

# STATES OF JERSEY

## Corporate Services Scrutiny Panel Lime Grove House: Failure to Complete Transaction

**WEDNESDAY, 31st AUGUST 2011**

**Panel:**

Senator S.C. Ferguson (Chairman)  
Deputy D.J. De Sousa of St. Helier  
Deputy C.H. Egré of St. Peter

**Witness:**

Mr. P. Harvey (Director, BNP Paribas Real Estate)

**Also Present:**

Ms. K. Boydens (Scrutiny Officer)  
Ms. S. McKee (Training Scrutiny Officer)

[10:00]

**Senator S.C. Ferguson (Chairman):**

Good morning and welcome to this meeting of the Corporate Services Scrutiny Sub-Panel, looking into the transactions regarding Lime Grove House. I do not think you have been to a Scrutiny Hearing before?

**Director, BNP Paribas Real Estate:**

No, I have not, correct.

**Senator S.C. Ferguson:**

No. What happens is that we get the hearing transcribed and then send it to the witnesses so that they can check it for factual correctness.

**Director, BNP Paribas Real Estate:**

I understand.

**Senator S.C. Ferguson:**

So you will be getting a copy of what you said.

**Director, BNP Paribas Real Estate:**

Thank you.

**Senator S.C. Ferguson:**

Now I wonder if for the purposes of the ladies who do the transcribing you could say who you are and what your position is?

**Director, BNP Paribas Real Estate:**

Yes, my name is Paul Harvey, I am the director of BNP Paribas Real Estate Jersey Limited, responsible for valuation and lease advisory work within the business and I was instructed by the States of Jersey to do a valuation on Lime Grove House.

**Senator S.C. Ferguson:**

Thank you.

**Deputy D.J. De Sousa of St. Helier:**

Deputy Debbie De Sousa.

**Deputy Colin Egré of St. Peter:**

Deputy Colin Egré.

**Senator S.C. Ferguson:**

Senator Sarah Ferguson, Chairman. Right. I wonder if you could just go through the chronology of from when you were involved and the events that sort of took place.

**Director, BNP Paribas Real Estate:**

Okay. We, BNP Paribas Real Estate, are on the panel, the Jersey Property Holdings panel as consultants, so whenever the States of Jersey have a requirement, or Jersey Property Holdings have a requirement, in terms of valuation or rent review they will look to people on the panel to appoint to do the work. The panel has a number of local firms, in this particular case I was approached by Mark Grant to undertake a valuation for Jersey Property Holdings of Lime Grove House in Green Street, in association with the proposed acquisition of the property by the States. In terms of the chronology, before the terms of engagement were sent, I had a conversation and it is normal, the client will call up and we will have a conversation about what the requirements are. Following that conversation we will issue terms of engagement, that is our process. The terms of engagement were sent out to Mark Grant on 14th May 2010 so without knowing the exact date the conversation would have occurred sometime shortly before that date. So the terms of engagement were sent out and following that an inspection of the property was undertaken, and I just need to refer to my report for the exact date, the property was inspected on 5th May 2010 by myself and a colleague. As is normal in such situations I would send a draft of my report to the client so that the client can review the report and make any comments on the report as they see fit before the final draft is issued. The draft was sent to Mark Grant and it was confirmed that they were quite happy with the report in the format in which I had sent it. Then the final report was issued dated 2nd June 2010. Two copies of the report were sent to Jersey Property Holdings. One was a full report which is how we normally send reports out, and extends to approximately 25 pages plus appendices and the second report that we issued was just a *précis*, a more concise version of the first report that we

were asked to present, I believe, to the States Members or other bodies in a format which is a little bit more concise and easier for them to read. So the 2 reports were issued, a fuller version and a *précis* of the full report. Both reports were dated 2nd June 2010. At that time, once the report is issued, then the fee is invoiced, then the instruction comes to an end and that is where my involvement in the instruction then came to an end.

**Senator S.C. Ferguson:**

Right. As part of this do you make estimates of the things like the dilapidation requirement?

**Director, BNP Paribas Real Estate:**

No, the purpose of the valuation was a valuation of the market value of the freehold interest in the property for owner occupation, so when I am doing a report there is a prescribed format for reports that are undertaken through this definition. What we look at is what is the market rent of the property, i.e. what would the property let for in the open market at the date of valuation. We will look at the comparables, i.e. other lettings in the location and determine what the market rent would be, and following that we would look at what the market value of the property would be having regard to other comparable transactions in the location. So you look at comparables to determine what the rent would be, the comparables to determine what the yield profile would be to capitalise that rent. The dilapidations issue would not come into that. That is something that only falls due at the end of a lease. In this particular case we were looking at the market value of the freehold interest, not the leasehold interest in the property. The dilapidations only fall due at the end of a lease and that was not a position or a requirement that we would normally address in this type of report.

**Senator S.C. Ferguson:**

Yes, although do you not sometimes have a sort of rental holiday, if you are taking on a property, if there is a lot of renovation to be done?

