

APPENDIX B

TRANSACTION REVIEW - EXAMPLE DECISION TEMPLATE:

CRITERIA	SCORE [RAG]	NOTES
Location ¹		Well located commercial estate, in XYZ Town
Property Condition ²		Subject to Technical Due Diligence (TDD) – initial appraisal suggests some need for Capital Expenditure going forward, say £XXX within 5 years
Credit Rating of Tenant ³		Multi- let building with a range of tenants and corresponding tenant strength. Better than average for this location and mix. (Dun and Bradstreet reports will be obtained to give a credit rating)
Length of Lease ⁴		Some leases greater than 5 years, a few as long as 10.
Gross Yield ⁵		Lower than 5.85% target, at ~5.42% (assuming fully occupied). This reflects the demand in this sector of the market
Management & Maintenance Costs ⁶		Will be outsourced as currently is the case.
Conformity to MHCLG Guidelines ⁷		Within District and therefore within the Council's strategy
Any Specific Problems Identified ⁸		The amount of Capital Expenditure that is needed on the building needs understanding in greater detail, after the bid process.

Key to Specific Factors:

1. Location: Population of Catchment area, economic vibrancy of town, known or anticipated market demand, proximity to Motorway, or major A road, proximity to other similar properties (town centre/out-of-town).

2. Property Condition: Date of construction & any imminent or significant refurbishment (forecast capital spend), modernization requirements.

3. Credit Rating of Tenant(s): Dun & Bradstreet Credit Rating, annual accounts.

4. Length of Lease: No. of unexpired years, break points, bank guarantees, rent reviews.

5. Gross Yield: After any head rent (Leasehold only), Target for Gross Yield to average or exceed 5.0% - may need to revise this if PWLB interest rates move significantly (±0.25 – 0.5%).

6. Management & Maintenance Costs: No. of tenants, ease of in-house management, probable on-going property maintenance requirements.

7. Conformity to MHCLG Guidelines [04/2018] : Especially with respect to location: i.e. Within District / Devon / LEP Area / SW Peninsula / Outside SW Peninsula. E.g. Exeter is within the Devon Business Rates Pilot area.

8. Any Specific Problems Identified, following legal & technical Due Diligence. E.g. Anomalies in Title Deed, restrictive Use Classes, local competition, construction, or refurbishment incomplete.

Property Details and Address	
Owner	Unknown
Tenant Details	XYZ Tenants
Purchase Price	£3,500,000 (bid price to be agreed with agent, but no higher than this figure)
Probable Exchange Date	Date to be inserted
Probable Completion Date	Date to be inserted
Net Annual Rental Income	Rent payable: £203,166
*Based on full occupancy	<u>Less</u> Interest repayments on PWLB borrowing (99,243) MRP on Annuity basis (36,786) (Capital repayment on borrowing) Repairs and Maintenance allowance (20,317) (10% of rent) Net Rental Income per annum: £46,820 (Note this falls to £34,000 if One Unit is vacant)
Amount to be Borrowed: (Purchase Price plus 7%)	£3,745,000 (£3,500,000 + 7%)
Gross Yield (based on rent of £203,166)	Gross Yield of 5.42% Net Yield of 1.25%
Loan Period & Interest Rate:	50 years Interest rate TBC
Confirmation of Useful Life of the Building (for loan length purposes and MRP calculations)	TBC
Details of acquisition costs	Stamp Duty Land Tax £164,500 Consultant 1: £17,500 Consultant 2: £10,000 (estimate) Consultant 3: £13,000 (estimate) Estimated Costs £205,000
How the property meets the Council's multiple objectives under the Council's strategy	Economic Regeneration – refurbished building and improved building stock leading to; Business Growth In line with the Member approved strategy of being within the District.
Debt Proportionality considerations	Debt of £3.745 million represents a multiplier of XYZ of the Council's Net Cost of Services of £XYZ million.
Lease expiry details:	Ranges from 6 months to 10 years.

Tenant Strength details: (D & B rating)	Ranges: 5A1 – N1
Guarantor's details: (D & B rating)	There is no Guarantor.
Exit Strategy	Buying to hold in the long term. Demand in the sector for units of this size is high and it is anticipated that the estate will be run as is for the foreseeable, with a gradual leaving and replacement of tenants.
Option to Tax the property for VAT	No action to date (but will be Opted to Tax)
Insurance - Date added to Council's Insurance cover	Separate Insurance cover would be procured for the building.
Assets CoP Summary & Recommendation	<p>At this stage there is a question mark over the quantum of capital expenditure required and over what timescale. This will be clarified should the Council's bid be successful (and the bid will be subject to TDD).</p> <p>The expectation is that tenants will leave over time, to be replaced by new ones, so there will be times when the estate is not full. It would be suggested that over the long term one unit being empty might be the norm at any one time.</p> <p>Management of the estate would need to be outsourced, as would the service charge element.</p> <p>The price is reflective of the market, but will make achieving the Council's portfolio target a challenge, and there may be a re-balance of the value of the estate in the short to medium term. This needn't be a concern unless the Council wishes to liquidate the asset at that point.</p>
S151 / Finance CoP Summary & Recommendation	<p>A bid is supported up to £3.5m (just below 0.94% net yield if one property is vacant). The Capital Expenditure requirements need understanding (assumed to be £100K). Note the Net Rental Income per annum falls to £34,000 if One Unit is vacant.</p>
Legal Summary & Recommendation	TBC