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SPOTLIGHT | 2018

# CHANNEL ISLANDS

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Economic overview | Office markets | Residential markets





# Guernsey and Jersey property markets

Office demand continues to be driven by financial services. Performance in Guernsey and Jersey's residential markets has diverged

**T**he Crown Dependencies of Guernsey and Jersey are self-governing jurisdictions with populations of 62,300 and 104,200 respectively. Established and respected international financial centres, they are stable, business friendly, and punch well above their weight on a global stage.

Financial services accounts for a fifth of employment in Guernsey and Jersey and over a third of their GDP. While the banking sub-sector has declined in recent years, investment and fiduciary activities have grown in importance to sustain the sector overall.

Meanwhile, specialisms, such as insurance (particularly in Guernsey) have continued to develop, proving that the islands' service sectors are nimble enough to adapt.

The islands are not part of the EU, and their financial services industries will continue to access it as third countries after the UK's exit from the EU. While the direct impact of Brexit is therefore more limited, the UK is the islands' major trading partner, so the strength of that economy has a knock on effect on the islands.

## Office markets

- Headline office rents in Guernsey stand at £42 per sq ft and in Jersey at £35 per sq ft. Yields are at a premium to UK offices, at 6.5% for Guernsey and 6.25% for Jersey.

- Jersey's International Finance Centre (IFC), if developed as planned, will add 16% to existing office stock and has the potential to drive the supply and demand dynamics of Jersey's office market for a number of years to come.

- While Guernsey saw a wave of new office completions between 2005 and 2010, there has been little since and none expected in the near term. This will help to sustain rents for quality stock at current high levels, but means options for tenants are increasingly limited.

- Office using employment remains steady with modest growth. Leasing activity will continue to be driven by relocations of office occupiers currently occupying inefficient or substandard space to larger floorplate, higher quality space on offer.

## Residential markets

- Jersey's residential market is buoyant, prices have risen consistently since 2014, and were up 2.5% in the year to Q3 2017. Residential prices in Guernsey's Local Market have fallen 12% from an early 2015 peak, but have stabilised and transaction levels are now rising.

- Prices in Guernsey's Open Market peaked in 2013, and were 12% below these levels as at Q3 2017 (on a two year rolling average basis). Transaction levels remain low, but a proposed new tax cap for first-purchasers of Open Market property may stimulate demand.

- Historically expensive by UK standards, strong price growth in London and parts of southern England since 2012 have seen prices catch up (and in some cases overtake) those of the Channel Islands – in spite of recent softening in the UK. This makes the Jersey and Guernsey markets appear better value to those looking to move to the islands, whether it be for business or lifestyle, or a combination of the two.



# Economic overview

Both islands are internationally respected financial centres, and while the direct impact of Brexit will be more limited than the UK a knock on effect will still be felt

**G**uernsey and Jersey are self-governing crown dependencies. They each have their own directly elected legislative assembly, administrative, fiscal and legal systems, and own courts of law.

Islanders have British nationality, and are part of the Common Travel Area of the British Isles. The Crown – through the UK Government – is responsible for the island’s defence and formal international relations.

The islands are not part of the EU, but are part of the EU Customs Union. They are part of the OECD under the UK’s membership.

## Financial Services

Guernsey and Jersey are established and internationally respected financial centres. The sector accounts for 22% of employment in both islands and contributes to 40% Guernsey’s GVA, and 41% Jersey’s GVA. Guernsey and Jersey first established themselves as centres of offshore banking. This sub-sector has declined in recent years, and has been offset by growth in investment and fiduciary. Some firms, such as Aztec Group, founded in the islands, have grown significantly and are now international players in their own right.

Certain sub-sectors have grown in prominence. Guernsey is also a world leader in captive insurance, around 40% of UK FTSE 100 companies have captives domiciled in Guernsey, along with firms from across the globe. Jersey has been awarded International Financial Centre of the year every year since 2014 by Citywealth.

