STATES OF JERSEY

STATES OF JERSEY DEVELOPMENT COMPANY: PRE-SALES PROVISIONS FOR RESIDENTIAL DEVELOPMENTS AND PRE-LET(S) PROVISIONS FOR COMMERCIAL DEVELOPMENTS

Lodged au Greffe on 19th December 2024.
by the Council of Ministers
Earliest date for debate: 4th February 2025.

STATES GREFFE

PROPOSITION

THE STATES are asked to decide whether they are of opinion −

That The States of Jersey Development Company Limited should accord with the following pre-sales provisions for residential developments and pre-let(s) provisions for commercial developments:-

If it is proposed that a specific development is undertaken directly by SoJDC, before committing to construction costs SoJDC will, on a residential development, have to secure a sufficient level of legally binding pre-sales in line with third party funding requirements or, on a commercial development, a sufficient level of legally binding pre-let(s) that, together with the unlet space, will deliver an end value of the completed building that exceeds the costs of constructing the development. This will remove part of the sales/letting risk of a particular development project.

COUNCIL OF MINISTERS

REPORT

Background

P.73/2010 ("P.73") as amended, the Proposition that established The States of Jersey Development Company Limited ("SoJDC"), contains a number of risk mitigation measures that SoJDC are obliged to follow. These risk mitigants have served SoJDC well and to date, the Company has delivered five major development projects and the four sold projects have realised profits that have met or exceeded signed-off forecasts.

One of the risk mitigation measures relates to the level of pre-sales and P.73 reads as follows:

Sales – If it is proposed that a specific development is undertaken directly by SoJDC, before committing to construction costs SoJDC will have to secure a sufficient level of legally binding pre-sales or pre-lets to fund the costs of constructing the first phase of a scheme. This will remove part of the sales risk of a particular development project and will ensure that there will be no financial liabilities relative to a particular development's construction costs.

Whilst this pre-sale requirement exists as a risk mitigant under P.73, where third party financing is required - which is normally the case for SoJDC developments - lenders also require a level of pre-sale commitments. Similarly, the SoJDC Board has a duty to assess and mitigate risk associated with developments and will consider the level of pre-sales to ensure the development risk is within tolerable limits for the company. The tolerable risk for both the lender and the Board may be below the level established by the P.73 requirement to ensure sufficient pre-sales to fund construction costs, having regard to the economic context of the time.

Previous Developments

When SoJDC released College Gardens for pre-sales in 2015, it took 15 months to pre-sell sufficient value to meet this risk mitigation measure. SoJDC was locking into the end value on at least 75% of the Gross Development Value of the project with its costs still floating as it could only enter into the fixed price build contract once it had secured the necessary level of pre-sales. As it was a low inflation environment at the time, there was not a significant uplift in the construction costs, however there remained a risk that the build cost would not be affordable and the viability of the scheme remained at risk until the build contract was entered into.

Future Developments

With Planning consent received on South Hill, SoJDC is aiming (subject to market conditions) to commence pre-sales in Q1 2025.

In the current high inflation environment, SoJDC wants to commit to the construction as soon as possible in order to reduce the risk of having an unviable scheme.

On a commercial office building, the value of the completed building is taken as the whole with pre-let space attracting a stronger yield than the unlet space, but reflecting that the unlet space has a value nonetheless.

On a residential development, the unsold units still have a value and could be sold at a discount if there was a desperate need to repay any remaining finance. Alternatively, there remains the option to rent out any unsold units and to use the rent to service any remaining debt.

Commercial lending requirements

SoJDC will be securing third-party bank development finance that will cover up to 66% of the costs of the development. The third-party lender will set out its requirements for the level of pre-sales and the SoJDC Board will also review the level of pre-sale that it is prepared to advance with, in accordance with their risk appetite.

SoJDC has asked that the level of pre-sale be amended to align, as a minimum, with that of any third-party lender. This is to ensure that the risk mitigant ironically does not add an unintended risk to the development.

Prior to SoJDC committing to any major acquisition, sale, borrowing or construction contract, the Minister for Treasury and Resources, as the Shareholder representative, has to review and provide consent to SoJDC via a Ministerial Decision. Such decisions are subject to a 15-day cooling-off period.

In the case of South Hill, as a result of the proposed change, it is estimated that the pre-sale period for the development will be six months as opposed to fifteen months and therefore resulting in the delivery of new homes some nine months earlier than would be the case with the existing requirement. This is because SoJDC are able to commit to the construction contract earlier, resulting in an earlier commencement of construction date.

Regeneration Steering Group Support

The Regeneration Steering Group, which has political oversight over SoJDC and its activities, supports the proposed pre-sale and pre-let provisions.

Recommendation

The Council of Ministers recommends that the revised pre-sale and pre-let requirements be approved to ensure that the relevant provisions of P.73 do not inadvertently introduce additional development risk or delay to the delivery of future developments.

Financial and staffing implications

There are no resource implications arising from this proposition.

Children's Rights Impact Assessment

A Children's Rights Impact Assessment (CRIA) screener has been prepared in relation to this proposition and is available to read on the States Assembly website.