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Ref: LON/LVT/1582/03

LEASEHOLD VALUATION TRIBUNAL FOR THE LONDON RENT ASSESSMENT PANEL

Leasehold Reform Act 1967 **Housing Act 1980**

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

Applicant:	Alan Tristram Nicholas Warner & Susan Voase Warner
Respondent:	Metin Erden Gurpinar
RE:	183 Priory Road, London, N8
Description:	A three storey, brick and tile, Edwardian building situated in a parade of similar properties on a busy junction just south of Alexandra Palace in an otherwise primarily residential area. The property, in the middle of the parade, comprises, on the ground floor, a double fronted lock up shop with separate street access to the first and second floor two bedroom, self contained flats above. There is a small yard at the rear accessible from the rear service road which also serves various workshops and garage buildings.
Date of Tenant's Notice:	11 November 2002
Date of Counter Notice:	6 January 2003
Application to the Tribunal dated:	3 April 2003
Heard:	22 July 2003 Inspection 23 July 2003
Valuation Date:	11 November 2003 Unexpired term 1 year 44 days Ground Rent £20 per annum
Appearances:	Mr P Letman of Counsel Mr B Maunder Taylor, FRICS MAE of Maunder Taylor Chartered Surveyors Mr C Stone of Prickett & Ellis for the Applicant Mr E Shapiro BSc (EstMan) FRICS IRRV FCIArb of Moss Kaye Pembertons Surveyors for the Respondent Mr M Gurpinar (the respondent)

Member of the Leasehold Valuation Tribunal
Mrs B Hindley LLB (Chairman)
Mrs S F Redmond BSc (Econ) MRICS
Mr P M Casey MRICS

Date of the Tribunal's decision:

20/8/03

1. Attached at Annex 1 and Annex 2 respectively are the valuations of Mr Maunder Taylor and Mr Shapiro. At the hearing Mr Shaprio asked for the insertion of a rent of £4.85 per annum (which has been done) but subsequently he accepted that the rent for the term was, in fact £20 per annum.

2. Mr Maunder Taylor in his valuation of the premium to be paid for the freehold (£438,250) relied on a valuation by Mr Stone (whose firm had an office opposite the subject property) of the unencumbered freehold interest in the sum of £470,000. From this Mr Maunder Taylor deducted £10,000 to reflect the value of the tenant's improvements and Mr Shapiro did not dispute this latter sum.

3. Mr Stone's valuation was based entirely on information he had received from the owner of 3 Muswell Hill, a similar but smaller property opposite the subject premises, but not forming part of a terrace. It had, apparently, been bought at auction, in mid 2002, for £150,000 when in derelict condition. The owner had subsequently spent some £150,000 on repairing and refurbishing the property and a sale price of £335,000 had now been agreed although contracts had not yet been exchanged.

4. The shop unit at 3 Muswell Hill had been let, early in 2003, on a full repairing and insuring lease, at £6,500 per annum. Mr Stone relied on this letting to support his view that the passing rent of £10,000 per annum of the shop unit at the subject premises was less than its full rental value which he calculated to be £11,459 (479.88 sqm x £23.88 p.s.f.)

5. Both Mr Stone and Mr Shapiro agreed that the two bedroom flats above the subject shop premises, let on assured shorthold tenancy terms, would command monthly rents of £900. It was also agreed, at the hearing, that £50 per month of these rents was attributable to the improvements (central heating) of the tenant.

6. Based on his knowledge and experience Mr Maunder Taylor ascribed a spot figure of £10,000 to the remaining term of the headlease.

7. Mr Shapiro's approach to the premium payable (£265,332) was to capitalise the total rents passing at yield rates of 9% for the commercial rent and 8% for the flats. This resulted in a figure of £289,611 (erroneously using a ground rent of £4.85 per annum).

8. Mr Shapiro's valuation of the existing lease was also derived from the capitalisation of the income stream.

9. Mr Shapiro justified the yield rates he adopted on the basis of his knowledge and experience.

10. The Tribunal noted that Mr Stone's valuation was predicated almost exclusively on unconfirmed information concerning a proposed transaction. Whilst the auction price was not disputed by Mr Shapiro at the hearing, the Tribunal would have found it helpful to have received details of the alleged repair/refurbishment costs of £150,000 in order to evaluate whether the total cost represented value.

11. In any event the fact that the proposed sale at £335,000 was not a completed transaction caused the Tribunal to treat it as of only limited assistance.

