



Scrutiny Office

Senator A.J.H. Maclean
Minister for Treasury and Resources
PO Box 353
Cyril Le Marquand House
The Parade, St Helier
JE4 8UL

19th March 2015

Dear Alan,

States of Jersey Development Company – Jersey International Finance Centre

I am writing on behalf of the panel in respect of the above review and also by way of providing a brief update.

As you are aware the panel has received over 30 submissions to date. Some of them are private and a number are comprehensive in technical detail. A preliminary assessment indicates there to be a significant variance of professional opinion in 4 key areas :

- 1) The current and future demand for new Grade A office accommodation.
- 2) The quantum of Grade A office accommodation currently available, or shortly to become available from the private sector.
- 3) The potential level of profit or loss which might be generated from the overall Esplanade Project and hence the level of risk to which the finances of the Island might be exposed
- 4) Compliance by SOJDC with the undertakings given to the States Assembly regarding safeguards designed to ensure that the public realm elements of the approved Masterplan would be delivered and also that sufficient pre-lets would be obtained in order to reduce financial exposure to an acceptable level of risk.

On the question of market demand, we have been provided with the letter dated 19th May 2011 from SOJDC which includes a list of potential tenants for the waterfront, and which indicated AT THAT TIME there was insufficient demand for the potential supply that might be available.

It is our initial understanding that the requirements of many of the tenants on that list have subsequently been met from within the private sector, and that there are likely to be few new additions to that list [Part of our work is likely to be to establish whether this view is accurate or not].

Furthermore we are informed that the probable key tenant of Building 4 on the Esplanade Quarter is tied into their current lease until 2019. We also understand that a lease to that tenant alone is

unlikely to meet the requirements under P73/2010 as regards the minimum level of pre-lets to cover the costs of construction.

As far as supply is concerned, the current written submissions show estimates of the imminent supply of Grade A office space which vary by 104,000 ft² [72,000 per SOJDC – 176,000 per Dandara].

These numbers also appear to exclude the freeing up of a further 70,000 ft² of office space as a result of the RBC move, which would in itself seem to be capable of being refurbished to a good standard.

A preliminary assessment does seem to give some credence to the delivery of a supply of Grade A office space which will be towards the higher end of this range by the private sector alone.

We have also communicated with the Planning Department who have confirmed to us (as a measure of objective, independent evidence) that there is over 350,000 ft² of office space with planning permission, excluding J1, the Dandara building presently under construction, and the Esplanade Quarter (see attached).

Also of concern is the large disparity in estimations of the potential return on the project, with a difference of around £130 million as figures range from a loss of £(73) million to a profit of £55 million.

Given the technical nature of the subject it was always anticipated that we would need a range of advice to cover this area, and the level and depth of the submissions received has confirmed this need. Accordingly a specialist valuer of the highest credentials is in the process of being appointed to assist us with this area.

As you will be aware P73/2010 clearly states that the Council of Ministers were of the opinion that the Corporate Services Scrutiny Panel would play "an important role in the scrutiny and oversight of the activities of SoJDC".

We also remind you of

- a) the statements by the first Chief Minister (Senator Frank Walker) that :

"The agreed deal ensures that the project ... is completed at no risk to the States, no risk to the public whatever happens"

"...I repeat, therefore, there is no risk to the States from these proposals. Find me a better deal which no-one has suggested exists. Find me a better deal financially and socially and environmentally and from a built environment point of view which offers the public no risk..."

"...I would hope that even the most cynical among us will find it hard to turn down such a package and the other benefits it brings to Jersey with no risk to the public whatsoever. ..."

"... This is a great deal, no risk, guarantees, guaranteed completion and offers...."

b) the statements by the first Treasury Minister (Senator Le Sueur) :

"...I remind the House that W.E.B. cannot enter into any contractual arrangements, this W.E.B., future W.E.B., or any WE.B., whatever the body is, it cannot enter into those arrangements until they have consent of the Treasury Minister, whoever he or she happens to be at the time. The Treasury Minister will only give consent once the Treasury officers have satisfied the Minister of these financial safeguards and equally those Treasury officers, professional officers, are not going to advise me until they are satisfied with the proposals put forward by the board, including the legal advice. But, I am prepared to go a stage further recognising the concern that some Members have. Given the magnitude of the deal, the Treasury will commission an independent external valuer to give a view on the contract itself, on its financial appraisal, on its commercial appraisal and its building appraisal and I will make that advice given to me available to States Members ...I will not authorise any contract to be signed unless I am totally satisfied with that independent report and that remains the case whether it is provided to W.E.B., whether it is provided to Jersey Enterprise Board, whoever it is provided to. That report will be available before any contract is signed."

