

2019

Q  
**SPOTLIGHT**  
*Savills Research*

# Channel Islands



Economic overview • The office market • Prime residential

# Foreword

## The investor base in the Channel Islands' real estate markets deepens

Stable, self-governing jurisdictions, Jersey and Guernsey are both respected international financial centres that punch well above their weight on a global stage. They offer residents a high quality of life in a business-friendly environment.

These characteristics make the islands attractive places in which to live, work and invest. Following a slew of new office development in Jersey, substantial investment grade stock came to market in 2018, and new investment records have been set.

The pool of commercial investors targeting the islands is deeper than ever before. In a worldwide search for income, investors are having to hunt harder for returns, something the Channel Islands office markets offers.

The mainstream residential markets of both islands are

buoyant, with rising transaction volumes supporting price growth. Set against steady in-migration, Jersey's market continues a strong run, while Guernsey's has picked up after several slow years.

Guernsey's Open Market returned to growth last year and Jersey's prime market remains resilient. Interest in the islands from HNWIs has increased against a backdrop of Brexit and general political uncertainty in the UK, but many buyers from the UK have adopted a 'wait and see' approach. We expect clarity, when it emerges, to unlock some pent-up demand.

### Paul Tostevin

+44 (0)207 016 3883  
ptostevin@savills.com

## Summary

■ **Records were broken in the office investment markets in 2018.** The sale of Jersey's Gaspé House, for £90m, marked the largest ever single commercial property transaction in the Channel Islands. The sale of IFC 1, meanwhile, set a new sub 6% yield benchmark.

■ **Office rents in Guernsey are stable at £43 per sq ft, and have risen to £36 per sq ft in Jersey.** Grade A office yields remain at a premium to UK offices, they now stand at 6.25% in Guernsey and 6% in Jersey.

■ **Prices and the volume of transactions in the islands' residential markets are rising.** Last year, the number of transactions in Guernsey's reached their highest levels since 2011. Prices grew by 3.5% in Jersey, and 4% in Guernsey in 2018.

■ **The prime markets of both islands are characterised by elevated levels of supply at the highest price points.** More realistic vendor expectations have helped to boost transactions in Guernsey.



# Economic overview

As self-governing jurisdictions, Guernsey and Jersey have the power to shape their futures

Jersey and Guernsey are well established financial centres. The sector remains the islands' primary economic generator, accounting for 21% of employment and approximately 40% of their GVA. Total financial services employment has risen by 7% in Jersey in the last five years, and by 4% in Guernsey over the same period.

The islands continue to diversify their financial service offer. In recent years growth has been driven by funds,

fiduciary and insurance. In 2018, the value of funds under administration in Guernsey stood at £281.7bn, an increase of 28% since 2014, and at £319.9bn in Jersey, growth of 66% since 2013. Banking deposits have stabilised following a decline from a 2008 peak (see chart below).

As self-governing jurisdictions, Guernsey and Jersey have the power to shape their futures, and are making efforts to further diversify the

economic base. Fintech and e-gaming are emerging niches, combining financial expertise with new technology.

With a legacy of growing flowers, fruit and vegetables for export, the islands have extensive horticulture infrastructure in place which is beginning to be revitalised for new purposes, including the production and processing of Cannabidiol (CBD) products, now a licensed industry.

## Key economic indicators 2018, unless specified

	Guernsey	Annual change	Jersey	Annual change
Population	62,307 <sup>^</sup>	0.4%	105,500 <sup>*</sup>	1.2%
Net migration	+274		+1,200 <sup>*</sup>	
GDP	£3.05bn <sup>*</sup>	2.0% <sup>^^</sup>	£4.3bn <sup>*</sup>	0.4% <sup>^^</sup>
GDP per capita	£48,950		£40,790	
Employment	31,210	-0.2%	61,930	0.5%
Financial services employment	6,846 (21% of total)	0.0%	13,280 (21% of total)	0.4%

