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LEASEHOLD VALUATION TRIBUNAL
OF THE
MIDLAND RENT ASSESSMENT PANEL

M/EH 2458

DECISION OF THE LEASEHOLD VALUATION TRIBUNAL

ON AN APPLICATION UNDER SECTION 21 OF THE LEASEHOLD REFORM ACT 1967

Applicant: Mr & Mrs K P Keefe (leaseholders)

Respondents: Covent Garden Group Ltd (freeholder)

Subject property: 1097 Alcester Road South
Hollywood
Birmingham
B14 5TP

Date of tenant's notice: 6 December 2001

Application to the LVT: 22 May 2002

Hearing: 8 August 2002

Appearances:

For the applicants: Mr K F Davis FRICS

For the respondents: Not represented

Members of the LVT: Professor N P Gravells MA
Mr S Berg FRICS
Mr D Underhill

Date of determination: 22 AUG 2002

Introduction

- 1 This is a decision on an application under the Leasehold Reform Act 1967 (“the 1967 Act”) made to the Leasehold Valuation Tribunal by Mr & Mrs Keefe, leaseholders of the house and premises at 1097 Alcester Road South, Hollywood, Birmingham B14 5TP (“the subject property”). The application is under section 21(1)(a) for the determination of the price payable under section 9 for the freehold interest in the subject property.
- 2 The applicant leaseholders originally held the subject property under an underlease, dated 10 February 1954, for a term of 99 years less three days from 25 March 1953 at a ground rent of £10.00 per year. The underlease was assigned to the applicants on 5 June 1987. The unexpired term at the date of the Notice of Tenant’s Claim to Acquire the Freehold (“the relevant date”) was 50 and one-third years. The applicants purchased the intermediate leasehold interest on 31 March 2000 and, as shown in the relevant Land Registry TP1 form, the apportioned ground rent was agreed and declared to be £5.67 per year.
- 3 The applicants served on the respondent landlord a tenant’s notice dated 6 December 2001, claiming to acquire the freehold interest in the subject property under the terms of the 1967 Act; and they subsequently made the present application.
- 4 The Tribunal accepts that the qualifying conditions for enfranchisement under the 1967 Act are satisfied.

Subject property

- 5 The subject property is a semi-detached house of brick and tile construction, located on a service road parallel to Alcester Road South in Hollywood, approximately ten kilometres south of the centre of Birmingham. It is one of a development of eighteen similar properties. However, the subject property has been extended at ground floor level at the rear and side and the accommodation now comprises, on the ground floor, hallway, living room/dining room, dining kitchen and, off the dining kitchen, store and utility room; and, on the first floor, three bedrooms and bathroom/wc. Outside there are gardens to the front and rear of the property. Space heating is by gas fire in the living room/dining room and gas heaters in the hallway and dining kitchen. A large double garage with workshop area has been constructed at the rear of the property. Access to the garage is along a driveway to the side and rear of the property, which also provides access to the garages of the neighbouring properties. The frontage of the property is approximately 6.3 metres and the total site area is approximately 254 square metres.

Inspection and hearing

- 6 The Tribunal inspected the subject property on 8 August 2002 in the presence of Mrs Keefe, one of the applicant leaseholders.
- 7 The subsequent hearing was attended by Mr Davis (representing the applicant leaseholders). The respondent freeholder did not attend and was not represented.

Representations of the parties

- 8 Mr Davis, on behalf of the applicant leaseholders, adopted as the basis of valuation under the 1967 Act the generally recognised three-stage approach normally attributed to *Farr v Millerson Investments Ltd* (1971) 22 P & CR 1055. That approach involves (i) the capitalisation of the ground rent payable under the existing lease for the remainder of the unexpired term; (ii) the identification of a modern ground rent (by decapitalising the site value); and (iii) the capitalisation of the modern ground rent as if in perpetuity, deferred for the remainder of the unexpired term. The price payable on this basis is the sum of the capitalisations at stages (i) and (iii).
- 9 In order to support his standing house valuation of the subject property, Mr Davis submitted evidence of cuttings from the property pages of local newspapers from around the relevant date. In particular, he drew attention to the property at 1089 Alcester Road South, which forms part of the same development that includes the subject property and which had been on the market at £89,950. However, he was not able to confirm categorically whether the price related to the freehold or leasehold interest. Mr Davis also invited the Tribunal to have regard to three decisions of the Tribunal relating to properties in the immediate vicinity of the subject property, although he pointed out that in each case the application was uncontested by the freeholder. In particular, he referred to a decision made in May 2000 in relation to the property at 1157 Alcester Road South, in which the Tribunal determined the standing house value at £80,000. That property does not form part of the development that includes the subject property and it is slightly older. On the basis of that evidence Mr Davis submitted that the standing house value of the subject property at the relevant date was £92,500.
- 10 Mr Davis further submitted that the Tribunal should apply a 33 1/3 per cent figure in calculating the site value on the standing house basis; and that the appropriate percentage yield rate to be applied in capitalising the ground rent at stage (i) and decapitalising and recapitalising the site value at stages (ii) and (iii) is 7 per cent.
- 11 On the basis of those figures, he submitted the following valuation:

(i) *Capitalisation of existing ground rent to termination of lease*

Ground rent payable: £5.67 per year
Years Purchase: 50 years @ 7%: 13.8
Capitalised ground rent: £5.67 x 13.8 = £78.00

(ii) *Modern ground rent*

Standing house value of subject property: £92,500
Percentage attributable to site: 33 1/3%: £30,833
Annual equivalent @ 7%: £2158

(iii) *Capitalisation of modern ground rent*

Modern ground rent (above): £2158

Years Purchase at 7% in perpetuity deferred 50 years: 0.453

Capitalised modern ground rent: £2158 x 0.453 = £978

The addition of the capitalised existing ground rent and the capitalised modern ground rent produces a figure of £1,056.

- 12 The respondent freeholder submitted no written representations.

Determination of the Tribunal

- 13 The Tribunal holds that the basis of valuation adopted by Mr Davis properly reflects the principles of the 1967 Act.
- 14 In the absence of any representations from the respondent freeholder, the Tribunal examined the figures submitted by Mr Davis in respect of the standing house value of the subject property, the percentage to be applied to the standing house value in calculating the site value and the percentage yield rate to be applied at all stages of the valuation calculation. The Tribunal considered whether those figures were open to challenge on their face or in the light of the evidence of Mr Davis in response to questions from the Tribunal.
- 15 The Tribunal finds that the evidence of Mr Davis as to the standing house value of the subject property cannot be regarded as conclusive, especially in the light of the uncertainty as to the interest (freehold or leasehold) of some of the properties listed in the press cuttings (including the property in the same development as the subject property). The Tribunal notes that in his application to the Tribunal on behalf of the applicant leaseholders Mr Davis stated a figure of £1,350 for the price payable for the freehold interest in the subject property. Applying Mr Davis' own basis of valuation, that figure indicates a standing house value in the region of £115,000. Moreover, given the upward movement in property prices between the date of the earlier decision of the Tribunal specifically referred to by Mr Davis (May 2000) and the relevant date in the present case (December 2001), the Tribunal concludes that the figure for the standing house value in the earlier case also suggests a higher figure than that submitted by Mr Davis as appropriate in the present case. Using its general knowledge and experience (but no special knowledge) of property prices in the locality of the subject property, and taking into account the positive and negative features of the subject property and all other relevant considerations, the Tribunal determines that the standing house value of the subject property at the relevant date was £105,000.
- 16 Consistently with previous practice, and in the absence of any circumstances suggesting a departure from that practice, the Tribunal holds that the appropriate percentage to be applied to the standing house value in calculating the site value is 33 1/3 per cent; and that the appropriate percentage yield rate to be applied at all stages of the valuation calculation is 7 per cent.

17 Adopting those figures, and applying figures of Years Purchase from Parry's Valuation Tables, the Tribunal calculates the price payable as follows:

(i) *Capitalisation of existing ground rent to termination of lease*

Ground rent payable: £5.67 per year
Years Purchase: 50 1/3 @ 7%: 13.8113
Capitalised ground rent: £5.67 x 13.8113 = £78.31

(ii) *Modern ground rent*

Standing house value of subject property: £105,000
Percentage attributable to site: 33 1/3 %: £35,000
Annual equivalent @ 7%: £2450

(iii) *Capitalisation of modern ground rent*

Modern ground rent (above): £2450
Years Purchase at 7% in perpetuity deferred 50 1/3 years: 0.47439
Capitalised modern ground rent: £2450 x 0.47439 = £1162.26

The addition of the capitalised existing ground rent and the capitalised modern ground rent produces a figure of £1240.57.

18 Accordingly, the Tribunal determines the price payable under section 9 of the 1967 Act for the freehold interest in the subject property at £1240.

Summary

17 The Tribunal determines the price payable by the tenants for the freehold interest in the subject property at £1240 plus the freeholder's reasonable costs calculated in accordance with section 9(4) of the 1967 Act and paragraph 5 of Schedule 22 to the Housing Act 1980.

Nigel Gravells

NIGEL P GRAVELLS
CHAIRMAN

22 AUG 2002