

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

Case No: CHI/43UD/OCE/2004/0045

Re: 57 Epsom Road, Guildford, Surrey, GU1 3LD

Between:

57 Epsom Road Freehold Company Limited

("the Applicant")

and

Contactreal Limited, 14 Wilton Road, Salisbury, Wiltshire, SP1 2QD

("the Respondent")

DECISION

Of The Leasehold Valuation Tribunal

at a Hearing held on Tuesday 19th October 2004

1. This is an application made pursuant to Section 24 of the Leasehold Reform Housing and Urban Development Act 1993 by 57 Epsom Road Company Ltd, the nominee purchaser, to determine the price payable for the freehold interest in 57 Epsom Road, Guildford, Surrey GU1 3LD.
2. Before the hearing the Tribunal inspected the subject premises. They found it to be a semi detached house arranged on lower ground, ground, first and second floors now comprising four self contained flats, formed as the result of the conversion of this older type (circa 1850) house. The upper flats shared a common entrance hallway. The lower ground floor flat was approached via its own separate access. The good sized front garden was laid mainly to lawn and shrubs with pedestrian access. To the rear of the building was a further, larger, area of garden, a small part of which is demised to the lower ground floor flat.
3. Attached at Annex 1 is the valuation of Mr Lewis – his valuation B – which reflected the fact that the lease of Flat 3 had been extended and had an increased rent of £150 p.a. He calculated an enfranchisement price of £11, 200
4. Attached at Annex 2 is the valuation of Mr Astbury . This was provided after the hearing, since at the hearing Mr Astbury produced a revised valuation which he then withdrew because it was perceived to contain calculation errors. However, the Tribunal discerned that even this further revised valuation contained an error in that a ground rent of £125 p.a. had been adopted rather than the agreed £150 p.a. provided for in the new lease of Flat 3. Mr Astbury calculated an enfranchisement price of £25,265.
5. At the commencement of the hearing the positions of the parties was as follows:

	Applicants	Respondents
Date of valuation	15 July 2004	19 October 2004
Yield	9%	6%
Relativity- leasehold/freehold	93%	90%
Value of garden	Nil	£5000

6. The parties had agreed the unimproved freehold value of the flats as follows:

Flat 1	£123,000
Flat 2	£140,000
Flat 3	£140,000
Flat 4	£140,000
7. It was explained to the Tribunal that only the tenants of flats 1 and 2 were participating in the enfranchisement. These flats were held on 99 year leases from 25 March 1978 at ground rents of £25 pa.
8. The tenants of Flat 3 were in the process of negotiating a new lease with the respondents. It was confirmed at the end of the hearing that the contract for a new 99 year lease of Flat 3 had been exchanged that day at a price of £7000,

with a new fixed ground rent of £150p.a. The tenant of Flat 4 had been granted a new lease of 99 years at a ground rent of £100p.a. in 1999, paying a price of £3000.

