

CORPORATE SERVICES SCRUTINY PANEL

JERSEY INTERNATIONAL FINANCE CENTRE REVIEW OF FEBRUARY 2015

WRITTEN SUBMISSION OF DANDARA JERSEY LIMITED (Redacted Form)

INTRODUCTION

- 1 Dandara Jersey Limited (Dandara) has been requested by Deputy J A N Le Fondre Chairman of the Corporate Services Scrutiny Panel (Panel) to make a formal submission in respect of the review of the proposed development of the Jersey International Finance Centre on the Esplanade Car Park St Helier Jersey (Proposed Development).**
- 2 Dandara acting through its Managing Director Martin Clancy has resolved to make a submission in response to this request.**
- 3 Dandara mindful of the fact that submissions to the Panel are made publically available, unless it is agreed to the contrary with the Panel that some or all of a submission may be made in confidence, have made such an agreement with the Panel in order that materially commercially sensitive to Dandara and third parties with whom it has dealt, is dealing, or may deal can be made available to the Panel but not for public dissemination.**
- 4 Dandara's submission will accordingly be prepared in two copies one of which will be the full narrative for the Panel's consideration and the other a redacted version for public dissemination.**

DANDARA

- 5 In order to give context to the submissions of Dandara it will be helpful for the Panel to be aware of the following information:**
 - a. Dandara is part of the larger Dandara Group of companies which has carried on property development and construction activities in a number of locations including Jersey Guernsey Isle of Man England and Scotland for some 29 years.**
 - b. Dandara has operated in Jersey since 1994**
 - c. Dandara during the period since it first commenced operation in Jersey has grown to be the largest residential and commercial developer in Jersey and has constructed or is in the course of constructing some 2,000 units of dwelling accommodation from studio flats to executive houses on some 25 sites and some 425,000 sq. feet of Grade A Office Space.**
 - d. Among its completed developments are:**
 - i. Castle Quay a mixed commercial and residential development which contains 384 apartments**
 - ii. Century Buildings a mixed commercially and residential development the office element of which contains the principal local office of HSBC Bank Plc.**
 - iii. 26 Esplanade where among the tenants are the Jersey Financial Services Commission and the Capita Group.**

- iv. 37 Esplanade (its most recent completed office development) where among its tenants are PwC, KPMG and a number of other principal finance sector occupants.
- v. It is presently in the course of constructing at its Esplanade site bordering Kensington Place the Esplanade and Patriotic Place the largest office development ever undertaken in the Island among the occupiers of which will be the Royal Bank of Canada Group (for its offshore headquarters) and Deloitte. That letting was secured in direct competition with the Proposed Development.
- vi. (Redacted).

- 6 It is respectfully submitted that these completed developments, in course of construction developments, and shortly to be commenced developments show the intimate knowledge experience and expertise of Dandara in the Jersey market place and particularly in the provision of Grade A office space to the largest and most discerning finance sector occupants.

FACTUAL MATRIX

- 7 The information contained within this submission has been derived from (inter alia) the private records of Dandara the public domain and the knowledge of real estate surveyors practising in the Island who have the comprehensive knowledge of the market place and the office space requirements of parties already carrying on business in Jersey and those seeking to establish a presence and commence business in Jersey.
- 8 The opinions expressed in this submission are those of Dandara derived and shaped from its unparalleled experience and proven commercial acumen in office development in Jersey.

SUBMISSION PRINCIPLE

- 9 The Panel has set itself seven questions to address. The contents of this submission may be used by the Panel to assist themselves on each of those questions to the extent that the submission is relevant to that specific consideration. The submission addresses some of the questions directly but the contents of the response to any question can be used in the consideration of any other. It is thought helpful to the Panel to minimise duplication in this submission.

QUESTIONS AND DANDARA'S RESPONSE

10 Question 1

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

It is Dandara's view that the Proposed Development does not in any way represent the best (Indeed any appreciable) socio-economic value to the States of Jersey (**Government**) on behalf of the people of Jersey (**Public Good**)

As recently as 18 March 2014 the then Minister for Treasury and Resources confirmed to the States Assembly that *"the current estimate is £50 mil in today's currency, in today's values. I think it could be a lot more"*. Dandara's view is that this belief is simply incapable of being supported by the reality of the potential of the Proposed Development.

It is Dandara's view that the Proposed Development actually represents a huge risk (in financial terms) to the Public Good. It will not be a financial success and accordingly far from making a material financial contribution to the finances of Jersey of £50 mil or more as has been indicated will incur material financial loss estimated by Dandara at c £74 mil and moreover deprives the Public Good of any other more beneficial use of the land.

Dandara's philosophic viewpoint would be that Government needs to set a framework for the successful achievement by the private sector of the policies of Government. It is not the place of Government to compete with the private sector for the provision of office accommodation which should be the preserve of the private sector skilled as it is in assessment of market opportunities and the development of the product the market demands.

Government faces many and varied challenges in the present world in which Jersey exists. That world has changed materially since the 2008 Masterplan was conceived. Government has insufficient intellectual capital and financial capital to deal with all the demands which are either made upon it or it chooses (as it has done in this case) to assume.

The Government's resources could and should be better deployed elsewhere than in this specialised field where as this submission will show the private sector can and is willing to provide what the Island needs and thus discharge the burden of the advancement of the Public Good without financial risk to the Public Good.

11 QUESTION 2

To assess the commercial viability on the implementation of the 2008 Masterplan for Esplanade Quarter

Part I.

To every developer the starting position for any project is a feasibility assessment and that process is carried out relatively quickly prior to acquiring and designing the project. Such a feasibility assessment sets all of the financial targets to be achieved and the cost that will be incurred to determine whether the project will be viable. These calculations are always based on today's values and today's costs.

In appendix 1 the Panel will see a feasibility study that Dandara has undertaken on the Proposed Development (**Feasibility**), based on the permissions granted to date a forward projection in respect of the other buildings of the 470,000 ft. scheme and applying the methodology which Dandara would apply to any scheme of its own.

The assumptions driving the Feasibility are detailed below:

Office net lettable area This is as SOJDC previously announced 470,000ft.

