

STATES OF JERSEY

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

TUESDAY, 6th SEPTEMBER 2011

Panel:

Senator S.C. Ferguson (Chairman)
Deputy C.H. Egré of St. Peter

Witnesses:

Mr. S. Izatt
Mr. L. Henry

Also Present:

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

[14:31]

Senator S.C. Ferguson (Chairman):

I apologise for the fact there is only 2 of us at the moment; we are expecting our third member of the panel to return shortly but she had a meeting this morning which was expected to run on a bit. I think we are probably even in the gladiatorial stakes, so we might as well carry on. First of all, the health warning, which is there buried under your file, Stephen.

Mr. S. Izatt:

Yes, indeed.

Senator S. Ferguson:

Okay. Welcome to this meeting of the Corporate Services Sub-Panel looking into the Lime Grove acquisition. Now, for the benefit of the transcribers I wonder if you could say who you are and what your position is.

Mr. S. Izatt:

Stephen Izatt, Managing Director, States of Jersey Development Company.

Mr. L. Henry:

Lee Henry, Finance Director, States of Jersey Development Company.

Deputy C.H. Egré of St. Peter:

Deputy Colin Egré.

Senator S. Ferguson:

Senator Sarah Ferguson, Chairman.

Ms. K. Boydens (Scrutiny Officer):

Kellie Boydens, Scrutiny Officer.

Ms. S. McKee (Training Scrutiny Officer):

Sally McKee, Training Scrutiny Officer.

Senator S. Ferguson:

Super. Well, I think probably the simplest thing is if you could just take us through the background and chronology of your involvement with the Lime Grove House project.

Mr. S. Izatt:

I think we first became aware of this project somewhere at the end of October 2010; I think it was the 27th when we met John Richardson. He mentioned that an offer had been made and that he and the Minister for Treasury and Resources would like an independent view on this. We then prepared a view which we put in an email as of 9th November. I think then we had a discussion on 15th November. We met on 22nd November where some more information was just made available to us and particularly at that meeting we asked what role we were expected to play, what was then W.E.B. (Waterfront Enterprise Board), and indeed arguably today we do not have a direct role in any of this but it was merely to give an opinion and we checked that that had been cleared.

Senator S. Ferguson:

Cleared with whom?

Mr. S. Izatt:

I think it was the Chief Minister. I am not sure.

Senator S. Ferguson:

Fair enough.

Mr. S. Izatt:

Then I met with John Richardson and Barry Taylor on 29th November to discuss the detailed space requirements and that was going through each of their activities and trying to ascribe an area tape for each of them to really see whether they were able to fit into the space that was available within Lime Grove House. Then I was asked to attend a meeting with Peter Cameron and Richard Lock on 30th November and again that really only considered whether they were prepared to provide further information. I met again on 9th December and also 5th January with Barry Taylor and John Richardson again to talk about the space requirements because we had not finished that. I think at that meeting, I am pretty sure, that Mick Heald attended that and that was really when a specific project team was set up. I met John Richardson on 1st April again just to discuss where we were and then on a meeting of 6th April with John Refault, Mick Heald and Guy Gothard when they discussed what offer to counter offer on this and that was our total involvement.

Senator S. Ferguson:

After 6th April you had no contact with anyone political or civil servant?

Mr. S. Izatt:

No. I mean, we have no idea what happened. You probably see this file in front of me; it is a pretty thin file.

Senator S. Ferguson:

Yes. Going back to October when you were first brought into this you had a view about the value of the building.

Mr. S. Izatt:

Not the value.

Senator S. Ferguson:

Or the price then, sorry.

Mr. S. Izatt:

Yes.

Senator S. Ferguson:

What was that?

Mr. S. Izatt:

Well, I mean, we took a view on a number of issues; particularly what we looked at was a building that had remained unoccupied for 10 years that we understood had significant dilapidation issues, required money to be spent to bring it to a Category A standard and also obviously where it was, what the comparable rentals had been achieved in that time, and our feeling was that if one was looking at a distress sale the range would be somewhere between £6.5 million and £7.5 million.

