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Ref: LON/ENF/1169/04

**LEASEHOLD VALUATION TRIBUNAL FOR THE
LONDON RENT ASSESSMENT PANEL**

**DECISION OF THE LEASEHOLD VALUATION TRIBUNAL ON
APPLICATIONS UNDER SECTION 24 OF THE LEASEHOLD REFORM,
ACT 1993**

Applicant: Maybury Court Freehold Company Limited.
Alistair Barr (Witness of Fact)

Respondents: Howard De Walden Estates Limited

Re: Maybury Court, Marylebone Street, W1

Date of Tenant's Notice: 27th January 2004

Date of Counter Notice: 14th May 2004

Application date: 19th July 2004

Hearing date: 9th and 10th November 2004

Appearances: Mr Tom Jefferies - of Counsel
Mr Willem Barrs - Solicitor
Mr Simon Davies - J. Simon Davies Ltd

For the Applicant

Mr Michael Pryor of Counsel
Mr Jeremy Hudson Solicitor, Pemberton Greenish
Mr Julian Clark Valuer (Gerald Eve)
Mr Kevin Rean Valuer (Gerald Eve)

Members of the Leasehold Valuation Tribunal:

Mrs S J Dowell LLB (Hons)
Mrs J E Davies FRICS
Mrs J McGrandle BSC (Est Man)

IN THE LEASEHOLD VALUATION TRIBUNAL

Maybury Court Freehold Company Limited

Applicant/Purchaser

- and -

Howard De Walden Estates Limited

Respondent/Reversioner

**DECISION OF THE
LEASEHOLD VALUATION TRIBUNAL IN RESPECT OF
MAYBURY COURT, MARYLEBONE STREET, LONDON W1Q 8JE**

The Application

1. This is an application under section 1(1) of the Leasehold Reform Housing and Urban Development Act 1993 ("the 1993 Act") as amended in respect of the premises known as Maybury Court, Marylebone Street, London W1Q 8JE. The Applicant served a notice to acquire the premises on 27th January 2004. The Respondent's Counter-notice is dated 14th May 2004. The Applicant applied to this Tribunal on 19th July 2004 for a determination of the purchase price. Maybury Court consists of sixty-eight flats and at the time of the hearing forty-four leaseholders were participating in the application and twenty-four leaseholders were not participating in the application.

Directions

2. Standard directions were issued by the Tribunal on 9th August 2004. Direction 4 required that at least three weeks before the hearing (i.e. by 19th October 2004) the experts must exchange reports to include a memorandum of agreed facts and a schedule of comparable properties. The Applicant was to notify the Tribunal that this had been done. Direction 5 required the parties to agree a bundle of documents relevant to the outstanding issues and the Applicant to prepare the bundle and send four copies to the Tribunal at least two weeks before the hearing i.e. no later than 26th October 2004. The parties did not comply with these directions. Expert evidence was exchanged on the morning of the first day of the hearing. A bundle was not agreed and each party provided the Tribunal with two ring binders of reports and documents on the morning of the hearing. This failure to comply with the directions wasted the

Tribunal's time and meant the hearing did not start until midday. The reason given to the Tribunal for the late exchange was that "*the valuers had been very busy*".

The Hearing

3. A hearing was held on 9th, 10th and 22nd November 2004 and the Tribunal inspected Maybury Court and thirteen comparables on 23rd November 2004. Mr T. Jefferies of Counsel represented the Applicant and Mr M. Pryor of Counsel represented the Respondent. The expert witnesses were Mr S. Davies, FRICS, FCI Arb; Mr K.P. Ryan, FRICS, and Mr J.M. Clark, BSc, MRICS, all of whom presented written reports and gave oral evidence at the hearing. Mr A. Barr, lessee of Flat 9 Maybury Court and a director of the management company of Maybury Court, Maybury Court (Marylebone) Limited, appeared as a witness of fact on behalf of the nominee purchaser. Both Counsel provided lengthy written closing submissions which were received by the Tribunal on 26th November 2004.

Documents at the Hearing

4.
 - (a) Bundle of documents provided by the Applicant.
 - (b) Proofs of evidence of Simon Davies and Alistair Barr and 18 appendices.
 - (c) Proof of evidence of Kevin Patrick Ryan and 8 appendices.
 - (d) Proof of evidence of Julian Mansfield Clark and 27 appendices.
 - (e) Various additional documents and law reports were handed to the Tribunal throughout the hearing and where appropriate these are referred to in this decision.

Freehold Title

5. The freehold title is registered at Land Registry being part of the land owned by Howard De Walden Estates Limited and registered under Title No. 357180.

Head Lease

6. The head lease is registered under Title No. NGL 586422. Howard De Walden Estates Limited granted a lease of Maybury Court to C.C. Conversions Plc on 26th February 1987 for a term from 25th December 1986 to 24th March 2062. The lease shows that it was initially subject to a ground rent of £3,300 per annum which increased as follows:

- | | |
|---------------------|--|
| ○ 25th March 2002 - | to £6,600 per annum |
| ○ 25th March 2017 - | to £13,200 per annum |
| ○ 25th March 2032 - | to £26,400 per annum |
| ○ 25th March 2047 - | to £52,800 per annum for the remainder of the term |

The unexpired term of the lease at the valuation date was 57.4 years. The Land Registry entries show that on 26th April 1989 the head lease was assigned to Maybury Court (Marylebone) Limited. The Tribunal was provided with an incomplete copy of the head lease.

Under Leases

7. Sixty-eight leases are registered at the Land Registry all commencing on 25th December 1986 and expiring on 14th March 2062. The Tribunal was told that the leases are in common form but was provided with a copy of one lease which commenced at page six. The Tribunal was not told of any matters contained in the under leases which would affect the valuation. The initial ground rent in the under lease is £3,400 per annum increasing as follows:

- 25th March 2002 - to £ 6,800 per annum
- 25th March 2017 - to £13,600 per annum
- 25th March 2032 - to £27,200 per annum
- 25th March 2047 - to £54,400 per annum for the remainder of the term

Agreed Matters

8. An unsigned Statement of Facts was presented to the Tribunal. The Tribunal was told that the following matters were agreed:

- (a) The gross internal floor area

Participating flats	-	29,841 sq ft
Non-participating flats	-	16,586 sq ft
Total	-	46,427 sq ft
- (b) Existing lease values

Participating flats	-	£16,851,212
Non-participating flats	-	£ 9,366,114
Total	-	£26,217,326
- (c) Valuation date
22nd October 2004
- (d) The terms of the transfer.
- (e) Freeholder's legal and valuation costs to be paid by the tenants (under section 33 of the Act).
- (f) No improvements to any of the participating flats were claimed by the Applicant.

Matters Not Agreed - and for determination by the Tribunal

9. Item	Applicant	Respondent
Freehold value	£30,953,161	£33,273,750
All risks deferment yield (incl. hope value)	6%	4.5%
Capitalisation Rate	7.5%	7%
Premium to Freeholder	£2,370,240	£4,184,800
Premium to intermediate landlord	£3,223	£4,700

The respective valuations are attached as Appendices 1 and 2.