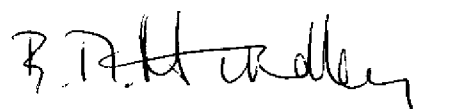
9. Mr Lewis said that he had understood that the valuation date had been agreed with Mr Astbury as shown in the statement of agreed facts. In any event Schedule 6 of the Act provided that the valuation date was when everything apart from the price had been agreed and this was 15 July 2004.
10. Mr Astbury said that it was not until the hearing date that the interest to be acquired had become known, since only with the exchange of contracts on Flat 3 had the issue of potential hope value in connection with the non participating flat been finalised.
11. The Tribunal determined that in the circumstances of the new lease of Flat 3 the valuation date should be the date of the hearing – namely 19 October 2004.
12. Mr Lewis based his endorsement of a yield of 9% on local knowledge and experience. He said that his firm managed property in the Godalming and Guildford areas and landlords, outside the Act, were prepared to agree a yield of 10%. He accepted that in central London the rate was between 6 and 8% but considered that outside, and particularly in the south, it was between 8 and 10%.
13. Mr Lewis supported his argument for 9% by reference to three decisions of the Leasehold Valuation Tribunal – 19 Hale Road, Farnham, (a semi detached house converted into two flats), 168 – 176 Lower Farnham Road, Aldershot, (a purpose built block of five flats), both with comparable unexpired leases to the subject, and 10 Lawn Road, Portswood, Southampton, (a detached building divided into six flats) with an unexpired lease term of 84 years.
14. Mr Astbury dismissed the above decisions on the basis that, in the first, the freeholder had not put forward any valuation evidence and the other two were missing landlord cases with the consequence that they had not been fully argued. He contended that the problem with Leasehold Valuation decisions was that the evidence was always historic and that it was important to look at what was happening in the real world. He maintained that there should be no difference between inner and outer London and that a ground rent investment was as valuable in Guildford as in Chelsea.
15. Mr Astbury argued that competition amongst residential investors for remaining ground rents had increased and that the relatively poor performance of other asset classes and historically low interest rates had been a factor increasing the number of prospective purchasers.
16. He purported to analyse auction ground rent sales of two properties – 22 George Street, Reading, (a four storey house converted into four flats, with leases remaining of 998 and 98 years, and with total fixed ground rents of £400pa) sold for £8000 and 1 –14 Portway Mews, Wantage, (a purpose built block of fourteen flats with 81 years remaining on the leases and producing

ground rents rising from £840pa to £2,520) sold for £26,000. He asserted that the first sale produced an initial yield of 5% and the second indicated 3.23%

17. Mr Astbury also found support for his chosen yield rate from his conclusion that a yield rate of 5% could be calculated from the premium paid for the new lease of Flat 4. Mr Lewis commented that the deal was some five years ago and the conclusion was without foundation.
18. The Tribunal considered that both valuers had been selective in their choice of evidence and was of the opinion that none of the offered transactions were truly comparable with the circumstances of the subject property. The Tribunal was surprised that Mr Astbury could offer only details of two transactions with which he had had no direct involvement. While Mr Lewis made reference to his knowledge and experience he produced no direct evidence, choosing to rely on previous Leasehold Valuation decisions. The Tribunal agreed with Mr Lewis' criticism of Mr Astbury's reliance on the premium paid for the new lease of Flat 4. Reflecting on their own knowledge and experience the Tribunal concluded that an appropriate rate in this case was 7.5%
19. Mr Lewis asserted that 'from previous LVT decisions relativity figures in the region of 95% have generally been adopted where leases have unexpired terms of between 70 and 79 years, suggesting a relativity level of 93% is reasonable, if not generous.'
20. He found support for this view from the first two of the decisions referred to in paragraph 13 above. In 19 Hale Road a relativity of 94.44% was adopted where the leases had 76 years to run and in 168 –176 Lower Farnham Road a relativity of 93.1% was adopted where the leases had 68 years remaining.
21. Under cross examination Mr Lewis was adamant that nothing other than 93% was supportable.
22. Mr Astbury purported to analyse the lease extension transaction in respect of Flat 4 to gain support for his requested relativity of 90%. He considered that if, presently, the flat was worth £130,000 with its extended lease, its value in 1999, also with an extended lease, would have been in the region of £59,500. If its shorter (then 78 year lease) was worth £53,500 then the shorter lease value equated approximately to 90% of the extended lease.
23. He also examined the purchase of Flat 1 for £104,000 'some 12 months before the valuation date.' Adopting an unextended lease value of £110,000 against an extended/share of freehold value of £123,000 he found, at the hearing, produced a relativity of 90%. (In his proof Mr Astbury, doing the same exercise, had adopted by mistake an extended lease value of £130,000 rather than the agreed figure of £123,000.)
24. The Tribunal, using their own knowledge and experience, was persuaded that the conclusion of Mr Lewis was, in all the circumstances, appropriate.