Senator S. Ferguson:

That was assuming it was a fire sale?

Mr. S. Izatt:

That is assuming there was nobody there that wished to purchase it or wished to lease it, which we were not aware that there was anyone.

Senator S. Ferguson:

Yes, because you have been quoted as saying you could build an equivalent office on Green Street car park for about £6 million.

Mr. S. Izatt:

I do not think £6 million but we certainly looked at that and quite clearly a new build option is likely to be cheaper because there are some economies of scale to be made for a purpose built building.

The Deputy of St. Peter:

Just to cover a point early on, Stephen, you said again in October when you first became aware, you were asked to provide an independent review and that you prepared that review. I assume that was in the form of a report.

Mr. S. Izatt:

No. It was merely just an email looking at a range of figures.

The Deputy of St. Peter:

Do you have copies of the correspondence that you had between yourselves and the Treasury?

Mr. S. Izatt:

Not the Treasury, only with John Richardson.

The Deputy of St. Peter:

Yes, but when we talk about John Richardson we are assuming the Treasury because that is very much his role.

Mr. S. Izatt:

Yes, we do. We have a copy of that.

The Deputy of St. Peter:

As a panel, could we have sight of those documents please?

Mr. S. Izatt:

Yes, no problem at all.

The Deputy of St. Peter:

Lee makes note!

Senator S. Ferguson:

Going back to building an office on Green Street car park, what do you think it could be built for?

Mr. S. Izatt:

It depends what you are after. If it was a standard office building, or is it a special building? Is it to be cooled? Is it to be natural ventilation? I mean, there are a lot of ranges that one can ascribe to it.

The Deputy of St. Peter:

So, what was your understanding? Because obviously you have had meetings you said with John Richardson and the police over a period of time, so I would assume that was to pick up that exact information.

Mr. S. Izatt:

No, it was to pick up the space requirements. One thing we have never looked at is the special costs. I mean, our understanding is it requires some cells. Again, we have never costed anything like that.

Senator S. Ferguson:

Sorry, so when you were talking you were discussing a police station as opposed to a police administrative headquarters?

Mr. S. Izatt:

No, what we are looking at, if one is looking at a special building, if it was to contain everything that the police requires that would require special issues. If it was merely administration, an office building, then obviously we can use figures that we have knowledge of.

The Deputy of St. Peter:

What was your view of the understanding of the Deputy Police Chief about his views on the acquisition of Lime Grove?

Mr. S. Izatt:

I believe that they wish to proceed with that.

The Deputy of St. Peter:

On what basis do you believe that?

Mr. S. Izatt:

From discussions with Barry Taylor.

Senator S. Ferguson:

What was your opinion of it as a project for S.O.J.D.C. (States of Jersey Development Company)?

Mr. S. Izatt:

It is not a project for S.O.J.D.C.

Senator S. Ferguson:

Some of the emails by John Richardson talk about it being a project for S.O.J.D.C. Did John Richardson ever talk about it to you as being a project for S.O.J.D.C?

Mr. S. Izatt:

I have never seen that. It clearly is not.

Senator S. Ferguson:

No.

Mr. S. Izatt:

So, we would not ...

Senator S. Ferguson:

I was wondering where he got the idea from.

Mr. S. Izatt:

No, it is not a project for S.O.J.D.C.

The Deputy of St. Peter:

Was it ever discussed? I mean, I think the panel agree with you, I am sure we do, but was it ever discussed in the main that could it be?

Mr. S. Izatt:

No, because had it been we would have immediately have had to take that back to our board and that is not something we ever did because quite clearly it is not in the remit.

The Deputy of St. Peter:

Having on other occasions, Stephen, talked to you on this subject I would tend to agree.

Senator S. Ferguson:

So, you had a discussion with John Richardson around about 15th November. What was the sort of basis of that discussion?

Mr. S. Izatt:

Again, it was just looking at the range of values and what went in to get to those values. I mean, issues that we have never ever had any corroboration on is, say, dilapidation. We took a figure which was mentioned. We have never even been around the building, so all of this is really desktop.