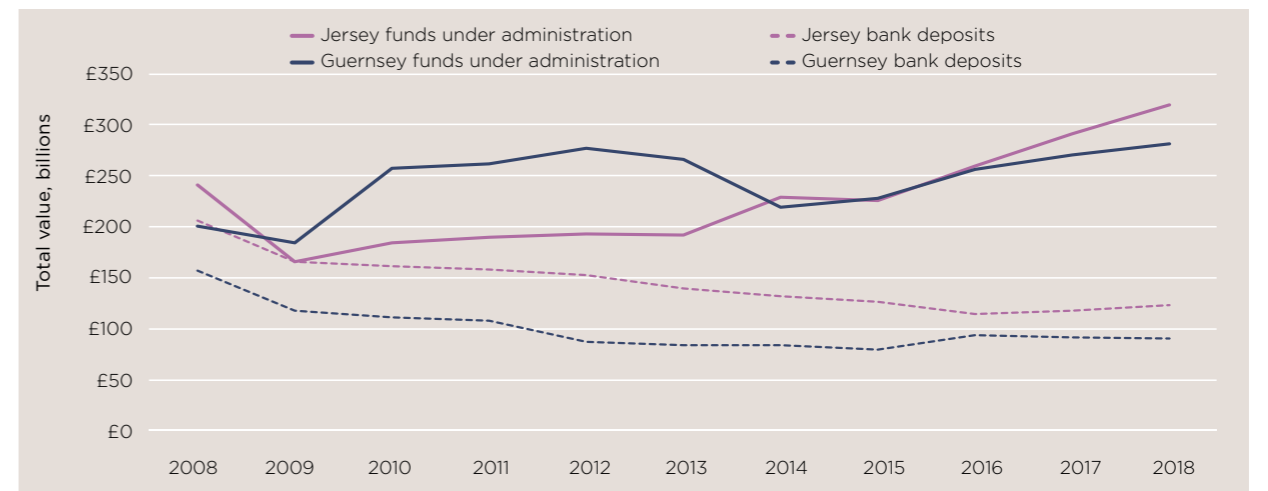
<sup>^</sup>Mar 18 <sup>\*</sup>2017 <sup>^^</sup>real

Source Savills Research using States of Guernsey and States of Jersey

🗨️ In recent years growth in financial services has been driven by funds, fiduciary and insurance 🗨️



## Funds under administration have risen steadily in the last five years



Year-end figures, apart from Guernsey bank deposits which are as at Q3 2018.

Source Savills Research

## S&P Sovereign Credit Rating

	Guernsey	Jersey
Long term rating	AA- /	AA- /
Short term rating	A-1+	A-1+

## Guernsey and Jersey in the world

Guernsey 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 have never been part of the EU, but are part of the EU Customs Union. They

are part of the OECD under the UK's membership. Both Jersey and Guernsey access the EU Single Market via third country provisions and signing agreements outside of UK-EU relationship.

Both islands' finance industries can expect their relationships with the EU to continue structurally unaffected, post-Brexit. The UK remains the Channel Island's major trading partner however, so the UK's future relationship with the EU, and the impacts on its economy, still has a knock-on effect on the islands.



Jersey's office stock totals around 3 million sq ft and Guernsey totals around 1.7 million sq ft

# Office markets

New records have been set in the Channel Islands office investment markets, supported by a deeper pool of international capital

As established international centres of business and finance, Jersey and Guernsey have a strong occupier base of multinational occupiers providing excellent covenant strengths.

Jersey's office stock, totalling around 3 million sq ft, is focused in St Helier, with substantial Grade A office buildings added to the Esplanade and International Financial Centre (IFC) in recent years. Guernsey's office stock is concentrated in St Peter Port, the Glatigny Esplanade, and Admiral Park, a mixed-use business park. Office stock in Guernsey totals around 1.7 million sq ft.

Take up in both islands has predominantly come from on-island businesses transitioning from older and lower specification buildings into new, BREEAM rated, offices or newly refurbished offices. Requirements have been the result of organic growth, mergers or acquisitions.

