

Jersey Development Company's response to Dandara's high-level figures submitted to the Corporate Services Scrutiny Panel's review of the Jersey International Finance Centre.

Jersey Development Company (JDC) has reviewed Dandara's figures and attaches a financial summary and comparison that shows the States approved Jersey International Finance Centre (JIFC) generating a £52m return. JDC has responded on those figures that are not commercially sensitive and has kept the same rental figure and cost figures per Dandara's submission. Dandara has competing office schemes and it is therefore in its direct financial interest for the JIFC development to be stopped/delayed. Since 2000 Dandara has developed approximately 61% of all new build offices in St. Helier (since 2010 this has increased to about 69%).

It is interesting to note that Dandara offered a bank guarantee of £95m for the Esplanade Quarter site in June 2008 and to carry out the Masterplan under the same terms as Harcourt Developments (letter attached). Since 2008, office rentals have increased from £27 per sq. ft. to £34 per sq. ft. (per Dandara's figures) and yet Dandara now claim the development will generate a loss?

The main items of variance are:-

1) Yield:-

Dandara applied a yield of 7.15% and this is not considered to be reflective of the market. The value of prime central London offices is near its pre-recession peak and values in regional cities are now improving considerably. Investors are now returning to the Channel Islands where yields are looking attractive from a capital and rental growth perspective. Dandara refers to the recent sale of 44 Esplanade at 7.85%. The actual yield was 7.5% however this was a distressed sale and only had 7 years remaining to the first break clause (the lower the remaining term certain the higher the yield).

Non-distressed examples include Gategny Court in Guernsey which sold in August 2014 for £44m which represented a yield of 6.5% and in February 2015 Trafalgar Court in Guernsey sold for a consideration of £61.4m which reflected a net initial yield of 6.55%.

A yield of 6.5% (from Dandara's 7.15%) and using Dandara's rental figure of £34 per sq. ft. **improves the overall return by £30m.**

2) Rent Free Period:-

Dandara has deducted the rent free period from the end value at a cost of £20.5m. However, this scenario only prevails if the buildings are sold immediately on completion and JDC has always intended to hold the buildings until the expiry of the rent-free period (as Dandara has done with its office building at 37 Esplanade). By **holding the buildings for the rent-free period improves the overall return by £13m.**

3) Land Value:-

Dandara has applied an inflated land value of £108.51 per sq.ft. of Net Internal Area office. Based on Court documents, Dandara paid an average price of £62.19 per sq. ft for the sites at 66-72 Esplanade for its 160,000 sq. ft. office building that is currently under construction. Dandara has also ignored the fact that JDC already owns the Esplanade site and has therefore deducted its high assessment of net land value as a cost to the development – **this is a manipulation to increase the alleged "loss" by £29 million!**

JDC has always stated the £50+m net return from the JIFC development includes **both** land value and developers profit.

4) Tunnel costs:-

JDC has always stated that the returns from the first phase of the Esplanade Quarter (the JIFC) would be needed to finance the lowering of Route de la Liberation. Dandara has added these costs above the line so as to increase the level of loss of the first phase. Dandara has also ignored the value of the development plots created by altering the road network (additional development plots will be created above the lowered road). These development plots have an estimated value of £25m.

JDC has been created by the States to deliver socio-economic returns for the Island. By undertaking the direct development of the JIFC the Island will generate in excess of £50m as opposed to an estimated £12m (post JIFC infrastructure costs) if the site were sold to a third party developer.

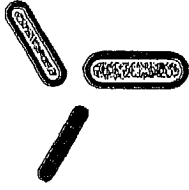
There is a finite demand for new office space and it is in the direct financial interests of competing developers to obstruct the delivery of the JIFC. In 2014 Dandara went as far as lodging a Third Party Planning Appeal in an attempt to thwart JDC's negotiations with a tenant (this Appeal was subsequently withdrawn).

Dandara's submission is the latest attempt to create concern and confusion amongst the public and States Members in the hope that the JIFC is delayed or derailed clearing the way for them to promote and complete their own schemes.

