Jersey real estate – an investment that doesn't go out of fashion

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If you really can measure the health and buoyancy of an economy by the number of cranes on the skyline, then Jersey seems well placed given the cranes seen over St Helier during the last couple of years.

Investment into Jersey property – and in particular, into office developments in St Helier – has continued to be popular including the States of Jersey Development Company's Jersey International Finance Centre development, which is soon to be home to UBS and BNPP on The Esplanade, and Dandara's Gaspe House – home to RBC.

But those developments are not the only ones under construction – there is a range of commercial office development schemes in various stages and a robust pipeline of work sitting behind it as well as numerous residential development schemes – in fact, anecdotal evidence suggests that the construction sector is the busiest that it has been in the last 40 years.

Recent activity in St Helier points to an appetite for high quality, large scale investment properties backed by solid covenants.

Even since the Brexit decision, the volume of activity has continued on a slow but steady upward trajectory – demonstrating that despite the uncertainty, there's underlying confidence in an outcome that is broadly the same as the status quo.

But why does Jersey continue to be so popular for property investment?

Commercial investors are drawn by a range of factors – firstly, Jersey's international financial services sector flattens out peaks and troughs in UK and global economic performance; secondly, the Island's reputation as a mature and well-regulated offshore centre marks it out as a safe place to invest; and thirdly, the world-class communications and physical infrastructure, along with the highly-educated workforce, creates confidence.

That confidence is backed up by the steady upward trend exhibited by prime office rents over the past decade and beyond, which have avoided the downturns experienced elsewhere. A robust planning regime, geographical constraints and a lack of speculative development have combined to make for a tight supply of prime space which has traditionally trickled rather than flooded as demand arises.

In addition to the consistently benign market conditions investors also benefit from: longer than average lease duration; UK mainland style commercial leases; three-yearly, upward-only open market rent reviews; nominal property rates; and net initial yields averaging 6.0% - 7.0% over the last two-three years.

For those considering an investment in Jersey commercial property – and that's a broad category ranging from institutional investors to private individuals and family offices - it’s important to understand general tax principles. Jersey property income is taxed at the rate of 20%, which includes property development. Property income is taxable on the accounts basis and deductions are allowable for revenue-related items in connection with the letting of the property.

With the market steadily improving the Island is looking forward to increased investment activity across the investment property sector. Maintaining an attractive investment market in the context of relevant tax principles impacting on investment will be an important part of this – which is why it's important that a planned review of commercial property taxation takes a pragmatic approach, balancing a short-term tax gain against the potential knock-on implications for activity, employment in construction, and the provision of grade A office space on which Jersey's pitch as a centre for relocations is predicated.

Ogier's property team in Jersey is ranked in a league of its own by Chambers UK and is regularly instructed on the largest and most complex commercial property transactions in the Island.

This article first appeared in Connect magazine.

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