Senator S. Ferguson:

So, do you feel comfortable then with your feeling for the value, given that you have not been around the building?

Mr. S. Izatt:

As I say, it is not a value. It is a price for acquisition.

Senator S. Ferguson:

Or your opinion of the price.

Mr. S. Izatt:

Very different. Very different, the valuation against what the price of acquiring a building in certain circumstances.

The Deputy of St. Peter:

Forgive me, could you expand on that?

Mr. S. Izatt:

Yes. Valuations are normally based on a lease value that comes from comparable rental values, then one looks at the condition, looks at the location, and then ascribes normally a yield to that rental.

The Deputy of St. Peter:

That is what we understand. Now the price?

Mr. S. Izatt:

That is different to an acquisition price for a building.

The Deputy of St. Peter:

That is the bit I wish you to explain.

Mr. S. Izatt:

Well, it is just normally based on ... you look at comps to what it might cost to rebuild, what the position of the vendor is in. Quite clearly, is it a willing vendor? Is he distressed? Is there bank debt that he is being forced ... all of these issues impinge on what one might offer for a building.

The Deputy of St. Peter:

You mentioned earlier that you had spoken to Mr. Cameron.

Mr. S. Izatt:

No, not on that though.

The Deputy of St. Peter:

Not at that level?

Mr. S. Izatt:

No.

The Deputy of St. Peter:

That was never discussed?

Mr. S. Izatt:

No.

The Deputy of St. Peter:

Do you think it should have been discussed with him?

Mr. S. Izatt:

Well, certainly not by us because we were not representing the States.

[16:45]

The Deputy of St. Peter:

So, what was your role at that meeting?

Mr. S. Izatt:

I think merely to give a second opinion on what one might wish to pay for it.

The Deputy of St. Peter:

There appears to be counter opinions between what Treasury are looking at and what Jersey Property Holdings was looking at. What are your views, the counter arguments, between those 2 fields?

Mr. S. Izatt:

I do not know them. We really have no information on that.

Senator S. Ferguson:

When you were talking to the police about the space requirements it appears that you felt that some of the allowances were perhaps not accurate or well thought out.

Mr. S. Izatt:

Again, I do not think that so much. Where we were working from is to establish what the space requirements were and I remember one of the meetings, and I think it was probably on 9th December, where at one stage it looked as if the police could not even get in the building and they were looking at having to put all of the lockers and associated kit in the basement which would have reduced the number of car spaces. I think subsequent to that, although not something that we did, they were comfortable that they could fit in.

The Deputy of St. Peter:

I am a little bit confused, but could you just expand on exactly what your role was in this because it would appear from what you have said you were approached by the Treasury, by possibly John Richardson, to offer some form of advice. You have attended several meetings that you have quoted to us this afternoon, so what do you think they perceived your role was?

Mr. S. Izatt:

Colin, it is very difficult to take a view on what other people think but all I can do is to break it down into these 2 issues, which was to give a view on the acquisition price and also to be asked on the space requirements and whether they could fit in because after all that is our business.

The Deputy of St. Peter:

To summarise, you have just mentioned 2 particular tasks, can you just summarise the answers to both those questions for us.

Mr. S. Izatt:

Well, again, going back to what I said, we looked at a range of possible values of the acquisition of the building and we looked at the space requirements for each of the particular departments.

The Deputy of St. Peter:

I appreciate that. So, looking at the price, keeping clear of the word value, what price did you suggest to Treasury was a sensible price?

Mr. S. Izatt:

We did not give them a sensible price. As I say, what we gave them was a range.

The Deputy of St. Peter:

My question on that exactly.

Mr. S. Izatt:

We gave them a range.

The Deputy of St. Peter:

You gave them a range. What was the range?

Mr. S. Izatt:

Well, the top of the range I think was £7.612 million or something like that.

The Deputy of St. Peter:

And the bottom range?

Mr. S. Izatt:

£6.5 million. But again, that is based on information that we had and estimated. We did not have ...

