

BNP Paribas Real Estate Jersey

St Helier Office Market Report

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1. Background

- 1.1 The office market in St Helier is fragmented and spread throughout a number of locations in the Town.
- 1.2 Traditionally the heart of the office market in St Helier was around Hill Street and Library Place due to their proximity to the States Chambers, Royal Court and prime retail areas of King Street and Queen Street. The growth of St Helier's office market in the 70's and 80's saw the development of office buildings throughout the Town in locations such as Grenville Street and Colomberie, La Motte Street, New Street and Union Street. There was, however no clearly definable office core and development was undertaken in a piecemeal way.
- 1.3 Most would now place the core of the office market on the Esplanade but this is a relatively recent trend since the 1987 Island Plan designated the Esplanade and its' immediate environs as the main area for office development.
- 1.4 The late 1980's, 1990's and the "noughties" have seen the Esplanade as the primary focus for new office development and the planned development of the Esplanade Quarter providing some 620,000 sq.ft of prime, purpose-built office space as a financial services district could cement the position of the Esplanade and Waterfront.
- 1.5 The key driver ensuring the vitality of the local office market is Jersey's Finance Industry. The Island's population includes some 12,000 professionally trained staff working in the finance and support industries and Jersey is established as an international finance centre for both institutional and private clients. There are now nearly 50 banks located in Jersey and they include nearly half of the top 25 banks in the world.
- 1.6 The Finance Industry provides a diverse range of other services including offshore trusts, legal services and fund administration and has undergone significant growth in recent years. In the five years leading up to 2006 total bank deposits increased by £70 billion to stand at approximately £187 billion and the total number of funds administered within the Island climbed by almost 20% to stand at 1,086 with a value of circa £169 billion.
- 1.7 Two of the main catalysts that have had an impact on demand are merger and acquisition activity amongst the Island's trust companies primarily as a result of legislative requirements and the banking sector looking to rationalise its' occupational requirements within the Island.

2. Office Stock

- 2.1 The St Helier office market is estimated to contain around 2,805,000 sq.ft of office stock measured on a net internal basis. Of this, some 165,000 sq.ft (approximately 5.8% of the total stock) is currently vacant and available for immediate occupation. The market is fragmented and spread in pockets throughout St Helier albeit the core is now regarded as being around the Esplanade and its' immediate environs.

- 2.2 In addition to the above there are currently three significant sites with Planning Consent in the Esplanade area with Planning Consent that could yield some 185,000 sq.ft of prime office accommodation. There are a number of other sites on the Esplanade which do not yet have Planning but could yield a further 100,000 sq.ft. Subject to Planning the proposed development of the Esplanade Quarter could yield a further 620,000 sq.ft of prime, purpose built accommodation.
- 2.3 If no accommodation is lost to alternative and the schemes with Planning Consent and the Esplanade Quarter come to fruition the total office stock will be approximately 3,610,000 sq.ft.
- 2.4 Over the past three years, take-up of new office accommodation in St Helier has run at circa 200,000 to 225,000 sq.ft per annum. It is clear that the current global economic situation has caused many of the larger institutions to review their operational property requirements and many larger requirements (10,000 sq.ft +) have been put on hold whilst organisations assess the impact of the global downturn. Even if there is a “slow-down” in the short term, this phenomenon will not last indefinitely and demand should remain from occupiers to amalgamate their operations in to single purpose built properties.
- 2.5 Much of the secondary stock within St Helier particularly accommodation located in converted buildings no longer provides the quality and functionality that the Island’s principal finance and legal firms require. As mentioned previously a number of companies are seeking to amalgamate their operations, which have traditionally been based in a series of buildings around the centre of St Helier in order to increase the size of floorplate and create more efficient working practices through an open plan office design.
- 2.6 It is likely that a proportion of the secondary and tertiary office accommodation will become functionally obsolete and alternative uses such as residential may be appropriate. There is an emerging trend for Planning approval to be sought for conversion from office to residential use and over the past 12 months applications have been made relating to some [] of office accommodation.
- 2.7 A market will remain for the better quality accommodation as there will undoubtedly be a raft of businesses who do not wish to pay the prime headline rentals for new accommodation in the prime areas. A two tier market is likely to evolve with secondary areas playing a supporting role to the new premises in or close to the Esplanade Quarter. The focus of the secondary market is likely to be in areas away from the Esplanade where there is already a concentration of good quality office stock such as New Street, Bath Street, Bond Street, Hill Street and Grenville Street.