25. Mr Lewis argued that there was no hope value attributable to the potential use of the front garden for car parking since there was no evidence to suggest that the necessary planning or conservation consents would be forthcoming, or that purchasers would be prepared to pay a premium for the addition of car parking spaces. Indeed, he suggested that the garden was regarded as an amenity space and car parking would decrease flat values.
26. Mr Astbury pointed out that the subject house was one of the few not to have had its front garden adapted for parking. He emphasised that there were yellow lines on the road immediately outside and there was a strong desire for off street parking. He did not accept that the value of the flats would be thereby diminished. He accepted that his attribution of a value of £5000 was a purely arbitrary figure based on £1500 for each of the flats.
27. The Tribunal concluded that the weight of the unknown in relation to town planning, conservation area consent, highway issues and costs, when coupled with the rights reserved by the existing leases and the necessity of obtaining consent from the individual leaseholders, was such as to make the proposition wholly speculative. Accordingly, the Tribunal determined that no value should be ascribed to this element of hope value.
28. The parties asked for a determination of costs but accepted that this was premature. However, Mr Lewis was anxious that the agreement between the solicitors, that the respondents would pay £1,200 plus VAT, to cover the element of fees incurred by the applicants because of the dispute concerning the terms of the counter notice, should be honoured.
29. The Tribunal grants the parties liberty to apply if the costs are not agreed, but would anticipate the matter being dealt with, if at all, by written representations rather than a further hearing.
30. Accordingly, the Tribunal determines the price payable for the freehold interest in 57 Epsom Road to be £12, 035, as set out at Annex 3.

Chairman



Date 18 NOV 2004

57 EPSOM ROAD, GUILDFORD, SURREY

**VALUATION FOR COLLECTIVE ENFRANCHISEMENT
PREPARED FOR 57 EPSOM ROAD FREEHOLD COMPANY LIMITED**

Valuation B

Valuation date taken as 15th July 2004

(a) Freeholders Present Interest

Term

Flats 1 & 2 each @ £25 p.a	£50		
Y. P. 72 yrs 8 months at 9%	11.090	£554	
Flat 3 £150p.a	£150		
Y.P 99 yrs at 9%	11.109	£1,666	
Flat 4 £100 p.a	£100		
Y. P. 94 yrs at 9%	11.108	£1,111	
		<u>£3,331</u>	£3,331

Reversion

Flat 1	£123,000		
Flat 2	£140,000		
	£263,000		
PV of £1 in 72 yrs 8 months at 9%	0.0019081	£502	
Flat 3	£140,000		
PV of £1 in 99 yrs at 9%	0.0002	£28	
Flat 4	£140,000		
PV of £1 in 94 yrs at 9%	0.0003033	£42	
		<u>£572</u>	£572
		<u>£3,903</u>	-£3,903
			£3,903

(b) Freeholders share of Marriage Value (Flats 1 and 2 participating)

Tenants' current interest	£114,390		
	<u>£130,200</u>		
	£244,590	-£244,590	
Tenants' new interest (93% relativity)	£123,000		
	<u>£140,000</u>		
	£263,000	£263,000	
		<u>£18,410</u>	£18,410
50%	£14,507	<u>£7,254</u>	£7,254

(c) Compensation payable to Freeholder

PREMIUM PAYABLE

say £11,200

Leasehold Reform, Housing and Urban Development Act 1993 (as amended)
Valuation of Ian Asbury BSc (Hons) MRICS

Enfranchisement Price payable by Nominee Purchaser reflecting the sale of a new lease in respect of Flat 3 by the Landlord in advance of the completion of the purchase of the freehold interest by the Nominee Purchaser and adopting a valuation date which is the date of the LVT which must stand in place of the previously agreed valuation date as set out in the Statement of Agreed Facts & Issues which has been superseded by the change in circumstances brought about by the sale of the new lease for Flat 3.