**Director, BNP Paribas Real Estate:**

Yes, generally referred to as a rent-free period. In any transaction of any type of commercial property, depending on the strength of the market, when a new tenant goes into a property they will normally request a rent-free period. There are 2 reasons for that. One, it is allowing the tenant to fit out the property, i.e. to put in their own furniture, fixtures and fittings, telecommunications equipment. The second of course is it is an incentive to encourage that party to enter into that leasehold agreement. When the market is quite weak and it is tenant driven then the rent-free period normally gets greater. When the market is strong from the landlord's point of view the rent-free period will be weaker, so the landlord can be more robust in terms of a rent-free period which he will grant to an incoming tenant. So for example if you have got 3 tenants looking at the same building and they are all offering competitive terms, the landlord will be less inclined to offer a longer rent-free period because if they cannot agree with one particular tenant they can go and speak to another one and speak to another one. If there is only one tenant in the market then quite clearly he will be more loose with the rent-free

period that he will be willing to offer and he will be more generous in that regard. But it is quite right, landlords do normally offer a rent-free period generally when a tenant enters into a lease, yes.

**Senator S.C. Ferguson:**

When you were doing the valuation did you feel that it was a landlord market or a tenant market?

**Director, BNP Paribas Real Estate:**

Well, at the date of valuation which was 2nd June 2010 quite clearly the commercial property markets locally had quietened down somewhat with the advent of the global credit crisis. Lime Grove House is well documented as being vacant from when it was built in early 2000 and there is no secret in that. So in the report it was made quite clear that although the building had been marketed for quite some time and different parties over a period of previous years had expressed an interest in the building, nothing had ever happened and no deal had ever been struck between the parties, therefore in that particular case the tenant could be considered to be in a relatively favourable position to agree terms on the building.

**The Deputy of St. Peter:**

So what effect if any does that have from a professional perspective, I am new to this game, on market valuations?

**Director, BNP Paribas Real Estate:**

Right. Well, what will happen is there will be an opinion as to what the market rental of the property will be, then associated with that we look at what the rent-free period would be that a landlord would need to grant to that tenant in order to secure that payment in rent. In this particular case as I said in my report, I will just refresh myself, I had said that my opinion of the market rental of the property, and this needs to be calculated quite clearly, assuming that the property is fitted out to a category A standard, not shell and core, was £24 a square foot. Now the valuation is undertaken on a shell and core basis so therefore what we did was, because very few properties in Jersey are let on a shell and core basis, the process is that you would look at what the market rent of the property would be on a fitted out basis and remove from that the capital cost of fitting out the property, so effectively you get it back to what the market rent would be on a shell and core basis.

**The Deputy of St. Peter:**

So in effect, in summary, the fact that it was purchased as a shell and core does affect your valuation?

**Director, BNP Paribas Real Estate:**

The valuation reflected the shell and core condition of the property, correct.

**The Deputy of St. Peter:**

Absolutely.

**Director, BNP Paribas Real Estate:**

But it did not assume any other condition. It was the physical condition of the property on the date of the valuation, which was 2nd June 2010. It did not assume any other condition outside of that.

**The Deputy of St. Peter:**

Again, for the record more than anything, you have done this valuation?

**Director, BNP Paribas Real Estate:**

Yes.

**The Deputy of St. Peter:**

As a company, what are your experiences in valuing other buildings on this Island?

**Director, BNP Paribas Real Estate:**

Right. We are on the panel of all the major clearing banks in the Channel Islands. We do valuations for secured lending purposes, for all the major clearing banks in Jersey, Guernsey, Alderney. We also undertake valuations for financial reporting purposes for a number of local organisations. In these situations they have a requirement to quote the figures in their accounts. Those are 2 primary sources of valuation, valuation for secured lending and financial reporting. We also do valuations for a number of private individuals, with varying requirements. The States are a client of ours that we do quite a bit of work for, because we are on their panel and we are qualified to do so. But we do equally as much, or probably more, for the banks in terms of valuations for secured lending. So if an investor wishes to buy a commercial asset the bank will require a valuation to provide debt finance. We are on their panel, so we will be considered for that. If a developer wishes to build a residential scheme or a commercial scheme we are on the panel, the bank will consider us for those types of valuations.

**The Deputy of St. Peter:**

So very commercially aware. Thank you for that.

**Director, BNP Paribas Real Estate:**

That is generally the remit for the work that we do.

**Deputy D.J. De Sousa:**

The 2 reports that you did, the original valuation and the more detailed one ...

**Director, BNP Paribas Real Estate:**

The full report and the summary report, yes.

**Deputy D.J. De Sousa:**

That you said was for States Members?

**Director, BNP Paribas Real Estate:**

Yes. Well, the full report is quite a lengthy document, that is an example of the full report that we would normally provide to any type of client. I was asked also to provide just pretty much a summary report, so to make this

report more concise and present that as well. The 2 reports were presented, one in its full version and one in a summary type version.

**Deputy D.J. De Sousa:**

Do you know if there is confidentiality on that or ...?