## Investment

The investor demand base for office investment is deepening in the Channel Islands, with major investment sales attracting bidders from the Middle East and Asia for the first time. Market liquidity is improving as new

investors look to the islands, attracted by comparatively high returns, new investment-grade stock, long leases and good covenant strengths. Institutional investors and private funds are present, as well as HNWI investors.

In November 2018, Jersey's Gaspé House was sold by Savills on behalf of Dandara to a Seaton Place Ltd for £90m, the largest ever single commercial property transaction in the Channel Islands, at a net initial yield of 6.16%. The sale of the 164,000 sq ft building attracted interest from a wide range of institutional and HNWI investors from around the world.

The same month, the sale of IFC 1 for £42.7m set a sub-6% yield, underlining the strength of the commercial property investment market on the island.

In April 2019, Guernsey's Dorey Court and Martello Court, totalling 89,000 sq ft, were sold, again by Savills, to a private overseas buyer in April 2019 for £60.65m, at a net initial yield of 6.35%.

Prime yields have moved in, and stand at 6.25% in Guernsey and 6% in Jersey. Yields are still, on average, more than 100bps higher than UK regional offices, and substantially higher than some European and Asian global financial centres (see chart).

## Supply and take up

Guernsey hasn't seen any new office construction since 2011 and there is now a shortage of Grade A office space on the island. This means that options for existing and new occupiers are extremely limited, but has worked in landlords' favour, sustaining rents at £43 per sq ft.

The leasehold take up of prime offices in Guernsey was in the region of 50,000 sq ft in 2018, with a further 15,000 sq ft taken by owner occupiers.

St Helier's flat topography and better availability of development land has enabled the delivery of some substantial new office buildings in recent years. New construction, focused at the Esplanade and the IFC, is reflected in take up volumes which we estimate at 140,000 sq ft in these areas alone last year.

Tenants have had a choice of buildings and developers have had to work hard to entice occupational tenants. Rents are lower than in Guernsey, but increased steadily since 2011 to an average of £36 per sq ft in 2018.

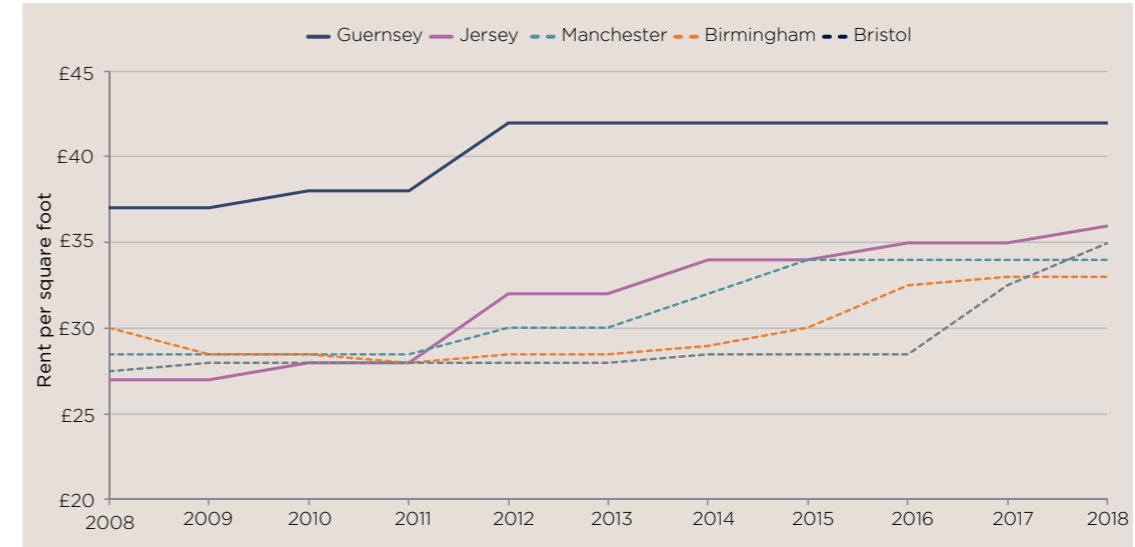
Both islands are characterised by low vacancy rates among Grade A stock, at 5% in Jersey, and just 2% in Guernsey.