The Property – evidence and submissions of Mr Alistair Barr

10. Mr Barr was a director of Maybury Court (Marylebone) Limited, the management company of Maybury Court and the intermediate lessee. He is also the owner of Flat 9 Maybury Court and was called to give evidence from the perspective of both a director and a resident. Having described the building's location in Marylebone and the layout of the flats, he helpfully illustrated this with a colour-coded print showing in section the sixty-eight flats set out on basement, ground and four/five upper floors and divided into five blocks and into flat types A to G. He stated that the two more traditional "bookend" blocks had well-proportioned rooms but in other respects were cramped. The three central blocks, more modern, had poorly proportioned rooms, low ceilings but more spacious entrance halls.
11. Mr Barr produced a series of photographs showing views across the rear elevation of the upper floors of various buildings fronting the east side of Marylebone High Street: the front elevation of Maybury Court clearly showing the distinction between the Edwardian "bookends" and the central, later, blocks with their mansard extension: the motorcycle bays: the rear communal garden divided by the two storey flats. In his opinion, views from the front and back of Maybury Court were poor. In particular, the buildings on the east side of Marylebone High Street were run down. The communal garden received little sun and access was difficult except for those in the central three blocks or in basement flats.

Unimproved Virtual Freehold Interest – evidence and submissions of Mr Davies

12. In support of his figure of £30,953,161 Mr Davies cited ten sales of long leases of flats in the vicinity of the subject property, eight of which sales had also been supplied by Mr Ryan. Mr Davies made the point that none of the flats within the block had had its lease extended.
13. As a starting point Mr Davies had relied on the Land Registry sales figures for these comparables and then adjusted as appropriate for the following matters:
 - parking/overbid
 - virtual freehold, using the Savills Index for the London Residential Market
 - passage of time using the Savills Index averaged for PCL West and PCL North flats

to reach a price per square foot which ranged from £517 to £745, an average of £633 per square foot. He had then applied his judgement as to the relative value of the subject flats to the comparables, in all but one case deeming the comparables to be inferior to Maybury Court and hence upgrading the comparable sales by 2.5%, 5% and 10% to reach prices per square foot ranging from £543 per square foot to £764 per square foot, an average of £666 per square foot. It was put to Mr Davies that this averaging approach did not give sufficient weight to the upper floors being more valuable than the lower ones and that poor views at the rear of the upper floor flats were offset by wide-ranging views to the front.

Unimproved Virtual Freehold Interest – evidence and submissions of Mr Ryan

14. Mr Ryan in support of his figure of £33,273,750 listed eleven long lease sales of flats in the area eight of which are common to Mr Davies. In five of these eight cases the sale price used as a starting point differed from Mr Davies's Land Registry figure and some time was spent during the hearing trying to reconcile these differences. In three of these cases Mr Ryan told the Tribunal that it was likely that the difference arose from the inclusion of a sum for fixtures and fittings but he was unable to provide any documentary evidence to support this assumption. In the other two cases Mr Ryan had made specific discounts at the outset to the sale prices to reflect either car parking or a special purchaser element.
15. In order to equate the comparables with Maybury Court Mr Ryan had then made adjustments for the main factors adopted by Mr Davies. He had also adjusted for lack of a lift and in common with Mr Davies for location using his own judgement and in all cases deeming Maybury Court to be superior by 10% to the comparables. His resultant figures ranged from £672 per square foot to £834 per square foot, an average of £733 per square foot.
16. Mr Ryan then used this evidence to establish a "pattern" valuation for the sixty-eight flats in Maybury Court taking matching unit prices for the two "book end" blocks (flats 1-12 and flats 57-68), matching unit prices for the two blocks next to the "book ends" (flats 43-56 and flats 13-26), and independent unit prices for the centre block (flats 27-42) including the two garden flats (flats 28 and 31). Using the sale of three second-floor comparables as a base for arriving at valuations for all the other floors Mr Ryan applied within each block a scaled unit price according to floor level. He applied to the second-floor level the unit prices achieved from the three second-floor comparables and adjusted by an increase of 1% per floor for upper levels and by a decrease of 1% per floor for the first floor and a decrease of 2% and 5% respectively for ground and lower ground floors. Mr Ryan told the Tribunal that after he had completed his valuation he had acquired a copy of the 1987 Jackson Stops particulars for the refurbished block which in the brochure of asking prices had adopted the principle of a "pattern" approach. These 1987 particulars described the extensive fixtures and fittings e.g. carpets, white goods and built-in kitchen appliances which were included within the asking price of each flat. Mr Ryan did not have details of the prices for which the flats had sold in 1987.
17. On cross-examination it was put to Mr Ryan that sales of short leases within the block, as analysed by Mr Davies, did not support Mr Ryan's "pattern" approach. Mr Ryan while accepting that his approach inevitably produced anomalies pointed out that the resultant freehold valuation (£717 per square foot) was actually lower than if he had used his figure (£733 per square foot) and applied Mr Davies's averaging approach.

Relativity – evidence and submissions of Mr Davies

18. Mr Davies referred to the agreed figure of £26,217,326 which he said had been discounted to reflect the need to deduct for 1993 Act rights. Although only a global figure had been agreed between himself and Mr Ryan he himself had analysed for his own purposes the twenty-two short leasehold transactions between 2000 and 2004 within Maybury Court, starting with the Land Registry price and then adjusting for length of lease, passage of time and 1993 Act rights, to produce a price per square foot which ranged from £359 to £633, an average of £564.7 per square foot.

19. Mr Davies said he then applied his average £564.7 per square foot existing leasehold value to his average £666 per square foot virtual freehold value to give a relativity of 84.7%. He said he then applied 84.7% to the agreed global figure of £26,217,326 to give a virtual freehold value for the block of £30,953,161.
20. Mr Davies stated that this relativity of 84.7% was supported by the Savills 2003 Long Leasehold Research Paper but it was put to him in cross-examination that the Savills figures to which he referred related relativity to enfranchiseable value and that the percentage figure would be much lower when applied to a leasehold value which stripped out 1993 Act rights. Mr Davies conceded this was correct but submitted he had not relied on the table to reach his conclusions.

Relativity – evidence and submissions of Mr Ryan

21. Mr Ryan stated that the agreed figure of £26,217,326 when applied to his virtual freehold value of £33,273,750 gave a relativity of approximately 78.8% which although at the lower end of the published graph was a figure with which he was satisfied.