c) and those of your predecessor

"...I have also previously explained that the development agreement will provide that the Esplanade Quarter development works will not commence until agreements have been entered into for the letting of at least 200,000 square feet of office accommodation..."

"...The stage of the discussions with the tenants with S.o.J.D.C. are that it would only proceed if there are agreed pre-let agreements with tenants. S.o.J.D.C. is not going to take any risk in terms of going ahead with any speculative build... development would only start once a pre-let has been agreed for a significant part of the first phase..."

"...We are not going to be starting buildings which have not got pre-lets. In other words, no risk..."

All of these were undertakings to the Parliament of the Island, namely the States Assembly, and have been instrumental in persuading members to support the propositions placed before them (regarding the delivery of the project).

It has been stated that the objectives of the whole project were to deliver :

- a vibrant waterfront
- including an international finance centre
- a waterfront that was seamlessly connected to St Helier

The project includes 620,000 ft² of office space, of which 470,000 ft² is identified as being supplied by the Jersey International Finance Centre.

The significance of the 200,000 ft² referred to by your predecessor Senator Ozouf would seem to be that it was a significant proportion of the first phase and therefore meant that the project had a significant likelihood of succeeding.

It is our opinion thus far that the 200,000 ft² of pre-lets remains an essential pre-requisite by which the risk of the project can be mitigated to the landowner, and to date we believe that there has been no formal statement made to the Assembly to change this original undertaking.

We fully understand that you, as Treasury and Resources Minister represent the Assembly as shareholder in SOJDC and therefore as the representative of the landowner in this project. Therefore we concur that any decision on the matter must be your responsibility.

However, the landowner, namely the States Assembly on behalf of the Public of the Island has approved the delivery of the 2008 Masterplan on its land, given certain undertakings in particular as regards risk.

To use the words of Senator Le Sueur "...The board makes a decision on the basis of what is best for the company. I am taking separate independent advice because I want to ensure that I do what is best for the States and the Island...." and that is why he commissioned what came to be the Trowers & Hamlins / King Sturge / Currie & Brown report.

However, in any event, it is your responsibility to ensure that these undertakings are respected.

As stated earlier there is a wide range of views on the subject which need to be clarified, and it is not intended that this letter represents all of the issues being put forward.

It is already clear that some arguments on both sides are less strong than was previously the case. For the avoidance of doubt our review will proceed, and will be completed even if pre-lets are signed. If the outcome of our review were to identify significant areas that had not been properly considered in arriving at any decisions as to whether (or not) to proceed with Building 4, in our view it would not inspire confidence with the Public that careful and considered decisions were being taken at a time of significant financial pressures on the public purse, and could possibly endanger other work streams which do (thus far) warrant all of our support.

For example, we are unaware of any independent (arms length – as defined by Senator Le Sueur above) valuations (to RICS "Red Book" standards) having been performed since King Sturge, but would request copies of any such review if this does indeed exist. If independent professional valuations have not been recently performed we would strongly recommend that our review is allowed to conclude its work in order to assist in the objective considerations of the project.

It is our view that any alternative course of action would carry the risk of unsafe decisions being made.

We have also received expressions of concern that commitments might be entered into in respect of Building 4 before the requisite level of pre-lets have been obtained. If this were to be the case it is our view that this would be an unacceptable departure from the principle of previous undertakings to the Assembly. It is also our view that prudent parameters based on the local market need to be applied in arriving at any decisions on this matter.

We would therefore ask you to give one of the following undertakings :

- i) That SOJDC will not commit to the construction of Building 4 until our review has been completed; or
- ii) That SOJDC will not commit to the construction of Building 4 until 200,000ft² of legally binding pre-lets have been achieved which would, as such, give a strong mark of confidence that the JIFC as a whole can actually be completed rather than risking being a solitary speculative building on a significant site within the overall States property portfolio.

