STATES OF JERSEY

ESPLANADE QUARTER DEVELOPMENTS: APPROVAL BY THE STATES (P.15/2014) – ADDITIONAL COMMENTS

Presented to the States on 18th March 2014
by the Minister for Treasury and Resources

STATES GREFFE

ADDITIONAL COMMENTS

These additional comments are being presented in advance of the forthcoming debate on Senator A. Breckon's proposition P.15/2014 concerning the development of the Esplanade Quarter, and following Senator Breckon's presentation to the States on 14th March 2014 of an Addendum to his proposition. They address points raised in the Addendum, and provide additional information following the presentation given by the Jersey Development Company (JDC) on 17th February 2014, as this presentation was held at short notice and not all Members were able to attend.

Jersey Office Market

In recent years, private developers have put forward alternative proposals to the Esplanade Quarter Masterplan which was approved by the States Assembly in 2008. Due to the plot sizes, few of these alternative private schemes can provide the floor plates/overall space required by certain of the larger on-Island tenants. For example, there is a particular tenant actively seeking a new 80,000 square feet office building to be completed by March 2016 and only 2 of the private schemes, in addition to the JIFC, can deliver to this requirement. Another tenant, with a smaller overall requirement, has set a minimum floor plate of 10,000 square feet for efficiencies of operation – it is better to have all staff on one large floor than split over 2 or 3 smaller floors.

The majority of financial services businesses operating on the Island have an international presence, and many decisions in terms of location and new property are taken outside the Island. These businesses know what accommodation specification they require to operate cost-effectively and efficiently, and the JDC has carefully developed its designs in accordance with office design in Central London (the world's No. 1 finance centre). Tenants will be reviewing proposals in Jersey against elsewhere, and it is important that Jersey has the right standard of accommodation available to enable on-Island businesses to grow and prosper, and to also attract new business to its shores.

The JIFC offers the only 'blank canvas' development opportunity in St. Helier. This has significant advantages over other proposed office schemes, in that it can provide regular shaped floor plates with natural light on all 4 elevations as a result of the buildings being standalone. From an operations perspective, this means there is no 'dead space' on the floors, with 100% of the net lettable area being useable. JDC has also designed its buildings to achieve BREEAM 'Excellent' environmental rating and to provide column-free floor plates.

There will be no empty office blocks in the JIFC as, in accordance with its operating remit, JDC has to minimise risk; and one of the key risk mitigation measures is that construction can only commence when a legally binding pre-let(s) is in place. JDC is in discussion with 5 potential tenants that would fill the first 2 office buildings (Building No. 1 and Building No. 4). These tenants have requirements for new accommodation during 2016, which is why JDC has prepared its development to start by the end of April 2014. Demand for new accommodation is driven by the expiry of existing leases and a requirement to consolidate into more efficient/open plan accommodation to provide for the future needs of the business.

Rival developers

JDC has come under significant objection to its proposals from rival developers with competing office schemes in an attempt to delay or derail the delivery of the JIFC. On JDC's planning application for Building No. 4, it received 10 letters of objection from 5 parties, 4 of whom were rival developers that made up 9 of the letters. Written and oral objections from rival developers have been received against every JIFC planning application to date.

JDC is also aware of a number of spurious and erroneous development appraisals being circulated – one by under what appears to be a fictitious name – with the sole purpose of discrediting the JIFC development.

These objections from rival developers were taken as far as a Third Party Appeal by Dandara against the Minister for Planning and Environment's decision on Building No. 1. The delay that would have been caused by a Third Party Appeal would have resulted in JDC not being able to deliver a completed building to the tenant's timing requirement. Dandara subsequently withdrew its Appeal.

Senator Breckon says: "leading local agents totally disagree as to what office space is available and required within St. Helier". Certain local agents work more closely with certain developers, and they will be working hard for the success of their particular development projects. By eliminating the JIFC development from the market, this increases the probability of success on the projects with which they are aligned and from which they will generate significant letting fee income.