Reversionary Yield – evidence and submissions of Mr Davies

22. Mr Davies contended for a figure of 6% for the reversionary yield. In support of this he relied on settlement evidence in Marylebone and in Prime Central London and on Leasehold Valuation Tribunal and Lands Tribunal decisions. In settlements in which he himself had been involved, including a collective enfranchisement of flats on the Howard De Walden Estate a consistent rate of 6% was agreed between valuers at Gerald Eve including Mr Clark. The opinion of Mr Davies was that in this case a yield of between 6% and 6.5% was appropriate considering the compromised quality of the block but he was prepared to settle for 6%. This figure took into account any marginal hope value to the landlord of non-participating tenants enfranchising in the future. Mr Davies drew the Tribunal's attention in particular to a Leasehold Valuation Tribunal case in Marylebone decided in 2003 (LON/ENF/777/02) where Mr Clark's firm had argued for a rate of 6% which, it was stated, had been "established for the area over many years". Mr Davies also referred to a Leasehold Valuation Tribunal decision in 2000 (LON/NL/997/00) at Melcombe Regis Court, opposite the subject property, where a yield of 6.5% had been determined. It was also determined in this decision that this part of Marylebone was not a prime location.
23. Mr Davies referred to the slow down in the housing market, the increased risk of a fall in house prices and uncertainty as to future capital growth in the property market. In the circumstances it was his view an investor would be seeking a higher yield to reflect this uncertainty.
24. Mr Davies while acknowledging that there might be some "hope value" when valuing the freehold reversion thought that the element of hope value was marginal because the leases still had 57.4 years unexpired and were thus still mortgageable, and that strenuous efforts had already been made to canvass support among the leaseholders to enfranchise but only forty-four out of the sixty-eight leaseholders were participating.

Reversionary Yield – evidence and submissions of Mr Clark

25. Mr Clark contended for a reversionary yield of 4.5%. He submitted that it was time to review the historic deferment rate which had in general remained at 6% on the Howard De Walden Estate for three reasons:

- the weight of settlement evidence
- the lack of open market transactions
- the long-term nature of reversionary investments isolating them from other investments more susceptible to short-term fluctuations

Mr Clark had prepared an initial valuation for the Counter Notice in May 2004 using the rate of 5.25% but six months later he was now proposing a deferment rate of 4.5%. His proof of evidence, which dealt mainly with his opinion on reversionary yield and was dated 8th November 2004, ran for some forty-four pages supported by twenty-seven appendices.

26. In summary Mr Clark stated that there was now sufficient evidence of a gradual reduction in yields as Prime Central London property increased in value and that a fundamental re-appraisal of the appropriate yield to apply for statutory leasehold reform valuations was now required.

27. In support of his figure of 4.5% Mr Clark sought to widen the matters to be considered when determining reversionary yield. He referred the Tribunal to:

- (a) a graph of equivalent and initial yields for retail, office and industrial property investments since the end of 2000 as measured by Investment Property Databank Limited which showed a steady decline in yields which he said was because of a strong demand from investors in property;
- (b) a graph showing the changes to long dated gilt yields, the retail price index and mortgage rates over the period 1975 to 2004;
- (c) FPD Savills Prime Central London Residential Capital Value Index showing long-term growth between 1980 and 2004, of 6.95% per annum for Prime Central London flats and houses with inflation running at 4.4% per annum over the same period;
- (d) Savills UK Residential Research Bulletin, October 2002, showing that at the end of October 2002 it was anticipated that net yields for PCL houses and flats would stand at 2.75%;
- (e) the IPD UK Residential Investment Index for 2003 showing yields which reflected investment returns from the letting of freehold and long leasehold property at rack rents and showed net yields at the end of 2003 in London at 3.5%;
- (f) Knight Frank Residential Research Quarterly Review for Spring 2004 which reported that capital growth in London was putting a downward pressure on yield. Mr Clark acknowledged that the corresponding Autumn 2004 report,

which he had not produced, referred to rental growth improving while capital values were stabilising, causing yields to "edge upwards";

- (g) The Freehold Income Trust prospectus based exclusively on residential ground rents, offering a target minimum growth distributable income of 4.25% with a table showing that yield had reduced from 11.5% for the year ending April 1995 to 5.6% for the year ending April 2002.
28. Mr Clark also referred the Tribunal to the sale at auction in August 2004 of a number of freehold reversions in Cadogan Place, London SW1. These sold at prices which on his analysis represented high yields but Mr Clark said that the particular circumstances of these sales meant they were to be clearly distinguished from the circumstances required for the statutory valuation of the subject property.
29. Mr Clark referred the Tribunal to the following Lands Tribunal decisions:
- (a) Cadogan Holdings - v - Pockney (2004)
Re: 57 Shawfield Street, London SW3

a decision of Mr N.J. Rose FRICS dated 16 April 2004
 - (b) Day and Day (2004) (No Respondent)
Re: Flat 6, 32 Brechin Place, London SW7

a decision of Mr P.R. Francis FRICS dated 19 April 2004

In the case of *57 Shawfield Street* Mr Rose found that a deferment rate of 6% was "too high" in June 2002 and that a rate of 5.25% was "not too low". In the case of *Brechin Place* Mr Francis found that 6.25% was the appropriate rate for the reversionary yield in August 2002.

30. Mr Clark referred to the following Leasehold Valuation Tribunal decisions:
- (a) 11, 12 Addison Road, London W14 (LON/LVT/1462/01)
 - (b) Hyde Park Gardens/Stanhope Terrace, London W2 (LON/ENF/640/01)
 - (c) 55/57 Cadogan Square, London SW1 (LON/ENF/1004/04)
 - (d) 6 Pelham Street, London SW7 (LON/LVT/1671/03)

In all these cases the Leasehold Valuation Tribunal determined yield rates of 6%. Mr Clark said that in the second of these cases the yield had been increased to 7% by the Lands Tribunal on appeal and the third case was now under appeal.

31. Mr Clark referred to the close relationship between the rack rented market and the market for freehold reversions and said that he expected trends evident in the former to be replicated in the latter.
32. Mr Clark had no evidence of settlements by negotiation where the yield rate had been agreed at below 6%. He produced a summary of Schedule Thirteen premiums settled for flats on the Howard De Walden Estate. Of sixty-eight settlements none were settled with a reversionary yield of less than 6%. Mr Clark admitted that he had

appeared as an expert witness for another Leasehold Valuation Tribunal in September 2004 when he had put forward 5.25% as the appropriate yield for a property in Lower Sloane Gardens, London SW3. However he said that he looked at a number of factors which overall pointed him in the direction of lower yield rates. He said there were no specific pieces of evidence that would prove his case. He said with hindsight perhaps the change should have been made earlier but this was no reason not to do it now.

33. In answer to a question from Mrs Davies about the effect of the bank rate and increased interest rates on the appropriate reversionary yield for this property at the valuation date Mr Clark said that he accepted that the bank rate was rising but that in his view there was a downward tracking of economic indicators and that the settlement evidence did not reflect what was happening in the market.
34. Mr Clark went on to deal with the question of "hope value". He said that as a single investor was proposing to fund the purchase of the freehold interest in the twenty-four non-participating flats that purchaser would not be interested unless he saw some prospect of some of these twenty-four lessees making claims for future lease extensions and hence yielding to the investor a capital sum in the form of a share of marriage value. This value could be expressed as either a percentage of the potential marriage value of the non-participating flats or could be incorporated in the all risks yield which he said he had done in his 4.5%. It was put to Mr Clark that because of the large sums of money involved in this case it needed only a small change in the percentage yield, of the order of 0.2%, to produce a capital sum far in excess of that which would result using the percentage of marriage value as determined in the case of *Shulem B Association Limited's Appeal* (Lands Tribunal 2003).