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57 Epsom Road, Guildford

Basic Facts & Assumptions

Flats 1 & 2
 Valuation date: 19-Oct-2004
 Expiry date: 24-Mar-2077
 Existing lease: 72.4 years unexpired
 Ground Rent: £50 per annum (fixed)
 Capitalisation rate: 8 %
 Landlord's % of marriage value: 50 %
 Leaseholder's improvements: Valuation is on unimproved basis

73 years
 -0.58 months
 72.42 years unexpired

Flat 3
 Valuation date: 19-Oct-2004
 Expiry date: 20-Sep-2103
 Existing lease: 98.0 years unexpired
 Ground Rent: £150 per annum (fixed)
 Capitalisation rate: 8 %
 Landlord's % of marriage value: 50 %
 Leaseholder's improvements: Valuation is on unimproved basis

Flat 4
 Valuation date: 19-Oct-2004
 Expiry date: 21-Jul-2098
 Existing lease: 93.8 years unexpired
 Ground Rent: £100 per annum (fixed)
 Capitalisation rate: 8 %
 Landlord's % of marriage value: 50 %
 Leaseholder's improvements: Valuation is on unimproved basis

94 years
 -0.25 months
 93.75 years unexpired

Unimproved Market value of:					
Flat 1	Existing lease:	say	£110,790	90.0 % of Freehold	participating tenant
	Freehold in possession:	say	£123,000		
Flat 2	Existing lease:	say	£128,000	90.0 % of Freehold	participating tenant
	Freehold in possession:	say	£140,000		
Flat 3	Existing lease:	say	£140,000	100.0 % of Freehold	non-participating tenant
	Freehold in possession:	say	£140,000		
Flat 4	Existing lease:	say	£140,000	100.0 % of Freehold	non-participating tenant
	Freehold in possession:	say	£140,000		

Collective Enfranchisement Price
 (See below for details)

£26,265

Flats 1 & 2, 57 Epsom Road, Guildford

Value of Landlord's current interest

Diminution in value of landlord's interest in accordance with paras 2(a) & 3:

Flats 1, & 2

Term of existing lease

Loss of rental income			50		
YP 72.4 yrs @	6 %		16.42	621	
plus					
Reversion to capital value					
disregarding Leaseholder's improvements, say			263,000		
PV £1 in 72.4 yrs @	8 %		0.0147	3,867	£4,688

Landlord's share of Marriage Value for Flats 1 & 2

Landlord's share of marriage value in accordance with paras 2(b) & 4:

<u>Extended interests</u>			
1. Value of Freehold in possession			
disregarding Leaseholder's improvements, say		263,000	
2. Value of landlord's interest in flats			
after enfranchisement		0	263,000
less			
<u>Existing interests</u>			
1. Value of tenant's interest under existing lease			
disregarding Leaseholder's improvements, say		236,700	
2. Value of landlord's existing interest		4,688	241,388
		Difference (marriage value) =	21,612
		Landlord's share, @	50 % = £10,806

Compensation payable to Landlord

Compensation payable to landlord under paras 2 (c) & 5:

£0

Valuation Summary

Diminution in value of landlord's interest in accordance with paras 2(a) & 3:	£4,688
Landlord's share of marriage value in accordance with paras 2(b) & 4:	£10,806
Compensation payable to landlord under paras 2 (c) & 5:	£0
Contribution to collective enfranchisement price in respect of Flats 1 & 2 =	£15,494
Contribution to Enfranchisement Price in respect of Flats 3	Say £15,495

Flat 3, 57 Epsom Road, Guildford (non-participating flat)

(reflecting the sale of a new longer lease by the Landlord in advance of the completion of the purchase of the freehold by the Nominee Purchaser)

Value of Landlord's current interest

Diminution in value of landlord's interest in accordance with paras 2(a) & 3:

Non-participating tenant

Term of existing lease

Loss of rental income			125		
YP	99.0 yrs @	6 %	18.81	2,077	18.81
plus					0.0031
Reversion to capital value			140,000		
disregarding Leaseholder's improvements, say					
PV £1 in	99.0 yrs @	6 %	0.0031	437	£2,514