## Major Channel Islands investment sales

Date	Address	Key Tenants	Price	Sq ft	NIY	Purchaser
Apr-19	Dorey Court & Martello Court, St Peter Port, Guernsey	ABN AMRO, Aon Insurance, Royal Bank of Canada	£60.65m	89,000	6.35%	Private overseas buyer
Nov-18	Gaspé House, St Helier, Jersey	Royal Bank of Canada, First Names Group, Collas Crill, Deloitte	£90m	164,000	6.16%	Seaton Place Ltd
Nov-18	IFC 1, St Helier, Jersey	BNP Paribas, UBS	£43.7m	70,400	5.94%	Private buyer
Dec-17	37 Esplanade, St Helier, Jersey	PWC, KPMG, Volaw, Canaccord, First Names Group	£45m	88,500	6.65%	Private buyer

Source Savills Research

## Prime headline office rents, trend



Source Savills Research

## Prime office rents and yields, selected cities



Source Savills Research

## Retail

St Helier and St Peter Port are successful retail centres, but in common with other locations, the shift to online shopping is changing the nature of demand. Many UK internet retailers automatically deduct 20% UK VAT for Channel Island residents, making online shopping in the islands attractive.

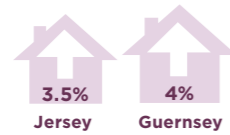
Nonetheless, there are few significant voids on the main high streets, aside from a unit vacated by Next in St Helier's King Street, following relocation to a larger store. Recent new entrants include Schuh and Superdry in Guernsey, and USC in Jersey. Rents are likely to track downwards, however, as retailers continue to evolve their models and consolidate their brick and mortar operations. Food and beverage (F&B) continue to be important retail occupiers and remain a bright spot; the islands have a vibrant restaurant and bar scene.

## Office market outlook

■ **A shortage of supply will continue to characterise the Guernsey office market.** Planning permission is in place for a 61,000 sq ft office building at Admiral Park, but it requires a significant pre-let to commence. Longer term, the island's government is aware of the lack of developable space, and beginning to explore opportunities to address this.

■ **Jersey saw exceptionally high levels of take up last year, driven by the completion of three major office buildings within 12 months of each other, and the consolidation of some major occupiers.** We do not expect levels to be sustained at this level in 2019, particularly now there are no major office completions in 2019.

■ **With more investment grade office stock in the islands and increased investment activity, a deeper pool of investors is attracted to the market than ever before.** Yields may move in further as investor competition increases, but pricing will still be attractive compared to other major centres.



Residential prices rose by 3.5% in Jersey in 2018, and by 4% in Guernsey's local market last year

# Residential markets

Jersey saw continued growth in 2018, while transaction levels in Guernsey reached their highest levels since 2011