FIGURE 1 Key economic indicators  
2016, unless specified

	Guernsey	Annual change	Jersey	Annual change
<b>Population</b>	62,300	0.1%	104,200	1.5%
<b>Net migration</b>	-23		1,300	
<b>GDP</b>	£2,868,000,000	0.6%	£4,110,000,000	1.0%
<b>GDP per capita</b>	£45,913		£39,443	
<b>Employment**</b>	31,386	0.3%	61,660	2.2%
<b>Financial services employment**</b>	6,843 (22% of total)	0.1%	13,270 (22% of total)	1.3%
<b>Unemployment rate (ILO definition)</b>	1.2%		4%*	

\*2015

\*\*June 2017

Source: States of Guernsey and States of Jersey

FIGURE 2 Headline tax rates

	Guernsey	Jersey
Corporate tax rate	0%	0%
Finance tax rate	10%	10%
Personal tax rate	20%	20%
Capital gains tax	0%	0%
Inheritance tax	0%	0%
VAT (GST)	0%	5%

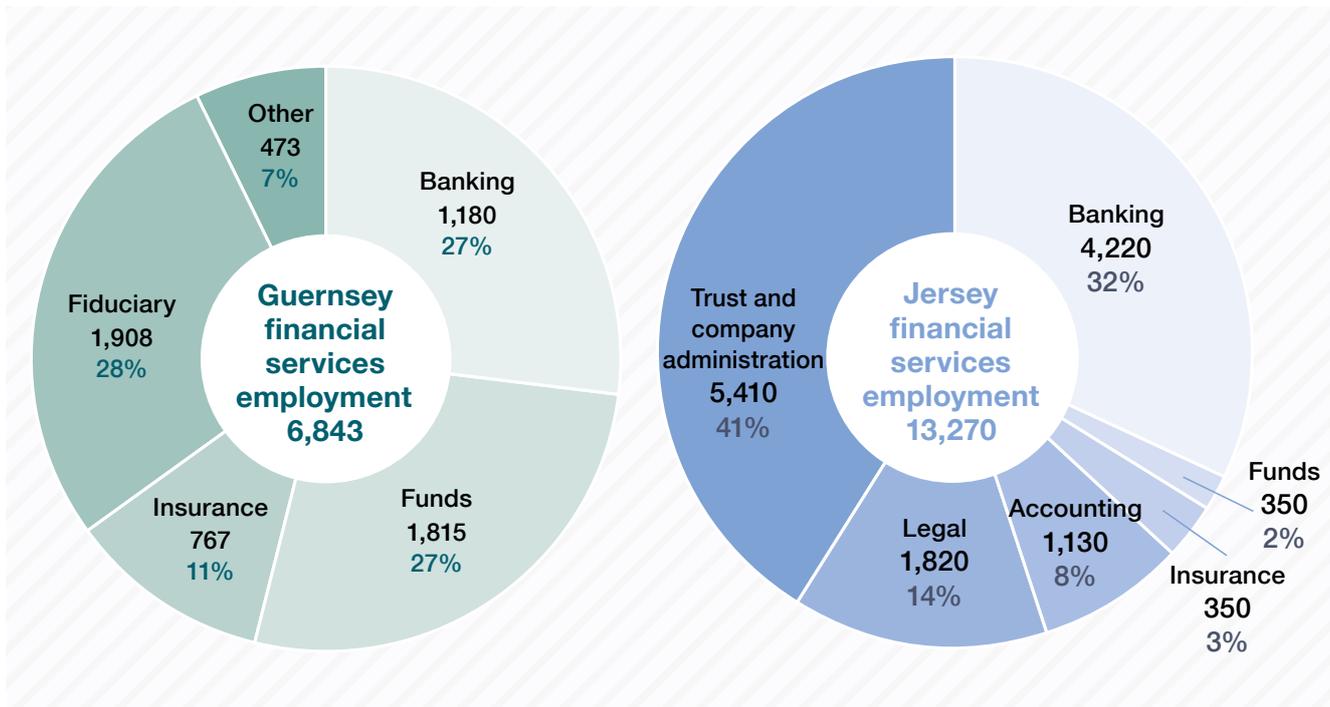
Source: States of Guernsey, States of Jersey