SoJDC Analysis of Dandara's submission to the Corporate Services Scrutiny Panel

Esplanade Development Appraisal on Phase 1 office area

	DANDARA				SOJDC			
Office nett lettable area	470,000	34.00	7.15%	223,496,503	470,000	34.00	6.50%	245,846,154
rentalised car parking	150	3,000	7.15%	6,293,706	300	3,000	6.50%	13,846,154
				229,790,210				259,692,308
less rent free period				(20,537,500)				
less finance costs during rent free period								(7,500,000)
				209,252,710				252,192,308
less cost of sales		allow		(13,601,426)				(16,880,000)
		NETT SALEABLE VALUE		195,651,284				235,312,308
Direct development costs								
build - costs on build projected to all buildings	470,000	300	141,000,000		470,000	300	141,000,000	
build - construction of public car parks			22,000,000				22,000,000	
professional fees		Building 4 is at 9% but future buildings will be lower	10%	16,300,000		10%	16,300,000	
letting/marketing fee		off rental value	7.50%	1,232,250		7.50%	1,232,250	
sale/marketing fee		off sale value	0.75%	1,621,416		0.75%	1,947,692	
legal cost of letting and sale			1%	1,956,513		1%	2,761,223	
SoJDC project management fee / cost		off construction value - say (SoJDC say more likely 1%)	2%	3,260,000		2%	3,260,000	
Land value		market rate 470,000 @100 per ft less public car parks construction costs		29,000,000				
		Per Dandara's latest acquisition in 2014			470,000	62.00 p.s.f.	29,140,000	
		Less: Car Park Costs - per Dandara submission					(22,000,000)	
							7,140,000	
finance costs		no land finance						
		Dandara assume - 180m @ 50% @ 5% @ 2 years/ 2 to average		4,500,000			4,500,000	
				(220,870,179)			(200,141,165)	
SoJDC DEVELOPMENT LOSS / PROFIT				(25,218,895)			35,171,142	
Value of Car Park constructed		Dandara's valuation		10,000,000			10,000,000	
Total development (Loss) / Profit on phase 1				(15,218,895)			45,171,142	
Land value returned on sale		per what is included in costs above					7,140,000	
		Dandara has omitted this value						
Total cash returned for land and (loss) / profit on Phase 1				(15,218,895)			52,311,142	
Commence Phase 2 of the Masterplan								
contribution to lowering the road, indexed £45m in 2008 to 2030, at 2.5%, pro-rated to office area		Dandara's cost figures - allocated		(58,722,260)				(58,722,260)
Add back land created above buried road								
Value of plots created above road that has been buried		Offices			150,000	62 p.s.f.	9,300,000	
		Residential			100	75,000 per unit	7,500,000	
		Leisure / self-catering (76800 sq.ft)			128	50,000 per unit	6,400,000	
		Boutique Hotel (53,760 sq.ft)			100	20,000 per unit	2,000,000	
							25,200,000	
Net cost of lowering the road				(58,722,260)			(33,522,260)	
Net (loss) / profit of phase 1 and lowering the road (Dandara's figures exclude the return of land value)				(73,941,155)			18,788,882	



dandara

jersey limited

Bill Ogley
Chief Executive
Chief Minister's Dept
PO Box 140
Cyril le Marquand House
St Helier
JERSEY

Spectrum House
Gloucester Street
St Helier
Jersey
JE2 3DG

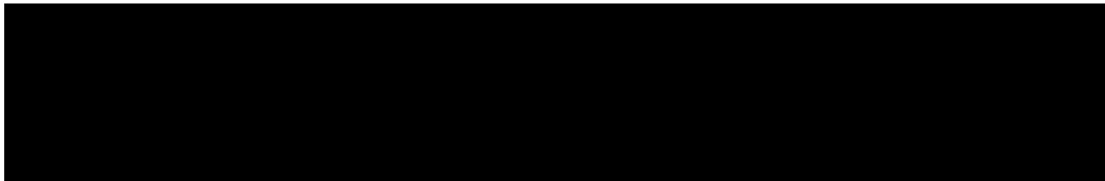
telephone 01534 506200
facsimile 01534 506222
email jersey@dandara.com
web www.dandara.com

Subject to contract
Private & confidential

16 June 2008

Dear Bill,

Esplanade Quarter Masterplan



Since then, we have successfully launched our Castle Quay development and out of total residential sales of [REDACTED] we have over [REDACTED] deposited or exchanged. This has been a very successful launch and I hope proves our ability to deliver large schemes as well as reducing our risk exposure to WEB in developing the Waterfront. In addition to this we have substantially increased the financial return to WEB and we will continue to do so throughout the development.

We have followed the trials and tribulations in relation to the adoption of the Masterplan and 'Harcourt Deal' in the States. We believe that we can deliver The Esplanade Masterplan better than any other developer. We have a substantial amount of information about the development and details of the commercial deal with Harcourt, following the States debate, and we are in a position to propose a renewed offer for the whole of 'Esplanade Quarter' Development.

The offer is exactly on the same terms as the 'Harcourt deal' within the same timescales for delivery of the development. A bank guarantee will be in place up to £95 million on all land that is drawn down from WEB. We also believe that there maybe an alternative phasing programme which will allow WEB to retain ownership of the land for a long period of the development, reducing WEB/States exposure along the way.

Subject to agreement with planning, it is also possible to facilitate more residential units on the 'Les Jardin' part of the plan. Developing the housing units earlier than presently envisaged will help boost the housing supply in the short term for the Island.

Please consider, along with the Council of Ministers, this very substantial offer, which has full board approval.

The merits of developing with us are:

- Same deal as Harcourt - which you have already stated was the best possible deal.
- Working with a local developer with 15 years development experience in Jersey.
- A developer with a proven reputation of delivery and quality on the Island, as well as a good track record of developing with The States of Jersey and WEB.
- Local company with circa 300 employees, incorporating local training and apprenticeship schemes.
- Dealing with a company, through a ten year development programme, that you can trust.

I realise that you may have difficulties in discussing the above contents with me until the Harcourt option period has expired but I write at this earlier stage to allow you to consider all options.

Yours sincerely,

A black rectangular redaction box covering the signature of Martin Clancy.

Martin Clancy
Managing Director