The Deputy of St. Peter:

So, what information did you have? I accept the estimation, but what information did you have?

Mr. S. Izatt:

Well, we took a view on what the Cat A fit out would cost and we took a view on the dilapidations that were ... a figure was mentioned and I have no idea whether it was right or wrong.

The Deputy of St. Peter:

What figure was mentioned?

Mr. S. Izatt:

£400,000 for the dilapidations.

The Deputy of St. Peter:

Where did that information come from?

Mr. S. Izatt:

I think that was passed by John Richardson.

Senator S. Ferguson:

And the Cat A fit out?

Mr. S. Izatt:

Well, that was difficult because the building did not start from the position that it could have had a Cat A fit out because as far as we are aware, and again we have not been around it, but what we understood was that clearly work had to be done before you could start that Cat A fit out and then there is the issue of if one is undertaking as a user the fit out what one normally does is there is a blurring between the specials of the Cat B and the Cat A because the 2 happen together. What that should do is make some cost savings. I think we had a Cat A and Cat B figure, if I may just quickly consult. Was it £2.12 million? Something like that. £2.012 million.

The Deputy of St. Peter:

Sorry, that was a Cat A fit for what building?

Mr. S. Izatt:

That was a Cat A fit out for that building.

The Deputy of St. Peter:

For that building.

Mr. S. Izatt:

It was just an estimate based on the 31,000 square feet.

The Deputy of St. Peter:

That estimate was made by whom?

Mr. S. Izatt:

That is normally paid for by the vendor or the lessor.

The Deputy of St. Peter:

No, sorry, who made the estimate?

Mr. S. Izatt:

We did. We took it from costs that we know Cat A for similar buildings.

The Deputy of St. Peter:

Right. So, it was in fact your estimation from your department.

Mr. S. Izatt:

Yes, it is.

Senator S. Ferguson:

Were you given any of the basic data that, for instance, was given to BNP or Drivers Jonas?

Mr. S. Izatt:

No.

The Deputy of St. Peter:

What information were you given by John Richardson?

Mr. S. Izatt:

Again, only the figure of £400,000.

The Deputy of St. Peter:

Any other information on it? Any other subject regarding Lime Grove?

Mr. S. Izatt:

No. I mean, we knew the net internal area and the number of car parking spaces.

The Deputy of St. Peter:

At any stage were you aware of the price that Treasury had prepared to offer?

Mr. S. Izatt:

Yes, we were, and that was at that first meeting.

The Deputy of St. Peter:

What was that figure?

Mr. S. Izatt:

I think it was £8.8 million.

The Deputy of St. Peter:

This was Treasury that were saying this?

Mr. S. Izatt:

Sorry, no, forgive me, that is what J.P.H. (Jersey Property Holdings) had mentioned.

The Deputy of St. Peter:

No, I am talking about Treasury.

Mr. S. Izatt:

No, I have no idea.

The Deputy of St. Peter:

At no point did Treasury offer you any indication of what price they would have been prepared to offer for Lime Grove?

Mr. S. Izatt:

No. No.

Senator S. Ferguson:

So, if we move on a bit, you had a meeting with John Richardson on 1st April, what did you discuss?

Mr. S. Izatt:

I think that was just a discussion prior to them considering how they would approach an amended offer to the vendor.

Senator S. Ferguson:

What was the opinion given to you, and what was your opinion of what was given to you?

Mr. S. Izatt:

There was not any opinion at that time. That discussion happened on 6th April with John Refault and Guy Gothard who had been brought in to advise them.

The Deputy of St. Peter:

I just find it a little bit strange, and you just mentioned there that you were talking about an amended offer. I am just surprised by what you said a little bit earlier that you were not aware of any offers.

Mr. S. Izatt:

Well, as I say, we knew what J.P.H. had offered and that was some time back but we have never seen the offer letter.

The Deputy of St. Peter:

What about the discussion of the amended offer? Did they offer any information on the amended offer?

Mr. S. Izatt:

Well, I do not know which amended offer that is, but the offer I believe was made subsequent to 6th April. What we discussed at that meeting was that they would start at £7.5 million and see where they could do a deal.