Rentalised Car Parking	Allowed for 150 underground spaces in the master plan, which will be for exclusive use of the office occupiers.
Rent Rate	There have not been any lettings of substance (over 10,000 sq ft) in excess of £34/sq ft. to date in Jersey. It may be that the tenants SOJDC have lined up will pay over £34, but Dandara would view this as a special lessee on special terms and not in line with other equivalent transactions in the marketplace. The over-renting of property will only result in a reduction in the return achieved when the property is being sold.
Yield	Recently Dandara have tested the market for office sales with 37 Esplanade, which has a value in excess of (Redacted), with institutional leases up to 15 years in place with the most blue chip of tenants. Following a year of marketing Dandara only received concrete bids at yields between (Redacted). The last substantial office sale completed in the Jersey marketplace in January 2015 was of 44 Esplanade which was sold at a yield of 7.85%. It is noted that the Proposed Development will ultimately be sold by way of long leasehold, which has traditionally diluted investment value compared to freehold sale, never the less the Feasibility allows the most generous yield possible of 7.15%.
Rent Free/Incentives	Current market incentives are one month rent free for each year of the lease. The Feasibility assumes terms of 15 years certain.
Cost of Sales	This is a RICS standard valuation practice which reduce the purchase price by the purchasers cost of purchase, fee including agent, stamp duty and legal costs.
Nett Saleable Value	This is the amount the developer receives for the property.
BUILD COSTS	Through the planning portal Dandara has had time to review the drawings on Building 4 and have priced the scheme up based on that review. Dandara has twenty years' experience constructing offices along the Esplanade and comprehensive knowledge of the complications involved in constructing basements on the Waterfront's made-up land. Dandara estimate the build cost for this building is c. £19.5mil and at a net lettable area of 65,000 sq ft this equates to £300/sq ft. the number used for the build costs across the whole of the Proposed Development in the Feasibility. Dandara have assumed at this stage of the Proposed Development that accurate build cost figures have been produced by SOJDC who may already have a formal build cost figure from their contractor. The Panel should obtain this information which is vital to its consideration of the viability of the development.
Professional Fees	Taken at 10% of build costs
Letting/Marketing Fee	Taken at 7.5% of initial annual rent for a letting
Sale/Marketing Fee	Taken as .75% of the sale value of each investment sale
Legal Costs and Fees	Allowed at 1% to cover all legal costs to prepare letting documents, pre - letting agreements and sale of the investments.
SOJDC Management Fee	Assumed at 2% of costs for the management of the project, as the scheme may take up to twenty years, £163k per

annum is not unreasonable assumption. The annual costs of running the SOJDC operation is circa £1.38mil (2003 accounts after exceptional items).

Land Value Residual land value for Grade A office accommodation land in Jersey with planning permission is currently £110/sq ft times the net lettable area in the building. In this case the total area is 470,000sq ft, so the residual land valuation is £51,700,000. There is an obligation to construct an underground car park of 550 car parking spaces, plus a temporary car park on the Waterfront. The Feasibility accordingly provides for a deduction of £22,000,000 for these two elements. Therefore net residual land value is £29.7 mil

Finance Costs There is an assumption that 50% of the build costs in financed through a bank, at a rate of 5% over the period of 2 year of the construction process averaged over the 2 year period. The Feasibility does not speculate as to sums for fee arrangement or any increase or decrease in base rates in the relevant period.

Profit/Loss THE RESULT OF THE FEASIBILITY IS A C. £73 MILLION LOSS.

Please note that a developer's margin has not been included, and a private sector developer for a scheme of this size and risk would require circa £30mil profit (being 15% of sale value). The Feasibility shows unequivocally that the Proposed Development would not be attempted by any developer in the private sector.

Part II and III

The 2011 Island Plan stated the area of current office space in Jersey is approximately 2,805,000 sq ft with 165,000 sq ft of vacant space. It also notes that there are existing planning permits of 185,000 sq ft office space in prime locations. Taking the Development at 620,000 sq ft it states that the Island Plan will allow for approximately, 3,610,000 sq ft., to be available

The plan also forecasts that 100,000 sq ft will be lost in the first 5 years of the plan and a further 250,000 sq ft of office accommodation will become obsolete in the last 5 years of the plan. 5.37 of the Island Plan states there is no need for further zoning of office accommodation to come forward outside of the Proposed Development.

Currently Dandara is aware of commenced developments or permissions for development on the following sites which have become current since the 2011 Island Plan:

5/6 Esplanade	48,000
8/9 Esplanade	50,000
19/21 Esplanade	36,000
22/23 Esplanade	26,000
27/28 Esplanade	70,000

37 Esplanade	88,000
66/72 Esplanade	161,000 Dandara has this under construction
29 Seaton Place	23,000
Le Masurier, Broad St	280,000
2 Mulcaster St	25,000
Southampton Hotel	13,000
2015 Total permissions	820,000
Less Island Plan permissions	185,000
Total Availability	639,000
Total existing Office space	2,805,000
Total Space	3,444,000

Since the Island Plan was adopted only c 88,000 sq ft of new space has been developed and occupied, with a further c 180,000ft under construction for delivery in 2016. This leaves a private sector supply line for the last five years (2016-2021) of the plan to be c 367,000 sq ft. With the Proposed Development Included this number becomes c 987,000 sq ft which would be a substantial over supply to the market.

In Dandara's research in this matter it was noted and the Panel may find this of interest that the information upon which the Island Plan made its assumptions, in quite a material number of places, copied the report word for word, which had been compiled by BNP Paribas, who have been the sole property agents acting for SOJDC's and WEB before them in respect of the Proposed Development. Attached as Appendix 2 are the relevant parts of the Island Plan and the BNP Paribas documents.

Demand

Dandara because of their own direct interest in developing Grade A office space have looked at what happened to existing offices when the tenants vacated them. In respect of the c 250,000 sq ft of offices Dandara have completed and let to date, all of the tenants old offices remained as offices, either rented at a lower rate or refurbished. Where buildings are let there are obligations upon the lessee to return the buildings in the same condition as when they entered into the lease. Therefore all offices vacated remain available to be relet and to a decent standard.

The following is a breakdown of companies in the finance industry in Jersey, as per Jersey Statistics Unit

Companies employing 1-5 employees	310
Companies employing 6-20 employees	90
Companies employing 21 upwards	100

Only 100 firms operating in the financial services sector in Jersey require over 3,000 sq ft of office space and they are all in existing buildings with existing leases. There will be only a small number which will wish to pay full market rental for a new building, when they can negotiate materially better terms from their current landlord or move to a refurbished building rather than a new building and have the associated saving in rental outgoing.

