

**LEASEHOLD VALUATION TRIBUNAL FOR
SOUTHERN RENT ASSESSMENT PANEL**

File Ref No: CHI/43UB/LIS/2004/0013

Leasehold Valuation Tribunal: Decision

Leasehold Reform, Housing and Urban Development Act 1993 ("the Act")

The Tribunal Members were:

Mrs H Bowers BSc (Econ) MSc MRICS

Mr I R Mohabir

Mr MG Marshall FRICS

The Premises:

13, Priory Close, Ashley Park Road, Walton on Thames, Surrey,

14, Priory Close, Ashley Park Road, Walton on Thames, Surrey,

The Applicants:

13, Priory Close

June Rose Fenwick

14, Priory Close

Celia Judith Boyle

The Respondent:

Undercrane Limited

Date of Inspection and Hearing: Monday 15th November 2004

Appearances:

Expert Witnesses – Valuers

Mr Anthony G Davis BSc (Est Man) FRICS for the Applicants

Miss J Branscombe FRICS for the Respondent

Premises:	Initial Notice:	Counter-notice:
13, Priory Close	04.03.04	14.04.04
14, Priory Close	04.03.04	14.04.04

1. Introduction

- 1.1 These matters relate to two maisonettes in Priory Close, Walton on Thames and applications pursuant to section 42 of the Leasehold Reform, Housing and Urban Development Act 1993 ("the Act").

- 1.2 Applications were made on the 6th July 2004 to the Tribunal to determine the terms of acquisition that were in dispute between the parties.

2. The Law

- 2.1 Chapter II of the Act sets out the provisions for the grant of a new lease and in particular Section 56 provides for a new lease of a flat to be granted for a term expiring 90 years after the expiry of the current lease and at a peppercorn rent. Schedule 13 of the Act sets out the provisions for the calculation of the premium that is payable in respect of the grant of a new lease.

3. The Premises

- 3.1 Shortly prior to the hearing the Tribunal had the opportunity to carry out an inspection of the two properties.
- 3.2 Each property is a purpose built maisonette, dating from the 1960's and of brick and tiled clad construction, under a tiled roof. Whilst each maisonette is of a very similar layout, their particular accommodation is detailed below.
- 3.3 13, Priory Close – Entrance hallway on the ground floor with stairs leading to the first floor. Living room, dining area and kitchen on the first floor and two bedrooms and a bathroom on the second floor.
- 3.4 14, Priory Close - Entrance hallway on the ground floor with stairs leading to the first floor. Living room with open plan dining area and a kitchen on the first floor, two bedrooms and a bathroom on the second floor.
- 3.5 There are communal gardens and each maisonette has a garage located in a block of garages. The garage block is constructed of brick with a felted flat roof and metal up and over doors. The garage block is situated at the side of the main development.

4. The Leases

- 4.1 In the papers submitted to the Tribunal the leases were stated to be as follows:

13, Priory Close, a lease dated 13th March 1968, for 99 years from 1st January 1966 at an annual rent of £25.

14, Priory Close, a lease dated 4th September 1968, for 99 years from 1st January 1966 at an annual rent of £25.

- 4.2 In each case the original Lessor was George Wimpey & Co Limited. A copy of the lease for each property was supplied to us. Amongst other terms, the lessee is obliged to repair, maintain and insure the demised premises. The lessor is responsible for the repair, maintenance and insurance of all the parts

of the building that do not include the demised premises, and is able to recover the cost of these obligations from the lessees, on a half yearly basis.

5. The Agreed Matters

- 5.1 The following matters were confirmed to be agreed by both representatives:

Location and Properties:

The details of the location and a physical description of the properties were agreed upon. It was acknowledged that the maisonettes have been improved over the years and that for valuation purposes under the Act the properties are assumed to be in an unimproved state, namely with single-glazing, no central heating and with kitchens and bathrooms dating from the 1960's.

Valuation Date:

13 Priory Close	04.03.04
14, Priory Close	04.03.04

Tenure:

The current leases for the premises are for 99 years from 1st January 1966, leaving an un-expired term of 60.75 years as at the valuation date.

Sales in the block:

5 Priory Close was sold on an extended lease in October 2000 for £125,000 and it was un-modernised. The term was 999 years, but had a ground rent reserved.

1 Priory Close was sold on a short lease for £119,000 in May 2002 and there was a simultaneous lease extension for an additional 90 years at a premium of £15,000 plus the landlord's costs. The rent reserved under the lease extension was £250 per annum for the first 33 years, £500 per annum for the next 33 years and then £1,000 per annum for 33 years.

12 Priory Close sold in March 2002 for £115,000 on a short lease basis. The property was un-modernised.

Previous decisions in the block:

There had been three prior decisions from the LVT in the block.