The Deputy of St. Peter:

Were you aware any time of another figure of £8.25 million?

Mr. S. Izatt:

No.

Senator S. Ferguson:

But in the meeting on 6th April you were recommending starting at about £7.5 million?

Mr. S. Izatt:

Yes.

The Deputy of St. Peter:

Again, in the recent history of this, certainly 2011, were you made aware of any other possible offers that might have been in the pipeline for Lime Grove House, even in just discussion?

Mr. S. Izatt:

No. As I say, after the meeting with Barry Taylor on 5th January we had absolutely no activity on this.

The Deputy of St. Peter:

We appear to have 2 indications from 2 different people, that this appeared to be a job for S.O.J.D.C. to get them on the move. What would your comment be to that?

Mr. S. Izatt:

Go straight back to what we said earlier. It is not in our remit. Indeed, there does appear to be ...

The Deputy of St. Peter:

Do you understand why I am asking the question?

Mr. S. Izatt:

I can and it would appear that we are likely to have enough on our plate rather than this.

Senator S. Ferguson:

There is reference in the papers to construction figures supplied to John Richardson for comparison purposes. On what basis were these prepared?

Mr. S. Izatt:

I would have thought the figures that we looked at were figures that we had which will be comparables from work we have obviously undertaken pricing Esplanade Quarter and looking at every other construction project that we have involvement with. Again, we keep a database of these costs.

The Deputy of St. Peter:

I see you referring to your file there, is that the file that deals with Lime Grove, and that is it in its entirety?

Mr. S. Izatt:

That is it.

The Deputy of St. Peter:

Would you make that available to us?

Mr. S. Izatt:

Well, I mean, you are very welcome to see what we have here.

Senator S. Ferguson:

That would be helpful. Given that there is such a disparity between your valuation of the building ...

The Deputy of St. Peter:

Price.

Senator S. Ferguson:

No, the valuations I am talking now. The valuations given by the other firms of valuers were significantly different to your sort of estimate of the price that should be given. Now, yes, you look at valuations and you say: "Well, if we are doing a deal at a price that is lower than a valuation it means that it is not a bad deal" but given that the valuations for the building were significantly different, you have given construction figures and the feeling is that a new build would be more expensive than buying a ready built building, a shell and core. Can we rely on those figures?

Mr. S. Izatt:

Whose figures?

Senator S. Ferguson:

Your construction figures. How do they compare with other buildings in the Island?

Mr. S. Izatt:

Well, they are exactly comparable to those figures because that is where we get them.

Senator S. Ferguson:

These are prepared by your own Q.S., your own surveyor?

Mr. S. Izatt:

We have our own database of costs and because we are quite often pricing these issues we are pretty confident of the figures that we have. We have a great deal of comps on it and there is a difference I am afraid between, as I say, using the word "valuation". A valuation is merely a validation when one is purchasing a building, it is not where you go.

Senator S. Ferguson:

Well, yes, I did say that, I think.

The Deputy of St. Peter:

If I may bring us towards the ending, not of this but towards the end game of the Lime Grove exercise, are you aware from your business contacts the final deal that was struck with State Street?

Mr. S. Izatt:

Yes.

The Deputy of St. Peter:

What effect do you think that would have on the valuation that was made prior to that? Would you see that as supporting those valuations?

Mr. S. Izatt:

Well, I think there are a number of issues with that and if I may I will rather quickly just look at what we prepared on the basis of the State Street lease and depending what yield you ascribe to the value of that covenant, I mean, it has a figure, or we have figures, that range on a yield of 7.5 per cent of £8.2 million down to £7.56 million, if one takes an 8 per cent or 8.5 per cent yield. Now, that is all very well with a valuation. That then has to be achieved when you come to market it.

The Deputy of St. Peter:

Where did you get those estimated yields from?

Mr. S. Izatt:

Well, those yields are the market yields that are around at the moment. There are very few transactions taking place and indeed most of the transactions that take place at the moment for institutional purchases tend to take place in central London.