Potential office supply is greater than current/medium term demand, however it is considered that tenants should be offered choice in their selection of new accommodation, and ultimately it should be tenants that decide which offices scheme(s) are delivered. These businesses are the lifeblood of the Island, and we should not hinder a potential provider of new office accommodation which is a vital ingredient to the success of our premier industry.

JDC directly developing Esplanade Quarter in phases

The States Assembly established JDC in 2011, and its prime purpose "is to act as the delivery vehicle for property development for the States of Jersey". The Company's remit is to complete the development of the St. Helier Waterfront and undertake the regeneration of surplus States of Jersey land and property (no longer needed for the delivery of public services) such as the former Jersey College for Girls site.

The States own either directly or through JDC considerable land/property, and by undertaking the development directly, JDC will maximise the financial returns to the public purse. The profits will be paid back to the States via a dividend on sale, and completion of the projects and/or receipts will be used by JDC to deliver public infrastructure, as will be the case with lowering La Route de la Libération. As a result of being 100% States-owned, the Company acts in the best interests of taxpayers at all times. JDC, in bringing forward plans for delivering the Esplanade Quarter Masterplan, is carrying out its remit as set down by the States of Jersey.

JDC invited all States members to a presentation on 30th November 2011, at which it disclosed its intentions regarding the phasing of the delivery of the Esplanade Quarter and that it would be undertaking the development directly.

Furthermore, in the Company's annual report and financial statements for the year ended 31st December 2011, presented to the States on 24th April 2012 as R.53/2012, they stated at page 4 –

> *"The Company is in the process of working up plans to deliver directly the development of the first phase of the Esplanade Quarter. The first phase has been re-branded the Jersey International Finance Centre…"*

Since the November 2011 presentation, the Company has undertaken the following activities to progress the project –

- engaged a professional project team – comprising architects, structural engineers, mechanical and electrical (M&E) engineers, cost consultants, letting agent, traffic engineers, landscape architects and public art consultant

- produced detailed plans and submitted detailed planning applications and building control applications

- secured planning and building approvals

- gone out to the market and found prospective tenants

- negotiated with construction firms

- commenced detailed tenant discussions and submitted Heads of Terms

- secured private sector funding for the delivery of the office buildings.

JDC has spent £3 million to date on the project and has a further £1 million committed before the end of March.

Masterplans are long-term planning visions setting the parameters for development on large or extended sites. Due to their scale, the delivery of Masterplans is phased in response to demand or projected demand. The Esplanade Quarter is no different; it is a huge project for Jersey and needs to be undertaken in manageable phases in response to demand.

Senator Breckon's suggestion that "serious repercussions could result" if demand for premium office space dries up is simply untrue. The fact that JDC is approaching the development in a phased manner, building by building in response to demand, will not result in any repercussions; and Masterplans by their very nature provide for flexibility in land uses over the plan periods as demands for certain land uses may change.

Financial return

Under the Heads of Terms entered into between the then Waterfront Enterprise Board Limited ("WEB") and HDL, there were guaranteed land payments to be made by HDL. This proposal was not progressed. It has also been publicly disclosed that HDL could not provide the necessary bank guarantee to cover these payments and the associated costs of lowering La Route de la Libération, which led to the relationship being terminated.

As JDC is carrying out the development directly, the land ownership is not being transferred and therefore there is no requirement for staged land payments. JDC will carry out the development in a phased manner that will ensure the delivery of the Esplanade Quarter Masterplan, and the net profits realised on completion and sale of the entire scheme will be paid to the States Treasury via a dividend. These profits are conservatively estimated to be £50 million (after funding the lowering of La Route de la Libération and repaying all debt on the new underground public car park).