Capitalisation Rate

35. There is little difference between the parties in respect of the capitalisation rate. Mr Davies contended for a rate of 7.5% and Mr Clark for a rate of 7%. Mr Davies offered no evidence in support of his figure of 7.5% while Mr Clark said that his figure of 7% adequately reflected the characteristics of the income stream received by the freeholder bearing in mind that the ground rent was fixed for a term of 57.4 years.

Inspection

36. The Tribunal inspected Maybury Court on 23rd November 2004 in the presence of Mr Barr and Mr Ryan. Maybury Court is located on the west side of Marylebone Street, London W1 which runs parallel to Marylebone High Street between Weymouth Street to the north and New Cavendish Street to the south. It comprises three distinct parts. At each end there is an Edwardian purpose-built block each with a separate entrance. Between is a later building, which is divided into three blocks each with a separate entrance. At the rear of the building is a communal garden divided by a two-storey block of two flats. The building is set on lower ground, ground and four floors with the central three blocks having an extra mansard floor. Each block has its own small lift which is reached via a short flight of stairs from the communal entrance door. The external appearance of the block is red brick, the central part having been part white rendered. The whole building was refurbished in 1987 when all the flats were sold off on long leases.

37. Maybury Court contains sixty-eight flats of seven different types. The Tribunal was provided with a colour-coded chart referred to in paragraph 10 above which shows the location of flats and type of flat. The Tribunal inspected the blocks externally from the front and the rear including the garden and the fire escape at the rear of the fifth floor and the internal common parts including the lifts. We also inspected internally:
- Flat 68 (Block 5, 4th floor, 1 bed, Type D)
 - Flat 53 (Block 4, 4th floor, 3 bed, Type C)
 - Flat 16 (Block 2, ground floor, 2 bed, Type B)
 - Flat 33 (Block 3, 1st floor, 3 bed, Type C)
 - Flat 2 (Block 1, lower ground floor, 2 bed, Type A)
 - Flat 9 (Block 1, 3rd floor, 2 bed, Type A)
 - Flat 11 (Block 1, 4th floor, 1 bed, Type D)
38. The Tribunal then carried on its inspection unaccompanied. We looked at Marylebone Street in general noting that it was a predominantly residential street carrying one-way traffic. We noted the motorcycle bay outside the northern end of Maybury Court. We then went on to inspect all the comparables relied on by the parties. Access had not been arranged to any of these comparables and so we were only able to inspect the properties externally and to look at the common parts through the front door where appropriate.

List of comparables inspected:

- Flat 1 Woodstock House, Marylebone High Street
- Second Floor Flat, 38 Weymouth Street
- Flat 3, 33-34 Devonshire Street
- Flat C, 22 Jacobs Well Mews
- Flat 9, 13 Hinde Street
- Flat 2, 51-61 Wigmore Street
- Flat 2, 8 Welbeck Street
- 18 Copperfield House, Marylebone High Street
- 1A Tenby Mansions, Nottingham Street
- Second Floor Flat, 6A Nottingham Street
- 14B Portman Mansions, Chiltern Street
- Flats 1 and 2, Creffield House, 30 New Cavendish Street

Decision – Unimproved Virtual Freehold Interest

39. Comparables

Of the thirteen comparables offered to the Tribunal eight were common to both parties. The Tribunal decided to eliminate the following:

- (a) Flat 1 Creffield House - because this transaction had not been completed.
- (b) 6A Nottingham Street - because this was essentially a flat within a two-storey cottage with a mansard extension. The cottage related more to Oldbury Place Mews than to Nottingham Street and was not regarded as being comparable.

- (c) Flat 9, 13 Hinde Street and Flat C, 22 Jacobs Well Mews - both flats, purpose-built, were accessed off a mews which contained a number of offices. They were totally different from each other, one being a new build, the other being part of a small mock Tudor 1920s block. Neither were particularly comparable to the subject property.
- (d) 18 Copperfield House - this flat formed part of a new development which also included underground car parking and for both these reasons the sale price was high. This block was totally different in character from the subject block.

The eight remaining comparables were either purpose-built flats in blocks, wholly residential or above shops, or were converted flats in listed terraced houses. All flats were on the first or second floors apart from Mr Davies's two basement flat comparables, the only flats however in wholly residential Edwardian mansion blocks.

40. Adjustment to comparables

Adjustments then needed to be made to these comparables.

- (a) Fixtures and fittings - In two cases, Flat 1 Woodstock House and Flat 2, 51-61 Wigmore Street, it would appear that Mr Ryan's figure had been enhanced by the inclusion of a sum for fixtures and fittings. Mr Ryan was unable to produce any evidence to support this and accordingly the Tribunal have in both cases adopted the Land Registry figures put forward by Mr Davies.
- (b) Overbid - In the case of 2 Creffield House the purchaser paid over the odds to overcome fire regulations applicable to the whole building. The Tribunal have discounted the sale by £20,000 to reflect the special purchaser element.
- (c) Lift - The Tribunal accepts that the absence of a lift is a disadvantage and have adopted Mr Ryan's discount of 2.5% for this factor where applicable (2 Creffield House; Flat 2, 8 Welbeck Street and Second Floor Flat, 38 Weymouth Street).
- (d) Location - The Tribunal has made an adjustment upwards to each comparable of either 5% or 10% to recognise that in all cases the comparables were inferior to the subject property. Particular factors taken into account were the quality of the comparable building and its location.

41. Having also made other adjustments (leasehold to freehold: passage of time: floor area) which were not in dispute, the Tribunal has reached an average of £694 per square foot for the unimproved freehold as set out in the table, Appendix 3.

42. Comparison of the two valuation approaches

Both valuers reached an average price per square foot based on their analysis of the comparables, Mr Davies's figure being £666 per square foot and Mr Ryan's £733 per square foot. Mr Davies then applied his figure to the floor area of the whole building to produce his value of £30,953,161. Mr Ryan applied his figure to the building's second floor only, making percentage adjustments upwards or downwards according

to floor levels to produce a "pattern" valuation which he stressed actually produced a lower value, £33,273,750 (£717 per square foot) than if he had adopted an "average" approach (£733 per square foot). The Tribunal found that both approaches had drawbacks. On behalf of the Applicant it was stated that:

- Mr Ryan's pattern approach was not supported by prices achieved in the block since 2000.
- No evidence had been produced to show that the offer prices in 1987, stated to show a pattern, had actually been achieved.
- The whole basis of Mr Ryan's valuation rested on his analysis of three comparable second floor flats; the first floor flats should also have been included.
- Mr Ryan's resultant valuation of the basement flats was not consistent with open market sales of comparable basements flats put forward by Mr Davies.
- Some of the prices of the comparables were enhanced by improvements which took them beyond the statutory assumption of "in repair but to a 1987 specification".
- The ground floor and basement flats of the subject property had advantages which offset those enjoyed by flats on the upper floors.