Included in Appendix 3 is an "occupancy" supply chart, which reveals that in the past 10 years c. 471,000 sq. ft have been occupied and this space has the capacity to house c 4,384 employees. The next 6 years pipeline of private sector development, with existing planning approvals, can provide for further c 7,332 employees. The Proposed Development provides for a further c 5,760 employees. The Financial Services Industry has employment numbers of c 12,500. The supply line going forward is c 13,092 plus the 4,384 which has been created over the past 10 years. Of course the vacated properties will accommodate a similar number.

In Appendix 4, there is an attempt to summarise known demand and take up since 2011. The initial part of the Appendix is taken from a letter in 2011 by Stephen Izatt, (written on behalf of the directors of WEB of which a copy forms part of the Appendix) requesting the Minister of Planning to restrict the amount of office space being approved on sites other than the Proposed Development because of the oversupply of Grade A offices in Jersey. Mr Izatt highlighted there was 1.4mil sq ft of potential supply going forward and only 546,000 sq. ft of possible requirement. Having reviewed where his requirement figure is today, only c 61,000 sq. feet of new office space has been taken up and a further c 91,000 sq. feet is committed to.

It is very difficult to put any precise estimate to the actual real demand for new build offices. Mr Izatt's estimate as against the subsequent evidence clearly shows this. Dandara is aware of possible demand for space over the next five years and that is a total of 168,000 sq ft.

Dandara currently has 161,000 sq ft under construction (with 70,000 sq ft unlet at present) to be delivered in 2016/2017 on 66/72 Esplanade. Dandara will be commencing a new development in September this year to deliver a further 70,000 sq ft in 2017/2018.

(Redacted)

The development by a third party on 19/22 Esplanade of c 36,000 sq ft has also commenced.

This new space requirement is exclusively for occupation by existing locally operating businesses and they will return to the marketplace their vacated space of a similar amount.

Save in respect of transactions where legal obligations have been entered into or are advanced to a stage where one can properly say they will be, it is very possible when they weight up their business cases they may not chose to move at all. In the past twelve months, two major companies, occupying c 87,000sq feet in total, elected to renew their leases and stay in their own premises. Certainty of demand is by no means an ineluctable reality.

Part IV

The original idea to have a Jersey Finance Centre was conceived some ten years ago and through many amendments has resulted in the current master plan and individual planning applications and permissions. Finance was far more readily available ten years ago and developers were more prepared to proceed with ambitious projects. Jersey was well financed had little or no unemployment and Jersey based finance firms were expanding.

In the past seven years Jersey has have experienced a deep deep recession and the finance industry locally has regressed.

Anecdotally Government projections (in particular the McKinsey report which will no doubt be before the Panel) show that with current trends the financial services employment numbers in Jersey could reduce from c 12,500 employees to c 8,000 employees by 2020 unless new business is brought in. It is the duty of Government to encourage that new business into Jersey. It is not the duty of Government to construct offices to accommodate it if it comes. Unless you subscribe to the "field of dreams" philosophy (if you build it they will come) the mere fact of office accommodation being available will not generate business. It would be a brave developer and a braver politician who would stake his business (or his Island's wellbeing) on that philosophy.

Dandara does not have any evidence real or anecdotal to support a belief that employee numbers (and thus a space requirement) will dramatically increase. Today buildings are becoming more efficient and where in the past 130 sq ft would be needed for 1 person the density figure on current buildings is 86 sq. ft for 1 person. This is a reduction of 33% in the space requirement for each employee. Dandara do not see the overall employment numbers materially increasing and with the employee density requirements reducing the total space requirement in the future will most likely be reduced.

Addressing the question asked of the ability of the private sector to deliver such a centre the answer is an absolute yes. The demand is no greater than in previous years so the development output to meet that demand will not be materially different to that of the last twenty years in Jersey, which the private sector has fulfilled.

The Proposed Development puts all the space requirement (and as shown vastly more!) on the same site. One can argue that that attracts or discourages occupiers. The private sector can and will provide it on separate sites all however within the immediate area

If the question was asked, would the private sector deliver the Proposed Development as currently planned, the answer is an absolute no. The offices currently designed are too expensive to build and make the scheme unviable as this submission shows.

In addition to this of course no private developer would consider for one moment the manifest financial risk of lowering the underpass.

When planning a project, which has to be financed and viable in the private sector, you must set budgets as to what you can afford to spend on bringing the project to market at a price people will pay competitively in the market and with a profit margin to justify the risk profile of the project. Those revenues and costs must be on today's values. All development carries risk. Even with a signed pre-let (the best a developer can hope to do) a developer faces risk.

Dandara's assessment of the Proposed Development is that the design team were instructed to design similar offices as those to be found in London for this scheme. They used the biggest and the best architects in the UK, from the master plan itself to design of the individual buildings.

The result is a scheme where the build cost will be c £300 sq ft That may be fine in London where investment revenue for the sale of such buildings can return in excess of £800 sq ft (after incentives) but not in Jersey where the nett return is closer to £416 sq ft (after incentives)

THERE IS NO WAY THE PROPOSED DEVELOPMENT, AS CURRENTLY PLANNED, CAN WORK FINANCIALLY.

12 Question 3 and Question 4

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 Jersey International Finance centre and to examine whether that position is consistent with previously established pre-let conditions and comparable with market/industry expectations

It has been reported widely that the Proposed Development will commence in the second quarter of this year with one tenant reporting to be at the legal stage of negotiation having passed the commercial stage of negotiation.

The reason that the public have been informed is because SOJDC commenced infrastructure works to the new car park and clearing of the site of Building 4. Dandara on the information available in the public domain do not believe that all the pre-commencement conditions on the Planning Permit have been satisfied to justify the commencement of works. The conditions relating to Breeam and Phasing are examples.

In addition Dandara contends as demonstrated below that a start of to the Proposed Development based on this one letting will contravene the formal decision of the States Assembly which created SOJDC.

In Proposition P73/2003 under the heading Sales it is stated "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"

On the basis that the initial letting is of 18,000 sq ft and 6 car park spaces (which is the anecdotal expectation of the market place) the nett saleable value of this investment will be £7.6mil (based on the methodology in Appendix 1) but the total cost to construct with associated fees and finance will be in excess of £22mil.

