18th March 2015

Dear Scrutiny Panel members,

A REVIEW INTO THE PLANNED JERSEY INTERNATIONAL FINANCE CENTRE

I thought it important to balance the "debate" going on over the various valuations and the information/ assumptions being used to justify values, particularly as many being used are inaccurate and are being manipulated. Before doing so, please find below extracts from the Memorandum of Understanding "MoU" which SoJDC should operate under from the States mandate P.73/2010, and which have a significant bearing on the valuation assumptions which should be used.

MoU - Managing Risk

The objective of the States of Jersey Development Company ("SoJDC") is to deliver projects in the most beneficial and **risk averse manner**.

SoJDC will use advanced financial and risk modelling techniques to enable the risk profile of projects to be identified. The development model that delivers the most appropriate risk profile and return will be followed. There are a number of risk management and risk mitigation measures that will be introduced and adhered to ensure that the States of Jersey is protected.

Assets Held by The States of Jersey Development Company

The following principles will be used to guide policy on holding assets in the future:

- There should be a clear exit strategy for all assets.

- In the future, the identification of costs for maintaining public realm etc should be identified as early as possible within the original scheme (i.e. at planning stage).

- New infrastructure that would normally be capable of adoption should be transferred to the Parish and funded out of rates. For other areas of public realm within defined development curtilages, with higher than usual maintenance costs or carrying a contingent liability, provisions should be made to capture contributions through estate service charges arrangements or a commuted sum payable from WEB out of land receipts.

- Completed assets should only be retained by SoJDC where it is necessary to maintain management control in order to support the marketing and sale of new developments in the vicinity (in some cases this may mean retention by SoJDC for a number of years).

• Once developments have been completed, they should be sold in the open market or if there a strategic reason for long-term ownership by the States, transferred to SoJ at market value.

• Where assets are sold into the market, they should be subject to an independent valuation to ensure best value is being achieved.

The MoU is quite clear that SoJDC is not a developer who should be taking undue amounts of risk (in order to safeguard the public), any risks must be quantifiable/ assessed and appropriate professional independent assessments obtained.

In the SoJDC re-assessment of the figures submitted by Dandara, the yield is dropped significantly from 7.15%, which is about the right level to apply overall to the masterplan, to a very risky 6.5% and which has a significant effect of making a £30m of difference. Quite clearly the assessment, which is normally done in a yield sensitivity matrix, is the most fundamental element of the assessment of a development project and therefore one which needs appropriate consideration and evidence to justify the level used. A single adjusted comparable deal, in current market conditions, is simply entirely inadequate. The manipulation of yield in valuations has been a main factor in leading to the boom and bust cycles in the property market.

A yield of 6.5% may be appropriate for a single let trophy building let to an institutional grade tenant on a long term institutional lease with rental uplifts and with the rent free period element inclusive in the price, in a freehold building.

The offerings in the JIFC are in the majority of cases multi lets, as the buildings are designed that way for smaller local occupiers, not stand alone buildings as each will have a cost inter relationship under the common service charge with other masterplan buildings especially as some share basement car park accesses, importantly the local trust companies for example will NOT be viewed as institutional covenants, the rent free periods are assumed to have expired which will take a further 2 years beyond the 2 years of construction before the first sale could be sold in 2019 and its sold on a long leasehold basis. This will significantly negatively affect the yield and SoJDC have totally ignored these factors. How can the yield and market conditions in 2019 be known? They cannot be accurately predicted and therefore this introduces significant development risk.

I am not going to comment on the Guernsey examples as they are irrelevant as the islands have totally different markets, with Guernsey having limited supply and rents at £45 psf, being £ 10psf more than our market maximum at £34psf.

The **single quoted Jersey comparable** investment was 44 Esplanade which was first offered to the market originally in November 2012 at £33m equating to 6.5% but was withdrawn after a year of extensive marketing due to a lack of interest and then only sold after 3 years at a net initial yield 7.53%.

37 Esplanade was offered to market, seeking a yield of 6.5%, in 2013 but which was also withdrawn from the market. There is clearly a lack of depth of buyers in the office investment market and this needs to be reflected in using a more cautious application of the yield to reflect this.

Noting in the MoU "there should be a clear exit strategy for all assets and where assets are sold into the market, they should be subject to an **independent** valuation to ensure best value is being achieved." SoJDC do not have either of these.