43. On behalf of the Respondent it was stated that:

- An adjustment just to one comparable gave a distorting effect on the valuation.
- The relativity check which Mr Davies applied to his freehold valuation was based on a misconception as it related to the value of enfranchiseable leases.

44. The Tribunal has considered both approaches. We appreciate that Mr Ryan's approach involved him in much work and produced a lower figure, albeit on his comparables, than if he had adopted the average approach. However it appeared to the Tribunal that Mr Ryan's approach, though highly sophisticated, still produced anomalies and was not supported by transactions within the block.

45. Accordingly the Tribunal, applying an average of £694 per square foot as set out in Appendix 3, has determined the unimproved freehold interest at £32,220,338.

Decision – All Risks Deferment Yield

46. The Tribunal is aware that the correct deferment yield to apply to Central London property is currently a matter of considerable controversy following the decision of the Lands Tribunal in *57 Shawfield Street* in April 2004. In that decision Mr N.J. Rose, FRICS, said that a yield rate of 5.25% was "not too low" when determining the price to be paid for the freehold interest of a modern end of terrace house built in about 1970 located in London SW3 and valued under the provisions of section 9(1c) of the Leasehold Reform Act 1967 as amended. In this case the Tribunal is valuing the enfranchisement price of a block of sixty-eight flats in Marylebone, London W1, under a collective enfranchisement.

47. It is of course in the interests of the freeholder to argue for a reduction in the deferment rate, given that only a small downward change in the rate can yield to the freeholder a sum which in collective enfranchisement cases like Maybury Court can be very substantial. Evidence given in this case by the Applicant, which was not

challenged, was that, on the Respondent's figures, it needed only a 1% difference in yield to increase the price payable to the freeholder by £760,000. Expressed alternatively, a reduction in the deferment rate from the conventional 6% to the 4.5% sought by Mr Clark in this case would, again on the Respondent's figures, yield for the freeholder an incremental sum in the order of £1 million, a 32% increase in the premium payable had the yield been 6%.

48. The conventional method for determining the correct deferment yield for a property is to look at the actual market evidence, settlement evidence, decisions of the Lands Tribunal and Leasehold Valuation Tribunals. Mr Clark has sought to widen very considerably the circumstances which should be considered when determining yield. His evidence seeks to support a rate of 4.5% which is significantly less than that determined by the Lands Tribunal in the case referred to above, less than the rate Mr Clark used in his valuation in this case in May and less than the rate for which he has contended in other cases before the Leasehold Valuation Tribunal. In his evidence Mr Clark said the *Shawfield Street* decision was not the "mainstay" of his case. He said his "intuition" was that the 6% rate had required adjusting for some time but that it was difficult to identify any crucial piece of evidence that would prove his case.
49. In those circumstances the Tribunal must test the expert evidence and opinion put before us and decide if we are persuaded to follow the novel approach of Mr Clark in determining deferment yield. We accept that the 6% rate is not set in stone, but each valuation must be considered against its own facts, location and the circumstances appertaining at the valuation date.

Market Evidence

50. Both parties agreed there was no conclusive market evidence of comparable No Act reversionary investment. A sale in July 2004 of freehold reversions in Cadogan Place, London SW1, produced in the main, on Mr Clark's analysis, yields well in excess of 6% but those sales were subject to the effects of the 1993 and 2002 Acts. The Tribunal concluded this evidence was of marginal relevance in relation to this valuation.

Settlement Evidence

51. The settlement evidence the Tribunal considered relevant was that on the Howard De Walden Estate. The Tribunal was provided with a wealth of evidence, sixty-eight Schedule Thirteen premiums for flats agreed between October 1996 and October 2003 and forty-one 1967 Act settlements between November 1989 and November 2002. In almost all these cases the deferment rate was agreed at 6% and none at less than 6%. Therefore no settlement evidence supporting yields below 6% was produced.

Lands Tribunal and Leasehold Valuation Tribunal Evidence

52. The decisions of the Lands Tribunal and Leasehold Valuation Tribunal are not binding on this Tribunal but we accept that they may be persuasive and that we should analyse the cases to which our attention is drawn as part of our decision-making process.

(a) *Shawfield Street, London SW3 - valuation date 11th June 2002:*

Mr Rose was satisfied on the evidence before him in the circumstances of the appeal that 6% was "too high" and that 5.25% was "not too low".

- (b) *Flat 6, 32 Brechin Place, London SW7 – valuation date 23rd August 2002:*

This is a flat in a converted house and a deferment rate was determined at 6.25%.

- (c) *Leasehold Valuation Tribunal Decisions:*

The Tribunal's attention was drawn to a number of Leasehold Valuation Tribunal decisions. The nearest in terms of location were Flat 36, Melcombe Regis Court, Weymouth Street with a valuation date of 1st October 2000 and 17/18 Devonshire Close with a valuation date of 14th April 2003. Both properties were owned by the Howard De Walden Estate and the deferment rate was decided respectively at 6.5% and 6%. The Tribunal's attention was drawn to a number of more recent decisions but as this is currently such a controversial issue and a number of these decisions are under appeal in relation to deferment yield we found these decisions of limited value.

53. The Tribunal's attention was drawn by Mr Davies to the fact that interest rates had risen five times in recent months and the anxiety in the market about a downturn in residential property prices. We accept this is relevant evidence when considering the perception of an investor towards risk.
54. Mr Clark referred the Tribunal to a number of sources purporting to show falling yields for short-term market lettings. The research to which we were directed was not evidence of market transactions but of portfolio or book valuations modelled from capital and rental value indices. Further, in his case for lower yields, Mr Clark made no reference to recent interest rate rises nor did he table the most up-to-date Knight Frank residential research which gave a warning that with rental growth improving and capital values stabilising, yields were edging upwards.
55. Mr Clark sought to show that there was a close relationship between the rack rented market and the market for freehold reversions. They are in fact different types of investments, both holding relative advantages and disadvantages over each other. In this particular case, the reversion is 57.4 years away and the prospect of rental growth is limited. The investment might therefore be regarded as less attractive than one in the rack rented market where there is a prospect of rental growth and where the asset is easily realisable.
56. Finally Mr Clark referred to the performance of The Freehold Income Trust, a unit trust offering a target return of 4.25% based on residential ground rents. In the Tribunal's view, this type of investment, which can be sold at a moment's notice, is not comparable to a reversionary ground rent.
57. Mr Clark admitted on cross-examination that he was not an economist and yet his evidence strayed into areas which he could only support by means of the production of selective brochures and reports and graphs.

