



Possessory Value and Resale Value of Land Sensitivity to Interest Rate

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Possessory Value and Resale Value of Land Sensitivity to Interest Rate

A = Ground rent, first n years

B = Ground rent, all future years after n

i = the interest rate used for discounting

$I = 1+i$, a term used to simplify writing and reading equations

$$\text{Possessory value} = A(1-I^{-n})/i$$

$$\text{Resale value}^1 = B(I^{-n})/i = B/[iI^n]$$

Table 1: Present value factor $(1-I^{-n})/i$

i	$n = 10$	20	30
.04	8.11	13.6	17.3
.08	6.71	9.82	11.3
.12	5.65	7.47	8.06
.16	4.83	5.93	6.12

Table 2: Resale value factor $(I^{-n}/i, \text{ or } 1/[iI^n])$

i	$n = 10$		20		30	
	(1)*	(2)**	(1)	(2)	(1)	(2)
.04	16.9	1.00	11.4	1.00	7.71	1.00
.08	5.79	.34	2.68	.24	1.24	.16
.12	2.68	.16	0.864	.08	0.278	.04
.16	1.42	.08	0.321	.03	0.073	.01

* Column 1 is the value of the factor

** Column 2 is an index to the factor based on setting the top row = 1.00 (i.e., dividing each number by the number at the top of its column).

Note how much more i -sensitive Resale Value is than Possessory Value.

¹Note the double effect of i on value. This becomes a triple effect when B is expected to rise. If the rise is compound, at a rate g , one subtracts g from i in the denominator, leveraging the effect of changes in i .