There is no doubt there will be a risk of financial liabilities in the future. A usual commercial penalty when a pre-let has been executed where the transaction does not proceed for any reason would be up to a third of the capital value of the letting, in this case 33% of £7.6mil - £2.5mil. Thus the financial risk, worst case, of proceeding with this single tenant letting is a £2.5mil payment against a minimum of £22mil costs.

A financial institution financing the scheme would have to take the view that the Government will not let one of its own companies' fail. On that basis a financial institution could assess their risk at being very low but they would not finance an equivalent private sector scheme in such circumstances. Government should in no way believe that if a lending institution is happy to proceed that the Government should be comforted that there is thus no risk and all will be fine.

13 Question 5

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

Dandara can make no comment on this question

14 Question 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

SOJDC (and its predecessor WEB) have to date been responsible primarily for commercial development to the extent of a commercial centre of leisure pool cinema etc, a commercial centre of retail shops short stay apartments transport hub etc, an hotel, marina user facilities two office blocks and two residential developments.

In all cases they were not the developer but rather a partner of the developer to the extent of an outright cash sale and/or a profit participation. All the developments were carried out by experienced private sector developers.

At Castle Quay the only financial input that SOJDC had was to sell the land to Dandara (who developed) for £3.5mil its land valuation at that time. Dandara carried out all the design, planning, costing, construction, development risk and sales of a successful

development. It resulted in Dandara paying in total including the land price a sum of circa £17mil to SOJDC.

Dandara is not privy to the financial arrangements in respect of any of the other projects but the principle will not doubt have been the same. The developer took the risk the public purse did not and the reward was shared by the developer and the public purse. This is a classic recipe for the best exploitation of public assets for the Public Good.

15 Question 7

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

Dandara can make no comment on this question

16 Conclusion

There is no market demand now or in the foreseeable future which requires the Government to become a developer of Grade A office space with the Proposed Development and thus expose the Public Good to the immense risk which is apparent.

If the Government does proceed there will be no return to the Public Good of £50mil or more and indeed as the Feasibility shows the only realistic outcome is a huge loss.

Dandara Jersey Limited
M J Clancy
Managing Director
26 February 2015

Appendix 1

Appendix 2

Offices

EO: Objectives

5.25 The Department of the Environment seeks to assist the Economic Development Department in retaining the position of Jersey as an international centre for finance and investments, as well as enabling other business activities to develop and thrive. Office uses are recognised as essential to the vitality and viability of the town and, indeed, the Island. The main aims of the new Island Plan are to:

Objective EO 1

Office policy objectives

1. Ensure that sufficient land and opportunities are available to meet the need for additional office floor space;
2. Generally ensure that major office developments do not spread outside the town centre;
3. Facilitate the re-use of buildings and vacant floors of buildings where appropriate; and
4. Allow the provision of small-scale offices within urban and key rural settlements, where they can provide local employment.

5.26 Growth in the financial services sector, together with a greater dependence on information technology and corporate aspirations for first-class office environments have given rise to a demand for larger, modern and more flexible offices. Quality offices are more likely to attract staff, an important consideration when staff are at a premium. Demand is also strong in the secondary office sector from smaller companies looking to expand, or from established companies looking to consolidate, improve and rationalise their space.

EO: Current position

Provision of office accommodation

5.27 Ensuring there will be sufficient space to meet the needs of a worldclass offshore financial services industry is a key aim of the plan. The Waterfront development will release modern premises for financial and related services. The Esplanade Quarter development is anticipated to deliver a significant increase in modern office development of which a large proportion is expected to come from relocation, with the rest arising from growth/new entrants into the Jersey financial sector.

5.28 The Island's population includes some 12,000 professionally trained staff working in the finance and support industries and Jersey is established as an international finance centre for both institutional and private clients. There are now nearly 50 banks located in Jersey and they include nearly half of the top 25 banks in the world and the finance industry represents 53% of the Island's GVA (2008 Jersey in Figures).

5.29 The St Helier office market is estimated to contain around 2,805,000 sq.ft of office stock measured on a net internal basis. Of this, some 165,000 sq.ft (approximately 5.8% of the total stock) is currently vacant and available for immediate occupation. The market is fragmented and spread in pockets throughout St Helier, albeit the core is now regarded as being around the Esplanade.

5.30 In addition, there are currently three significant sites with planning permission in the Esplanade area that could yield some 185,000 sq.ft of prime office accommodation. If no accommodation is lost to alternative uses and the schemes with planning consent and the Esplanade Quarter come to fruition, the total office stock will be approximately 3,610,000 sq.ft.

5.31 Over the past three years, take-up of new office accommodation in St Helier has run at circa 200,000 to 225,000 sq.ft per annum. It is clear that the current "credit squeeze" and global economic situation has caused many of the larger institutions to review their operational property requirements. The vitality of the local office market is intrinsically linked to the fortunes of the local finance industry and the global economic slowdown has undoubtedly caused concerns in this area. Much of the demand for new office accommodation was being driven by the Island's larger banks and trust companies. The focus for many of these organisations is currently on cost saving and redundancies (particularly for the banks that now have large UK government shareholdings) and many possible requirements for new premises are currently on hold.

5.32 Much of the secondary stock within St Helier, particularly accommodation located in converted buildings, no longer provides the quality and functionality that the Island's principal finance and legal firms require. A number of companies are seeking to amalgamate their operations, which have traditionally been based in a series of buildings around the centre, in order to increase the size of floorplate and create more efficient working practices through open-plan offices.

5.33 It is likely that a proportion of the secondary and tertiary office accommodation will become functionally obsolete and alternative uses, such as residential, may be appropriate.

5.34 A market will remain for the better quality accommodation as there will undoubtedly be a raft of businesses who do not wish to pay the rentals for new accommodation in the prime areas. A two-tier market is likely to evolve with secondary areas playing a supporting role to the new premises in or close to the

Esplanade Quarter. The focus of the secondary market is likely to be in areas away from the Esplanade where there is already a concentration of good quality office stock such as New Street, Bath Street, Bond Street, Hill Street and Grenville Street.

Impact of Esplanade Quarter

5.35 It is inevitable that the level of office development in the Esplanade area and the planned Esplanade Quarter, which could represent up to 24% of the total office stock, will have an impact on the local office market. As stated above, it is clear that most now regard the core of the local office market as being in the Esplanade area and the majority of requirements from larger institutions are likely to be met in or around this area.