58. The Lands Tribunal has confirmed that we must primarily look to open market transactions and to the money market only as one factor when determining deferment yield.
59. The Lands Tribunal has also confirmed that the appropriate yield at any time depends on the market's perception of risk and future capital appreciation at that time. Notwithstanding the long period of growth identified by Mr Clark, the current uncertainty in the residential market means that this is not the time to make the substantial reduction proposed by Mr Clark.
60. We are also concerned about the inconsistency of Mr Clark's approach. The settlement evidence in the Howard De Walden Estate has been at 6% over a number of years. In May this year Mr Clark adopted 5.25% as the appropriate rate in this valuation and in September this year he was arguing before the Leasehold Valuation Tribunal for a rate of 5.75% (27/29 Sloane Gardens, SW3) and earlier this year for 5% (Cadogan Square). In September 2000 he argued for 6% (Carisbrooke Court, Weymouth Street).
61. Mr Clark told the Tribunal that with hindsight the change should have come earlier and the fact that it had not been done before now was no reason not to make the change. However all the evidence Mr Clark relied on has been available for some time and we are not convinced that the figure of 4.5% which he put forward is correct.
62. We consider that the deferment rate should reflect the fact that, although there may be prospects of growth, the reversion is still 57 years away. There is compelling settlement evidence which has not been successfully challenged that 6% is the correct deferment rate for this purpose-built block of sixty-eight flats in Marylebone, a location in Central London which although much improved over the last few years is not a prime location.

Hope Value

63. Hope value in this case is the prospect of some of the non-participating tenants making future claims for lease extensions and hence yielding to the freeholder a share of marriage value. Mr Davies argued that the element of hope value was negligible because leases at 57.4 years unexpired were still mortgageable and because twenty-four out of sixty-eight tenants had declined to participate despite strenuous efforts to recruit them. Mr Clark argued that there was a prospect of hope value and that he had incorporated this prospect in his 4.5% all risks yield.
64. Mr Davies cited twenty-two sales of leasehold flats in the block since 2000, a 32% turnover which clearly illustrates that there is an active market in the sales of these flats and therefore a prospect of non-participating tenants selling their leases and new lessees coming in, including those wishing to extend their leases. Circumstances may also change for the twenty-four non-participating lessees.
65. Therefore the Tribunal concludes that there is a prospect of non-participating tenants enfranchising in the future. After some deliberation the Tribunal has determined that this hope value should be included in the all risks yield rate of 6%. There is therefore no need to specify a separate sum in the valuation.

Decision - Capitalisation Rate

66. The Tribunal agreed that it was appropriate to consider separately the yield rates applied for capitalising the rent income from those applied for deferring the reversion. This approach has been approved by the Lands Tribunal. This Tribunal in common with other tribunals considers that an investor purchaser would require a higher rate to capitalise a rental income which is going to continue for a longer time without substantial reviews. There is very little between the two valuers in this case and the Tribunal adopts a rate of 7% which the Tribunal considers reflects the characteristics of the income stream received by the freeholder under the terms of the head lease at Maybury Court and the nature of the building itself. However although the Tribunal agrees with Mr Clark's yield rate of 7% which he has put forward we do not agree that we should have regard to the downward movement in yield rates referred to by Mr Clark in his proof of evidence.

Decision - Valuation

67. Accordingly the Tribunal determines in accordance with its valuation which is attached to this decision as Appendix 4 that the premium payable for the freehold of Maybury Court, Marylebone Street, London W1 is £2,877,889 and the premium for the intermediate landlord is £7,022.

.....
Jane Dowell

Chairman

Dated the 14th day of January 2005

J Simon Davies Ltd
Maybury Court, London W1
Leasehold Reform Housing and Urban Development Act 1993, as amended.
Valuation factors

Valuation date	22-Oct-2004			
Lease dates:		Years to	£ per annum	
Headlease:	expires	24-Mar-2062	57.42	£6,600
	first review	25-Mar-2017	12.42	£13,200
	second review	25-Mar-2032	27.42	£26,400
	third review	25-Mar-2047	42.42	£52,800
Underleases	expire	14-Mar-2062	57.39	
				see Ground rents schedule
Average rate per square foot		£564.70		
Freehold yield	Capitalisation	7.50%		
	Deferment	6.00%		
Leasehold yield		9.50%		
Landlords' share of marriage value		50%		
Relativity:	57.4 years	84.70%		
	above 110 years	100.0%		
Price payable (see next pages for detail)		£2,370,240		

J Simon Davies Ltd
Maybury Court, London W1
Leasehold Reform Housing and Urban Development Act 1993, as amended.
Valuation

A Value of the present freeholder's interest

i) Headrent					6,600	
YP	12.42 years @	7.50%			7.9028	52,158
					13,200	
ii) Headrent at first review						
YP	15.00 years @	7.50%	8.8271			
Deferred	12.42 years @	7.50%	0.4073	3.5953		47,458
					26,400	
iii) Headrent at second review						
YP	15.00 years @	7.50%	8.8271			
Deferred	27.42 years @	7.50%	0.1377	1.2155		32,089
					52,800	
iv) Headrent at third review						
YP	15.00 years @	7.50%	8.8271			
Deferred	42.42 years @	7.50%	0.0465	0.4105		21,674
v) Reversions					30,953,161	
PV of £1 after	57.42 years @	6.00%		0.03529364		1,092,450
Value of the present freeholder's interest						1,245,829

B Value of the Headlessee's interest

Reversion 10 days - no value

i) Value of profit rent - see "Ground rents" schedule

Value of the Headlessee's interest

3,223

3,223

C Value of Freeholder's interest in participants' flats under 80 years unexpired

i) Headrent apportioned at		64.68%			4,269	
YP	12.42 years @	7.50%			7.9028	33,737
					8,538	
ii) Headrent at first review at		64.68%				
YP	15.00 years @	7.50%	8.8271			
Deferred	12.42 years @	7.50%	0.4073	3.5953		30,697
					17,076	
iii) Headrent at second review at		64.68%				
YP	15.00 years @	7.50%	8.8271			
Deferred	27.42 years @	7.50%	0.1377	1.2155		20,756
					34,151	
iv) Headrent at third review at		64.68%				
YP	15.00 years @	7.50%	8.8271			
Deferred	42.42 years @	7.50%	0.0465	0.4105		14,019
v) Participant reversions					19,895,175	
PV of £1 after	57.42 years @	6.00%		0.0352		700,310
Value of the Freeholder's interest in the participants' flats						799,519

D Value of Headlessee's interest in participants' flats under 80 years unexpired

Reversion 10 days - no value

i) Value of the profit rents - see "Ground rents" schedule

Value of the Headlessee's interest in the participants' flats

2,068

2,068

J Simon Davies Ltd
Maybury Court, London W1
Leasehold Reform Housing and Urban Development Act 1993, as amended.
Valuation

E Marriage value (assumed in relation to the participants' flats only)

i) Values after marriage

Value of the Freeholder's interest	0	
Value of the Headlessee's interest	0	
Participating lessees' interests (100% of freehold)	<u>19,895,175</u>	19,895,175

ii) Values before marriage

Value of the Freeholder's interest	799,519	
Value of the Headlessee's interest	2,068	
Participating lessees' interests	<u>16,851,212</u>	<u>17,652,799</u>
Marriage value		<u>2,242,376</u>