FIGURE 3 Financial centre rankings

	Specialised Financial Centres Ranking (The Banker/fDi Intelligence)		Global Financial Centres Index (Y/Zen)	
	2017 Rank	Rank Change	2017 Rank	Rank Change
Guernsey	2	+1	41	+6
Jersey	3	-1	40	+3

Source: The Banker/fDi Intelligence, Y/Zen

FIGURE 4 Sub-sector breakdown of financial services employment



Source: States of Guernsey, States of Jersey

### What does Brexit mean for the Channel Islands?

The Channel Islands have never been part of the EU. Both Guernsey and Jersey access the Single Market for financial services via third country provisions and signing agreements outside of UK-EU relationship. Therefore, both islands' finance industries can expect their relationships with the EU to continue structurally unaffected by the result of the referendum.

While the direct impact of Brexit is therefore more limited, the UK is the major trading partner of Guernsey and Jersey, and a strong City of London is important to the islands' own financial services industries. Therefore, the outcome of negotiations for the UK and its economy – positive or negative – will still have a knock on effect on Guernsey and Jersey.

# Office markets

Office occupiers in the Channel Islands are consolidating into new, prime stock. A wave of new office development in Jersey is changing the dynamics of the market

**G**uernsey and Jersey are established international centres of business and finance. Stable, business-friendly with a highly skilled workforce, they have a strong occupier base of financial services firms. Jersey's office stock, focused on St Helier, is approximately 3 million sq ft. Guernsey's office stock is concentrated in St Peter Port, and at Admiral Park, a newer mixed use development to the north of St Peter Port. Guernsey's office stock totals 1,700,000 sq ft.

In 2014, Jersey's island plan identified the Esplanade as the primary area for office development and is now the prime office location. Known as the International Finance Centre Jersey (IFC), it will ultimately deliver 470,000 sq ft across six stand-alone buildings. If developed as planned, it will add 16% to existing office stock and has the potential to drive the supply and demand dynamics of the office market for a number of years to come.

There are two developers of major office accommodation in Jersey, the Jersey Development Company, developer of the IFC, and Dandara. The latter's office developments have been focused at the Esplanade (across from the IFC), and include a 180,000 sq ft partially speculative building (now fully let).

In Guernsey, a slew of new office development occurred between 2005 and 2010, focused at Admiral Park and on the Glatigny Esplanade. Outline planning permission is in place for the remaining plots at Admiral Park. The first phase of this would be a 61,000 sq ft office building, with a proposed completion date of 2021.