**Senator S.C. Ferguson:**

Can you leave us with a copy, is what we are saying.

**Director, BNP Paribas Real Estate:**

Well, Jersey Property Holdings have a copy of those reports. Now I can provide you with a copy because ultimately the States of Jersey are the client.

**Senator S.C. Ferguson:**

Yes, we will ask. Can you put that down as an action point?

**Director, BNP Paribas Real Estate:**

I can certainly do that for you.

**Deputy D.J. De Sousa:**

But as far as you are concerned there is no confidentiality on it?

**Director, BNP Paribas Real Estate:**

In terms of the reports there is a caveat, and I will read the caveat in the report for you, which is fairly standard. It says: "Our report will be addressed to the client [which was the States of Jersey]. No responsibility will be accepted to any other party. Our prior consent in writing will be required if you wish to reproduce the report or refer to it in any published document. Our valuation may be subject to confidential monitoring in order to ensure compliance with the R.I.C.S. (Royal Institution of Chartered Surveyors) code and disciplinary regulations." Basically the purpose of the caveat is to say that if we do a report for a client it is for their purpose only. The client cannot take the report, give it to a third party, and that third party can then rely on our report.

**The Deputy of St. Peter:**

So it is to protect commercial ...

**Director, BNP Paribas Real Estate:**

It is to ensure that only the party who commissioned the report can rely on it. Our professional indemnity insurance only extends to the client, the person who requested the report, so it stops other people who should not rely on the report from doing so and then suing the person who provided the report in theory for relying on it. But I have no problem, the States of Jersey are the client and you can of course have a copy of both reports, the full report and the summary report. That is not a problem.

**The Deputy of St. Peter:**

I believe we are part of the States of Jersey, are we not?

**Deputy D.J. De Sousa:**

Yes. The other thing is, you did a valuation on the property. It is out in the public domain, it is a well known fact that originally the States were going to pay £8.75 million for it and everybody knows, it is out in public, that Treasury reduced it down by £500,000.

**Director, BNP Paribas Real Estate:**

As I understand, yes.

**Deputy D.J. De Sousa:**

What was the valuation that you put on the property at the time of your report?

**Director, BNP Paribas Real Estate:**

The valuation was £8.8 million that I put on the report as at 2nd June 2010. That is £8.8 million.

**Deputy D.J. De Sousa:**

So it was pretty much on a par with the offer that was made and more or less agreed by Property Services?

**Director, BNP Paribas Real Estate:**

I was aware of the provisional offer that the States had presented on the property and it is normal in any instruction of this nature that you would be aware of any offers which were made by the client on a property. It does not necessarily follow that you should be in any way influenced by that, but it forms part of a report in the same way that we would do a report for a bank. A bank would expect us to mention what the client is purchasing the property for and also what our opinion of the value was. I was aware of that. The figure that I had was £8.8 million and I was aware that a figure slightly below that level had then been provisionally agreed with the vendor and it was £8.3 million, around that figure I think, from memory.

[10:15]

**Senator S.C. Ferguson:**

Yes. Are you aware of the other valuations?

**Director, BNP Paribas Real Estate:**

There was a valuation undertaken some time before the BNP Paribas valuation by CBRE and there was a valuation undertaken some time after our valuation by Drivers Jonas I believe. I am aware of the figure that CBRE valued the property for and it has been mentioned in passing the figure that the other party had valued it for and I think the other party had valued it slightly below my figure and the CBRE valuation was somewhere above my figure. But of course those were different periods in time so all I would say was if valuations have a different valuation date then the comparability is in some ways prejudiced. In order to compare like with like they should be of a similar valuation date. I think my report and the most recent report were at a similar valuation date and the other report was some way beforehand, so I am aware of those figures, yes.

**Senator S.C. Ferguson:**

Yes, because we have a submission by some estate agents saying that they had heard of an opinion that the valuation was not sound. Had you heard this?

**Director, BNP Paribas Real Estate:**

The valuation that BNP Paribas had provided?

**Senator S.C. Ferguson:**

Yes.

**Director, BNP Paribas Real Estate:**

Right.

**Senator S.C. Ferguson:**

If I quote it exactly, the letter is on our website so I can let you have it: "An uninformed opinion had been expressed that the valuation on which the offer had been made was not sound." Have you heard anything about that?

**Director, BNP Paribas Real Estate:**

Okay. Well, I am aware that there have been comments as to what some people, and I think you mentioned the words: "an uninformed opinion" I think is quite important because in all these things you have to look at where the source of that opinion has come from and I do not know what the source is. I am aware that some comments have been mentioned that the valuation ... everybody seems to have an opinion of value, that is one thing.

**Senator S.C. Ferguson:**

We have 53 different property experts in the States.