Public money – £13 million is being loaned towards the underground public car park

A major tenant that JDC is in discussion with, that has a requirement for an 80,000 square feet office building, has conditioned that the underground public car park must be delivered at the same time as its prospective new office building (Building No. 1). JDC has secured £10 million from a third party bank; however, as the cost of the underground public parking is in excess of value, the bank could not lend further against one building. The Minister for Treasury and Resources has approved a 5 year investment from the Currency Fund at a commercial rate of interest to assist the delivery of a new 520 space underground car park as part of the first phase. It is the condition of the third party lender that the £10 million loan for the car park is repaid on the sale of Building No. 1. It is intended for the £13 million investment to be repaid in full on the completion and sale of the second office building (Building No. 4). In the event Building No. 4 is not completed within this period, JDC will be able to raise a mortgage against the revenue streams from the underground public car park to repay the Currency Fund investment.

Effects on St. Helier

The Esplanade Quarter Masterplan was the subject of unprecedented public consultation over a 2 year period (2006 to 2008). The Masterplan was debated in full and approved by the States Assembly in June 2008. Furthermore, the Island's first public planning inquiry was held at the end of 2008 on the outline planning application on the entire scheme. Detailed consideration was given by the Planning Inspectors to the effect on St. Helier, and their conclusions supported the development. The entire scheme received outline planning permission in July 2010.

There is currently no 'grade A' office space available in Jersey, which for a leading finance centre is less than ideal. Businesses require modern, efficient office space, which in turn requires new offices to be built and older offices to be redeveloped.

The provision of new office accommodation in close proximity to the historic retail core of St. Helier will ensure that office workers can continue to easily shop during lunchtimes/after work. Developing new residential units in walking distance from the workplace and amenities will promote less reliance on the motorcar and will provide greater footfall in St. Helier, which will have a positive impact.

Demand for office space, retail, restaurants, etc. in the next 10/20 years?

The Esplanade Quarter Masterplan provides for 620,000 square feet of office accommodation, 25,000 square feet of retail, 25,000 square feet of restaurants, 400 new homes, as well as a hotel and self-catering accommodation.

There are lease expiries on approximately 400,000 square feet of office accommodation over the next 7 years, with further expiries following that date. Some businesses that are currently operating out of good secondary accommodation may decide to remain in their current accommodation, as has recently occurred with a locally-based bank. However, with continued mergers and acquisition activity resulting in consolidation of businesses, these extended organisations are likely to be operating out of several buildings, and others will be operating out of offices that are no longer fit for modern business need. There will therefore be relocation to new modern office accommodation in order for businesses to be operationally efficient.

The JIFC (the first phase of the Esplanade Quarter Masterplan) will deliver 470,000 square feet of new office accommodation. There is a regular and cyclical requirement for modern and efficient office accommodation. It is ever more important for businesses to operate efficiently on open-plan floor plates. The JIFC development provides highly efficient space with an optimal working environment.

The retail and restaurant content is relatively small in the broader context, and it is considered the majority of this provision will be delivered in the second phase at the base of the residential buildings.

Looking at historic figures, there will be demand for 400 new homes over the period of the development and self-catering accommodation is also in demand. Senator Breckon is factually incorrect in his criticism of JDC in the advancement of the former JCG development. The fact is JDC submitted a detailed planning application a year ago, and since that time it has been working with Property Holdings and the Education Department to resolve the parking concerns for Janvrin School.

On balance, the mix of uses proposed in 2008 are still relevant today; however, this position will need to be continually reviewed during the development process and assessed against demand. Masterplans are long-term visions which will adapt to market conditions prevailing at that time. As such, if there is no requirement for a hotel then the land use on this particular building could change.

Will the sinking of the road still happen?; if yes, how and by whom will it be funded?

JDC is obligated to follow directions from the States of Jersey, and as the States has approved the Esplanade Masterplan which includes the lowering of Route de la Libération. However, it is important to point out that the lowering of the road is not part of the first phase. All 6 office buildings in the JIFC can be constructed without needing to lower the road and without impacting on the future ability to lower the road. Therefore, by phasing the project, JDC is not only de-risking the project but it provides for a future States review/debate on whether there is still the need and the appetite to lower Route de la Libération.