5.36 Over the life span of the Island Plan much office accommodation will become obsolete in location and functionality. It is estimated that, of the current office stock, over the first five years of the Island Plan, some 100,000 sq.ft of office accommodation, representing approximately 4% of the current total stock will become obsolete. It is estimated that in the second half of the life span of the new Island Plan (years five to 10), some 250,000 sq.ft of office accommodation, representing approximately 10% of the total current stock, will become obsolete.

5.37 There is, therefore, no need to provide newly zoned land for offices outside of the Esplanade Quarter area. However, the Plan must allow choice and flexibility in the office market. It is anticipated that this will be mainly met through opportunities for redevelopment within the town centre and in the Regeneration Areas, as identified on the Proposals Map.

5.38 Given Jersey's small and highly specialised economy it is unlikely that predictions for more than 6-12 years will remain valid. Therefore, market indicators will be used to monitor and provide information on the balance of supply and demand and develop policy options to deal with any imbalances that arise.

EO: Policies

New office development

5.39 Office developments continue to be located in St Helier - there is little provision elsewhere in the Island. The Island Plan seeks to contain office uses within the town centre, as defined on the Proposals Map, and to avoid the spread of uses into residential areas. Although new offices have tended to be built to customer requirements, rather than speculatively, if sustainable development is to be achieved, re-use of existing buildings should be considered where possible and appropriate.

5.40 While the town centre of St Helier is regarded as the most appropriate location for offices, it is recognised that a tightly drawn office development area would limit opportunities and lead to a sterile environment in the town centre,

particularly at night. Office uses may be considered appropriate within certain of the areas of St Helier that currently comprise a mix of uses. The masterplans proposed for Regeneration Zones will determine the appropriate level of office development in other areas.

Policy EO 1

New office development

The development of new offices, and extensions to existing office accommodation, will be permitted within the St Helier Town Centre, as defined on the [Proposals Map](#), and Esplanade Quarter, provided that the proposal accords with Policy GD1 General Development Considerations.

Some new office development may be permitted in the following areas:

- Pier Road/Commercial Buildings;
- North of Town Masterplan area; and
- Gloucester Street.

The appropriate level of new office development in these areas will be determined through the outcome of the North of Town Masterplan and other 'Regeneration Zones' masterplans.

Outside St. Helier Town Centre, the Waterfront and the defined St. Helier regeneration zones, new office developments will not be permitted except where they accord with Policies EO2 Policy EO 2 'Conversion of upper floors of existing commercial buildings for office accommodation' and EO3 Policy EO 3 'Other small scale office development'.

Conversion of upper floors of existing commercial buildings for office accommodation

5.41 There are requirements for secondary office accommodation that can readily be met by offices on the upper floors of commercial premises, rather than in purpose-built accommodation. This makes good use of existing buildings. Such use is appropriate within the boundary of the Built-up Area provided that the ground floor is already in commercial use (including retail). Any such development should not lead to the loss of residential units or have a detrimental impact on the environment or neighbouring uses.

BNP Paribas Real Estate Jersey

St Helier Office Market Report

May 2009

4th Floor, Conway House, Conway Street, St Helier, Jersey

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Email : chris.daniels@bnpparibas.com

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1. Background

- 1.1 The office market in St Helier is fragmented and spread throughout a number of locations in the Town.
- 1.2 Traditionally the heart of the office market in St Helier was around Hill Street and Library Place due to their proximity to the States Chambers, Royal Court and prime retail areas of King Street and Queen Street. The growth of St Helier's office market in the 70's and 80's saw the development of office buildings throughout the Town in locations such as Grenville Street and Colomberie, La Motte Street, New Street and Union Street. There was, however no clearly definable office core and development was undertaken in a piecemeal way.
- 1.3 Most would now place the core of the office market on the Esplanade but this is a relatively recent trend since the 1987 Island Plan designated the Esplanade and its' immediate environs as the main area for office development.
- 1.4 The late 1980's, 1990's and the "noughties" have seen the Esplanade as the primary focus for new office development and the planned development of the Esplanade Quarter providing some 620,000 sq.ft of prime, purpose-built office space as a financial services district could cement the position of the Esplanade and Waterfront.
- 1.5 The key driver ensuring the vitality of the local office market is Jersey's Finance Industry. The Island's population includes some 12,000 professionally trained staff working in the finance and support industries and Jersey is established as an international finance centre for both institutional and private clients. There are now nearly 50 banks located in Jersey and they include nearly half of the top 25 banks in the world.
- 1.6 The Finance Industry provides a diverse range of other services including offshore trusts, legal services and fund administration and has undergone significant growth in recent years. In the five years leading up to 2006 total bank deposits increased by £70 billion to stand at approximately £187 billion and the total number of funds administered within the Island climbed by almost 20% to stand at 1,086 with a value of circa £169 billion.
- 1.7 Two of the main catalysts that have had an impact on demand are merger and acquisition activity amongst the Island's trust companies primarily as a result of legislative requirements and the banking sector looking to rationalise its' occupational requirements within the Island.

2. Office Stock

- 2.1 The St Helier office market is estimated to contain around 2,805,000 sq.ft of office stock measured on a net internal basis. Of this, some 165,000 sq.ft (approximately 5.8% of the total stock) is currently vacant and available for immediate occupation. The market is fragmented and spread in pockets throughout St Helier albeit the core is now regarded as being around the Esplanade and its' immediate environs.

