

Y Tribiwnlys Eiddo Preswyl
Residential Property Tribunal Service (Wales)

Leasehold Valuation Tribunal (Wales)

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DECISION AND REASONS OF RESIDENTIAL PROPERTY TRIBUNAL Leasehold Reform Act 1967, s.21 (1) (a)

Premises: 26 Barnes Avenue, Llangewydd Court, Bridgend, CF31 4TT
("the premises")

RPT ref: LVT/0013/0720

Hearing: Decision on the papers

Applicant: James Anthony Ralph and Victoria Ralph

Respondent: Llangewydd Court Ground Rent Estate

Tribunal: Mr JE Shepherd
Mr R Baynham, FRICS

Order

The value of the premium for the freehold of the premises as at 31st August 2020 is assessed at £5430.

Introduction

1. The Tribunal is dealing with a valuation dispute. The Applicants applied to the Tribunal pursuant to Leasehold Reform Act 1967 s.21 (1)(a). The Applicants are the owners of a leasehold interest of premises at 26 Barnes Avenue Llangewydd Court, Bridgend, CF31 4TT ("the premises") dated 30th May 1975 for a term of 99 years from the 25th December 1972 with a ground rent of £15 per annum.
2. The parties have been unable to agree the value of the freehold. The Tribunal decided the case on the papers following an inspection of the premises by Mr Baynham. The Applicants relied on evidence from their surveyor, John Caines FRICS dated 1st October 2020. He arrived at a valuation of £5,380. The Respondent's surveyor was Mr Hopkin Joseph, MRICS. In his report dated 24th September 2020 he arrived at a figure of £12,450.

The Law

3. The Act enables tenants of long leases let at low rents to enfranchise their properties – in other words to acquire the freehold on terms. One part of this procedure requires a Leasehold Valuation Tribunal to determine the purchase price, in accordance with the appropriate valuation methodology as set out in the Act. The valuation methods are set out in s.9 of the Act, which has been amended several times and now provides for valuation upon a number of different bases, depending upon which category the property and the lease fall into. In the present case the valuation is carried out in accordance with section 9(1).

The Inspection

4. The property comprises a semi - detached house which was built approximately 47 years ago. It is constructed of brick exterior walls which have white spar render to the 1st floor front elevation and a pitched timber framed roof overlaid in tiles. It has the benefit of double glazed Upvc windows and doors.
5. The internal accommodation, consists on the ground floor of an entrance porch, entrance hall, lounge, dining room, kitchen and a conservatory, while on the first floor there is a landing, three bedrooms and a bathroom with a w/c.
6. The front garden consists of slate chippings with a concrete drive leading to the enclosed rear garden. There is space for a garage.
7. The house is located in a popular area of Bridgend within easy reach of local amenities and other facilities are available in the town centre which is approximately 1 mile distant.
8. It was apparent, following the site inspection that there were inaccuracies contained within the Respondent's surveyors report. These were as follows:
 1. In Para 3.2 of his report he indicates that the property has a garage - which it does not.
 2. In Para 3.2 the Respondent's surveyor states that the property has 'uninterrupted views across park areas to the front, and a large communal playground area to the rear and alongside one side boundary '.In reality the house faces another road (Lon y Coed) of similar type houses and not open space and the rear is enclosed by gardens of the detached houses facing Heol y Dail and Ffordd yr Afon and consequently there is not a play area at the rear although there is a relatively small grassed area backing onto Nos. 32, 34 and 36 Barnes Avenue.

The Valuations

9. The Applicant's surveyor's calculation of the freehold reversion is broadly in line with recent Tribunal decisions and utilises a three stage approach with a ground rent of 5% of the agreed site value of £52,800, a capitalisation rate of 6.50 % and a recapitalisation rate of 5 % to provide a premium of £5,380.00
10. The Respondent's surveyor on the other hand has provided the Tribunal with a valuation methodology in which he advocates that with the present uncertain economic times the interest rates utilised in valuing the premium for the freehold reversion should be considerably lower than the 'norm' generally being used by Tribunals. In this respect he has provided two calculations and has taken the average of the two to provide a premium of £12,461 and throughout has used a 3.00 % figure for calculating the ground rent and capitalisation and a figure of 3.75 % for the deferment.
11. The Respondent's surveyor refers the Tribunal to the Bank of England base rate of 0.1%, the lowest for 100 years, compared with the base rate in 2006 of between 4.75 % and 5.00 %. He also refers to the U. K. Treasury Bond rate of around 0.5 % and to the National Savings Index and to support his view he has included relevant schedules and also a newspaper cutting from the Daily Telegraph of the 8th September 2020.
12. Before considering the appropriate percentage rates, and the issues in dispute, the Tribunal notes that there are a number of inaccuracies in the Respondent's valuations.
13. In valuation (a)
 1. The ground rent is expressed as £20p.a. and not the £15p.a. reserved in the lease.
 2. He considers that the right to receive the ground rent for the remaining 51 years of the lease has ' no value '.
 3. The multiplication of £1584 is incorrect and should produce a figure of £11,692.25, a difference of £707.75.
14. In valuation (b)
 1. The ground rent of £20 p.a. is incorrect and should be the £15 p.a. stated in the lease.
 2. He considers that the right to receive the ground rent for the remaining 51 years of the lease has ' no value '.
 3. The Y.P. term should be for 50 years, not 51 years, although the multiplier is correct.