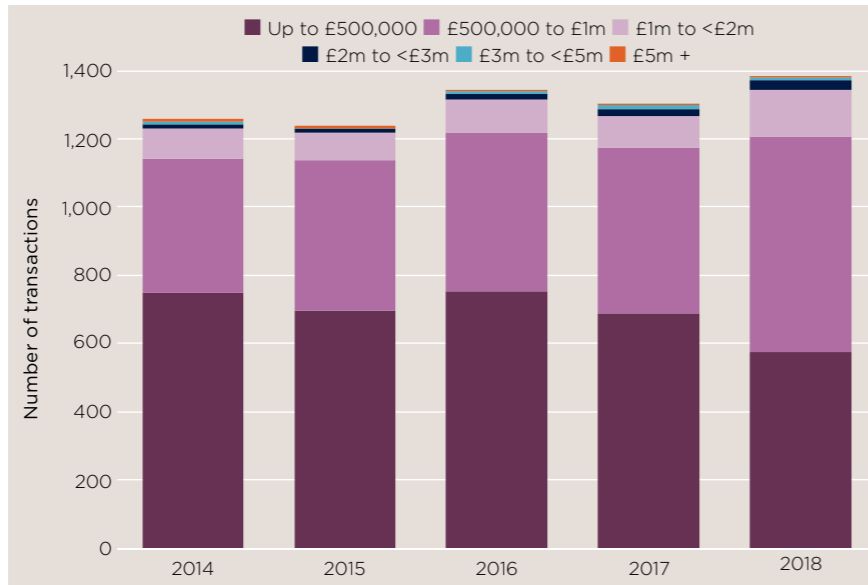
The Channel Islands offer residents an exceptionally high quality of life in a business-friendly environment. Safe and secure with excellent schools, recreation, restaurants, and a combined 72 miles of coastline in the two main islands, they are ideal locations to call home.

Host to businesses with international reach, they offer high-value employment, and a favourable environment to build a business. Their compact size also means short commutes, contributing to a favourable work-life balance.

Jersey and Guernsey have restrictions in place on who can purchase and occupy residential property. In Jersey, those who are not locally born may qualify under the High Value Residency (HVR) system, which requires a minimum annual tax contribution of £145,000. A small number of 'unqualified' properties are also available, that do not require HVR status. In addition, Jersey has a system in place for non-locals deemed essentially employed.

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 (or other nationals via a special Entrepreneur or Investor visa). The rest, designated as 'Local Market', are for those born locally, or with an employment licence.

Jersey residential transactions by price band



Source: Savills Research using Royal Courts of Jersey data

## Jersey

A growing economy, low mortgage interest rates, and a shortage of stock have pushed Jersey's mainstream residential markets to new highs. Demand for both owner occupiers and local buy to let investors has resulted in a shortage of supply priced under £500,000, and transactions in this price segment fell by 17% in 2018 as a result.

Meanwhile, domestic homemovers have fuelled activity among property priced between £500,000 to £1m (+31% in transactions in 2018) and the £1m to <£2m bracket (+47% in transactions).

Sustained demand continues to push up prices, which rose by 3.5% in 2018. The mix-adjusted average price reached £491,000, 14% above their former 2008 peak.

For property priced over £3m, the market has slowed, the result of high levels of prime

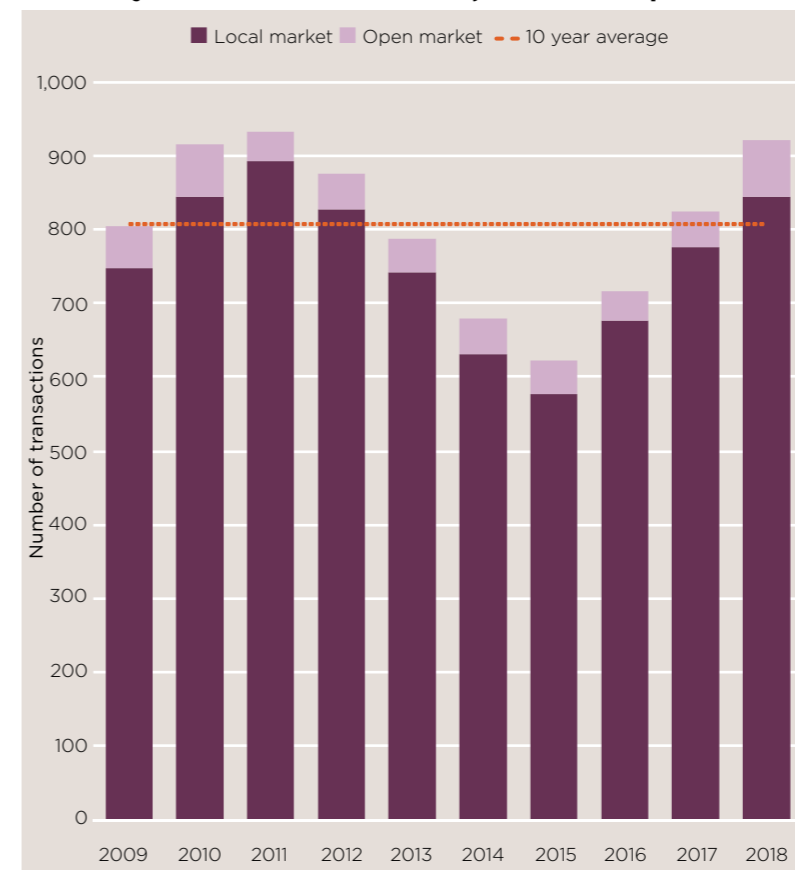
stock and, in some cases, unrealistic vendor expectations. The impact of ongoing Brexit uncertainty has led to increased numbers of enquiries, but some prospective purchasers originating from the UK have been adopting a 'wait and see' approach as political uncertainty plays out. Nonetheless, sales in excess of £15m have already been seen in 2019.