12. Moreover, the Tribunal, like Mr Shapiro, considered Mr Stone's analysis of the proposed sale price to be flawed. Mr Stone chose to intermingle the gross rental income from the flats with the net rental income from the shop. The percentage return (6.7%) which this exercise produced he then applied to his estimate of the achievable rents of the flats and shop at the subject premises (again gross on the flats and net on the shop) to produce his valuation.

13. The Tribunal noted that were the proposed sale price analysed on the basis of net rents, deducting for outgoings 30% of the gross rents on the flats (an amount broadly agreed by the experts of both parties) a true yield of 5.3% would result. However, on the basis of their knowledge and experience, the Tribunal considered such a return to be unduly low for an investment of this type.

14. Mr Stone suggested that given the low returns and uncertainties presently associated with other forms of investments, a new breed of amateur property investors had emerged to make a market in investments of this type with a ceiling of around half a million pounds. Such purchasers did not concern themselves with true yields so long as it appeared that income would cover the cost of required borrowing and there were perceived prospects of growth.

15. Mr Shapiro was adamant that the growth prospects of an investment of this type were minimal particularly given Mr Stone's opinion that the flats were unlikely to be saleable to owner occupiers. In his opinion this removed the safety net associated with traditional buy to let investments of selling on to an owner occupier if the rental market performed poorly, or of realising the capital growth associated with strong demand in the owner occupied sector.

16. The Tribunal concedes that Mr Stone may be correct in his identification of a new breed of investor but to persuade the Tribunal to adopt his approach would require the production of a body of reliable transaction evidence.

17. However, the Tribunal did accept Mr Stone's view, as shown in his analysis at paragraph 4 above, that there had been some growth in retail rents. This was also supported by a schedule produced by Mr Maunder Taylor of various dealings in respect of lettings and lease renewals by the freeholder on other properties in the parade. Accordingly the Tribunal accepts that the full rental value of the shop let on full repairing and insuring terms is £11,500 (rounded).

18. Therefore, the Tribunal is left with Mr Shapiro's traditional valuation approach of capitalising the income stream. However, Mr Shapiro was able to offer only his knowledge and experience in support of his adopted yield rates.

19. Mr Shapiro's adoption of a lower rate to capitalise the income from the residential element of the investment demonstration his acknowledgement that such mixed investments are a more attractive option than purely retail investments.

20. In the course of the hearing it appeared to the Tribunal that there emerged from the experts a degree of consensus that retail and mixed retail/residential investments were showing, at auction, yields in the range 7-7½%. This level of yields equates with the Tribunal's own knowledge and experience.

21. Accordingly, in its valuation of the freeholder's existing interest the Tribunal has adopted a traditional term and reversion form of valuation using a yield of 7% and also reflecting some growth in the retail element of the property.

22. In the Tribunal's opinion Mr Shapiro's use of differential yields is not justifiable. It is a single property, a single investment and the anecdotal evidence of auction results, accepted at least to some extent by all the experts at the hearing, was on the basis of a single yield rate for similar mixed investments.

23. In capitalising the rental flows the Tribunal consider it more appropriate to exclude the value of the tenant's improvements in rental terms rather than by making such a capital reduction as advocated by Mr Maunder Taylor.

24. Adopting a traditional term and reversion valuation obviates the need to consider separately a deferment rate to be applied to the capital value of the investment. Hence Mr Maunder Taylor's settlement evidence provided the Tribunal with little or no assistance.

25. Finally, there is the value of the present leasehold interest to be considered. The Tribunal was not impressed by Mr Maunder Taylor's approach which failed to recognise that the shop unit was already let and the only possible purchaser in a 'No Act' world be an investor.

26. In the Tribunal's opinion Mr Shapiro was right to approach the issue by considering the income such an investor would receive, although his approach failed to reflect the fact that the costs associated with the purchase had to be written off in just over a year. Should anything go wrong with the lettings such an investor has insufficient time to recover his position. It is to be noted that whilst, at the valuation date, both flats were let, by the time of the hearing the flat on the second floor was vacant.

27. At best, an investor purchaser could expect for just over a year an income of £10,000 from the shop and a net income of £14,280 from the flats. Taking into account all of the factors mentioned above the Tribunal considers the value of the interest to be £15,000.