Furthermore, by phasing the project, JDC is not only de-risking its delivery, but it is also securing the funds to pay for the public infrastructure elements of the scheme, namely the lowering of Route de la Libération.

By carrying out the much-needed office accommodation as the first phase, the net receipts from this phase, estimated to be £40 million (plus a debt-free 520 space underground car park with an estimated value of £10 million), will be used to fund the majority of the public infrastructure. Yes, there will be a shortfall, and based on indexed outline costings, this will be in the order of £15 million. This shortfall can be funded by borrowing against the plot values that are created above the lowered road (4 additional buildings are created above the tunnel, the land value of which is in excess of £15 million).

The suggestion from Senator Breckon that there is an "unfair competitive advantage over private developers seeking private capital for development" is simply not true. JDC has secured private capital to deliver the office buildings and a significant contribution towards the costs of constructing the underground public car park. No private developer has to provide a 520 space public car park, extensive areas of new public realm and the re-landscaping of the Esplanade as part of their schemes.

JDC is borrowing externally from a local retail bank for each office building, and the development appraisals have been reviewed by the bank in detail for its credit approval. This bank's due diligence would not let it lend on bogus or overly optimistic figures.

JDC has provided the Minister for Planning and Environment with a detailed phasing plan which sets out how the project will be delivered. This phasing plan has been uploaded on to the Planning Department's website.

Will the States be relocating its central office-based functions to the site?

There is currently no proposal for the States to move offices into the JIFC. This 'grade A' office accommodation is proposed for the financial services industry, not government. The government is currently undertaking a review of its office accommodation requirements, and there could be an opportunity for government to back-fill some of the good secondary space vacated by businesses relocating to the JIFC.

There is a significant strategic advantage for Jersey in having a dedicated finance centre which will improve Jersey's jurisdictional substance. It has been proven in other jurisdictions that where financial services businesses are clustered in a bespoke district/area, it acts as an attractor of new business flows and company location – such as City of London, Canary Wharf, Singapore Waterfront and Dubai International Finance Centre, to name but a few. This view is supported by Jersey Finance. The McKinsey Review also identified the need for high-quality infrastructure to retain and grow the current industry.

"Secrecy" of the development

JDC is operating in a commercial environment, and providing further detail behind its net figures in open forum will enable private developers to calculate the likely rentals that are being offered – this would not be in the best of interests of JDC or the Island.

JDC regularly prepares development appraisals using its latest detailed cost consultants' advice and inputting the latest quoted rentals/yields in order to assess the net financial position of each office building. These appraisals are subjected to sensitivity analysis and are reviewed by the Board of JDC. JDC's third-party letting agent and valuation surveyor, BNP Paribas Real Estate, has performed a detailed development appraisal of the JIFC for valuation purposes and concluded that the likely return is £44 million plus an underground public car park with a value of £11 million.

Under P.73/2010, political responsibility for JDC was devolved to the Minister for Treasury and Resources ("the Minister"). JDC has in place a Memorandum of Understanding between it and the Minister which sets out in detail the operating remit of JDC and the risk mitigation measures that JDC must put in place/operate within. JDC meet with the Minister on a quarterly basis, and the Minister receives the Company's Business Plan, Budget, Cashflows, Half-Year Accounts and Year-End Accounts. In addition, the Minister considers certain detailed activities of the Company. For example he must give his approval to all borrowing.

P.73/2010 also created and approved the Regeneration Steering Group (RSG) comprising the Chief Minister, the Minister for Treasury and Resources, the Minister for Economic Development, the Minister for Transport and Technical Services and a political representative for the Parish of St. Helier.

One of the key roles of the RSG is to "ensure the interests of the Public are protected throughout the promotion, commissioning, and implementation stages of each project as it steers SoJDC and receives regular progress updates from the company in respect of specific sites". The RSG meets JDC on a quarterly basis and have approved its progress on the JIFC and the former JCG developments.

In addition to these quarterly meetings with the RSG and quarterly meetings with the Minister for Treasury and Resources, since its formation, JDC has invited all States Members to presentations on its progress approximately every 6 months, ending these presentations with questions and answers. Detailed below are the dates of these presentations and the attendance numbers –

- **30th November 2011** (35 States Members attended).

