**Bassetlaw District Council response to Examiner’s Action List**

**Action 6**

**Finance Cost Calculation**

The following formula is adopted in the appraisal model:-

=(((SUM(Q29:Q41)\*POWER((1+L63/12),((M63+O63)/12)\*12))-SUM(Q29:Q41))+ ((((SUM(Q43:Q62)\*POWER((1+L63/12),((M63+O63)/12)\*12))-SUM(Q43:Q62))\*0.5)))

This calculates compounded interest charges incurred over the development period. The formula separates out the cost of carrying the land purchase for the whole period and calculates separate interest costs for build costs and fees which gradually increase over the construction period. In our consultants experience, this produces an overall finance charge that is reflective of the figure produced by detailed cashflow analysis.

**Transactional evidence**

Attached is a spreadsheet showing transactional evidence for “Food Retail”, not specifically “Discounter Supermarket”.

A number of transactions demonstrate values as high as £6,000 SqM and averaging £4,150 SqM. The proposed figure of £2,750 is considered to be a very conservative rate.

The second section of the spreadsheet sets out recent discounter-specific sales. The rates achieved range from £2,659 SqM to £4,026 SqM with an average of £3,528**.** Even in the specific sub-category, the figure proposed is towards the lower end of the range demonstrated.

From our consultants market knowledge, and ongoing discussions with agents retained to acquire sites for discounter chains, our consultants are confident that typical rents range from £135 SqM to £188 SqM and is evidenced by the rents listed in the attached schedule.

Yields range from broadly 4.5%-6% (assuming a new-build and therefore new institutional lease).

As such, we consider that the attached comparable evidence justifies the figure proposed.

In terms of the methodology of capitalising an estimated rental figure to produce an assumed capital value; this was done as a second “sense-check” method in conjunction with the capital comparison method from the sales data from elsewhere.

We acknowledge that the commentary within the Valuation Report sets out a ‘broad-brush’ methodology for rental capitalisation. The amended assessment which was tabled during the hearing is also attached.

From the rental range above, we’ve adopted a mid-point rental figure - £161 SqM (£15 per sqft), and applied a mid-point yield of 5.5%.

The attached calculator output shows a resulting capital value (allowing for acquisition costs of 6.4%) of £2,751 SqM. If the yield is changed to a more realistic 5% (assuming a new build with new institutional lease), this figure increases to £3,025 SqM.

It should be noted that:

* we are capitalising an amount “per SqM” (rather than a global rent), so the rental amount (and resulting capital value) have been increased by x1000 (ie £161 SqM is £161,000) to ensure that realistic acquisition costs are applied by the software.
* No stamp duty would otherwise be applied as the figure for capitalisation would fall below the stamp threshold.