[15:00]

The Deputy of St. Peter:

But in this particular case what would you deem the market yield against the figures that were finalised with the State Street deal and Lime Grove?

Mr. S. Izatt:

You do not know. It very much depends on who wishes to purchase it.

Senator S. Ferguson:

Say it is a Triple A customer with the lease, what would you say the yield was?

Mr. S. Izatt:

I do not think it is just as easy to say a Triple A customer. Were this to be based for a Triple A customer on a brand new building then I would have thought you would have been down at the 7.25 per cent or 7.5 per cent yield, however, this is a 10-year old building, useful life of the building, I do not know. Let us take 50 years; 10 of those years have already gone, so the structure has depreciated. Admittedly you would be putting in new M&E and other issues but your roof, your structure, windows and other things will have depreciated over that period. So, for certain purchasers they would find it much more preferable to buy a new building. Then you look at the location. I suspect it would not be considered as prime prime at the present time. So, all of these things really for a purchaser of the leasehold interest they will take those into account.

Senator S. Ferguson:

Getting back to the point, given Lime Grove, given that unfortunately you had not looked at the building, given a Triple A occupant, what sort of yield would you be looking at? 7.25 per cent?

Mr. S. Izatt:

If it was me purchasing it, no. I would be going closer to the 7.75 per cent to 8 per cent and that is nothing to do with the covenant. The covenant is extremely good. Indeed the lease terms are pretty standard: 21 years, 16 years term certain, 3 years but there is a half rental on that.

Senator S. Ferguson:

I suppose the only other thing is when you met with Guy Gothard and Mick Heald and John Refault and so on and were discussing the offer, you recommended going for 7.5 ...

Mr. S. Izatt:

No, I did not recommend that, forgive me. That was the figure that I believe we came to as a consensus.

Senator S. Ferguson:

Okay, fine. In actual fact they offered £8.25 million, so was there any discussion of the range of values that Guy should discuss with the vendor?

Mr. S. Izatt:

No, I think it was approached, Sarah, very much more of the art of the possible because quite clearly an offer had been made. I do not know under what terms and conditions but an offer had been made and so that is where one is starting from. So, trying to negotiate down from there is quite difficult. So, I think it was very much left to Guy to try and come up with an acceptable figure.

The Deputy of St. Peter:

So, you are suggesting it was left to Guy Gothard to be able to have the flexibility to negotiate?

Mr. S. Izatt:

To try to negotiate, yes. I mean, I think the figures that we were looking at to try and get to that figure was a rental rate of around £22.50 per square foot, 9 to 12 months' rent free, 7.5 per cent to 8 per cent yield.

Senator S. Ferguson:

Yet we understand that given that the Esplanade is £28 per square foot or something like that ...

Mr. S. Izatt:

Sorry, £38?

Senator S. Ferguson:

£28. I think the headline rate is about £31 or £32, is it not?

Mr. S. Izatt:

The headline rate is probably £31.50 with a one-year rent free and potentially some extra fit out allowances over and above the standard B.C.O. (British Council for Offices) Cat A. So, it breaks back to around £30 per square foot.

Senator S. Ferguson:

So, you did not feel that £22.50 was really going in too low?

Mr. S. Izatt:

No, not at all for its location and indeed looking at comparable rental figures in The Forum and others that were around those figures: £22.50 up to £24.

Senator S. Ferguson:

All right. Anything else? I think that is probably about all the questions. Is there anything else you would like to regale us with?

Mr. S. Izatt:

No.

Senator S. Ferguson:

I do not know whether you want to leave us with the file to copy it, or whether you prefer to ...

Mr. S. Izatt:

We are very happy to copy it and get it over to you tomorrow, if that is okay.

Senator S. Ferguson:

That would be super. Thank you very much indeed.

Mr. S. Izatt:

I mean, you are very welcome to see what is in it so that you can verify that what we have copied is there but I hope you trust us for that.

Senator S. Ferguson:

Super. I think that is about it. Thank you very much indeed for your time.

[15:06]