D2 REAL ESTATE

Commercial Property Investment In The Channel Islands: A Buyers' Guide

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Foreword

In reports describing property markets, the word “unique” is perhaps overused. Whilst each market certainly has its own nuances, in the self-governing Channel Islands, with their own legal and tax system, the term is highly appropriate. In this report we examine the differences between the jurisdictions, providing investors with a clear pathway to invest in the commercial property sector.

The Channel Islands present a compelling investment landscape. With an attractive blend of tax advantages, political stability, a talented workforce, and strategic connectivity, they can provide exceptional commercial property investment opportunities. By evaluating the jurisdictions’ pros and cons at a market, legal, and tax level, this report aims to provide investors with a clear and transparent framework to assess opportunities in commercial property investment.

With almost two-fifths of the islands’ GVA deriving from the finance industry, the office market is, unsurprisingly, the largest sector. It is therefore this report’s primary focus when commenting on the market differences. Legal and tax differences are equally relevant across all commercial property sectors.

We are extremely grateful to Stuart Macklin from PwC Channel Islands for his collaboration in the production of this report and invaluable insight in relation to the tax elements.

Chris Daniels
Director | D2 Real Estate

Finance industry accounted for almost
40%
of the Channel Islands GVA in 2021

Introduction

The Channel Islands, comprising Jersey, Guernsey and an archipelago of smaller Islands, sit off the Normandy coast in the English Channel between France and the United Kingdom. An increasingly attractive hub for international businesses and a global financial centre, they are recognised as a prime destination for investors seeking to capitalise on offshore advantages and exposure to the financial sector.

The islands' favourable tax frameworks, including low corporate tax rates and absence of capital gains and inheritance taxes, have created a welcoming environment for companies seeking to optimise their financial operations and increase their overall profitability.

The Channel Islands’ political stability and regulatory transparency have cultivated an atmosphere of trust and confidence. Their governments have consistently offered business-friendly policies, attracting a diverse array of multinational corporations, financial institutions, and professional service firms. This stability, coupled with a proactive regulatory framework, provides investors with a secure, well-regulated investment environment.

The islands also offer excellent connectivity, serving as a bridge between the United Kingdom, Europe, and other international markets. With multiple daily flights to London and convenient transport links to Europe, businesses based in the Channel Islands can easily connect with key economic hubs, fostering both regional and global business opportunities.

This report outlines the merits of investment in the Channel Islands, exploring the key factors that make this region a compelling choice for investors. Examining the breadth of advantages and opportunities, it seeks to provide a comprehensive understanding of the potential associated with investing within this thriving jurisdiction.

The islands also offer excellent connectivity, serving as a bridge between the United Kingdom, Europe, and other international markets.

The Channel Islands
Top Global Offshore Centres

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Trafalgar Court, Guernsey
SOLD 2021 £55m