**Director, BNP Paribas Real Estate:**

Sure, and the thing about a valuation is it is an opinion of value and anybody can provide you with an opinion of value, but a transaction will only occur when the expectations of the buyer and seller are combined. So am I aware that some comments have been made as to the accuracy? I was not aware that some comments had been made as to the accuracy of our report. I was aware that some comments had been made as to what the value of Lime Grove House, or what people believe the value of Lime Grove House is and what the true value of what the States, for example, should be offering for the value of the property. I am aware of that, yes. It is hard to lend credence to it, because I do not know the source of where this has come from. I am an R.I.C.S. qualified registered valuer and no disrespect to some of the estate agents, but I do not believe they are an R.I.C.S. qualified and accredited valuer so unless you understand the process and the procedure of undertaking a valuation then it is very difficult to lend credence to comments of that nature because I do not know on what basis they have come to that conclusion. In any report I can only look at what the variables, the assumptions that I make in my report, are based on and they are based on evidence and the report needs to be based on evidence and also the



sentiment in the market place. When I valued the property the assumption of the market rent on a fitted out basis was £24 a square foot. I understand that the party who has now agreed the lease on the building has agreed to pay £24 a square foot. I was not involved in that process, so my opinion of the value mathematically accorded exactly with the rental value that that party had agreed to pay, so in that regard I do not believe that that part of the valuation was inaccurate in any way. In terms of the other important factor in the valuation, it is a yield profile, i.e. the multiplier applied to the market rent to get a market value, and based on the transaction levels which were available in the market place at the time and I still do not believe that that figure, according to my interpretation of the evidence, was incorrect. So collectively I would have to disagree with the comments of whoever that party was, and I think it has been borne in the evidence that the valuation was not necessarily inaccurate, excessive, or in some way contrived to justify our figure to the States for purchasing or proposing, I should say, to purchase the asset for. The report has my signature on it and it is my reputation at stake when I do a report and there are any number of occasions where we undertake a report for a client for any number of purposes. Some clients can be far more persuasive than others in trying to encourage you or to assist you in trying to get to a figure that suits their purposes, while others are not. That is accepted, there is nothing unprofessional about that, it is simply a matter of because it is an opinion their opinion may be more robust or bullish than the valuer's opinion. You take those comments on board and you listen to them, but at the end of the day you still must reach your own conclusion, and I am more than comfortable that the report I provided to the States at that time was in my opinion and still remains a fair opinion of the market value of the property. That does not necessarily follow that the vendor should necessarily accept the figure in my report or the purchaser should offer the figure in my report. Everything is subject to a period of negotiation, but the variables and the evidence in the report I believe justifies the figure that I arrived at, at that time.

**Deputy D.J. De Sousa:**

Sarah, can I come in there, please?

**Senator S.C. Ferguson:**

Surely.

**Deputy D.J. De Sousa:**

How many valuations roughly have you undertaken on behalf of the States?

**Director, BNP Paribas Real Estate:**

In a calendar year, or in the last 6 months or what period of time?

**Deputy D.J. De Sousa:**

Over a 5-year period.

**Director, BNP Paribas Real Estate:**

A 5-year period? It would be a complete guesstimate, to be perfectly honest. I would need to generate a report. On average I would say that we undertake

somewhere between 5 and 10 valuations per annum for the States of Jersey for varying purposes, but I would say that would not be an inaccurate estimate, but it is by no means the largest volume of instructions that we have, but I would say that is not unreasonable.

**Deputy D.J. De Sousa:**

I am sure that you are aware of where we are now. In your opinion and your experience that you have had, do you feel that to undercut, try and undercut a valuation in the manner in which this was conducted, in your opinion is this normal practice?

**Director, BNP Paribas Real Estate:**

It is certainly not abnormal, because looking at it from a practical point of view, and looking at it in this particular circumstance, which quite clearly is what you are interested in, I provided a valuation to the States of Jersey on the property. It does not necessarily follow that the States of Jersey need necessarily offer that figure. They can offer any figure that they see fit in terms of what they believe the market value of the property is. So I would not say that it is necessarily a matter of undercutting my figure, it is a part of a negotiation period. I could do a valuation for any individual and they could take it and discount it by 25 per cent, knowing that the vendor is in a distressed position and will accept less because of perhaps their difficult financial situation and offer that figure, and they accept it. Then in that respect you can see what the difference between the figure in a report will be and what you can secure it for. Were the States right to undercut it? Well, to me it is not an opinion of whether it is right or wrong. If they were able to secure the building at a discount to the figure in my report then I would say in hindsight that they have done quite well to do that, because my opinion was £8.8 million. As I say the market value is what a willing vendor and willing purchaser will agree in the market and if the vendor was willing to accept a discount on the figure that I provided in my report that is part of a commercial negotiation. It happens every day. That is what happens.

**Deputy D.J. De Sousa:**

What do you believe is the current state of the market for commercial property? Is it buoyant or is it quite flat and depressed?