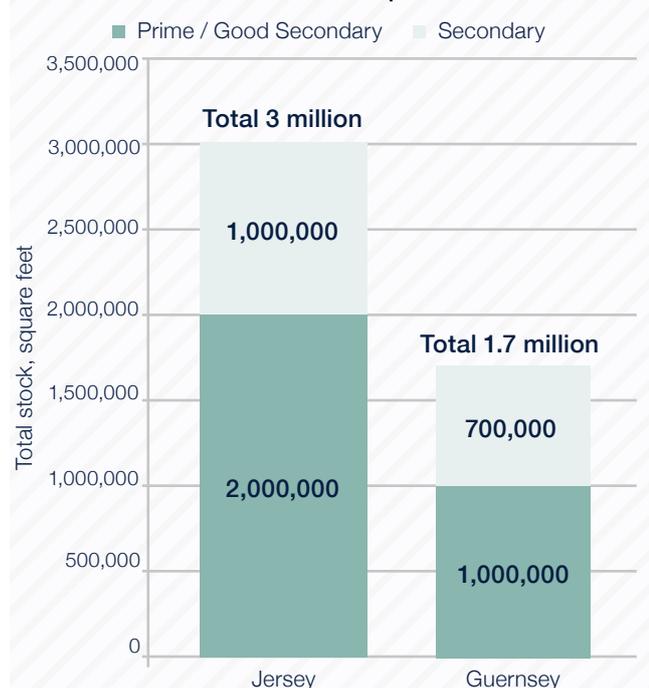


## Occupier markets

Grade A office rents in Jersey stand at £35 per sq ft, and £42 per sq ft in Guernsey. Jersey office rents have grown by 9% since 2012. Guernsey office rents have remained broadly static over the last five years. Occupier demand for Grade A space comes from major financial services firms, with recent relocations in Jersey including BNP Paribas and Royal Bank of Canada.

Take up of prime and good secondary space in Jersey averaged 100,000 sq ft per annum between 2014 and 2017, and 20,000 sq ft per annum in Guernsey. Vacancy rates in both islands are estimated at 10%, but 5% among prime stock in Jersey, and just 2% among prime stock in Guernsey.

FIGURE 5 Total office stock, sq ft



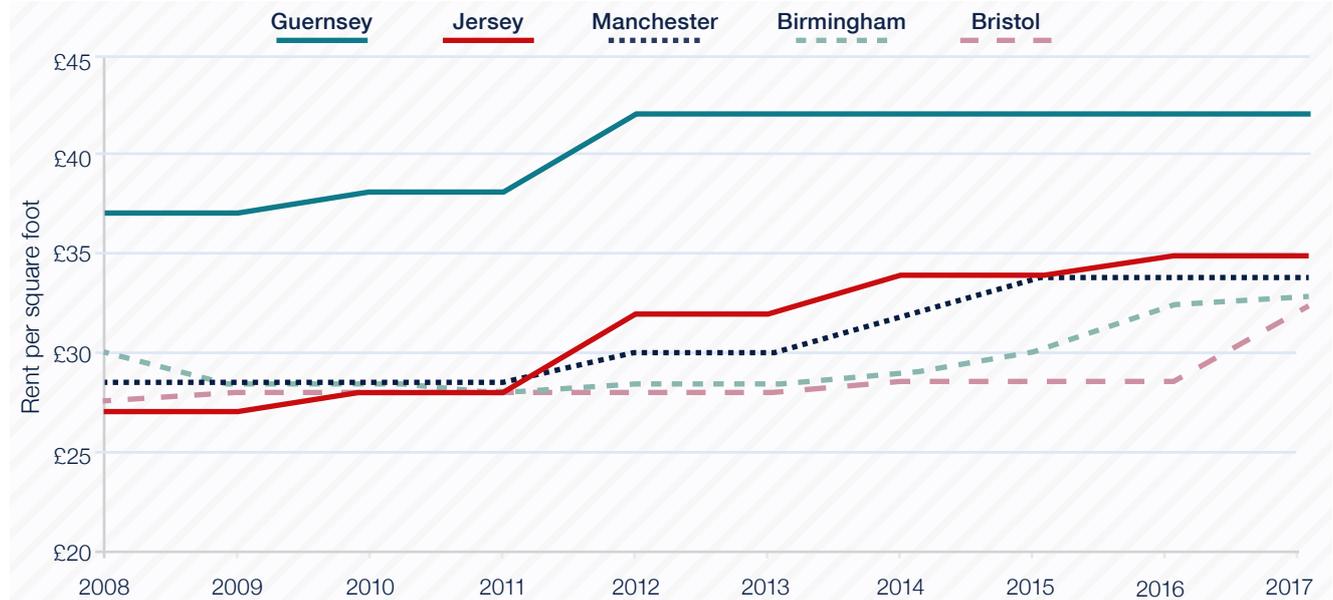
Source: Savills World Research

FIGURE 6 Prime office rents and yields

Jurisdiction / City	Headline prime rent per square foot (GBP)	Prime yield
Hong Kong	£154	2.22%
London (West End)	£83	3.25%
Geneva	£70	3.00%
Singapore	£69	3.60%
London (City)	£68	4.00%
Guernsey	£42	6.50%
Luxembourg	£42	4.00%
Jersey	£35	6.25%
Gibraltar	£34	6.50%
Isle of Man	£21	7.00%