Dorey Court & Martello Court, Guernsey
SOLD 2019 £60m


25/26 Esplanade, Jersey
SOLD 2023 £15m


37 Esplanade, Jersey
SOLD 2017 £45m


Royal Chambers - Guernsey
SOLD 2018 £46.7m

44 Esplanade, Jersey
SOLD 2015 £27m


IFC 1, Jersey
SOLD 2018 £43m+


Gaspé House, Jersey
SOLD 2018 £90m+


27 Esplanade, Jersey
SOLD 2019 £40m+


Regency Court, Guernsey
SOLD 2010 £36.9m


IFC 5, Jersey
SOLD 2019 £46m+


Royal Bank Place, Guernsey
SOLD 2019 £26.5m

Channel Islands Key Facts

GUERNSEY

Pop: 63,950
GDP: £3,446 million
GDP per capita: £54,329
S&P Rating: A+/A-1

Total Office Stock: 2,100,000 sq ft

Grade A stock: 550,000 sq ft

Prime Rents: £40 psf

Prime Office Yields: 6.25% / 6.5%

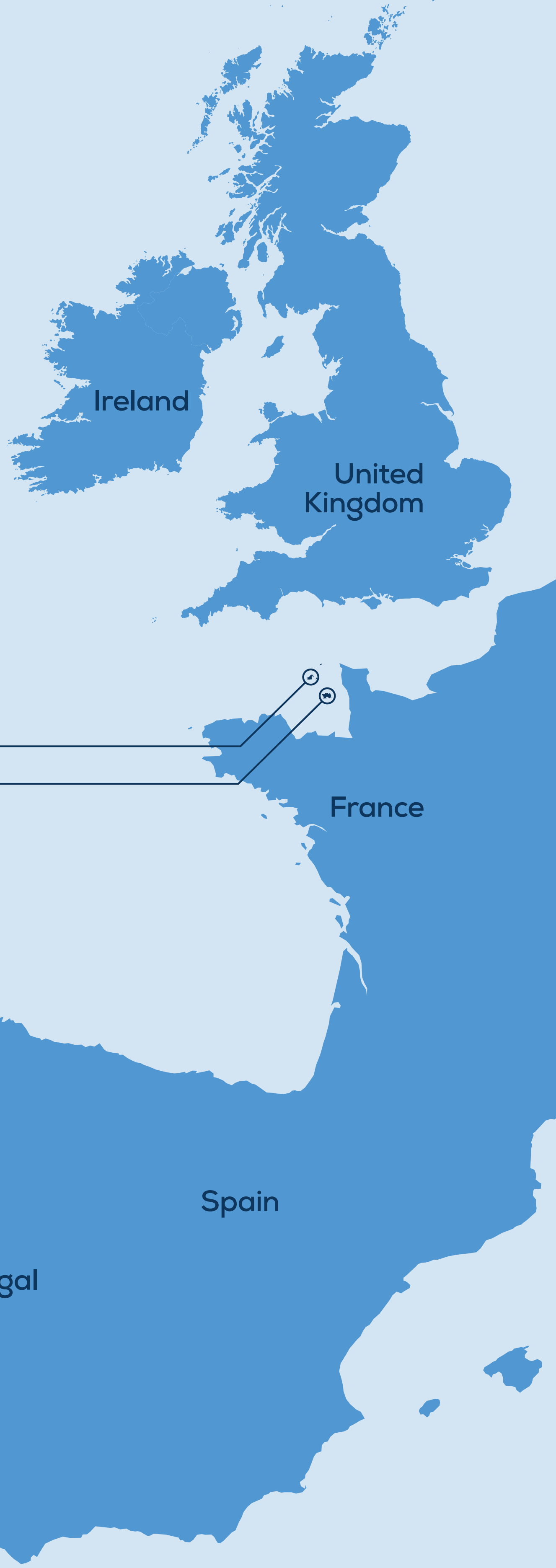
Prime headline rents: £40+ psf & excellent growth prospects given limited supply

Prime locations: St Julian's Avenue, Glategny Esplanade, Admiral Park

Grade A vacancy rate: 2.86% (2022)

Investment Volumes since 2017: **£285** million

Second highest ranking improvement in the Global Finance Centre Index: (33rd edition)



JERSEY

Pop: 103,100
GDP: £5,087 million
Productivity per FTE Full time equivalent employees: £77,000
S&P Rating: AA-/A-1+

Total Office Stock: 3,000,000 sq ft

BREEAM stock: 600,000 sq ft

Prime Rents: £40 psf

Prime Office Yields: 6.25% / 6.5%

Prime locations: Esplanade, St Helier

Grade A vacancy rate: 2% (2022)

Prime headline rents in St Helier: £40 psf quoting rents now £50+ psf for the very best schemes given limited supply

Investment Volumes since 2017: **£445** million

International Finance Centre Of The Year (Silver) 2023: Citywealth IFC Awards

Investment Rationale

- **Stable economy:** The islands have stable, resilient economies with strong financial services sectors, excellent regulation, and a good reputation as international financial centres. They provide a breadth of financial services including funds, banking, wealth management, trust services and insurance.
- **Rental income potential:** Demand for commercial property in both islands remains robust due to a thriving business environment and shortage of supply.
- **Limited impact of working from home:** Although hybrid practices have become more popular, short commute times mean staff have typically returned, with occupiers investing in their premises.
- **Limited supply:** Availability of land for commercial development is limited due to the islands' small size and strict planning regulations. The imbalance of supply and demand is driving rental growth.
- **Geographic location:** The islands' strategic location between the UK and France make them attractive to investors. They benefit from proximity and good transport links to major European markets, including London.
- **Constitutional status:** As Crown Dependencies of the UK Government, the islands are self-governing, and enjoy a unique constitutional and political status.
- **Political and legal stability:** The islands' stable political system, and well-established legal framework based on English law, offer confidence to investors and reduce potential risks associated with investing in foreign markets.
- **Tax advantages:** The islands' favourable tax regime allows businesses and investors to enjoy low corporate tax rates, while avoiding capital gains and inheritance taxes. This can significantly enhance investment returns, and increase the profitability of commercial property ventures.