28. The parties were in agreement that the resulting marriage value should be apportioned equally between parties.

29. Accordingly, the Tribunal made the valuation attached to Annex 3.

30. Therefore, the Tribunal determines the sum to be paid for the freehold interest in 183 Prior Road, N8 is £347,400 (Three hundred and forty seven thousand four hundred pounds).

pp. CHAIRMAN .... S. Redmond

DATE ......20/8/03.......................

Lease for 99 years from 25 December 1904 at £20 p.a. fixed for the whole term

Paragraph 2(1)(a): the value of the freeholder's interest in the premises as determined in accordance with Paragraph 3		
Ground rent @ £20 p.a. value	£0	£0
Reversion to	£460,000	
PV of £1 deferred 1.12 years @ 7%	0.9272425	
	£426,532	£426,532
Paragraph 2(1)(b): the freeholder's share @ 50% of the marriage value as determined in accordance with Paragraph 4.		
Freehold value	£460,000	
Less		
Landlord's current value	(£426,532)	
Existing leasehold interest	(£10,000)	
Marriage value	£23,468	
50% of marriage value		£11,734
Paragraph 2(1)(c): compensation payable to the landlord under Paragraph 5.		Nil
TOTAL PAYABLE		**£438,266**
BUT SAY		**£438,250**

ANNEX 2

183 Priory Road, N8

INPUT INFORMATION valuation date 11/11/02

Lease	99 years from	12/25/55
Number of years unexpired	1.117 lease expires	12/24/03
Number of yrs. to reversion	1.117	
Rent for term	£4.85	

Value of Freehold in Possession

Subject to underlessee's rights to renew under The Landlord & Tenant Act 1954

Ground floor Full Rental Value			£10,000		
YP in perpetuity @	9%		11.111		
				£111,111	
Upper Part					
Full Rental Value on AST's	£ 850.00 per month each		£20,400		
Less outgoings @	30.00%				
Allowance for profit @	0.00%		£ 6,120		
			£14,280		
YP in perpetuity @	8.00%		12.50	£178,500	**£289,611**

Value of Freehold Present Interest

				£4.85			
YP to end of lease @	9%			1.01973	£5		
Reversion to:							
Ground floor Full Rental Value				£10,000			
YP in perpetuity @	9%		11.111				
x PV of £1 in 1.117 years			0.908224	10.091			
				£100,914			
Upper part, 2 flats	£ 1,700 per month		£20,400				
Less outgoings @	30.00%						
Allowance for profit @	0.00%		£ 6,120				
			£14,280				
YP in perpetuity @	8%	12.500					
x PV of £1 in 1.117 years @		0.8990	11.238	£160,473	£261,386	**£261,391**	

Value of existing lease

Ground floor Rent Reserved				£10,000.00			
Rent Reserved				£4.85			
Profit rent				£9,995			
YP 1.117 years @	10.00%	2.50%	10% Tax	0.91471	£9,143		
Upper Part							
Full Rental Value on AST's	£ 850.00 per month			£20,400			
Less outgoings @	30.00%						
Allowance for profit @	10.00%			£8,160			
				£12,240			
YP 1.12 years @	10.00%	2.50%	10% Tax	0.91471	£11,196	**£20,339**	**£281,730**

Marriage Value	£ 7,881
Half share of marriage value	x 50%
	£ 3,941
Value of F/H current interest	£261,391
Enfranchisement price	£265,332

LEASEHOLD REFORM ACT 1967
VALUATION FOR FREEHOLD ENFRANCHISEMENT

183 PRIORY ROAD, LONDON, N8

Valuation date: 11/11/02
Unexpired term at Valuation Date: approximately 1.12 years

	£	£	£	£
1. Value of Freeholder's current interest				
Current ground rent £20 for remainder of term 1.12 years say			20	
Value of freehold reversion:				
Full Rental Value of ground floor shop	11,500			
Net rental value of 2 x flats, excluding improvements	14,280			
Total net rental value per annum	25,780			
YP in perpetuity @ 7%	14.286	368,286		
Freehold value say		368,300		
deferred 1.12 years @ 7%		0.927	341,422	
			341,442	
Freeholder's current interest say				341,500
2. Marriage value				
Value of freehold excluding improvements		368,300		
Less existing value:				
Freeholder's current interest	341,500			
Leaseholders' current interest	15,000	356,500		
Gain on marriage		11,800		
50% of marriage value attributed to lessor				5,900
Enfranchisement price				**£347,400**