10 Priory Close and 26a Ashley park Road (LR93/SY/80-81)

15 Priory Close (LR93/SY/197)

7 Priory Close and 26b Ashley Park Road (CHI/43UB/OLR/2003/0003&4)

6. Matters Outstanding

- 6.1 Given that the above matters had been agreed the issues that were still outstanding and requiring determination by the tribunal were; the Existing Short Lease Value, the Proposed Long Lease Value, the yield to be adopted and accordingly the Premium for each lease extension.

- 6.2 Mr Davis, acting for the applicants, suggested that at the relevant valuation date the Short Lease Value for each maisonette was £140,000 and that by adopting a 20% uplift, the Long Lease Value was £168,000. Mr Davis suggested a yield of 10% and therefore calculated a premium for each flat of £14,400.
- 6.3 The respondent's valuer, Miss Branscombe proposed that the Long Lease Value was £185,000 and that by using a relativity of 80% the Short Lease Value that she adopted was £148,000. In Miss Branscombe's opinion the yield should be 9% and by applying these figures the premium for each maisonette would be £19,129.

7 Hearing

- 7.1 Mr Davis' Evidence
Mr Davis presented his case with reference to his valuation parameters and his valuation. The last decided case in Priory Close had been made in respect of a valuation date of 22nd August 2002. It was important to look at previous cases decided in Priory Close as the lease terms and the physical characteristics of each maisonette in respect to their original construction are identical. The unexpired term of the lease is now shorter than in the previous case, but the amenity of the area and the condition of the block has not changed.
- 7.2 In Mr Davis' opinion the yield rate should remain as previously agreed in earlier cases at 10%. There have been five interest rate rises since the last case and although Mr Davis is not suggesting that the yield should increase, he feels that it should remain at 10%.
- 7.3 Mr Davis has not looked at any open market transactions. It was considered that using evidence from the subject block and making adjustments for time was more accurate than using more recent sales evidence from other properties and making more adjustments to reflect matters such as amenities and location.
- 7.3 In the last case it was suggested that it would be best to adopt the open market evidence that was available. Mr Davis has adjusted the sales evidence from 2002 using the Land Registry Indices. In his opinion the Land Registry Indices were a preferred form of indices as the data was more comprehensive and therefore had validity and the indices could be used for a particular postcode or local authority areas. He disliked the Nationwide Society index as it only related to sales with mortgages granted by them-selves.
- 7.4 By using the Land Registry Indices for Elmbridge there would be between 25.43% and 15.74 % increase in values for the period March 2002 and May 2002 to March 2004. Applying these percentages to the 2002 sales evidence the range of values for a short lease would be £144,244 to £137,730. From this analysis Mr Davis has adopted a figure of £140,000 for the short lease interest at the valuation date.

- 7.5 To determine the long lease value, Mr Davis has adopted a 20% uplift from the short lease value. Twenty percent has been derived from various graphs and the published decisions from over 700 reported cases and is in line with decisions from other Tribunals. By applying a 20% uplift to the short lease value, Mr Davis arrives at a figure of £168,000 for a long lease value as at the valuation date. It was further confirmed that in Mr Davis' opinion the value of a long lease for an unmodernised 1960's maisonette would be in the region of £168,000. By applying these valuation parameters Mr Davis suggests that the premium to be paid for a lease extension should be £14,400 and his valuation is reproduced in Appendix 1.
- 7.6 Miss Branscombe's Evidence
In Miss Branscombe's opinion the use of the old sales evidence in the block, which is then adjusted, to reflect the movement in the market from the date of a sale and the current valuation date is a tortuous exercise. It is better to use current open market transactions. Miss Branscombe provided details of three transactions. 10 Betley Court, with a long lease, was currently under offer at £197,000 and then made an adjustment of £10,000 to reflect the improvements, central heating, kitchen and bathroom. 5 Kingsley Court is currently under offer at £221,500 for a maisonette with a share of the freehold. Finally 7 York Gardens is a completed sale of a long lease interest in a flat, which sold for £203,000. It was felt necessary to make valuation adjustments to reflect the condition of the comparables in comparison to the subject maisonettes and to reflect the passage of time by using the Nationwide Indices. Miss Branscombe was of the opinion that the value of the long lease value was therefore £185,000.
- 7.7 With regards to the short lease value, Miss Branscombe stated that with a valuation date of August 2002, an earlier tribunal determined that in the same block, the value of a short lease was 81.25% of the long lease value. Since there was a shorter term un-expired in this case it was appropriate to use 80% of the long lease value in this case and accordingly the value of the short lease would be £148,000 as at the valuation date.
- 7.8 As for the yield, although 10% had been agreed in the past, this was agreed in order to reach some common ground. A yield of 9% would be in line with other cases agreed on most outer London cases.
- 7.9 Applying all these factors into her valuation, Miss Branscombe was of the opinion that at the valuation date the premium to be paid for a lease extension for each of the maisonettes would be £19,129. Miss Branscombe's valuation is reproduced in Appendix 2.