**Director, BNP Paribas Real Estate:**

No, I would say the market has been quite flat for quite some period of time. Certainly in the current calendar year. In terms of investment activity there has been no investment activity of any note in Jersey this calendar year and we are now at the end of August. In terms of rental evidence or transactions, the only transactions of note save for the proposed letting to State Street of Lime Grove House was 37 The Esplanade, the former Swansons Hotel site. That aside, there has been quite limited activity in terms of tenants taking leases on new office space, so the agency market, the lettings market and the investor market have been quite quiet this calendar year, yes, but of course we have seen what has happened in terms of State Street now taking a lease on this building. That is a large transaction, a significant transaction in the context of the local market, certainly in the current calendar year.

**Senator S.C. Ferguson:**

So will the proposed development on Broad Street make a difference to the market, do you think?

**Director, BNP Paribas Real Estate:**

There are probably a number of schemes which if they proceed will make quite a difference to the local commercial market, not least of course the planned Esplanade Quarter scheme, so if those schemes do come off then it will transform the commercial property markets. But in the current climate it will be quite difficult to see how those schemes, if they were now built here today, could be let but of course you are looking forward in a period of time, 2, 3, 4, 5 years perhaps, and therefore the expectation will be that if the markets improve at that time then demand would pick up, the level of activity in the market will increase and that those type of schemes could be a success, yes.

**The Deputy of St. Peter:**

Just to clarify in my own mind, because we are dealing with a point in time, as you have already pointed out in your valuation, you have stated that your valuation for lease was £24 per square foot?

**Director, BNP Paribas Real Estate:**

The market rent, yes, the opinion of the market rent of the property was £24.

**The Deputy of St. Peter:**

We know as a consequence to that, that the cost was based on a £24 per square foot. That went to ...

**Director, BNP Paribas Real Estate:**

As I understand it, but that is just a verbal comment that I received, that it was £24 a square foot.

**The Deputy of St. Peter:**

That is as you understand it?

**Director, BNP Paribas Real Estate:**

Yes.

**The Deputy of St. Peter:**

So at that particular point in time your valuation appears in fact to be correct, because you moved from a valuation to a deal that had been put together, so that would appear quite clearly to validate what you had said in your report.

**Director, BNP Paribas Real Estate:**

I suppose it would be very easy to say that my valuation is correct and I think that is ...

**The Deputy of St. Peter:**

I think there is a term, validate.

**Director, BNP Paribas Real Estate:**

Yes. The terminology is the valuation is either correct or otherwise. Does it support or justify or validate the figure that I have used in my report? You would have to say, yes, it does. I am sure there are many people who would say, having looked at that report: "Well, I do not believe that figure to be correct, that is too high" or: "That is too low" because everybody has an opinion of value, and that is the issue. It is an opinion of value but as long as that opinion of value is backed up by transactional evidence that supports how you have arrived at that figure, that the methodology that you have adopted is correct, then it is very difficult for anybody to say that that valuation is therefore incorrect. They can disagree with the figure, as invariably happens, but as long as you follow those processes and the processes laid down by our professional body, the R.I.C.S., then for you then to be, for example, sued for negligence, they would look at your report, look at what you have done in the process and if you followed the proper process then you would not be held out to be in any way negligent in that regard.

**The Deputy of St. Peter:**

I think the point from an evidential exercise at the beginning of the review, within the States there would appear to be some argument, within the States itself, within the departments, that your valuation of £8.8 million in certain quarters may have been viewed as an overvaluation. The point I am making here, which I think you have covered, is that your report has been validated in spades, if you like, in the deal that was struck, the final deal that was struck.

[10:30]

**Director, BNP Paribas Real Estate:**

It would appear as if my estimate of the market rent of the property accords exactly with the market rent that this party has agreed to pay on the building, correct. Probably it would not follow from some quarters that that then justifies my figure because people may still have an opinion as to what the market value figure was, but in terms of the market rent, that element of the property, it appears that that is justified by the deal that was struck, yes. I agree.

**Senator S.C. Ferguson:**

Can I just whip through a few little points? The state of the building, when you looked at it, was it better or worse than you expected, knowing that it had been unoccupied for 10 years?

**Director, BNP Paribas Real Estate:**

Well, the building was shell and core, so in effect the structure from what I could see from a cursory glance, and I am not a building surveying expert, I could not see that there was anything wrong with the structure of the property. Had the building when it was completed in early 2000 been fitted out then that fit-out by the time I came to do my valuation would have been 8, 9, 10 years old; that would have been quite dated. But in effect the structure had not changed. Because it was a concrete frame, I would have expected the structure on the date that I looked at it was not fundamentally different to the

day that the building was competed to that shell and core condition. I did not see any particular deterioration in the shell and core condition of the property.

**Senator S.C. Ferguson:**

Yes, and you said that you take into account the cost of fitting out to category A. What sort of global figure would you look at for that?

**Director, BNP Paribas Real Estate:**

The figure that I looked at in the report, the cost of fit-out, was estimated at about £1.7 million to bring the property from a shell and core condition as indicated there, to a category A fit-out. Now a category A fit-out is generally raised floors, suspended ceilings, heating and cooling system, lighting system, toilets and in the building the toilets are fitted out, if you look inside the building the toilets are fitted out, but that was the estimate and that was based upon professional estimates that had been provided. So that was circa £1.7 million.

