

MIDLAND RENT ASSESSMENT PANEL
Leasehold Reform Act 1967 **Housing Act 1980**

**DECISION OF LEASEHOLD VALUATION TRIBUNAL
ON APPLICATIONS UNDER S21 OF THE LEASEHOLD REFORM ACT 1967**

Applicant: Susan Pauline Woodvine
Respondent: A.H. Field (Developers) Limited
Re: 62, Stonehurst Road, Great Barr, Birmingham, B43 7RN
Valuation Date: 8th March 2006
RV as at 1.4.73: Less than £500
Application dated: 12th May 2006
Heard at: The Tribunal's Offices in Birmingham
On: 20th June 2006

APPEARANCES:

For the Tenant: Mr. Anthony Brunt of Anthony Brunt & Co.
For the Landlord: No appearance

MEMBERS OF THE LEASEHOLD VALUATION Tribunal:

Mr W. J. MARTIN (Chairman)
Mr. R. KINGTON F.R.I.C.S.
Mrs C. SMITH

Date of Tribunals decision: 20th June 2006

DETERMINATION

- (i) That the price payable by the Applicant under Section 9(1) of the Leasehold Reform Act 1967 ('the Act') is £2,490.30
(ii) The Landlord's costs under Section 9 (4) are £300 for conveyancing plus value added tax

REASONS FOR THE TRIBUNAL'S DECISION

BACKGROUND

1. This is a decision on an application to the Leasehold Valuation Tribunal for a determination of the price payable for the freehold of 62 Stonehurst Road, Great Barr, Birmingham B43 7RN ('the property'). The application was made by the Applicant on 12th May 2006 and is for a determination of the price payable for the freehold under the provisions of section 9 (1) of the Act and for a determination of the Respondent's costs under section 9 (4) of the Act.

2. The Applicant holds the property under a Lease dated 26th June 1957 and made between Tavalcan Investments Limited (1) and Gordon Kirton (2) whereby the subject property was demised for a term of 99 years from 25th March 1956 at a ground rent of £14. The freehold is now vested in the Respondent.

THE PROPERTY

3. The Property comprises a two storey semi detached house on an estate of similar houses in the Great Barr area to the North of Birmingham. The accommodation comprises a through lounge and kitchen on the ground floor and three bedrooms (two double) and a bathroom on the first floor. There is a ground floor extension which has made the kitchen considerably larger. There is a small rear garden with vehicular access from a rear service road. There had been a garage at one time, but this was demolished. The property is in good condition and the site is fully developed.

INSPECTION

4. The Tribunal inspected the property on the day of the hearing in the presence of the Applicant's husband.

WRITTEN SUBMISSIONS

5. The Applicant's valuer, Mr. Brunt submitted written representations on 12th June 2006. In essence this was to the effect that:

- (1) A rate of 7% should be used for the rent and the reversion.
- (2) The entirety value is £155,000 and the site proportion is 33.33%. the Section 15 rent at 7% is therefore £3616.63. In support of the entirety value, Mr. Brunt had attached a printout from nethouseprices.com with various local comparables shown.
- (3) Term Value: YP for 49 years at 7% = £192.74
- (4) Reversion value: YP in perpetuity deferred 49 years at 7% = £1876.73
- (5) The resulting total is (say) £2069.
- (6) The section 9(4) costs should not exceed £300. There is no evidence of any valuation by the Respondent.

6. There were no written representations from the Respondent.

HEARING

7. Only Mr. Brunt attended the hearing. He started by producing evidence of a number of recent Tribunal cases where 7 % has been adopted for the yield and for the freehold. He is aware of the case of *James Ashley Arbib v. Earl Cadogen* (2005) LRA/23/2004 (LT) ('*Cadogen*') which has been applied in some cases to produce somewhat lower rates, but the cited cases and also many agreed valuations since Cadogen have come out at 7%.

8. Mr. Brunt was aware that the Respondent has recently purchased a bundle of ground rents at an average per case of £3,250 and therefore posed the rhetorical question as to why his valuation of the property is lower than this average. Mr. Brunt said that it is his experience in acting for many tenants (he does not act for freeholders) that they will often settle at a higher figure than a Tribunal might award because they do not want the uncertainty, or the wait for a Tribunal decision. He is also aware that freeholders can 'work' portfolios of ground rents to produce a fee income.

9. On the entirety value, Mr. Brunt agreed with the Tribunal, following questioning, that the figures for current asking prices and the achieved figures from the printout generally show a higher figure for the opposite side of Stonehurst Road. The nearest comparable is 70 Stonehurst Road, which has recently sold for £142,000. This property is not quite the same as the subject property, as it is 'flat fronted', and so far as he is aware, does not have an extended kitchen.

10. Returning to *Cadogen*, Mr Brunt accepted that the Lands Tribunal suggested that, in the absence of reliable property based comparables, the starting point for a (comparably) risk free investment should be 2%, being the yield on index linked government stock. In *Cadogen* an addition of 1% was made for relative illiquidity. Mr. Brunt questioned whether this should be higher, given that Birmingham is not even in the top ten places for property investment, according to a recent survey

DECISION OF THE TRIBUNAL

11.1 Entirety Value

The Tribunal considered the evidence before them and determined the entirety value of the property at £150,000. In doing so they assumed the property to have been modernised, to be in good condition and the site to be fully developed. They considered the best comparable to be 70 Stonehurst Road, at £142,000. They added to this for the possibly superior design and the extended kitchen to arrive at £150,000.

11.2 Site Apportionment

The Tribunal determine this at one third. They believe this to be the correct apportionment for a semi-detached property of this type and frontage, and is in line with other Tribunal decisions.

11.3 Yield Rates

The Tribunal determine the rates for the income and for the deferral as 6.5% for the following reasons.

- (i) They noted with interest Mr. Brunt's arguments for 7 %.
- (ii) The Tribunal accept, as guidance, from *Cadogen* that in the absence of reliable evidence from the property market the starting point is the yield available from risk free investments, which they determine at 2% derived from index-linked gilts.

(ii) The Tribunal find that, in the absence of contrary evidence, an allowance should be made for relative illiquidity (as part of the risks inherent in freehold residential investment property). They do not find an inherent difference between London and Birmingham in this regard and therefore determine this at 1%.

(iii) The properties included in *Cadogen* are very high value (compared to the property), and are situated in the Prime Central London Residential Area, although 23 Rosemary Gardens is not quite so well positioned. The Tribunal accept that purely locational differences will be reflected in capital values rather than deferral rates, but the Tribunal find that because of the relative differences between the outer suburbs of Birmingham and London generally, and particularly the Prime Central London Residential Area a further allowance of 3.5% should be made to take account of the costs of management, greater risk of obsolescence, greater volatility in values and possibly lower growth rates. This allowance also takes account of the risk of destruction, requisite costs of management, the possibly difficulty and expense in realising the investment at the end of the term and the period remaining of the term.

11.4 The Tribunal's valuation

TERM

Ground Rent £14. YP for 49 years @ 6.5% (14.682)= £205.55

REVERSION

Entirety Value: £150,000

Site Value (one third): £50,000

S.15 Modern Ground Rent @ 6.5% £3250

YP in perpetuity deferred 49 years

@ 6.5% (0.70300) £2284.75

£2490.30

11.5. The Tribunal determine that the sum of £300 plus value added tax is payable by the Applicants for the Respondent's conveyancing costs. No further Section 9 (4) costs are payable.