

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 Jersey 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 - soon to be home to UBS and BNPP on The Esplanade - and Dandara's Gaspe House, now 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 post-Brexit referendum, 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
- An absence of security of tenure and complex landlord and tenant legislation
- A predominance of international covenants and UK backed tenancies
- Nominal property rates
- A pool of first class professional expertise
- 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.

Capital allowances are available at the rate of 25% on a reducing balance basis. Capital expenses are not allowable deductions. If rental losses are incurred these can be carried forward, however excess interest incurred cannot be carried forward.

Income on Jersey property is subject to tax irrespective of the residence of the property owner. For non-Jersey resident landlords there is a scheme whereby tenants deduct rent at source at 20%. If the landlords tax affairs are up to date and remain up to date they can apply to receive the rental income gross of tax.

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 Business Brief.

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Meet the Author



[Jonathan Hughes](#)

Partner

[Jersey](#)

E: jonathan.hughes@ogier.com

T: [+44 1534 514336](tel:+441534514336)

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