The Channel Islands present a compelling investment landscape. With an attractive blend of tax advantages, political stability, a talented workforce, and strategic connectivity, they can provide exceptional commercial property investment opportunities.

Market

Compared with the United Kingdom's commercial real estate market, Jersey and Guernsey each have distinct characteristics that set them apart. While the UK offers a larger, more diverse market, Jersey and Guernsey offer unique advantages as offshore financial centres, which are detailed in the table below.

	UK	JERSEY	GUERNSEY
Time spent WFH (Working From Home)	40%	10% (Neglible commute/no strikes)	10% (Neglible commute/no strikes)
Lease length years	10	15	15
Prime Rent psf	£40 psf / £42.50 psf (Big Six)	£40 psf, now quoting £50+ psf	£40 psf
Incentives (10 year term)	18-24 months	10 months	10 months
Standard rent review pattern	5 yearly	3 yearly	3 yearly
OMRV or Indexed/Fixed	OMRV	Indexed/fixed - commonplace	Indexed/fixed - commonplace
Availability of financial information on Tenant	Public Registry	Reliant on relevant lease clause as no public register	Reliant on relevant lease clause as no public register
EPC MEES (Minimum Energy Efficiency Standards)	Yes MEES: E	From 2025 with MEES being brought in from 2026	No

Legal

Jersey and Guernsey have their own legal systems, which are influenced by English law. These jurisdictions provide favourable flexible company structures and strong corporate governance, making them attractive for real estate investment funds, and for wealth management purposes. These are detailed in the table below.

	UK	JERSEY	GUERNSEY
Stamp duty on a lease of 9 years or less (in CI known as a Paper Lease)	N/A	N/A	N/A
Stamp duty on a lease more than 9 years (in CI known as a Contract Lease)	N/A	Yes - Tenant to pay	N/A
Land Registry	Yes - Land Registry guarantees title. Title plans, restrictive covenants, ownership details etc are available online	No - Conveyancers need to check boundaries, which adds cost and is more time consuming	No - Conveyancers need to check boundaries, which adds cost and is more time consuming
Completion of a Freehold Purchase	Exchange and completion at any time with a phone call	Normally straight to completion, without exchange. Completion can only take place with parties (or attorney) attending in person at the Royal Court on a Friday afternoon.	Conditions of sale entered into. Completion can only take place with parties (or attorney) attending in person at the Royal Court on either a Tuesday or Thursday morning.
Assignment	Section 19 of the LTA 1927 presumes a tenant can assign without consent. For leases granted after 1996 the assignor is released from the tenant's lease covenants through The Landlord and Tenant (Covenants) Act 1995	There is no Section 19 of the LTA 1927 act protection. The terms of the assignment governed by the lease. Generally accepted the assignor is released and assignee takes over lease liabilities.	There is no Section 19 of the LTA 1927 act protection. The terms of the assignment governed by the lease. The original tenant or assignor remains liable unless specifically released.
Tenant's Security of Tenure on Lease Expiry	Yes - The Tenant is protected by Part II of the Landlord & Tenant Act 1954	No - The lease automatically terminates at the expiry of the lease. A court order is required to gain possession in the event the tenant remains in occupation.	No - The lease automatically terminates at the expiry of the lease. A court order is required to gain possession in the event the tenant remains in occupation.
Specific Performance (enforcement of contract)	Yes	In very limited circumstances and not for commercial freehold transactions	In very limited circumstances and not for commercial freehold transactions
Forfeiture	Forfeiture permitted (re entry) subject to serving notice under section 146 Law of Property Act 1925	No equivalent to Law of Property Act 1925. Landlords can apply to cancel the lease by applying to the Royal Court	No equivalent to Law of Property Act 1925. Landlords can apply for eviction proceedings that can be challenged in Court.

