre is coming out of the ground literally by the day, and as part of that they can only get a value of £55 million at the end of the valuation. So, even on the smoothest transfer all the way through the valuation process, getting no land value whatsoever and the land value could be in the order of £30 million to £40 million, so it is greatly underestimated to date, given that you have let to institutional tenants, long-term leases, long-term tenants, not a trust local company on 3,000 square feet and you have to give 2 years rent free, even on the very, very, very best basis the valuation only comes out at £55 million and then you have to take off the land value. So, taking off the land value, the return on the best basis is £25 million, let us say. So I would surmise from that that the whole project is unviable because you will not let building, by building, by building all the way through very smoothly. The yield at 6.5 per cent they have used in later documents is far too optimistic. If you were buying a prime single-let trophy building you might get 6.5 per cent. If you are going for a multi-let office building with a range of covenant tenants and it is a long leasehold as opposed to a freehold building, which institutions are slightly shy of, it is part of an international finance centre that you do not know whether it is going to be built or not, you would be looking at that. Many of the institutions from the U.K. will not touch Jersey because it is a different market, it is a totally different way of doing things. So the demand and the depth of market is totally different. So the valuation that says is not a formal valuation that has been submitted by S.o.J.D.C. as their justification of land value is frankly astonishing and the Treasurer of the States, on behalf of the public of the Island, should be asking S.o.J.D.C. where is their independent valuation, because under P.73/2010 they need to have a clear exit strategy for every asset. The exit strategy will impact on the terms that they would negotiate upfront. So unless you have an independent valuation ... and with respect to BNP who are the letting agents I do not think you can say that they are independent, so you need an independent valuation from somebody else in order that you can negotiate your terms. That has been breached. There is a whole catalogue here of fundamental errors within the processes of S.o.J.D.C. overseen by the Treasury on behalf of the public.

Deputy J.A.N. Le Fondré:

Can I pick you up on 2 matters? You made reference to - plucking a figure slightly out of the air I think - the land being worth £30 million to £40 million. How would you justify that figure?

Group Property Director, C. Le Masurier Limited:

If you look at the land value if you amalgamated all of the sites that were acquired to put the R.B.C. site together, that equates to approximately £60-something per square foot land value. If you then said the land value next to the Grand Hotel - we are back to location, location, location again - it must be worth more if you are on a prime site closer to 5 minutes from the centre of town, you would therefore upgrade the £60 per square foot to a higher level figure. If you are building 470,000 square feet, and for the sake of just doing round mathematics, £100 per square foot, 470,000 square feet, you are over £50 a square foot. So if you arbitrarily said let us go for 30 million, I do not think you would be too far away from something that is real.

Deputy J.A.N. Le Fondré:

Okay. You talked about yield and I presume that you are quoting from the documents that have been put on our website. You suggested that a weekly yield should be used compared to 6.5 per cent. What in your opinion or professional opinion is an appropriate yield, given the criteria stated?

Group Property Director, C. Le Masurier Limited:

If it is a multi-let building in the first stage of construction, the first building, so there is risk about the rest of the development in the master plan, if you were looking at that building and thinking: "Well, is anything else going to be built or am I just going to buying a turkey on a corner?" it will be over 7 per cent.

Deputy J.A.N. Le Fondré:

Does anybody else have any questions yet on these areas? What I was going to say is have you got any other points to make or is that your ... right, okay. Well, I think at just gone 2.35 p.m., we will call it a day on that one. Thank you very much. We will call the hearing to an end. Thank you for your time. Obviously we will continue doing the review and we shall eventually report our findings. If we have got any specific queries that arise, we may wish to get you back in front of us. Other than that, thank you very much for your time.

[14:36]