**Senator S.C. Ferguson:**

Did that include the improved substation for the police?

**Director, BNP Paribas Real Estate:**

No, it is only a category A fit-out so nothing that is particular to the incoming tenant. More to the fabric of the building, the floors, the ceilings, lighting, air-conditioning system. Nothing specific for their requirements, no, I have to say that was not included. That would form part of the tenant's fit-out, which would be their additional cost on top of that.

**Senator S.C. Ferguson:**

The category B?

**Director, BNP Paribas Real Estate:**

Correct, category B.

**Senator S.C. Ferguson:**

And the cells?

**Director, BNP Paribas Real Estate:**

Correct. Category B, exactly.

**Senator S.C. Ferguson:**

We are getting there. You obviously used a figure for the yield on commercial property around about that time?

**Director, BNP Paribas Real Estate:**

Yes.

**Senator S.C. Ferguson:**

What sort of figure did you use?

**Director, BNP Paribas Real Estate:**

The yield I applied to the projected income stream of 7.25 per cent. That was the yield profile. That was based upon evidence and I will of course provide you with the copies of the report, but there was some evidence in the locality of investment, investment activity, reasonably close to the valuation date which I believe supported the figure of 7.25 per cent. Unless you want me to go into the detail of what those buildings were, they are in the report, but it was based upon for example there is a building in the Forum which sold in mid-2009 which produced a yield which would then be considered as strong evidence and we looked at that type of evidence. So there was tangible evidence to look at to ascertain what the yield profile of this particular building would be.

**Senator S.C. Ferguson:**

Yes, and has your opinion of the yield currently changed? Do you think it has moved?

**Director, BNP Paribas Real Estate:**

Well, because we are talking about we must never lose sight of the fact that June 2010 is the valuation date. If I was valuing the property now would I put a different yield profile on it? Perhaps that is the question that you are asking. I do not fundamentally believe that the yield profile now is measurably different from the yield profile that I looked at in June 2010, simply due to the fact that there has not been a great amount of transaction lettings in the market place. Would I say it is fundamentally different? Well, sitting here I would say I do not believe it would be fundamentally different to the yield profile that I applied to it at that time. If we are talking about a 2, 3, 4-year gap then perhaps so, but I would not say fundamentally that it would be measurably different. I think that the valuation which was undertaken after my valuation, and I am not sure what the valuation date was on that, but that would be a considerably more recent valuation than the one that BNP provided and I am not sure what yield profile was applied in that valuation report, but again that gives you an indication of that valuer's opinion of what the yield profile would be and every valuer is perfectly entitled to his opinion. Generally in a valuation there is a tolerance level of 10 per cent that our professional body considers you would have to breach that tolerance level before in any way you could be considered to be negligent. I do not think that the valuation which was commissioned subsequent to mine was 10 per cent below the figure that I have provided, but of course you can commission 5 qualified valuers to do 5 valuations and you will get 5 different figures. Generally what they do in that regard is they look at the 5 figures, sometimes they will remove the highest figure and the lowest figure, they will look at what the blend of the 3 of them is and that will give you an idea from the basket of evidence from the figures, it gives you an idea of what the value of any asset would be. I think these reports were all within a couple of per cent of each other, which is good because it supports the principle that 2 completely different and independent valuers came to what is considered to be a similar opinion on the value of an asset, of any particular asset. Sometimes the difference of opinion is more pronounced than a couple of per cent.

**Senator S.C. Ferguson:**

Thank you.

**Deputy D.J. De Sousa:**

I have 3 questions, if I may. First of all, where you have just answered, you mentioned that you could have 5 valuers and they could have 5 different valuations on an equal property.

**Director, BNP Paribas Real Estate:**

Correct.

**Deputy D.J. De Sousa:**

Is there a set protocol criteria process that you follow in making valuations?

**Director, BNP Paribas Real Estate:**

We have a number of what we call service procedures within BNP Paribas Real Estate. They are the procedures that set out the conduct which we must undertake in preparing a valuation to any client. They refer to the issue of K.Y.C. (Know Your Customer) and due diligence, for example in terms of issuing terms of engagement and confirming instruction, in terms of how the file should be set up. This report has been prepared in the format that BNP Paribas Real Estate direct that we should follow all valuations, and every report that we provide follows exactly the same format generally. Some valuations, depending on the purposes of the valuation, have slight variations but generally it all follows this format for every report that we do. There is a requirement that the report must have comparable evidence contained within it. It is simply not sufficient to accept an instruction to value a property and say on one page: "In my opinion the value is X", in issuing a report. That would not be considered to be a valuation report either by BNP Paribas Real Estate, real estate guidance nor by the R.I.C.S., our professional body. We are governed by 2 procedures, those imposed by the company and those imposed by our professional body, that specify the processes you must follow in undertaking a valuation for a specific purpose. So those are the guidelines that we work within and all qualified and registered valuers should follow similar procedures, certainly from the R.I.C.S. guidelines. Some companies have different internal procedures and that is accepted, but the R.I.C.S. guidelines and the processes you must follow applies to all R.I.C.S. valuers. That does not change from one company to another.