Landlords' share of marriage value @	50%	<u><u>1,121,188</u></u>
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E Enfranchisement price payable

i) Value of the present freeholder's interest	1,245,829
ii) Value of the Headlessee's interest	3,223
iii) Landlords' share of marriage value	<u>1,121,188</u>
Enfranchisement price payable	<u><u>2,370,240</u></u>

Appendix 2

HOWARD DE WALDEN ESTATES

Leasehold Reform, Housing and Urban Development Act 1993
Valuation in accordance with Schedule 6

Maybury Court, Marylebone Street, London, W1

Calculation of Price for Collective Enfranchisement

Date of Valuation 22 October 2004

Valuation by Julian Mansfield Clark BSc MRICS

Valuation of Freeholder's Existing Interest exclusive of Marriage Value									
Headlease expires: 24 March 2062									
Capital value of rental income									
Annual rent receivable					6,600				
Years Purchase	57.4	years @	7.00%		13,9918				
						92,346			
Additional annual rent receivable from review 25 March 2017					6,600				
Years Purchase	45	years @	7.00%	13.6055					
Deferred	12.4	years @	7.00%	0.4327	5,8803				
						38,810			
Additional annual rent receivable from review 25 March 2032					13,200				
Years Purchase	30	years @	7.00%	12.4090					
Deferred	27.4	years @	7.00%	0.1566	1,9432				
						25,650			
Additional annual rent receivable from review 25 March 2047					26,400				
Years Purchase	15	years @	7.00%	9.1079					
Deferred	42.4	years @	7.00%	0.0568	0,5173				
						13,657			
						170,463			
							170,463		
Capital value of Reversion to Freehold in possession on 24 March 2062									
Participating tenants' flats (44 Participating Tenants Flats)									
NORTH BLOCK: 1, 2, 5, 9, 10, 11, 12									
CENTRE BLOCK: 13, 15, 16, 17, 18, 19, 20, 22, 23, 24, 25, 26, 28, 29									
31, 32, 33, 34, 35, 39, 40, 41, 43, 44, 47, 48, 49, 50, 51, 55									
SOUTH BLOCK: 58, 61, 62, 63, 65, 67, 68									
Aggregate of near freehold values:					(from the evidence of Mr K Ryan)		21,387,000		
Deferred	57.4	years @		4.50%		0.0799			
							1,708,821		
Non-participating tenants' flats (24 Non-Participating Tenants Flats)									
NORTH BLOCK: 3, 4, 6, 7, 8									
CENTRE BLOCK: 14, 21, 27, 30, 36, 37, 38, 42, 45, 46, 52, 53, 54, 56									
SOUTH BLOCK: 57, 59, 60, 64, 66									
Aggregate of near freehold values:					(from the evidence of Mr K Ryan)		11,886,750		
Deferred	57.4	years @		4.50%		0.0799			
							948,751		
								2,658,573	
Value of Freeholder's Existing Interest (carry forward)								2,829,035	

Value of Freeholder's Existing Interest (brought forward)

2,829,035

Valuation of Headlessee's Existing Interest exclusive of Marriage Value

Underleases expire 14 March 2082

Annual rent receivable

	No. of flats		Rent p.a. £			
North Block	12	x	100	1,200		
Centre Block	44	x	100	4,400		
South Block	12	x	100	1,200		
				<u>6,800</u>		
Less Annual rent payable (from above)				6,600		
Profit Rent:					200	
Years Purchase	57.40	years @	9.00%	2.5%	10,2044	
		Tax	0.0%			2,041

Additional annual rent receivable from review 25 March 2017

North Block	12	x	100	1,200		
Centre Block	44	x	100	4,400		
South Block	12	x	100	1,200		
				<u>6,800</u>		
Less Additional annual rent payable (from above)				6,600		
Profit Rent:					200	
Years Purchase	45	years @	9.00%	2.5%	9.7783	
		Tax	0.0%			
Deferred	12	years @	9.00%		0.3435	3,3588
						672

Additional annual rent receivable from review 25 March 2032

North Block	12	x	200	2,400		
Centre Block	44	x	200	8,800		
South Block	12	x	200	2,400		
				<u>13,600</u>		
Less Additional annual rent payable (from above)				13,200		
Profit Rent:					400	
Years Purchase	30	years @	9.00%	2.5%	8.8670	
		Tax	0.0%			
Deferred	27	years @	9.00%		0.0943	0,8362
						334

Additional annual rent receivable from review 25 March 2047

North Block	12	x	400	4,800		
Centre Block	44	x	400	17,600		
South Block	12	x	400	4,800		
				<u>27,200</u>		
Less Additional annual rent payable (from above)				26,400		
Profit Rent:					800	
Years Purchase	15	years @	9.00%	2.5%	6.8603	
		Tax	0.0%			
Deferred	42	years @	9.00%		0.0259	0.1777
						142

3,189

Value of reversion of 10 Days only in all flats

Nil

Value of Headlessee's Existing Interest in Building

3,189

Value of Two Landlords' combined Existing Interests (Carry Forward):

2,832,225

	£	£	£	£	£	£
Value of Two landlords' combined Existing Interests (Brought Forward):						2,832,225
Calculation of Marriage Value						
Sum of Values of Proposed Interests in participating tenants flats only						
Freeholder				Nil		
Headlessee				Nil		
Nominee Purchasers						
Value of new leases for 999 years at a peppercorn in participating flats						
	From above		21,387,000		21,387,000	
<u>Less</u> Sum of Values of Existing Interests in participating tenants flats only						
Value of Freeholder's existing interest apportioned to Participating Tenants Flats only						
Value of apportioned Freehold reversion (from above)		1,708,821				
Value of apportioned rental income						
Value of total income (from above)		170,463				
No of Participating Tenants Flats	44					
Total No of Flats	68	0.647				
			110,299			
				1,819,121		
Value of Participating Headlessee's existing interest apportioned to Participating Tenants Flats only						
Value of apportioned reversion in flats			Nil			
Value of apportioned profit rent						
Value of total profit rent (from above)		3,189				
Apportioned as for Freeholder		0.647				
			2,064			
				2,064		
Value of participating Underlessees' existing interest their flats (value of unexpired terms of 57.4 years):						
Agreed aggregate of Leasehold VP values			16,851,212			
				18,672,396		
Marriage Value					2,714,604	
Marriage Value share attributed to Freeholder:	50%					1,357,302
						4,189,527
					say	4,189,500
Add Landlord's Claim for Other Loss						
Enfranchisement Price						4,189,500
Apportionment of Marriage Value and Enfranchisement Price between Freeholder and Intermediate Leaseholder						
<u>To Intermediate Leaseholder</u>						
Diminution in value of interest				3,189		
Share of marriage value	1,357,302	X	3,189	=	1,528	
			2,832,225			
Other losses				Nil		
				4,718		
			say		4,700	
<u>To Freeholder</u>						
Diminution in value of interest				2,829,035		
Share of marriage value	1,357,302	X	2,829,035	=	1,355,773	
			2,832,225			
Other losses				Nil		
				4,184,809		
			say		4,184,800	
						£4,189,500