Presentation was in response to the Connétable of St. Helier's proposition P.175/2011. At this presentation, JDC revealed that it would be directly developing the Esplanade Quarter in phases and that the first phase had been re-branded Jersey International Finance Centre.

- **16th July 2012** (9 States Members attended)
- **20th May 2013** (18 States Members attended)
- **7th October 2013** (24 States Members attended) – following official launch of JIFC to industry and launch of website www.jifc.je
- **17th February 2014** (24 States Members attended) – in response to Senator Breckon's proposition P.15/2014.

Information has therefore been provided and has repeatedly been made available.

Risk mitigation

Like any commercial undertaking, there are risks attached to property development. However, JDC has deployed numerous risk mitigation techniques which collectively significantly de-risk the JIFC development. These risk mitigation measures ensure that costs are fixed and known in advance of commitment, revenues are fixed and known in advance of committing to construction costs, and there are appropriate insurances, parent guarantees and adequate contingency funds available to provide for any unforeseen costs in the unlikely event they occur.

JDC has appointed a highly qualified and experienced design team that has a proven track record of designing and delivering modern office accommodation. JDC has also appointed as the Contractor a Joint Venture comprising Sir Robert McAlpine Limited and Camerons Limited (the “Contractor”). These 2 contractors have an excellent track record of performance and delivering quality projects on time and on budget. They are also of significant financial substance in their own rights.

JDC’s cost consultants, E.C. Harris and Colin Smith Partnership, provide regular cost updates as the designs develop. These cost plans break the build down into its component parts and use the latest industry costings on a like-for-like basis for products, services and builds.

These figures are input into JDC’s development appraisals, along with all other development costs such as professional fees, interest costs, letting agent/legal fees. On the income side, JDC inputs the rentals that it is marketing to tenants and JDC’s letting agent, BNP Paribas Real Estate, independently provides market information on likely yields which, when applied to the rental and discounted for purchasers’ costs, provides the total forecast revenue. The development appraisals deduct the anticipated costs from the revenues to calculate the net profit. JDC then performs sensitivity analysis on these appraisals.

The Contractor will be appointed via a JCT Design and Build Contract. This is a lump sum contract, meaning the parties agree an amount known as the “Contract Sum” for a prescribed scope of works which is detailed in the “Employer’s Requirements” and “Contractor’s Proposals” documents.

Under a design and build form of Main Contract, the Contractor assumes responsibility for the design team and for the co-ordination of the production of construction drawings. The JCT contract is a tried and tested contract that fixes the price, delivery time and includes penalties for a delayed handover.

The ultimate protection is that no construction will be commenced unless a legally binding pre-let(s) is in place with penalty clauses for non-completion and a suitable guarantor. This ensures that the forecast revenues are realisable.

Conclusion

The JIFC development has been in the design and planning process since the end of 2011, and JDC has followed the requirements placed upon it in under P.73/2010 and those set down in the States’ approved Esplanade Quarter Masterplan.

After years of work, the first phase of the Esplanade Quarter is ready to start and JDC is in discussion with several interested tenants that have fixed timing requirements for the delivery of their new accommodation. A further States review at this late stage would delay JDC’s on-site start date and end its negotiations with these tenants (as it could not deliver to their tight time requirements). The consequence would be an unquantified delay to the project, as these tenants will simply go elsewhere for their new space requirements.

JDC has deployed extensive risk mitigation measures which will ensure as far as practically possible that the development delivers a significant positive return which will be used to extensively fund the lowering of La Route de la Libération as the start of the second phase of the Esplanade Quarter Masterplan.

Statement under Standing Order 37A [Presentation of comment relating to a proposition]

The comment was not approved by the Minister for Treasury and Resources until after the 12 noon deadline due to the need to consider the Addendum to P.15/2014 presented by Senator Breckon on 14th March 2014.