3 Current Supply / Demand Situation

- 3.1 It is clear that demand has decreased significantly over the past 6 months. The vitality of the local office market is intrinsically linked to the fortunes of the local Finance Industry and the global economic slowdown has undoubtedly caused concerns in this area. Much of the demand for new office accommodation was

- being driven by the Island's larger banks and trust companies. The focus for many of these organisations is currently on cost saving and redundancies (particularly for the Banks that now have large government shareholdings) and so many possible requirements for new premises are currently on hold.
- 3.2 It is still probable that in the medium to long term the demand for new buildings, particularly those with larger floor plates will continue as organisations seek to achieve better organisational efficiency by bringing together disparate parts of their operation in to a single building.
 - 3.3 As mentioned previously the take-up of new offices over the 3 years to 2008 had run at circa 200,000 to 225,000 sq.ft per annum. Thus far for Q1 2009 take-up has been in the region of 30,000 sq.ft. If one takes a very optimistic view and extrapolates this out for the whole year take-up could reach circa 120,000 sq.ft albeit in reality will probably be significantly less and thus at least 50% of the previous three years.
 - 3.4 There is no new accommodation currently being constructed speculatively and thus the current fall in demand should not cause a spike in the office vacancy rate.
 - 3.5 In addition to the global economic crisis, Jersey and indeed all other off-shore jurisdictions have experienced a great deal of scrutiny from sources such as the G20 and OECD. Much of this has been driven by the Stop Tax Haven Abuse Act in the USA. It is encouraging that Jersey has been placed on the OECD "White List" and there is a possibility that this will create opportunities for the Island however the full impact of steps being taken to stop tax avoidance are unclear. Despite cautious optimism at present there are concerns that new legislation could have a negative impact on the long term viability of the Finance Sector which will clearly have an impact on the local office market.