Nov-04

Gerald Eve
Chartered Surveyors
JMC/MH8261/127

LON/NL/ENF/1169/04

Appendix 3

[illegible]

APPENDIX 4

THE TRIBUNAL'S VALUATION

MAYBURY COURT, LONDON W1

LEASEHOLD REFORM, HOUSING AND URBAN DEVELOPMENT ACT 1993 (AS AMENDED)

Purchase price payable for collective enfranchisement

Valuation date	22.10.04
Capitalisation rate	7%
Deferment yield	6%
Freehold value	£32,220,338
Existing lease value	£26,217,326
Premium to freeholder	£2,877,889
Premium to intermediate landlord	£7,022

Valuation of Freeholder's Existing interest exclusive of Marriage Value	£	£	£	£	£
Headlease expires:	24 March 2062				
Capital value of rental income					
Annual rent receivable			6,600		
Years Purchase	57.4	years @	7.00%	13.9918	
					92,346
Additional annual rent receivable from review 25 March 2017			6,600		
Years Purchase	45	years @	7.00%	13.6055	
Deferred	12.4	years @	7.00%	0.4322	5.8803
					38,810
Additional annual rent receivable from review 25 March 2032			13,200		
Years Purchase	30	years @	7.00%	12.4090	
Deferred	27.4	years @	7.00%	0.1566	1.9432
					25,650
Additional annual rent receivable from review 25 March 2047			26,400		
Years Purchase	15	years @	7.00%	9.1079	
Deferred	42.4	years @	7.00%	0.0568	0.5173
					13,657
					170,463

Capital value of Reversion to Freehold in possession on 24 March 2062

Participating tenants' flats (44 Participating Tenants Flats)

NORTH BLOCK: 1, 2, 5, 9, 10, 11, 12

CENTRE BLOCK: 13, 15, 16, 17, 18, 19, 20, 22, 23, 24, 25, 26, 28, 29
31, 32, 33, 34, 35, 39, 40, 41, 43, 44, 47, 48, 49, 50, 51, 55

SOUTH BLOCK: 58, 61, 62, 63, 65, 67, 68

Aggregate of near freehold values			20,848,454	
Deferred	57.4	Years @	6.00%	0.035273
				735,388

Non-participating tenants' flats (24 Non-Participating Tenants Flats)

NORTH BLOCK 3, 4, 6, 7, 8

CENTRE BLOCK: 14, 21, 27, 30, 36, 37, 38, 42, 45, 46, 52, 53, 54, 56

SOUTH BLOCK: 57, 59, 60, 64, 66

Aggregate of near freehold values			11,371,884	
Deferred	57.4	Years @	6.00%	0.035273
				401,120
				1,136,508

Value of Freeholder's Existing Interest 1,306,971

£ £ £ £ £ £

Value of Freeholder's Existing Interest

1,306,971

Valuation of Headlessee's Existing interest exclusive of Marriage Value

Underleases expires 14 March 2062

Annual rent receivable

No. of flats			Rent p.a £	
North block	12	x	100	1,200
Centre block	44	x	100	4,400
South block	12	x	100	1,200
				6,800
				<u>6,600</u>

Less Annual rent payable
Profit Rent

200

Years Purchase 57.40 Years @ 9.00% 2.5% 10.2044
Tax 0.0%

2,041

Additional annual rent receivable from review 25 March 2017

North block	12	x	100	1,200
Centre block	44	x	100	4,400
South block	12	x	100	1,200
				6,800
				<u>6,600</u>

Less Additional annual rent payable
Profit Rent

200

Years Purchase 45 Years @ 9.00% 2.5% 9.7783
Tax 0.0%
Deferred 12 Years @ 9.00% 0.3435 3.3588

672

Additional annual rent receivable from review 25 March 2032

North block	12	x	200	2,400
Centre block	44	x	200	8,800
South block	12	x	200	2,400
				13,600
				<u>13,200</u>

Less Additional annual rent payable
Profit Rent

400

Years Purchase 30 Years @ 9.00% 2.5% 8.8670
Tax 0.0%
Deferred 27 Years @ 9.00% 0.0943 0.8362

334

Additional annual rent receivable from review 25 March 2047

North block	12	x	400	4,800
Centre block	44	x	400	17,600
South block	12	x	400	4,800
				27,200
				<u>26,400</u>

Less Additional annual rent payable
Profit Rent

800

Years Purchase 15 Years @ 9.00% 2.5% 6.8603
Tax 0.0%
Deferred 42 Years @ 9.00% 0.0259 0.1777

142

Value of reversion of 10 days only in all flats

3,189

Nil

Value of Headlessee's Existing Interest in Building

3,189

Value of Two Landlords' Combined Existing Interest

1,310,160

	£	£	£	£	£
Value of Two Landlords' Combined Existing Interest					1,310,160
Calculation of Marriage Value					
Sum of Values of Proposed interests in participating tenants flats only					
Freeholder		Nil			
Headlessee		Nil			
Nominee Purchasers					
Value of new leases for 999 years at a peppercorn in participating flats		<u>20,848,454</u>			
			20,848,454		
<u>Less</u> Sum of Values of Existing Interests in participating tenants flats only					
Value of Freeholder's existing interests apportioned to Participating Tenants Flats only	735,388				
Value of apportioned Freehold reversion					
Value of apportioned rental income					
Value of total income		170,463			
No of Participating Tenants Flats	44				
Total No of Flats	<u>68</u>	<u>0.647</u>			
		<u>110,290</u>			
			845,678		
Value of Participating Headlessee's existing interests in apportioned to Participating Tenants Flats only					
Value of apportioned reversion in flats		Nil			
Value of apportioned reversion in flats					
Value of total profit rent		3,189			
Apportioned as for Freeholder		<u>0.647</u>			
Total No of Flats					
		<u>2063</u>			
			2063		
Value of participating Underlessees' existing interest in their flats (value of unexpired terms of 57.4 years):					
Agreed aggregate of Leasehold VP values		<u>16,851,212</u>			
			<u>17,698,953</u>		
Marriage value					<u>3,149,501</u>
Marriage Value share attributed to Freeholder: 50%					<u>1,574,751</u>
					<u>2,884,911</u>
Add Landlord's Claim for Other Loss					
Enfranchisement Price					£2,884,911

Apportionment of Marriage Value and Enfranchisement Price between Freeholder and Intermediate Leaseholder

To Intermediate Leaseholder

Diminution in value of interest				3,189	
Share of Marriage Value	1,574,751	x	$\frac{3,189}{1,310,160} =$	3,833	
Other losses				<u>Nil</u>	
				7,022	£7,022

To Freeholder

Diminution in value of interest				1,306,971	
Share of Marriage Value	1,574,751	x	$\frac{1,306,971}{1,310,160} =$	1,570,918	
Other losses				<u>Nil</u>	
				2,877,889	£2,877,889
					£2,884,911