

DEPARTMENT FOR INFRASTRUCTURE

JERSEY PROPERTY HOLDINGS

Property Transaction for Ministerial Decision - Minister for Infrastructure

Public

**Office Accommodation Project on land owned by the Public of the Island of Jersey on Union Street, St Helier, Jersey JE2 3QQ
TD 0321**

Purpose

To seek approval of the Minister for Infrastructure, for the Public of the Island of Jersey (as the "**Client**") to enter into an agreement incorporating a development licence, a judicial hypothec, a three-year option period, a 99-year ground lease agreement and a 22-year lease agreement and with the Jersey Office Development (1.J) Limited (as the "**Developer**"), with appropriate guarantees on the performance of the Developer.

The agreement arising from a competitive open tendering procedure to identify the developer that will design, build, finish, test and commission and handover the completed building to enable the GOJ to use as its headquarters building for the future.

Background

The Strategic Outline Case (which was approved in October 2019) ("**SOC**") identified and justified the need to consolidate the Government's office estate reducing from 21 buildings to six, releasing sites for disposal that could be used for housing and other brownfield development as well as reducing costs; and improve service delivery. The SOC also identified operational savings of up to £7 million per year, removing the need to invest in significant maintenance and refurbishment of the existing office estate which it is anticipated will also bring further savings.

Following the approval of the SOC, the competitive procurement exercise to identify a development partner was commenced in February 2020. The Council of Ministers ("**COM**") considered the outcome of the procurement, a regeneration report on the economic impact of the development on St Helier and the Full Business Case. Following further ongoing negotiations with shortlisted bidders, COM finally selected the Developer's proposal, to acquire either on a leasehold or freehold basis a new building to be developed on land owned by the Client on a site on Union Street, St Helier (the "**Site**"). Initial briefings were given to Scrutiny in June 2020 (procurement and project update), July 2020 (project update), and October 2020 (procurement and funding options).

The details of the outcome of the procurement and the proposed commercial agreements were shared with Scrutiny and the Public Accounts Committee on 3 February 2021, and formed the basis of a presentation delivered to members of the States Assembly on 12 February 2021.

When completed, the new building (the "**Building**") shall deliver 112,900 ft² (nett internal area) of fully fitted-out new office accommodation, including meeting facilities and workspace for 1,780 staff.

The commercial agreements for the development of the Site reflect the fact that the Client is already the owner of the Site and ensures the Client retains the corps de bien fond throughout the development period. The commercial agreements comprise:

1. the Development Agreement (which includes the development licence, and the agreement to grant the 99 year ground lease and 22 year underlease);
2. a judicial hypothec to the value of the Option Price in favour of the Developer; and
3. (for the event that the Client does not exercise its option to pay for the completed Building within the first 3 years of practical completion) the 99 year ground lease of the Site to the Developer (the ground lease) and the 22 year underlease of the Site back to the Client (the underlease).

In respect of these agreements, the following is noted:

1) The **Development Licence** will be issued by the Client to the Developer to allow the Developer to enter onto the Site for the purposes of demolition of the existing building and construction of the new building on the Site.

2) The Client will grant the Developer a **judicial hypothec** over the Site, to the value of the Option Price, to be released on the earlier of the exercise of the Client's option to pay for the Building, the grant of the Underlease, or the termination of the Development Agreement.

3) When the Building is completed ready for occupation by the Client (which is presently forecast to be 11 January 2024) (the date of **Practical Completion**):

- a) the Development License will terminate (save for access for remedying defects); and
- b) the Client will have the option to either:
 - a. pay for the Building at the agreed **Option Price**; OR
 - b. elect to occupy the building for a maximum of three years from Practical Completion (the **Option Period**), during which time:
 - i. the Client will pay an **Option Fee** (based on the initial rent payable under the Underlease, if the Underlease was instead entered into on Practical Completion); and
 - ii. the Client will continue to have the option to pay for the Building for the agreed Option Price.

4) If the option to pay for the Building has not been exercised during the Option Period:

- a) the Client shall grant the Developer a 99-year ground **Lease** agreement, on agreed terms. On expiry of the Lease term, possession of the Site will revert from the Developer to the Client; and
- b) the Client will take a 22-year **Underlease** of the Site, including the completed Building, on the agreed terms (and on a full repair and insuring basis). On expiry of the Underlease term, the Client will be required to either vacate the Building or agree terms for a new lease for continued occupation of the Building.

A summary of the terms and conditions of the commercial agreements is included at Annex A.

Financial implications

Costs associated with ongoing commitment by the Client to the management and delivery of the Office Modernisation Project are included for in the Government Plan 2021 – 2024, which was approved by the Assembly on 18 December 2020. These include staff costs, and professional advisory costs. Also included are the costs of decanting buildings and moving to the Building in 2024.