No share of Marriage Value as lease length exceeds 80 years

Compensation payable to Landlord

Compensation payable to landlord under paras 2 (c) & 5:

£0

Valuation Summary

Diminution in value of landlord's interest in accordance with paras 2(a) & 3:	£2,514
Landlord's share of marriage value in accordance with paras 2(b) & 4:	£0
Compensation payable to landlord under paras 2 (c) & 5:	£0
Contribution to enfranchisement price in respect of Flat 3 =	£2,514
Contribution to Enfranchisement Price in respect of Flat 3	Say £2,515

Flat 4, 57 Epsom Road, Guildford (non-participating flat)

Value of Landlord's current interest

Diminution in value of landlord's interest in accordance with paras 2(a) & 3:

Non-participating tenant

Term of existing lease

Loss of rental income			100		
YP	93.8 yrs @	8 %	16.60	1,660	16.80
plus					0.0042
Reversion to capital value			140,000		
disregarding Leaseholder's improvements, say					
PV £1 in	93.8 yrs @	8 %	0.0042	594	£2,253

No share of Marriage Value as lease length exceeds 80 years

Compensation payable to Landlord

£0

Compensation payable to landlord under paras 2 (c) & 5:

Valuation Summary - Flat 4

Diminution in value of landlord's interest in accordance with paras 2(a) & 3:	£2,253
Landlord's share of marriage value in accordance with paras 2(b) & 4:	£0
Compensation payable to landlord under paras 2 (c) & 5:	£0
Contribution to enfranchisement price in respect of Flat 4 =	£2,253
Contribution to Enfranchisement Price in respect of Flat 4	Say £2,255

57 EPSOM ROAD, GUILDFORD

Valuation Total

Contribution to Enfranchisement Price in respect of Flats 1 & 2	£15,495
Contribution to Enfranchisement Price in respect of Flat 3	£2,515
Contribution to Enfranchisement Price in respect of Flat 4	£2,255
Compensation payable to landlord under paras 2 (c) & 5:	£5,000
ENFRANCHISEMENT PRICE	£25,265

Annex 3 –referred to above
(The Calculations of the Price to be Paid – The Schedule 6 Valuation)
Date of Valuation 19th October 2004 – The Date of the Hearing

FREEHOLDERS PRESENT INTEREST

Term

Flats 1 & 2	Ground Rent (fixed) @ £25 p.a. each	£50		
	yp for 72 years 5 months @ 7.5%	<u>13.26</u>	yp	
				£663
Flat 3	Ground Rent (fixed) @ £150 p.a.	150		
	yp for 99 years @ 7.5%	<u>13.32</u>	yp	
				£1998
Flat 4	Ground Rent (fixed) @ £100 p.a.	100		
	yp for 93 years 9 months @ 7.5%	<u>13.31</u>	yp	
				<u>£1331</u>
				£3992
				£3992

Reversion

Flat 1	£123,000			
Flat 2	£140,000			
	£263,000			
p.v. £1 in 72 years				
5 months @ 7.5%	<u>0.00532</u>	yp		
				£1399
Flat 3	£140,000			
p.v. £1 in 99 years				
@ 7.5%	<u>.0007773</u>	yp		
				£109
Flat 4	£140,000			
p.v. £1 in 93 years				
9 months @ 7.5%	<u>.0011365</u>	yp		
				£159
				£1667
				£1667
				£5659

FREEHOLDERS SHARE OF MARRIAGE VALUE (FLATS 1 & 2 PARTICIPATING)

Lessees New Interests (@ 93% relativity)

Flat 1	£123,000	
Flat 2	£140,000	
	£263,000	

Deduct in:-

Lessees Present Interests

Flat 1	£114,390	
Flat 2	£130,200	
	£244,590	

Less Freeholders Present Interest as Above

Freeholders Share of Marriage Value @ 50% thereof
Compensation

£18,410
5,659
£12,751

6,375
NIL

Total Price Payable say: £12,034.5
£12,035