One beneficiary has been the prime rental markets, which many new arrivals have turned to as they establish themselves on the island. The mainstream rental markets are buoyant too, this is, in part, due to affordability constraints in the sales markets, coupled with demand from people moving to the island for work. Advertised private sector rents increased by 9% in 2018.

🏠 Sustained demand in Jersey continues to push up prices, which rose by 3.5% in 2018 🏠



Guernsey residential transactions, Local and Open Market



Source Savills Research using Unusualities of Guernsey

## Guernsey

Guernsey's mainstream residential market has returned to growth. Local Market residential transaction numbers reached their highest levels since 2011, while the Open Market hit an 11-year high. Taken together, market activity is now 14% above the 10-year average (but still 26% below 2007 levels).

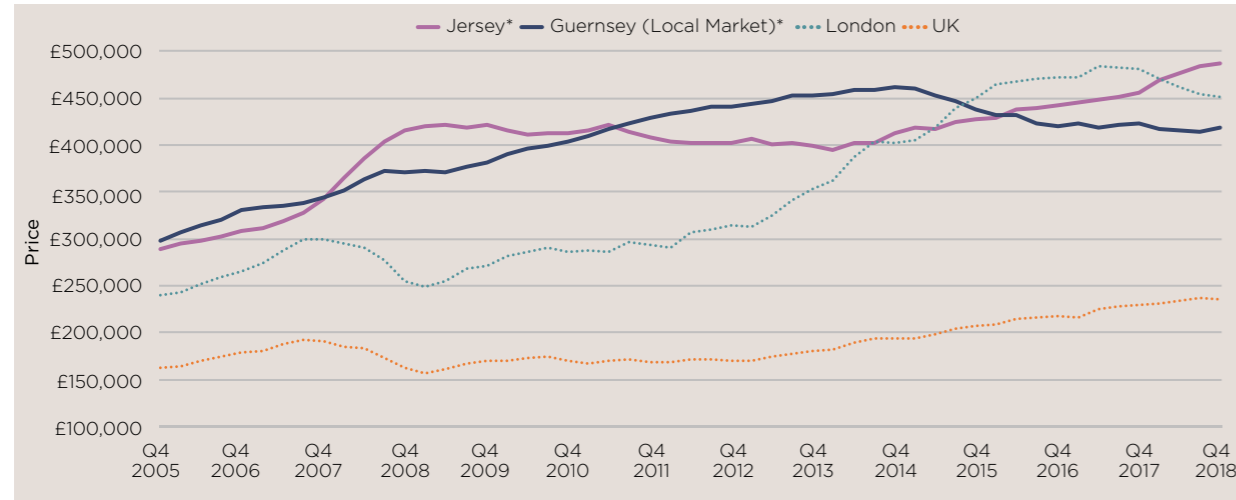
Local Market prices in Guernsey reached a trough in the first quarter of 2018, following three years of price falls. But with transactions levels now rising, prices rose consecutively for the last three quarters of 2018, bringing annual price growth to 4%, with an average Local Market house price of £438,000.