Tax

Jersey and Guernsey have favourable tax regimes with no capital gains tax or inheritance tax. They also offer stability through well-regulated financial sectors and a wide range of banking and wealth management services. The table below provides a comparison of some of the key tax considerations on acquiring commercial property.

	UK		JERSEY		GUERNSEY	
TAX CONSIDERATIONS ON ACQUISITIONS BY COMPANIES						
Stamp Duty / Document Duty on acquisition of commercial property	**5%**	Stamp duty: 0% on the first £150,000. 2% on the next £100,000. 5% on the balance over £250,000.	**5%**	Stamp duty: varying rates apply to commercial property. For commercial properties exceeding £2m, a charge of £59,500 applies in respect of the first £2,000,000 then 5% per £100 in excess thereof.	**5.5%**	Document Duty: an accumulating scale of rates apply to the acquisition of property. The highest rate is 5.5% that applies to properties exceeding £1m in value. Document duty is payable on the value of the realty, not the contents. It is standard practice to split the value of property as 97.5% representing realty and 2.5% representing contents.
Stamp on Loan	**N/A**		**0.5%**	For mortgages secured by a charge over Jersey real estate, a charge of 0.5% of the amount of the loan plus £80 registration fee on the loan applies.	**N/A**	
Stamp Duty / Document Duty on acquisition of shares in company holding commercial property (assumes company incorporated in relevant jurisdiction)	**0.50%**			Enveloped property tax applies at varying rates on commercial property exceeding £700,000. For commercial properties exceeding £2m, a charge of £59,500 applies in respect of the first £2,000,000 then 5% per £100 in excess thereof.	**5.5%**	Document Duty can apply to such transactions, although there are exemptions, such as Collective Investment Schemes.
Indirect tax considerations	**20%**	VAT is a consumer tax. For commercial landlords, VAT is usually an exempt supply, but the landlord can opt to tax commercial land and buildings. The effect is that the supply of land becomes a taxable supply on which VAT is charged to tenants and the landlord can then recover VAT incurred on acquisitions in respect of that supply. The VAT charged on rent is not an additional cost to commercial tenants that are themselves registered for VAT, who pass the VAT on to their consumers.	**5%**	GST is likely to be a consideration depending on registration thresholds of the landlord. For landlords required or voluntarily registered for GST, GST is charged at the standard rate of 5%. As for UK VAT, GST is a consumer tax. The effect is that the supply of land becomes a taxable supply on which GST is charged to tenants and the landlord can then recover GST incurred on acquisitions in respect of that supply. The GST charged on rent is not an additional cost to commercial tenants that are themselves registered for GST, who pass the GST on to their consumers.		No VAT or GST.

Tax continued

	UK	JERSEY	GUERNSEY
TAX CONSIDERATIONS DURING HOLD PERIOD			
Corporate income tax	Tax generally applies to gross rental income less direct expenses incurred wholly and exclusively in the furtherance of the property business that are not capital in nature. From this net profit allowances and reliefs may also be deducted (see below examples) to derive tax adjusted profits. Tax adjusted profits are taxed at a rate of 25%.	Tax adjusted profits are taxed at a rate of 20%. Allowances and reliefs differ from UK and Guernsey, see below examples.	Tax adjusted profits are taxed at a rate of 20%. Allowances and reliefs differ from UK and Jersey, see below examples.
Provision of a lease	The granting of a lease can have income and chargeable gain tax consequences. Generally, the granting of a short lease, not exceeding 50 years, for a premium is treated as part disposal of an interest in the land and chargeable gain can arise such that an element of the premium is taxed as rent and chargeable gain for a part disposal of the interest in land. The grant of a long lease for a premium can result in a chargeable gain on the part disposal of the interest in the land.	A premium paid in respect of a short lease, not exceeding 50 years, is treated as partly income and non-taxable capital. Long lease premiums are likely to be viewed as capital in nature.	A premium paid in respect of a short lease, not exceeding 50 years, is likely to be treated as partly income and non-taxable capital. Long lease premiums are likely to be viewed as capital in nature.
Capital allowances	Full expensing of expenditure incurred on assets qualifying for capital allowances at the 'main rate', i.e., plant and machinery, on or after 1 April 2023 but before 1 April 2026. A 50% rate applies in the first year of assets qualifying for the special rate, e.g., fixtures and fittings. A 3% structural and building allowance is also available on qualifying purchase, construction and renovation works to a qualifying building.	A writing down allowance at 25% is available on expenditure qualifying as plant and machinery.	Annual allowances are available on plant and machinery at a reducing balance of 20%.
Interest deductions	Interest on a loan used to acquire property used in a property business qualifies as a deduction, subject to rules including an unallowable purposes rule, transfer pricing and thin capitalisation, which seek to permit a deduction for interest on a loan used in a property business that is comparable to that which a third party would lend. Corporate interest restriction rules can apply that seek to permit deductions that are commensurate with the UK activities of the group. These rules broadly restrict interest of the worldwide UK group to the higher of: £2 million de minimis (annual); the fixed ratio (30% of worldwide UK group tax-EBITDA); and the Group ratio (group ratio of interest to EBITDA). 100% (subject to potential restrictions as detailed above).	Interest used in the property business is generally allowable as tax deduction.	Interest used in the property business is generally allowable as tax deduction.