Issues in Dispute

15. Although the respective parties have agreed the standing house value at £160,000 and a percentage of 33.00 % for calculating the site value, which produces a figure of £52,800, the following were matters in dispute :-

Percentage for the S.15 modern ground rent

16. Mr. Caines has adopted a percentage figure of 5.00 % from the agreed site value of £52,800 providing a modern ground rent of £2,640 whereas Mr. Hopkin Joseph has utilised 3.00 % which realises a modern ground rent of £1,584.
17. Returns in the market are currently at a low level, although they may not always remain this low. They are affected by economic conditions and landlords are still accepting lower rents in order to keep premises tenanted. The section 15 ground rent would be fixed for 25 years, which is why the rate is bound to be higher than 'high street' rates advertised by banks and building societies. Using our own knowledge and experience we therefore consider that the appropriate decapitalisation rate is 5.00 %

Percentage used in the capitalisation of the term

18. Mr. Caines has used a capitalisation rate for the ground rent of 6.5 %. An investor purchasing the asset would bear in mind that the return of £15.00 is small and there are administration costs associated with the collection of the ground rent which will need to be factored in. In our view, a figure of 6.50 % is not unreasonable and in keeping with other decisions of this Tribunal. Mr. Hopkin Joseph, in both his valuations, considers that the capitalisation of the ground rent has 'no value '. This is not correct.

The percentage to be adopted for the first reversion

19. Mr. Caines invites the Tribunal to adopt a yield of 5.00 % for the capitalisation / deferment rate to the first reversion and the second 'Haresign' reversion, whereas Mr. Hopkin Joseph has used 3.00 %. The Tribunal agree with Mr. Caines' figure of 5.00 % and this is in accordance with many other Tribunal decisions.

The percentage to be adopted for the second reversion

20. In his calculation of the second reversion Mr. Caines has again used 5.00 % while Mr. Hopkin Joseph, in his second calculation, has utilised a percentage figure of 3.00 % in the first reversion but a 3.75 % figure in the second reversion. The Tribunal consider that Mr. Caines' percentage figure of 5.00 % is appropriate as to differ from the percentage figure in the first reversion could lead to an adverse differential.

Whether to use the three - stage approach

21. The Tribunal are aware of the decision in the case of *Re Clarise Properties Limited* [2012] UKUT 4 (LC) and especially Para 36 ‘..... The only relevant question is whether the reversion does not have a significant value. In future therefore, we consider that the appropriate approach will be to capitalise the section 15 rent to the end of the 50 year extension and to assess the value (if any) of the ultimate reversion’. In the circumstances the Tribunal consider that the 3-stage approach is appropriate.

Entirety Value

22. Neither of the parties surveyors have addressed the question of the entirety value and in their calculations have inserted a figure identical to the standing house value.
23. As indicated earlier the property does not have a garage and the Applicant’s surveyor concedes at clause 6.1 of his report that there is a possible garage space. It was apparent from the site inspection that this was the case and that adjacent properties have built garages within the curtilage of their plots. Hague on Leasehold Enfranchisement, 6th Ed at para 8.08 states:-

‘ .. It has been said that the entirety value must represent the value of the property “ fully developing the value of the site ” and ‘It may be appropriate in certain cases, e.g., where the house is small in relation to the site or to neighbouring properties, to assume that the house has been extended or even wholly or partially replaced by a larger house, provided that the potential is realistic and not fanciful.’

24. Consequently taking the relevant factors into account, including the fact that a garage would slightly reduce the amenity area to the rear garden, the Tribunal considers that the entirety value should be £165,000.

Schedule 10 Rights

25. The surveyors for both parties have made a deduction in respect of Schedule 10 Rights with the Applicant’s surveyor deducting 5.00 % whereas the Respondent’s surveyor has deducted 10.00 %. The Tribunal are mindful of the decision of *Midland Freeholds Limited v Speedwell Estates Limited* [2017]UKUT 463 (LC) and especially para 65 of that decision which states :-

‘In these circumstances I am not persuaded that a hypothetical purchaser would make any discount to the FHVP value where the lease has an unexpired term of 46 years. I therefore make no deduction in respect of Schedule 10 Rights under the 1989 Act ‘.

26. The Tribunal, in the recent past have allowed a discount in respect of Schedule 10 Rights, namely in the cases of 58 Pontneathvaughan Road, Glynneath (LVT/0037/10/18, 13 Hill Street, Swansea (LVT/0055/03/20 and 32 Caerphilly Road, Cardiff (LVT/0001/04/20) but in those cases there were only 6.4, 6.7, and 1.45 years remaining of their respective leases.

27. In the light of the Midland Freeholds Limited decision and the fact that there are over 51 years remaining on the lease the Tribunal consider that a deduction in respect of Schedule 10 Rights is not applicable.

The Calculation

28. The amended calculations are attached.

Dated this 6th day of January 2021

Judge Shepherd

		26 Barnes Avenue, Llangewydd, Bridgend, CF31 4TT				
Stage 1						
Ground Rent					15.00	
Y. P. for 51.31 years at 6.50 %					<u>14.7768</u>	221.65
Stage 2						
Entirety Value					165,000	
Plot Value at 33.00 %					54,450	
Modern Ground Rent at 5.00 %					2722.50	
Y. P. for 50 years at 5.00 %				18.2559		
P. V. of £1 for 51.31 years at 5.00 %				<u>0.0818</u>	<u>1.4933</u>	4,065.51
Stage 3						
Standing House Value				160,000		
P. V. of £1 in 101.31 years at 5.00 %				<u>0.007133</u>		<u>1141.28</u>
Total						5428.44
Say						5,430.00