**Deputy D.J. De Sousa:**

Just for the sake of transcribing and anybody that may wish to read the Hansard of this, can you just elaborate what R.I.C.S. stands for, sorry?

**Director, BNP Paribas Real Estate:**

Sorry, the R.I.C.S. is the Royal Institution of Chartered Surveyors, which is the professional body that represents chartered surveyors. Sorry, I should have used the full title.

**Deputy D.J. De Sousa:**

That is okay, thank you. The other thing I wish to ask is you mentioned, and we know, that the valuation on this property was done on the shell and core.

**Director, BNP Paribas Real Estate:**

Correct.

**Deputy D.J. De Sousa:**

Is it normal for new build of this category to be constructed in this way so that it can be adapted to whoever decides to buy or lease?

**Director, BNP Paribas Real Estate:**

No, in the context of the local market there are a number of buildings around town that have been finished that were originally finished to a shell and core condition. What happened was a tenant would come in, rent the building out, agree a lease and carry out the fit-out so it is not completely unusual but there are instances where this has happened before. Generally now, for example, if you look at any new buildings that are going up at the moment, they will all be finished to a category A standard, but I think from looking at the history of this building the landlords had always intimated or made it clear that if a tenant was interested in taking the building that they would complete the building to a category A fit-out at that time, or as a substitute give the incoming tenant a capital contribution so that they would finish the building off to a category A standard. So I think it has always been clear when the building has been marketed that it would be finished to a category A standard if a party had expressed an interest in taking a lease. But yes, it is somewhat unusual for a building to be finished to a shell and core condition but not completely unusual, I have to say.

**Deputy D.J. De Sousa:**

Finally, if I can just take you back to some earlier questions that I had and that is on the current commercial market. What in your experience do you consider is the outlook for the rest of this year and early into next year, as regards to commercial properties?

**Director, BNP Paribas Real Estate:**

Okay, from an agency or lettings point of view there has been some pockets of activity but the most significant activity has been the reported deals that have been agreed at 37 The Esplanade. That aside, any activity in the lettings market has been quite measured. Tenants appear to be happy to stay where they are when the lease comes to an end to avoid (1) the cost of relocating which is quite expensive; and (2) they feel that they can get quite a good deal staying with their existing landlord, because ultimately the landlords are quite keen to keep the tenants as well, to ensure continuity of income. So those factors have combined that in the agency market there has not been a great amount of activity. In terms of investment activity, as I mentioned there have been no investment transactions of any note in Jersey in this calendar year. We expect before the year ends that there will be a number of transactions of note and those are in discussions at the moment, and it is not appropriate to comment on those but that aside, the market in 2011 in the commercial property sector has been reasonably quiet and I think most of the agents would confirm that to be the case. It certainly is by no means the most buoyant year the commercial property market has seen. We would have to



go back to probably 2008, 2009 as a comparison when the market was more buoyant. There was more activity, there were more tenants moving around in the market place and the volume of lettings and the volume of transactions were significantly greater than it is this calendar year or is expected to be going forward to the end of the year.

**Deputy D.J. De Sousa:**

Is there a particular category within the commercial sector that in evidence is more buoyant and more likely to secure leases or purchase of property?

**Director, BNP Paribas Real Estate:**

Well, the evidence on 37 The Esplanade, the report of that has been verified but I believe there are confidentiality clauses. If those reported deals are formalised into a lease those would represent probably the highest headline rent that anybody has paid for an office in Jersey, so to that extent that is quite a positive move for the market. There is quite a lack of new build prime office space on The Esplanade from existing stock, but as I say that would be quite a positive sign. It still falls well short of the activity in Guernsey, the headline rent in Guernsey is probably about 30 or 40 per cent higher than the headline rent in Jersey at the moment, and there is quite a gulf between the 2 and we do a lot of work on both Islands. But there were one or 2 sub-lettings and quite small space at above £30 a square foot, but no lettings of any substance has been agreed in excess of £30 a square foot. Guernsey has already raced on into the mid-£40 a square foot bracket for new build space, so that gives you an idea of the difference between the 2 Islands in that regard. But if those transactions happen, which it has been reported they will, that will be positive because that will show a new headline rent being agreed, but at the moment, if that did not happen, you would have to say that the markets have been fairly flat.

**The Deputy of St. Peter:**

You mention the market is fairly flat. There was or there is some anecdotal evidence at the moment that suggests that a certain area of the States were concerned from a risk perspective about a massive tumble in market prices to the tune of about 50 per cent. How do you regard that form of statement?

[10:45]

**Director, BNP Paribas Real Estate:**

That is a fall in the market value of commercial property assets or office assets or retail?

**The Deputy of St. Peter:**

It appeared to be generally across the board.

**Director, BNP Paribas Real Estate:**

A fall of 50 per cent?

**The Deputy of St. Peter:**

Yes.