Open Market activity has been driven by improved sentiment and more realistic pricing from vendors. A tax cap for new Open Market buyers came into effect in 2018, acting as another incentive. Some 75 Open Market transactions were recorded in 2018, levels not seen since 2007 when 96 Open Market sales were recorded. Like Jersey, political uncertainty in the UK has led to increased enquiries, rather than many more movers.

🏠 Local Market residential transaction numbers in Guernsey reached their highest levels since 2011 🏠

“ Political clarity in the UK, when it emerges, may unlock some pent-up demand in the islands’ prime residential markets ”

Residential price comparison: Jersey, Guernsey, London and UK mainstream markets



\*Four quarter rolling average  
Source: Savills Research using States of Guernsey, States of Jersey and UK Land Registry

Residential market outlook



■ **‘Pull factors’, such as a high quality of life and favourable business environment, rather than ‘push factors’, such as Brexit, attract most individuals to the Channel Islands.** However, we expect clarity on the political situation in the UK, when it emerges, to unlock some pent-up demand in the Guernsey and Jersey prime residential markets.



■ **Demand for prime property in both islands depends on their ongoing appeal to high net worth individuals as a place to live and build a business.** Government is proactive in this respect, new business and individual movers are supported by government-funded organisations Locate Jersey and Locate Guernsey, who also promote the islands’ offer.



■ **Guernsey’s population is forecast to increase by just 3% to a maximum of 64,000 people by 2034. In Jersey, if the current rate of in-migration is sustained, its population is forecast to reach 128,000 in 2035, an increase of 21%.** This, combined with a shortfall of new homes (estimated at 2,750 dwellings over the next three years alone) will support growth in Jersey’s residential markets. We expect prices in Guernsey to continue to recover as transactions return to longer term trend levels.



Savills Research

We monitor global real estate markets and the forces that shape them. Working with our teams across the globe, and drawing on market intelligence and published data, we produce a range of market-leading publications, as well as providing bespoke research to our clients.

Savills Research

**Paul Tostevin**  
Director  
+44 (0)207 016 3883  
ptostevin@savills.com

Savills Channel Islands

**Tony Rowbotham**  
Director  
Commercial, Guernsey & Jersey  
+44 (0)1481 742 288  
tony.rowbotham@savills.gg

**Geri O’Brien**  
Director  
Residential, Jersey  
+44 (0) 1534 870 143  
gobrien@savills.com

**Richard Fox**  
Director  
Open Market Residential, Guernsey  
+44 (0) 1481 713463  
richard.fox@savills.com

**Keith Enevoldsen**  
Director  
Local Market Residential, Guernsey  
+44 (0) 1481 713463  
keith.enevoldsen@savills.com

Savills plc is a global real estate services provider listed on the London Stock Exchange. We have an international network of more than 600 offices and associates throughout the Americas, the UK, continental Europe, Asia Pacific, Africa and the Middle East, offering a broad range of specialist advisory, management and transactional services to clients all over the world. This report is for general informative purposes only. It may not be published, reproduced or quoted in part or in whole, nor may it be used as a basis for any contract, prospectus, agreement or other document without prior consent. While every effort has been made to ensure its accuracy, Savills accepts no liability whatsoever for any direct or consequential loss arising from its use. The content is strictly copyright and reproduction of the whole or part of it in any form is prohibited without written permission from Savills Research.

Jersey  
19 Halkett Place  
St. Helier  
JE2 4WG  
+44 (0) 1534 722 227

Guernsey Residential  
1 Le Truchot  
Guernsey  
GY11WD  
+44 (0) 1481 713 463

Guernsey Commercial  
22 Smith Street  
St Peter Port  
GY1 2JQ  
+44 (0) 1481 742 280