4 Quality of Accommodation

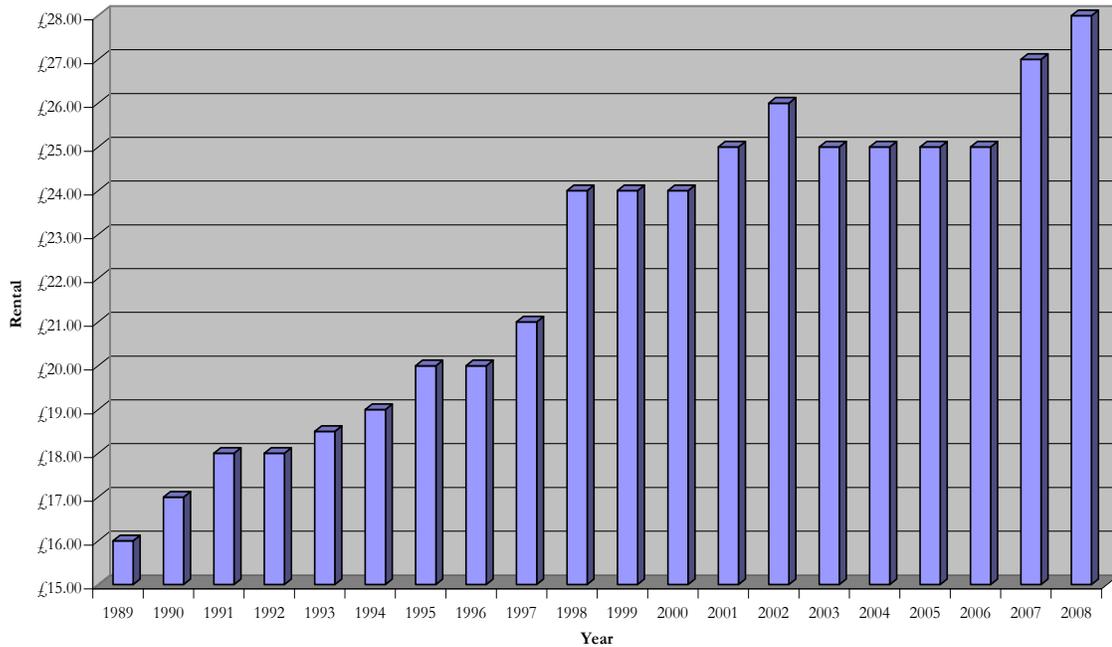
- 4.1 The quality of accommodation in St Helier ranges significantly but the majority of new build offices and refurbished offices are now completed to a BCO (British Council of Offices) Category A specification or in the case of refurbished offices as close to BCO Category A as it is possible to achieve within the existing envelope.
- 4.2 The developer fit-out ("Category A") achieves a level of readiness for operation which will support the generic requirements of a majority of office users, but without being able to occupy the building. The user fit-out ("Category B") overlays on the basic Category A provision the bespoke elements particular to the requirements of the specific user.
- 4.3 Category A works may comprise the following elements:
 - Suspended ceilings and raised floors
 - Cooling and heating systems (typically a 4 pipe fan coil or a chilled beam system.)

- Office ventilation rates of 8-12 l/s per person.
 - Small power loading 15-25 w/sq.m
 - Base lighting solution.
 - Finishes to cores and reception.
 - Fully fitted WC's
 - Life safety including sprinklers, fire alarms and basic safety signage.
 - Distributed power to each floor but not to floor boxes.
- 4.4 In acquiring new premises the majority of modern occupiers will generally require a specification as close as possible to this standard.
- 4.5 On site car parking is also a requirement for new build premises albeit there is an understanding that car parking in St Helier is restricted and generally speaking there is not a fixed ratio of spaces per sq.ft that a tenant will seek. Proximity to public parking both for staff and visitors is attractive.
- 4.6 Approximately 998,000 sq.ft or 38.73% of the existing office stock is completed to this standard or a standard closely approximating to this and is situated in a prime location.

5 Rental Levels

- 5.1 Over the past 10 years prime office rentals have remained reasonably static, indeed from 1998 to 2006 the prime office rental rate only increased from £24.00 to £25.00 per sq.ft. During this period the market had a tenant bias and prospective occupiers of new projects were able to demand significant incentives both in terms of rent free periods and contributions towards tenant's Category B fit-out.
- 5.2 However, between the end of 2006 and middle 2008 continuing strong tenant demand and a lack of supply of good quality, well located modern offices led to rental inflation.
- 5.3 Since the start of 2007 there was a marked increase in the prime rental level and this currently stands at circa £28.00 per sq.ft with £29.00 being quoted on certain projects and indeed £30.00 psf was achieved on a sub-letting in the Waterfront area. At the same time as rentals increased there is evidence that the level of incentives being offered to prospective tenants fell. Even in the current economic climate it is unlikely that the prime rental level will fall significantly due to the lack of supply but it is probable that landlords will have to grant longer rent free periods and grant other incentives to persuade tenants to commit.
- 5.4 Rentals for good quality secondary accommodation, which could be categorised as modern buildings in a secondary location are in the region of £22.00 to £24.00 per sq.ft. This type of accommodation remains popular for occupiers who are willing to sacrifice being in the prime location to achieve more competitive rentals.
- 5.5 A chart showing the prime office rental in St Helier since 1989 is set out below.