- 2.2 In addition to the above there are currently three significant sites with Planning Consent in the Esplanade area with Planning Consent that could yield some 185,000 sq.ft of prime office accommodation. There are a number of other sites on the Esplanade which do not yet have Planning but could yield a further 100,000 sq.ft. Subject to Planning the proposed development of the Esplanade Quarter could yield a further 620,000 sq.ft of prime, purpose built accommodation.
- 2.3 If no accommodation is lost to alternative and the schemes with Planning Consent and the Esplanade Quarter come to fruition the total office stock will be approximately 3,610,000 sq.ft.
- 2.4 Over the past three years, take-up of new office accommodation in St Helier has run at circa 200,000 to 225,000 sq.ft per annum. It is clear that the current global economic situation has caused many of the larger institutions to review their operational property requirements and many larger requirements (10,000 sq.ft +) have been put on hold whilst organisations assess the impact of the global downturn. Even if there is a "slow-down" in the short term, this phenomenon will not last indefinitely and demand should remain from occupiers to amalgamate their operations in to single purpose built properties.
- 2.5 Much of the secondary stock within St Helier particularly accommodation located in converted buildings no longer provides the quality and functionality that the Island's principal finance and legal firms require. As mentioned previously a number of companies are seeking to amalgamate their operations, which have traditionally been based in a series of buildings around the centre of St Helier in order to increase the size of floorplate and create more efficient working practices through an open plan office design.
- 2.6 It is likely that a proportion of the secondary and tertiary office accommodation will become functionally obsolete and alternative uses such as residential may be appropriate. There is an emerging trend for Planning approval to be sought for conversion from office to residential use and over the past 12 months applications have been made relating to some [] of office accommodation.
- 2.7 A market will remain for the better quality accommodation as there will undoubtedly be a raft of businesses who do not wish to pay the prime headline rentals for new accommodation in the prime areas. A two tier market is likely to evolve with secondary areas playing a supporting role to the new premises in or close to the Esplanade Quarter. The focus of the secondary market is likely to be in areas away from the Esplanade where there is already a concentration of good quality office stock such as New Street, Bath Street, Bond Street, Hill Street and Grenville Street.

3 Current Supply / Demand Situation

- 3.1 It is clear that demand has decreased significantly over the past 6 months. The vitality of the local office market is intrinsically linked to the fortunes of the local Finance Industry and the global economic slowdown has undoubtedly caused concerns in this area. Much of the demand for new office accommodation was

being driven by the Island's larger banks and trust companies. The focus for many of these organisations is currently on cost saving and redundancies (particularly for the Banks that now have large government shareholdings) and so many possible requirements for new premises are currently on hold.

- 3.2 It is still probable that in the medium to long term the demand for new buildings, particularly those with larger floor plates will continue as organisations seek to achieve better organisational efficiency by bringing together disparate parts of their operation in to a single building.
- 3.3 As mentioned previously the take-up of new offices over the 3 years to 2008 had run at circa 200,000 to 225,000 sq.ft per annum. Thus far for Q1 2009 take-up has been in the region of 30,000 sq.ft. If one takes a very optimistic view and extrapolates this out for the whole year take-up could reach circa 120,000 sq.ft albeit in reality will probably be significantly less and thus at least 50% of the previous three years.
- 3.4 There is no new accommodation currently being constructed speculatively and thus the current fall in demand should not cause a spike in the office vacancy rate.
- 3.5 In addition to the global economic crisis, Jersey and indeed all other off-shore jurisdictions have experienced a great deal of scrutiny from sources such as the G20 and OECD. Much of this has been driven by the Stop Tax Haven Abuse Act in the USA. It is encouraging that Jersey has been placed on the OECD "White List" and there is a possibility that this will create opportunities for the Island however the full impact of steps being taken to stop tax avoidance are unclear. Despite cautious optimism at present there are concerns that new legislation could have a negative impact on the long term viability of the Finance Sector which will clearly have an impact on the local office market.

4 Quality of Accommodation

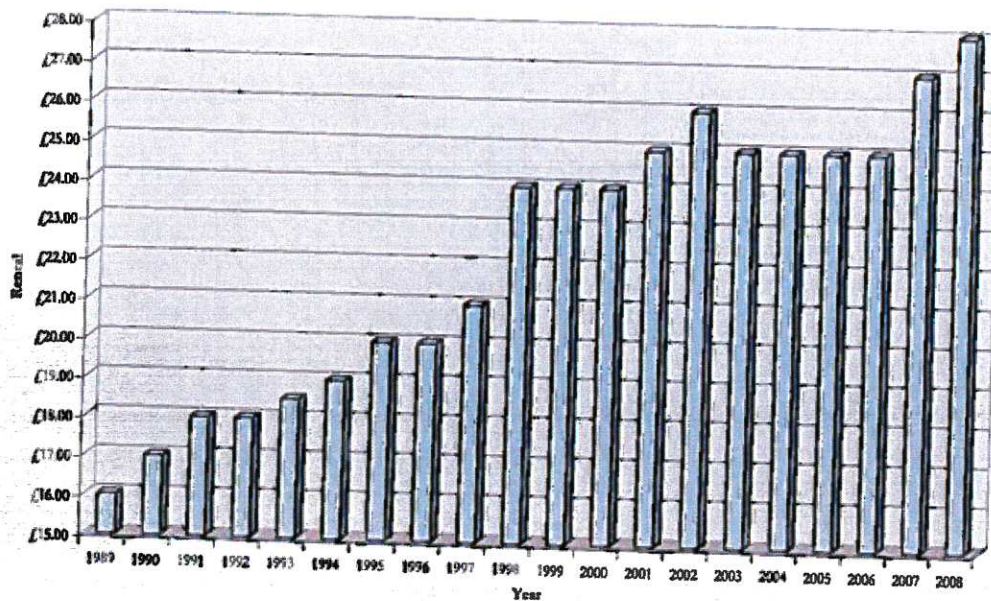
- 4.1 The quality of accommodation in St Helier ranges significantly but the majority of new build offices and refurbished offices are now completed to a BCO (British Council of Offices) Category A specification or in the case of refurbished offices as close to BCO Category A as it is possible to achieve within the existing envelope.
- 4.2 The developer fit-out ("Category A") achieves a level of readiness for operation which will support the generic requirements of a majority of office users, but without being able to occupy the building. The user fit-out ("Category B") overlays on the basic Category A provision the bespoke elements particular to the requirements of the specific user.
- 4.3 Category A works may comprise the following elements:
- Suspended ceilings and raised floors
 - Cooling and heating systems (typically a 4 pipe fan coil of a chilled beam system.)

- Office ventilation rates of 8-12 l/s per person.
 - Small power loading 15-25 w/sq.m
 - Base lighting solution.
 - Finishes to cores and reception.
 - Fully fitted WC's
 - Life safety including sprinklers, fire alarms and basic safety signage.
 - Distributed power to each floor but not to floor boxes.
- 4.4 In acquiring new premises the majority of modern occupiers will generally require a specification as close as possible to this standard.
- 4.5 On site car parking is also a requirement for new build premises albeit there is an understanding that car parking in St Helier is restricted and generally speaking there is not a fixed ratio of spaces per sq.ft that a tenant will seek. Proximity to public parking both for staff and visitors is attractive.
- 4.6 Approximately 998,000 sq.ft or 38.73% of the existing office stock is completed to this standard or a standard closely approximating to this and is situated in a prime location.