The SoJDC application of land values is based around analysis of the Dandara site at 66-72 Esplanade and they have made no allowance for their own site, as they repeat in the media, being the prime site in St Helier. Thus limiting land value to be deducted from the "profit" but it is far better attempt than their earlier valuation, with a valuation over a year old, where the land was included at nil value.

NB the land was transferred at £1 in 2009 and with no return to the public.

The MoU requires "in the future, the identification of costs for maintaining public realm etc should be identified as early as possible within the original scheme (i.e. at planning stage)" and also "new infrastructure that would normally be capable of adoption should be transferred to the Parish and funded out of rates." The masterplan will have significant repair / maintenance costs, the previous Chief Minister Frank Walker in the States stated "The tunnel will cost **the public** through T.T.S. £500,000 a year to maintain. There is no question of that but I made the point in my speech that that is fundable if we wish by **investing only £10 million of the proceeds** from the development and using the investment income not the capital to cover those annual maintenance costs".

So any total return, as set out in the MoU, would need to have a deduction of £10m at minimum, which at 5% interest rate, provided the £500,000 pa cost. Interest rates have now of course dropped to close to zero so £20m would now be needed, even at 2.5%, to generate the same £500,000. So the supposed £50m "return" is almost cut in half and this will be left as a poisonous legacy for the future, as SoJDC have **not included** these significant figures in any of their calculations.

The £5m spent to date on professional fees, planning fees and legal costs have been omitted from appraisals.

SoJDC seem to suggest any competitors are just trying to "derail" their scheme because "it is in the direct financial interests of competing developers to obstruct the delivery of the JIFC". SoJDC forgets, in March 2011, their request in a letter sent, previously submitted to the panel, to the Planning Minister seeking to limit any competition to their own scheme. In which the MD states "the Directors of WEB have asked me to bring to your attention our serious concerns at the potential mismatch of supply and demand of Grade A office space over the next 10 years....which could have an adverse impact on the economy". SoJDC have sought to obstruct the delivery of schemes by private developers.

In the Overall Scheme Transport Assessment Report, submitted with the latest changed planning application, describes "Buildings 6 and 3 will follow in later phases of the development with access via a two way access road from the Route de Liberation slip road and the design of this access is not yet commissioned". There are significant costs which haven't been included and can't be assessed because they are not even designed !

In 2007, over eight years ago, the sinking of the roadwas estimated at a cost of £45m and since then has been simplistically just been increased by inflation at a modest 2.5% and which now becomes £62m if built in 2020. However the tunnelling, in a tidal zone 14 metres below sea level, is a very specialist construction for which a UK infrastructure contractor would be required and the cost will be much higher due to the limited options to tender the work. This is yet another key figure, which SoJDC need expert advice on to be included in the overall delivery costings, but is currently not fully appraised.

However it should be noted States Departments no longer think the road will be sunk and this has a significant bearing on the masterplan delivery/ costs. The Senior Transport Officer at TTS in respect of the recent Zephyrus application, dated 6th February 2015, states

"Although it is noted that it is unlikely that the underground roundabout will be built, given that the car parking and general access arrangements are likely to differ significantly from the original Masterplan".

If the road is not to be sunk, then there is a massive potential cost saving but the value, as calculated by SoJDC, of the new land plots at £25m won't be delivered. It is clear no one knows what the masterplan delivery will be because it is so reliant on a market with limited demand and over supply, especially over a 20 year timescale. SoJDC CANNOT be certain of the costs /values and return, if any, over this extended period because it is irresponsible to do so and incorporates huge risks. However, this is despite their many assurances to the contrary of "tens of millions" returns and simply no risk.

In his letter of 15th November 2013 (an extract is attached for ease of reference), to the Planning Minister, Lee Henry states that "values and costs change with the passage of time..........furthermore to ask a valuer to determine the end receipt of the Esplanade Quarter project that has a 15 to 20 year build time would be very subjective". So SoJDC rightly confirm, in their letter, the values cannot be guaranteed and are very subjective. Therefore this must be applied to their, and others, assessment of risk / yield.

Quite simply, we are of the opinion that the Scrutiny panel respectfully need to obtain independent legal and valuation advice on the ability, or not, to deliver the masterplan because it has island wide significance, especially as SoJDC are not following their States of Jersey mandate "to deliver projects in the most beneficial and risk averse manner " by under assessing the many risks involved.

If you require any further information please do not hesitate to contact me.