Source: Savills World Research

FIGURE 7 Prime headline office rents, trend



Source: Savills World Research

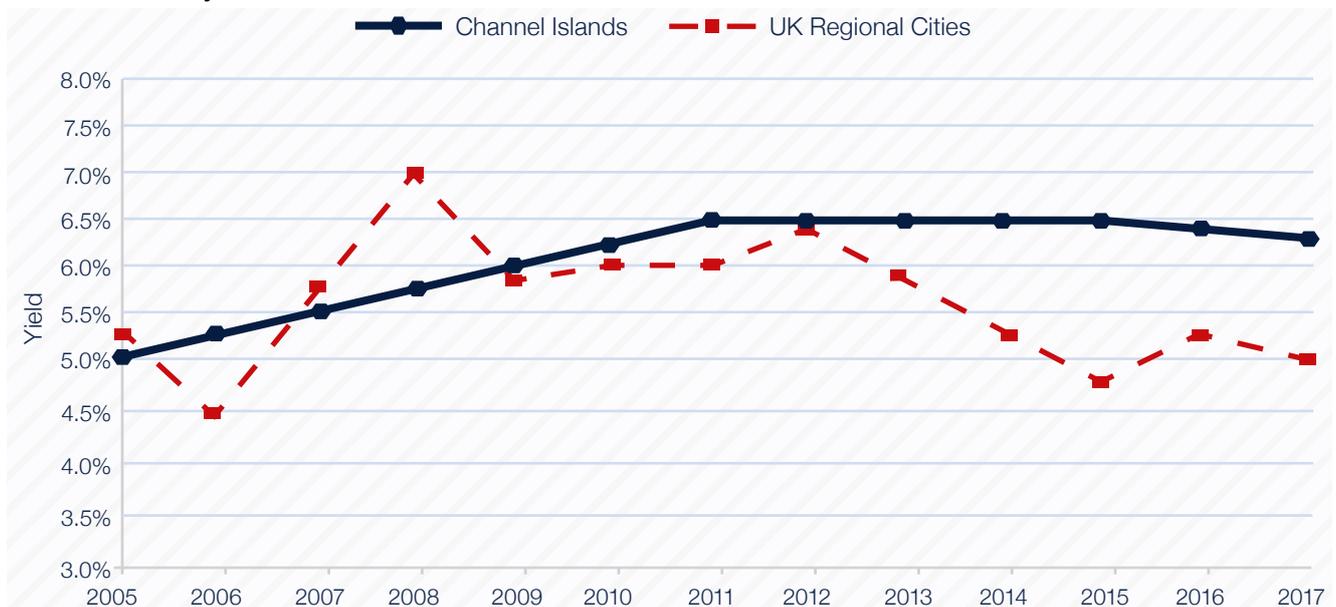
### How the Channel Islands leasing markets differ from the UK

- There is no landlord or tenant legislation.
- There are no automatic rights of renewal at lease expiry, or any rights to hold over.
- There is no automatic right of release of assignor from liabilities at assignment.
- Rent reviews are generally every three years.

### Investment

There exists solid demand for prime office buildings from both domestic and international investors, thanks to good covenant strengths, appealing long lease structures and a stable economy. Yields in the Channel Islands are 100bps higher than regional offices in the UK. The markets have their own particular drivers so those with local expertise have historically led investment activity. That said, international institutional investors including Standard Life, Brockton Capital and Stenprop have made major acquisitions in recent years.