5 Rental Levels

- 5.1 Over the past 10 years prime office rentals have remained reasonably static, indeed from 1998 to 2006 the prime office rental rate only increased from £24.00 to £25.00 per sq.ft. During this period the market had a tenant bias and prospective occupiers of new projects were able to demand significant incentives both in terms of rent free periods and contributions towards tenant's Category B fit-out.
- 5.2 However, between the end of 2006 and middle 2008 continuing strong tenant demand and a lack of supply of good quality, well located modern offices led to rental inflation.
- 5.3 Since the start of 2007 there was a marked increase in the prime rental level and this currently stands at circa £28.00 per sq.ft with £29.00 being quoted on certain projects and indeed £30.00 psf was achieved on a sub-letting in the Waterfront area. At the same time as rentals increased there is evidence that the level of incentives being offered to prospective tenants fell. Even in the current economic climate it is unlikely that the prime rental level will fall significantly due to the lack of supply but it is probable that landlords will have to grant longer rent free periods and grant other incentives to persuade tenants to commit.
- 5.4 Rentals for good quality secondary accommodation, which could be categorised as modern buildings in a secondary location are in the region of £22.00 to £24.00 per sq.ft. This type of accommodation remains popular for occupiers who are willing to sacrifice being in the prime location to achieve more competitive rentals.
- 5.5 A chart showing the prime office rental in St Helier since 1989 is set out below.

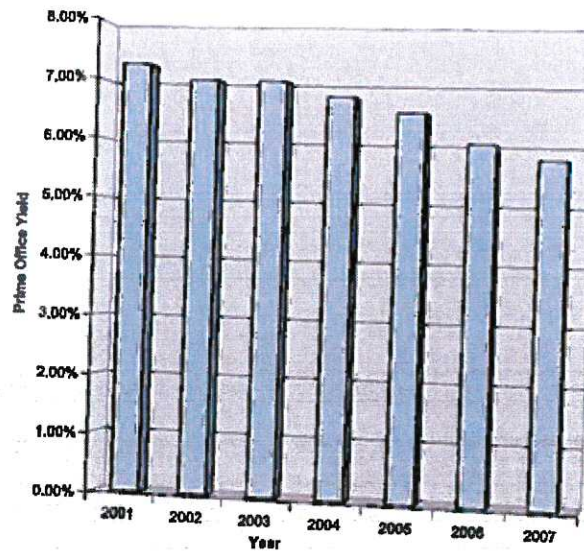
St Helier, Headline Office Rental Growth 1989 - 2008



6 Investment Market

- 6.1 The local office investment market peaked in 2006 and then came to a shuddering halt in the second half of 2007. The UK investment market has seen dramatic yield corrections with the IPD Monthly Index for the year ended March 2009 showed a total return of -25.5%, and a change in capital values of -30.3%.
- 6.2 Locally there has been a marked decline in the level of activity in the commercial investment market and no significant transactions have been completed in the past 12 months. The lack of activity is a result of investors being concerned by falling values and the absence of credit from the lending institutions.
- 6.3 In general terms the prime office net initial yield has fallen gradually over the past 4 years with the market being fuelled by the ready availability of finance and bank debt. The local market was traditionally the preserve of local investors and a handful of institutions but such was the strength of the UK market in 2005 and 2006 that competition for stock made investors look further a field and Jersey began to appeal to a much wider audience. As a result of the increased level of activity, prime office yields peaked at around 5.5 to 5.75%. It is now believed that prime office yield would be in the region of 6.75%.
- 6.4 The local investment market has tended to follow the UK market and therefore it is likely that the prime office net initial yield will rise accordingly.
- 6.5 The chart below shows the prime office net initial yield since 2001.

St Heller Prime Office Yields 2001 - 2007



7 Future Structure of the local office market

- 7.1 It is inevitable that the level of office development in the Esplanade area and the planned Esplanade Quarter which will represent some 24% of the current total office stock will have an impact on the local office market. As described above it is clear that most now regard the core of the local office market as being on the Esplanade and its' immediate environs and the majority of requirements both from larger institutions and smaller intermediaries are to be situated in this area.
- 7.2 As described previously there will continue to be demand for secondary office accommodation as not all occupiers will be sensitive in respect of their location or willing to pay the rental rates for prime new accommodation. We anticipate that locations such as New Street, Grenville Street and La Motte Street will continue to be popular as they provide a concentration of generally good quality, modern office stock.
- 7.3 Over the life span of the Island Plan there will be office accommodation that becomes obsolete both in terms of its location and functionality. However, it is clear that these will create opportunities for conversion to alternative uses such as residential.
- 7.4 We estimate that, of the current office stock, over the first 5 years of the Island Plan, some 100,000 sq.ft of office accommodation, representing approximately 4% of the current total stock will become obsolete.
- 7.5 We estimate that in the second half of the life span of the new Island Plan (years 5 to 10), some 250,000 sq.ft of office accommodation, representing approximately 10% of the total stock will become obsolete.

Appendix 3

New Office Take up over past 10 years and Future supplyline with occupancy numbers

Year	Address	Tenants	area of accomadation	occupancy numbers	occupancy levels/m ²
2005					
2006	13/14 Esplanade	Applebys	25,000	232	occupancy1/10m ²
2007	Liberation House	E&Y	22,000	204	
	Liberation House	CPA	33,000	307	
	Liberation House	Moore Management	10,000	93	
	11/12 Esplanade	Lloyds	23,850	222	
2008	Winward House		24,000	223	
	17 Esplanade	Hambros	30,000	279	
	26 Esplanade	Allied Irish Bank	20,000	186	
		Jersey Finance	17,000	158	
		Capita	20,000	186	
2009				-	
2010	Colombrie	State Street	27,000	251	
		Ogier	100,000	929	
2011	Lime Grove	State Street	32,000	297	
2012		Acorn		-	
	37 Esplanade	KPMG	13,000		
2013	37 Esplanade	PWC	17,000	121	
		First Names	13,000	158	
		Vowlaw	20,000	121	
		Colin Steward	9,000	186	
		Brevan Howard	11,000	84	
				102	
2014	37 Esplanade	First Names	5,000	46	
	Total past ten years		471,850	4,384	
	Average		47,185		
	5 Year Pipeline with Planning Permission Grade A				
2015					
2016	66/72 Esplanade	RBC	80,000	929	density 1/8m ²
		Deloitte	11,000	128	density 1/8m ²
	Southampton Hotel	tba	13,000	121	
2017	66/72 Esplanade	tba	70,000	813	density 1/8m ²
	27/28 Esplanade	tba	35,000	406	density 1/8m ²
	19/22 Esplanade	tba	36,000	334	
2018	27/28 Esplanade	tba	35,000	406	density 1/8m ²
	22/23 Esplanade	tba	26,000	242	
	29 Seaton Place	tba	23,000	214	
2019	5/6 Esplanade	tba	47,500	441	
2020	2 Mulcaster Place	tba	25,000	232	
	8/9 Esplanade	tba	50,000	465	
	Le Mausiers Broad Street		280,000	2,601	
	Private Supply next 6 years		731,500	7,332	private supply
	Average		121,917		
	Esplanade Square		620,000	5,760	density 10/m ²
	Total new space Grade A		1,823,350	17,476	persons