Ben Ludlam FRICS

For and on behalf of C Le Masurier Limited

It is also worthy of note that the Esplanade car park site has been earmarked for office development since 2000. The Site was the subject of a design framework in 2000, and design guidance in 2006, both of which designated the site as appropriate for office accommodation. This was clearly reflected in the Masterplan and the Outline Planning Permit which authorises 620,000 sq. ft. of new office accommodation as part of the Esplanade Quarter.

For the avoidance of doubt the SoJDC aim is to deliver the "400 new apartments for islanders" as set out at page 4 of the Masterplan. However, the current economic climate makes it unfeasible to provide that residential accommodation now.

The SoJDC is not currently proposing any restaurant use within this office building but this does not mean that there will not be any such use within the JIFC. In order to create a vibrant district, food and beverage uses would be appropriate within the extensive areas of parkland that will be created as part of the JIFC. Such outlets will also serve some of the occupiers of the development.

As set out in the Masterplan, the winter garden is on the western extremity of the Esplanade Quarter which is surrounded by residential development. The western section of the Esplanade Quarter will be delivered as part of phase 2 along with the lowering of La Route de la Liberation.

Since the date of Collas Crill's letter, we have submitted a detailed planning application for the underground 520 space public car park with an extensive high quality public park on the surface P/2013/1209. We will also shortly be submitting an application for the third office building (No.2 JIFC) which will also include the re-landscaping of the Esplanade as a tree lined boulevard.

12) To avoid repetition, the answer to this point is provided at paragraphs 7) and 11) above.

Collas Crill misunderstands the purpose and nature of the "Grampian" condition imposed on the Planning Permission in relation to No.4 JIFC. This Grampian condition ultimately ensures no development takes place until a phasing plan is submitted and "*agreed in writing by the Minister*". The Minister has therefore retained control as to whether and when the development will take place, which in turn will ensure that the Masterplan is delivered. If the Minister is not content with the proposals therein or requires more information he is at liberty to refuse to agree to the phasing plan which would prevent the development taking place at all. There is a level of protection provided by the imposition of this condition.

13) The Minister for Planning and Environment's role is to ensure the physical delivery of the Masterplan and we have set out at point 6) above how the lowering of La Route de la Liberation can be funded post 2023.

As referenced in 6) above, values and costs change with the passage of time and third party valuations are typically only valid for 3 months. Furthermore, to ask a valuer to determine the end receipt of the Esplanade Quarter project that has a 15 to 20 year build time would be very subjective.

14) As set out at paragraph 7) above, the Design Code sets out the various primary uses across the Esplanade Quarter and as a condition of Permit P/2012/1141, the SoJDC is required to produce a detailed phasing plan prior to the commencement of development.

15) It is for the Minister for Planning and Environment to determine the appropriate content of a Planning Obligation Agreement not an objector to the application.

Please find attach my comments on the Zephyrus application (P/2014/2002) below.

TTS is supportive of residential development in this location as there is good potential for trips made to/from the proposed development via sustainable modes.

The quantum of car parking provision for the development is acceptable and the visibility for vehicles emerging from the car park is acceptable.

We are unable to comment on the suitability of the (surface) roundabout due to insufficient detail being supplied. To do this we require the following:

- HGV swept path analysis demonstrating that large vehicles can navigate the junction safely.
- Capacity analysis showing that the roundabout is of sufficient size to accommodate the forecast year traffic flows.
- Evidence that the roundabout is designed to suitable geometry standards. E.g. Provision of splitter islands on the approaches and suitable flaring of the arms of the roundabout *etc.*
- Details of the materials/finish used in the construction. E.g. Will the centre island be flush to the road, a dome or a physical island. Consideration needs to be made of the surfacing used in the design.
- Details of the provision of pedestrian footpaths adjacent to the proposed accesses and highways.

The proximity of the development to the proposed underground roundabout/alignment of the buried La Route de la Liberation needs clarifying. The proposals must ensure that the future alignment of the route is reserved and not compromised (e.g. no buildings are going to be built on the future road alignment). Although it is noted that it is unlikely the underground roundabout will be built, given that the car parking and general access arrangements are likely to differ significantly from the original master plan.

It is understood that the development proposals contain a caveat that safeguards the alignment of the surface roads in a way which is compatible with the proposed highway layout of the adopted Esplanade Quarter master plan, although TTS has not seen any evidence of this.

The transport policy comments from 2009 (attached) continue to apply. The Highways comments (in the attached) have been superseded owing to the significantly differing access arrangements between P/2009/1462 and P/2014/2002.

If you have any queries on the above please do not hesitate to get in touch.

Regards,

Senior Transportation Planner
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