FIGURE 8 Office yield trend



Channel Islands yields are indicative and assume Grade A rack rented on a long lease (15+ years)

Source: Savills World Research

FIGURE 9 Jersey, major investment sales

Date	Address	Tenants	Price (millions)	Sq ft	NIY	Purchaser
Dec-17	37 Esplanade, St Helier, Jersey	PWC, KPMG, Volaw, Canaccord, First Name Group	£45.0	88,500	6.65%	Private Client
2016	38/39 Esplanade, St Helier, Jersey	Citibank, Aztec Group	£12.0	27,100	6.60%	Private Trust
Sep-16	Liberation House and Windward House Esplanade, St Helier, Jersey	Ernst & Young, Moore Management, BDO	£34.0	61,300	7.50%	Channel Islands Property Fund
Aug-16	13/14 Esplanade, St Helier, Jersey	Appleby Global	£10.8	26,300	6.75%	Comprop

Source: Savills World Research

FIGURE 10 Guernsey, major investment sales

Date	Address	Tenants	Price (millions)	Sq ft	NIY	Purchaser
Jul-17	Royal Chambers	Mourant Ozannes, Terra Firma, IPES, KPMG	£42.4	72,500	7.00%	Channel Islands Property Fund
Jul-15	Gategny Court, St Peter Port, Guernsey	Guernsey Financial Services Commission, KPMG, Collas Crill, Investec	£44.0	65,000	6.60%	Channel Islands Property Fund
Jun-15	Martello Court & Dore Court, Admiral Park, St Peter Port, Guernsey	ABN AMRO, Kleinwort Benson	£49.5	87,400	7.00%	Brockton Capital
Mar-15	Trafalgar Court, Admiral Park, St Peter Port, Guernsey	Northern Trust, Aztec Group	£61.0	112,500	6.75%	Stenprop

Source: Savills World Research

## Office market outlook

Office using employment remains steady with modest growth. Wider geo-political uncertainty withstanding, medium term prospects for the occupier demand appear to be stable.

While Guernsey saw a wave of new office completions between 2005 and 2010, there has been little since and none expected in the near term. This will help to sustain rents for quality stock at current high levels, but means options for tenants are increasingly limited.

In Jersey in particular, several large occupiers are located across inefficient multiple sites, and/or outdated premises. New development at the IFC and surrounding it will drive further relocations of office occupiers to the larger floorplate, higher quality space on offer. Assuming the extensive pipeline is developed as pre-lets are in place, the supply/demand balance should be maintained as St Helier's office stock is expanded and brought up to international standards.



# Residential markets

The Jersey residential market is buoyant, while Guernsey's is beginning to show signs of picking up following recent price falls

**G**uernsey and Jersey have long attracted individuals from the UK and beyond who seek a high quality of life in a business-friendly environment.

Both islands have regulations in place on who can buy and occupy property. In Guernsey, 1,600 properties, or 6% of the island's housing stock, are classed as 'Open Market' and available for any UK or EU national to buy. The rest are for those born locally or those with an employment license.

In Jersey, those who are not locally born may qualify under the High Value Residency system, which requires a minimum annual tax contribution of \$145,000. In addition, Jersey has a system in place for non-locals deemed essentially employed.

Thanks to a strong, high-value economic base, the islands' residential markets proved resilient during the global financial crisis. Prices in Jersey, grew quickly to a peak in 2008, and remained at a high plateau. Prices in Guernsey rose steadily to a peak in early 2015. Performance in the two islands has since diverged (see Figure 12, overleaf).