**Appendix 4
(Partially Redacted)**



Senator F. Cohen
Planning & Environment Minister
States Offices
South Hill
St. Helier
JE2 4US.

19 May 2011

Dear Freddie ,

Esplanade Quarter

The Directors of WEB have asked me to bring to your attention our serious concerns at the potential mismatch of supply and demand of grade A commercial office space over the next ten years, particularly along the Esplanade and Broad Street.

We believe that this could have an adverse effect on the economy and will make Jersey an unattractive environment for investors, especially the international investment community. This is because an oversupply of product will lead to, at best, nil growth in rental rates and also pressure for shorter term lease periods. Investors seek an increasing income over the lease period and as long a lease as possible. Presently, they are seeking an indexed increase in rentals. Such growth compensates for inflation and provides the basis for capital growth. Currently, the institutions are less interested in investing in Jersey as they do not find the investment profiles attractive.

We estimate that there is a potential supply of circa 1.4 million square feet as shown in the attached schedule and plan. However, we also forecast a potential demand from existing Island based occupiers of c. 540,000 square feet as shown in the attached schedule. This takes no account of new business entrants to the Island but we are not aware of significant new users and, in any case, typically new entrants commence with a small presence.

Most planning authorities throughout the UK and Europe estimate future potential demand and supply, enshrine this in forward plans and limit planning permission on this basis. Jersey appears not to base consideration of a planning application on need.

THE WATERFRONT ENTERPRISE BOARD LIMITED
MANAGING DIRECTOR: S. Izalt
OTHER DIRECTORS: Jurat J.C. Tibbo, Constable D. Murphy, Deputy E. Noel, P. Crespel

REGISTERED OFFICE
Ground Floor, Harbour Reach, La Rue de Casereel, St Helier, JE2 4HR
TELEPHONE: (01534) 617449 Facs/mx (01534) 617443

We ask you to consider these issues. Particularly, in the light of current or future applications that may seriously distort the supply chain and the market and may result in schemes that currently have planning permissions not being able to be developed.

Best wishes.

Yours *Sincerely*

STEPHEN IZATT
Managing Director

Enc:

c.c. The Chief Minister
Minister for Treasury & Resources
A. Scate, Chief Executive, Planning & Environment Department ✓

Esplanade Office - Summary of Supply

19/05/2011

Address	Approximate Floorspace (NIA Sq. Ft.)	Status
Former Swansons ' Hotel site	85,000	Project under construction
CI Traders Site	65,000	Application approved
Esplanade Quarter	610,000	Outline Application approved
8-9 Esplanade/10-12 Commercial St	71,600	Application Decision Pending
Lord Coutanche House	135,560	Application submitted
Le Masurier Limited, Commercial St./Broad St	320,000	No application submitted (pre-application discussion with P&E)
CI Tyre Site	67,000	No application submitted (WEB estimate)
10 - 24 Esplanade	72,250	No application submitted (WEB estimate)
Total	1,426,410	

Esplande Office - summary of demand

19/05/2011

Occupier	Size sq. ft. (up to)
Royal Bank of Canada	150,000
Barclays	35,000
Santander	40,000
Volaw	20,000
State Street	25,000
Deloitte	15,000
UBS	40,000
Standard Chartered Bank	35,000
Bedell & Cristin	35,000
Ashburton	30,000
Deutsche Bank	20,000
BNP Paribas	35,000
Lloyds TSB	25,000
Citibank	15,000
Colins Stewart	8,000
Vistra	10,000
BPP	8,000
Total	538,000

Esplanade Office - summary of demand

occupier	size reqd	2015 status new space occupied	2015 status refurbished space occupied	future commitments: new space pre-let	future commitments: refurbished space pre-let	future requirements	space to be returned to market	Notes
all names have been redacted	150,000	-	-	80,000	-	-	60,000	all notes have been redacted
	35,000	-	-	-	-	-	-	
	40,000	-	-	-	-	20,000	40,000	
	20,000	20,000	-	-	-	-	20,000	
	25,000	32,000	-	-	-	-	7,500	
	15,000	-	-	11,000	-	-	10,000	
	40,000	-	-	-	-	18,000	15,000	
	35,000	-	-	-	-	15,000	23,000	
	35,000	-	-	-	-	-	-	
	30,000	-	-	-	-	8,000	8,000	
	20,000	-	-	-	-	-	-	
	35,000	-	-	-	-	-	-	
	25,000	-	-	-	-	30,000	38,000	
	35,000	-	-	-	11,000	-	-	
	8,000	9,000	-	-	-	-	13,500	
	10,000	-	10,000	-	-	-	-	
	8,000	-	8,000	-	-	-	-	
WEB/ SOJDC list of Occupiers	546,000	61,000	18,000	91,000	11,000	91,000	235,000	
New 5 Year Requirements								
	50,000	-	-	-	-	-	-	
	30,000	-	-	-	-	30,000	23,000	
	40,000	-	-	-	-	32,000	32,000	
	10,000	-	-	-	-	15,000	17,000	
	35,000	-	-	-	-	-	8,000	
	10,000	-	-	5,000	-	-	4,000	
New Requirements	175,000	-	-	5,000	-	77,000	84,000	
Total Requirements	896,000	61,000	18,000	96,000	11,000	168,000	319,000	