I should be grateful if this request could be given the most careful and proper consideration, given the importance of the subject. The intention of our request is not to interfere with any negotiations that may be presently in hand, but purely to ensure that no final binding commitment is entered into by SOJDC until our work is complete, or until it is clear that the substance of the project has a significant likelihood of succeeding.

In the latter case, this would seem to be indicated by achieving the level of pre-lets previously committed to by your predecessor in an official statement to the Assembly.

In the meantime we await a response to our request dated Thursday 12th March 2015 which we had hoped could have been fulfilled by last Friday but to which we have yet to receive a response.

Yours sincerely,

Deputy J.A.N. Le Fondré
Chairman, Corporate Services Scrutiny Panel

cc Council of Ministers

**OFFICE DEVELOPMENT PIPELINE
ESPLANADE AREA OVERVIEW**

MARCH 2015

SITE	PLANNING HISTORY	APPLICATION DETAILS	APPLICANT	OFFICE FLOORSPACE (Est, gross int)
Southampton Hotel (14-16 Weighbridge Square)	P/2011/0840 Approved March 2013 Under construction	Demolish existing buildings. Retain part facade of No. 14. Construct new building comprising basement, ground floor restaurant, four storey offices, and fifth floor plant/storage.	Comprop Ltd	18,500 sq ft
5/6 Esplanade	P/2013/1144 Approved Dec 2013 Not commenced	Demolish existing building and construct new building comprising of 6 floors of offices and parking.	6 Esplanade Holdings	69,600 sq ft
8/9 Esplanade	P/2010/1124 Approved Aug 2012 Not commenced	Demolish existing buildings. Construct five storey office, with basement parking.	John Terry Ltd	71,400 sq ft
19/21 Esplanade	P/2011/1201 Approved Oct 12 & P/2013/1154 Approved Nov 2013 Not commenced	Demolish existing buildings. Construct six storey office building with basement car park.	Titan Properties	47,000 sq ft
22/23 Esplanade	P/2012/1344 Approved Mar 2013 Not commenced	Demolish existing buildings at 22-23 Esplanade & 38-40 Commercial Street, (retain & refurbish facade to 38 Commercial Street). Construct six storey office building to include basement parking.	Denchel Holdings	38,500 sq ft
27 Esplanade	P/2011/0647 Approved April 2014 Not commenced	Refurbishment of historic facade to 27 Esplanade and first three bays. Re-modelling of 28 Esplanade. Demolition of remainder of buildings through to La Rue des Mielles. Construct new seven-storey office building. Construction of basement car park	Beverley Ltd	98,400 sq ft

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66/72 Esplanade	P/2013/1185 Approved March 2014 Under construction	Demolish 66-72 Esplanade, 60 Kensington Place and part of 14 Patriotic Street. Construct six storey office development, incorporating ground floor parking and retention of 14 Patriotic Street listed facade	Dandara Jersey Ltd	215,800 sq ft
29 Seaton Place	RP/2012/1015 Approved Oct 2012 Commenced (with part demolition)	Demolish existing warehouse and flats. Construct four storey office building with car parking.	IG Properties Ltd	24,600 sq ft
"J1" 19/21 Commercial Street & 31/41 Broad Street	P/2011/0817 Approved Dec 2011 Not commenced	Demolish existing buildings. Construct six storey building comprising of retail units and offices with basement parking. Remove 33 Broad Street. Restore facades of 35-37 Broad Street and 'Harbour Wall' structure.	LMN Jersey Investments Ltd	419,560 sq ft
Esplanade Quarter Building 4	P/2012/1141 Approved Aug 2013 Commenced (with temporary car park)	Construct six storey office block with associated basement and landscaping. Temporary relocation of existing car park.	SOJDC	97,000 sq ft
Esplanade Quarter Building 1	P/2013/0993 Approved Jan 2014 Not commenced	Construct six storey office block with associated basement and landscaping. Temporary relocation of existing public car park.	SOJDC	119,300 sq ft
Esplanade Quarter Building 5	P/2014/2192 Current application	Construct six storey office building with associated basement parking and public realm. Temporary relocation of existing public parking.	SOJDC	101,000 sq ft

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ESPLANADE AREA OVERVIEW