## Recent performance

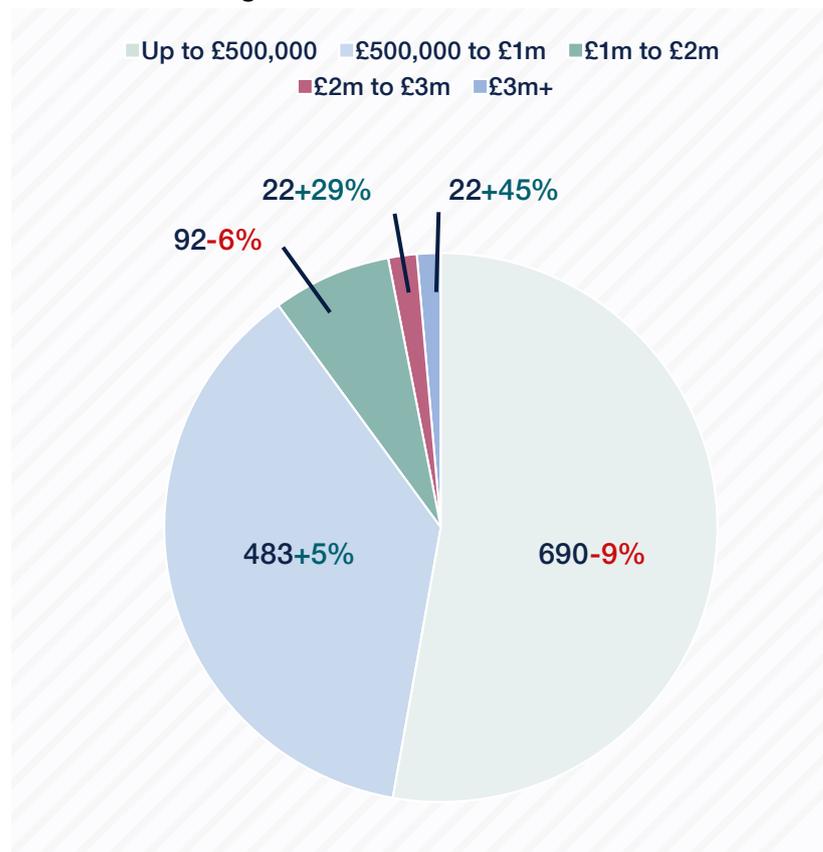
Fuelled by further economic growth and immigration, residential prices in Jersey have risen consistently since 2014, up a further 2.5% in the year to Q3 2017. Just over 1,300 properties transacted in 2017, 3% fewer than 2016, but 5% more than 2015. This equated to a total spend of \$837m, an increase of 3% over 2016 levels.

Transaction growth was seen at the top end of the market. \$1m+ sales increased by 3% overall, while the \$2-3m and \$3m+ markets saw growth of 26% and 45% respectively (see Figure 11).

In Guernsey, affordability constraints coupled with slower economic growth have contributed to price falls 12% from an early 2015 peak. Prices have stabilised in the last year, however, and transaction levels are now rising once again, indicating that a return to growth may be imminent.

Activity in Guernsey's Open Market remains muted, but a proposed new tax cap may yet stimulate demand. Effective from 2018, new residents purchasing an Open Market property that yields at least \$50,000 document duty (\$1.5m+ in value) would receive a Guernsey tax liability cap of \$50,000 per annum, applicable for four years. The usual upper limit cap is \$110,000 and \$220,000.