**Director, BNP Paribas Real Estate:**

History would have to suggest that that would appear to be quite unlikely to happen unless there is a fundamental shift in Jersey's offshore status, for example, which meant that the banks and the financial sector suddenly moved to other jurisdiction. If that did happen then you would say that that could create a monumental shift in the markets because the industry is driven financially.

**The Deputy of St. Peter:**

If that did happen our concerns about Lime Grove overall would be totally insignificant about the overall concerns about Jersey?

**Director, BNP Paribas Real Estate:**

I expect if that happened then any drop or significant drop would be across the board, both in the residential and commercial markets, not specific to any one building. Nothing would be immune from an impact of that significance, no. Whether that would happen, there are many people from various quarters who have reported many perceived threats to Jersey's offshore status and I believe that has been happening for a number of years. If something of that nature did happen then that would be significant, but that aside I think it may be considered to be a bit unlikely that property prices would drop 50 per cent unless there was some catalyst for that event. It certainly would not be just general activity in the market that would cause that, it would have to be something quite substantial.

**Senator S.C. Ferguson:**

Is there anything else you would like to say?

**Director, BNP Paribas Real Estate:**

Not from me. Hopefully I have answered all the questions that you have asked, but no, I have no further questions.

**The Deputy of St. Peter:**

Obviously we would wish to secure by whatever means a copy of both reports.

**Director, BNP Paribas Real Estate:**

I can provide the sub-committee with a copy of each report. I can arrange for that to be done and delivered back to you this afternoon. I shall have them hand-delivered back to you.

**Deputy D.J. De Sousa:**

It would be the Scrutiny Office.

**Senator S.C. Ferguson:**

Yes, at Morier House.

**Director, BNP Paribas Real Estate:**

I will have that delivered this afternoon.

**Deputy D.J. De Sousa:**

Thank you very much.

**Senator S.C. Ferguson:**

But obviously you would prefer it to be confidential at this point in time? The thing is that we have 2 sorts of submission to Scrutiny reviews, that which we publish on the website and that which is for the use of the Scrutiny Panel alone.

**Director, BNP Paribas Real Estate:**

Right. Because the client is the States of Jersey my report is to the States of Jersey. If a client wanted to release a report into the public domain there is very little I could do about that and there is nothing in any way to be hidden in either of the reports, so I would say it is more if the client wants to put it in the public domain then I have no particular problem with that. Generally it would not be and some clients consider that the reports are confidential to them, it is their report, so generally I would not for example normally put a report into the public domain in that regard, but it is really I think a call for yourself in that regard. I would prefer it, because it is a report to the client, that would need to be a discussion that I would have with the client, because the client is the client and it is their report. If the States of Jersey, Jersey Property Holdings, asked for our consent to put the report into the public domain then because we work in an environment of transparency I do not have a particular problem with that, but I think that is a conversation that I would need to have with the client.

**The Deputy of St. Peter:**

So at the moment we would take it on with a caveat and let you and the client decide?

**Director, BNP Paribas Real Estate:**

I think so, just simply because of that relationship between consultant and the client, and of course there is evidence that I refer to in there of other buildings around St. Helier whereby the owners of those buildings also may not be happy that I have put ... although they are probably in the public domain but then to go into print the owners could say: "Well, I did not want people to know what I paid for my property" so there are other issues there as well which also need to be considered, there are other sensitivities I suppose you would say. But I am happy to have that conversation with the client and if they feel that it is important that that goes into the public domain we have got nothing to hide in our report from that perspective in principle. It is just there are other issues at play as well.

**Senator S.C. Ferguson:**

No, we appreciate that. Certainly the reports would be of great assistance to us in understanding the whole set-up and we will I think probably hold back putting them into the public domain until we have discussed it with the Treasury Minister.

**Director, BNP Paribas Real Estate:**

I do not disagree with that approach. I have to say I think as long as for example the use of any numbers that I have said in the report then I would not be unhappy that it was kept at that confidential level. I think any client would appreciate that and as I say there may be other sensitivities in terms of the evidence that I have looked at.

**Senator S.C. Ferguson:**

Yes, I mean we would not like to make things difficult for you on a professional level so at this point in time we shall not publish it.

**Director, BNP Paribas Real Estate:**

I have no problem with if anyone wanted to review the report, there is nothing in there that I would wish to hide, it is just that client consultant relationship, that we do not normally put reports into the public domain.

**The Deputy of St. Peter:**

Just for my own mind, we will take the report under confidence and if there were to be any view of it we will discuss it with you beforehand.

**Director, BNP Paribas Real Estate:**

I am sure the report can be passed to any Member of the States of Jersey because the States of Jersey is the client and any party that needs to have sight of the report can or will already have had sight of it, so that is also important, to know that that is the case.

**Senator S.C. Ferguson:**

Super. Thank you very much indeed, Mr. Harvey. We are very grateful for you spending your time with us.

**Director, BNP Paribas Real Estate:**

It is a pleasure. Thank you.

[10:51]