8. Decision

- 8.1 We first turn to the question of the long lease value for the two maisonettes. We felt that Mr Davis' approach, of adopting sales evidence from two years prior to the valuation date and applying the Land Registry indices was a guide as to how the market had changed in the period, was not an accurate method to derive current capital values. In the previous Leasehold Valuation Tribunal case the sales evidence was very close to the valuation date and therefore far more relevant. Miss Branscombe choose to use current comparables and adjusting these to reflect size, amenity and location. We felt that as there were no recent sales transactions in the block, it was appropriate to look at evidence of current sale of similar premises in the vicinity. However, we were disappointed to see that only one of the three recent sales presented to us, was an actual achieved price. There must have been far more transactional information available.
- 8.2 Yet by using the evidence from 7 York Gardens, the only completed sale evidence provided and by using our knowledge of capital values in the area we are of the opinion that the current long lease value would be in the region of £188,000.
- 8.3 With regards any indices to be used to adjust market evidence to reflect time differences, we accept Mr Davis' opinion that the Land Registry data would be more accurate as it should be a more inclusive set of information. By applying the relevant Land Registry indices to the current long lease value of £188,000 this produces a long lease value of approximately £181,000 as at the valuation date.
- 8.4 As for the short lease value, we were not presented with any market evidence and have had to rely on the relativity between long and short leases. Although Mr Davis has started from a short lease value and applied a 20% uplift to reach his long lease value, this equates to approximately 83% relativity. To support the 20% uplift figure Mr Davis made reference to graphs produced from previous tribunal decisions. Miss Branscombe used an 80% relativity and adopted this figure, following on from the earlier case in the block when a relativity of 81.25% was determined for a lease with 62.33 years un-expired. We agreed with Miss Branscombe that it would be appropriate to adopt a relativity of 80% as the current lease under consideration have a shorter term and this would be inline with the earlier decision. Given a relativity of 80%, the short lease value is £145,000.
- 8.5 Although we preferred the use of relevant open market evidence we also re-checked the approach used by Mr Davis. As a cross check the tribunal re-examined the Land Registry figures for Elmbridge for the period Jan-Mar 2002 to Jan-Mar 2004 and found that the current published percentage increase over the period was in fact 31.16%. By applying this indices to the 2002 sales transaction this produces a short lease value of say £150,000 and using Mr Davis' approach of a 20% uplift this produces a long lease value of £180,000. We therefore feel that the figures that we have determined of

£181,000 for the long lease value and £145,000 for the short lease value is not inconsistent with the approach used by Mr Davis.

- 8.6 The final issue to be considered is the level of yield to be adopted. As this is a lease extension rather than a collective enfranchisement case and as there is an un-expired term of over 60 years without any rent review provisions this is not an exciting investment opportunity and accordingly we are satisfied that a yield of 10% should be used in this case.

9. **Determination**

- 9.1 By applying the figures determined above the premiums calculated for each property are detailed in Appendix 3 and are summarised as:

13, Priory Close	£18,400
14, Priory Close	£18,400



Chairman
Helen C Bowers

15/12/04

Date

Appendix 1

Applicant's Valuation 13 & 14 Priory Close, Walton on Thames

Current Freehold Interest

Rent Received		£25p.a		
YP 60.75 years	@10%	<u>9.97</u>	£249	
Reversion to		£168,000		
PV in 60.75 years	@10%	<u>0.00306</u>	<u>£514</u>	£763

Marriage Value

Future Leasehold Value		£168,000		
Future Leasehold Value		<u>NIL</u>	£168,000	
Current Leasehold Value		£140,000		
Current Freehold Value		<u>£763</u>	<u>£140,763</u>	
			£27,237	
	@50%		£13,618	<u>£13,618</u>
				£14,381
			Say	£14,400

Appendix 2

Respondent's Valuation 13 & 14 Priory Close, Walton on Thames

Current Freehold Interest

Rent Received		£25p.a		
YP 60.80 years	@9%	<u>11.052196</u>	£276	
Reversion to		£185,000		
PV in 60.80 years	@9%	<u>0.005302357</u>	<u>£981</u>	£1,257

Marriage Value

Future Leasehold Value	£185,000		
Future Leasehold Value	<u>NIL</u>	£185,000	
Current Leasehold Value	£148,000		
Current Freehold Value	<u>£1,257</u>	<u>£149,257</u>	
		£35,743	
	@50%	£17,872	<u>£17,872</u>
			£19,129
		Say	£19,129

Appendix 3

Tribunal's Valuation 13 & 14 Priory Close, Walton on Thames

Current Freehold Interest

Rent Received		£25p.a		
YP 60.75 years	@10%	<u>9.97</u>	£249	
Reversion to		£181,000		
PV in 60.75 years	@10%	<u>0.00306</u>	<u>£554</u>	£803

Marriage Value

Future Leasehold Value		£181,000		
Future Leasehold Value		<u>NIL</u>	£181,000	
Current Leasehold Value		£145,000		
Current Freehold Value		<u>£803</u>	<u>£145,803</u>	
			£35,197	
	@50%		£17,598	<u>£17,598</u>
				£18,401
			Say	£18,400