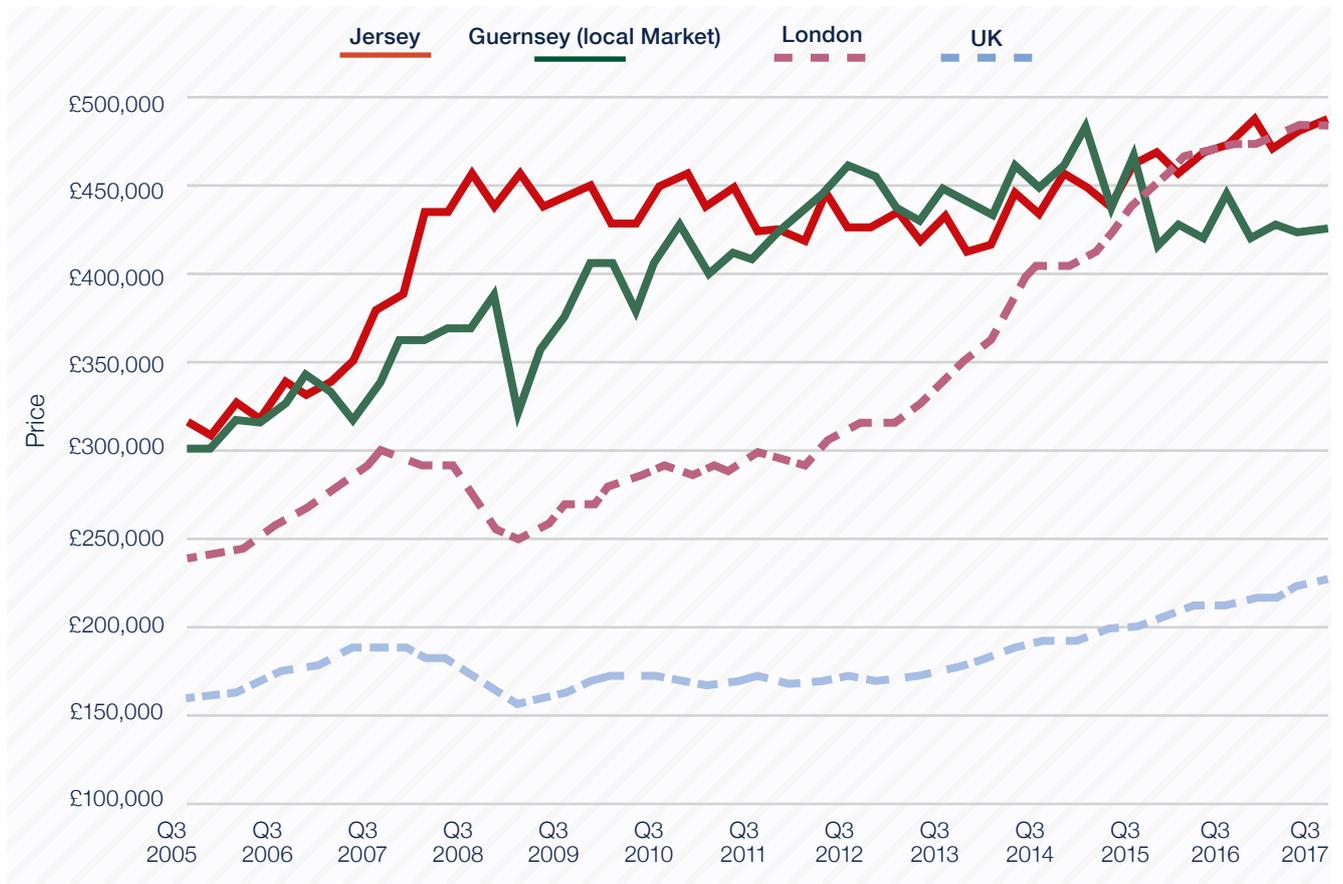
FIGURE 11 Jersey residential sales by price band (2017) and annual change



Source: Royal Court of Jersey



FIGURE 12 Residential prices



Source: States of Guernsey, States of Jersey, UK Land Registry

### Residential market outlook

Historically expensive by UK standards, strong price growth in London and parts of southern England since 2012 have seen prices catch up (and in some cases overtake) those of the Channel Islands – in spite of recent softening in the UK. This makes the Jersey and Guernsey markets appear better value to those looking to move to the islands, whether it be for business or lifestyle, or a combination of the two.

At the top end of the Jersey market, and in Guernsey’s Open Market, future performance will depend on the islands’ ongoing appeal to high net worth individuals as a place to live and build a business. The islands are proactive in this respect, with

Government-funded organisations such as Locate Guernsey and Locate Jersey promoting the islands internationally and assisting individuals. Guernsey’s proposed new tax cap for Open Market buyers suggests a recognition of the need to remain competitive at an international level.

Jersey has seen average net migration of 1,000 people per annum over the last three years. Forecast population growth in the island will continue to support growth in the market. Affordability in both islands is increasingly squeezed, however, and in the mainstream markets this may slow price growth over the longer term.



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