The earliest financial commitment required from the Client and arising from the commercial agreements shall commence at Practical Completion (11 January 2024). At present, this envisages the option to rent in the first year of the Option Period, and an expenditure allowance for rental payments in 2024 is included in the Government Plan 2021 – 2024, which was approved by the Assembly on 18 December 2020.

Financial commitments for the period 2025 onwards, including the payment of any duty by the Client either directly or indirectly arising, will depend on the option that the Client decides. Approval for all expenditure by the Client will be sought in accordance with the requirements of the Public Finances Manual.

The Option Price, the Option Fee and the rents contained in the commercial agreements have all been established in competition and reviewed and assessed on a comparative basis and the maintenance obligations identified. The Final Business Case (**FBC**) for the Office Modernisation Project contains a full assessment of these costs, and their nett present and future implications for the Client. The FBC has been approved by COM and shared with Scrutiny.

Recommendation

It is recommended that the Public of the Island of Jersey enters into the agreement with Jersey Office Development (J.1) Limited to deliver the Building on the Site by Practical Completion; on the basis of terms detailed above, and incorporating: 1) the Development License, 2) the issue of the judicial hypothec, 3) the Option Period, the Option Fee, and the Option Price; and 4) the Lease and the Underlease options.

Written By: (Director JPH)

Annex A. Heads of Terms

The following summarises the terms and conditions for the commercial agreements:

- CLIENT** : Public of the Island of Jersey
- DEVELOPER** : Jersey Office Development (J.1) Limited
- GUARANTOR** : An appropriately-resourced organisation with control and ownership of the Developer shall act as the Guarantor. The Guarantee shall be provided
- SITE** : Land owned by the Client on the junction of Union Street and the Parade, St Helier, Jersey JE2 3QQ.
- BUILDING** : A new, seven -storey office building totalling circa 112,900 ft² (nett internal area) of fully fitted-out new office accommodation, including meeting facilities and workspace for 1,780 staff on the Site.
- TERM** : 1) Development Licence – the duration of the construction period.
2) Option Period – a maximum three years from Practical Completion.
3) Lease – 99 years.
4) Underlease – 22 years.
- COMMENCEMENT DATES** : 1) Development License – 9 March 2021.
2) Option Period – date of Practical Completion (presently 11 January 2024).
3) Lease – on expiry of the Option Period (should the Purchase Option not be exercised), presently 8 January 2027.
4) Underlease – on expiry of the Option Period (should the Purchase Option not be exercised), presently 8 January 2027.
- BREAK OPTIONS** : 2) Option Period – on exercise of the Option to Purchase.
3) Lease – None.
4) Underlease – None.

- GST** : In the event that GST shall be payable in respect of any payment due, the GST shall be an additional charge to be met by the Client.
- FEES** : Each party are to be responsible for their own professional fees.
- LEASE PREMIUM** : The Developer will pay the Client a premium (less the cost of any client variations agreed during the period of the Development License) on the grant of the Lease.

The following shall apply to each of the Option Period, the Lease and the Underlease.

- RENT** : Either the Option Fee or the rent agreed for the Lease and the Underlease. An allowance for the agreed rent has been included in the Government Plan 2021 – 2024 which was adopted by the Assembly in Dec 2020.
- RENT REVIEW** : Upward only every 3 years. The rent linked to Jersey RPI, compounded annually subject to a 2% collar and 5% cap.
- SERVICES** : The Client will be responsible for the payment of all outgoings and utility costs (including sewerage charges, oil, water, gas, electricity and telecommunications as applicable) of the completed Building from practical completion
- AGREED USE** : Office and ancillary use including retail, catering, public and functions.
- REPAIRS & MAINTENANCE** : The Client be responsible all repairs, maintenance and redecoration from practical completion.
Internal redecoration every 5 years.
External decoration every 3 years.
- SIGNAGE** : The Client may display signage subject to obtaining all relevant statutory consents, permits or approvals.
- ALTERATIONS** : Internal non-structural alterations permitted without consent.

Internal structural alterations permitted with Developers consent (not to be unreasonably withheld)

External alterations permitted with Developer’s consent (not to be unreasonably withheld).

ALIENATION

: The Client will be permitted to assign the lease and/or sub-let (maximum of 3 lettings per floor) with the prior written consent of the Developer not to be unreasonably withheld or delayed.

INSURANCE

: The Client will be responsible for implementing comprehensive buildings insurance, to include full reinstatement of the premises or may opt for the Developer to insure. If the Developer insures, the premium will be recoverable from the Client

RATES

: The Client to pay Occupier rates.