	UK	JERSEY	GUERNSEY
TAX CONSIDERATIONS ON SALE			
Indirect tax	A sale of assets as part of a transfer of a business as a going concern (TOGC), broadly transfer a rental business to another party to continue that rental business, is not treated as a supply of goods or services for VAT purposes, and so is outside the scope of VAT.	As for UK, VAT a TOGC is not treated as a supply of goods or services for GST purposes, and so is outside the scope of GST.	N/A
Chargeable gains	The disposal of the commercial property or the shares in the company holding the real estate is generally chargeable to UK corporation tax as a chargeable gain at the rate of 25%, subject to reliefs and allowances.	No chargeable gains tax applies to the disposal of investments.	No chargeable gains tax applies to the disposal of investments.

Worked example

This worked example provides an indicative overview of tax repercussions where a company acquires a commercial property in the UK, Jersey and Guernsey. To aid comparison, it is assumed that the company is incorporated and tax resident in the investing jurisdiction. The key assumptions for this example have been outlined below. Our analysis reveals that long-term investments are more tax beneficial in Jersey and Guernsey. However, it's essential to remember that the financial landscape is subject to change, and tax regulations in the Channel Islands may evolve over time.

ASSUMPTIONS

TAX DUE FROM A COMPANY DURING PURCHASE, HOLD AND SALE	
Example	
Purchase Price	£15,000,000
Value of fixtures and fittings included in acquisition price	£2,500,000
Estimated Sale Proceeds	£20,000,000
Bank Loan	£7,000,000
Equity / unsecured and interest free loan	£8,000,000
Rental income per year	£2,000,000
Loan Interest per year	£800,000
Hold period (years)	8

Notes
- The company is already incorporated and tax resident in jurisdiction of investment
- That the full Annual Investment Allowance of £1m is available in the UK
- That fixtures and fittings qualify as plant and machinery and at the special rate of capital allowances in the UK
- Capital allowance pools are transferred at their tax written down value at disposal
- Assumes asset acquisition and sale by the company
- Interest rate is fixed each year, i.e., fixed rate of interest and interest only mortgage
- It is assumed that acquisition and disposal in the UK and Jersey is undertaken as a Transfer of Going Concern
- Assumes no premium received by the company in granting of a short lease
- Assumes no restriction on interest in the UK under corporate interest restriction or any other rules

OUTCOME

ACQUISITION OF NON-RESIDENTIAL PROPERTY BY JERSEY COMPANY	UK	JERSEY	GUERNSEY
Stamp Duty / Document Duty Freehold on Acquisition	£739,500	£709,610	£774,875
Stamp Duty on Borrowing (Secured Debt)	–	£35,090	–
VAT/GST on Acquisition/Disposal (see notes)	–	–	–
Tax on Tax-adjusted Rental Profits (Net of capital allowances and interest costs)	£2,003,588	£1,470,056	£1,503,886
Tax on Disposal of Real Estate Asset	£1,250,000	–	–
TOTAL	£3,993,088	£2,214,756	£2,278,761

To find out how we can support your real estate strategy with research insights and strategic advice, please contact the team:

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Local market experts with a global mindset

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