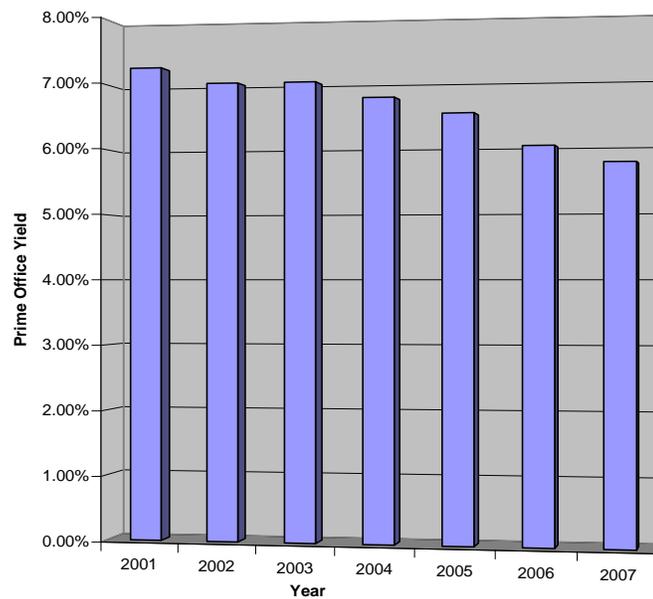
St Helier, Headline Office Rental Growth 1989 - 2008



6 Investment Market

- 6.1 The local office investment market peaked in 2006 and then came to a shuddering halt in the second half of 2007. The UK investment market has seen dramatic yield corrections with the IPD Monthly Index for the year ended March 2009 showed a total return of -25.5%, and a change in capital values of -30.3%.
- 6.2 Locally there has been a marked decline in the level of activity in the commercial investment market and no significant transactions have been completed in the past 12 months. The lack of activity is a result of investors being concerned by falling values and the absence of credit from the lending institutions.
- 6.3 In general terms the prime office net initial yield has fallen gradually over the past 4 years with the market being fuelled by the ready availability of finance and bank debt. The local market was traditionally the preserve of local investors and a handful of institutions but such was the strength of the UK market in 2005 and 2006 that competition for stock made investors look further a field and Jersey began to appeal to a much wider audience. As a result of the increased level of activity, prime office yields peaked at around 5.5 to 5.75%. It is now believed that prime office yield would be in the region of 6.75%.
- 6.4 The local investment market has tended to follow the UK market and therefore it is likely that the prime office net initial yield will rise accordingly.
- 6.5 The chart below shows the prime office net initial yield since 2001.

St Helier Prime Office Yields 2001 - 2007



7 Future Structure of the local office market

- 7.1 It is inevitable that the level of office development in the Esplanade area and the planned Esplanade Quarter which will represent some 24% of the current total office stock will have an impact on the local office market. As described above it is clear that most now regard the core of the local office market as being on the Esplanade and its' immediate environs and the majority of requirements both from larger institutions and smaller intermediaries are to be situated in this area.
- 7.2 As described previously there will continue to be demand for secondary office accommodation as not all occupiers will be sensitive in respect of their location or willing to pay the rental rates for prime new accommodation. We anticipate that locations such as New Street, Grenville Street and La Motte Street will continue to be popular as they provide a concentration of generally good quality, modern office stock.
- 7.3 Over the life span of the Island Plan there will be office accommodation that becomes obsolete both in terms of it's location and functionality. However, it is clear that these will create opportunities for conversion to alternative uses such as residential.
- 7.4 We estimate that, of the current office stock, over the first 5 years of the Island Plan, some 100,000 sq.ft of office accommodation, representing approximately 4% of the current total stock will become obsolete.
- 7.5 We estimate that in the second half of the life span of the new Island Plan (years 5 to 10), some 250,000 sq.ft of office accommodation, representing approximately 10% of the total stock will become obsolete.