

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

LEASEHOLD REFORM, HOUSING AND URBAN DEVELOPMENT ACT 1993

DECISION OF THE LEASEHOLD VALUATION TRIBUNAL

Case No: CHI/29UB/OCE/2006/0046

Property: Craythorne House
Beacon Oak Road
Tenterden
Kent
TN30 6RX

Applicant: Craythorne House (Tenterden) Limited

Respondents: Mr. and Mrs. M.K.H. Sherlock

Date of Hearing: 14th August 2006

Members of the Tribunal: Mr. R. Norman (Chairman)
Mr. J.N. Cleverton FRICS
Mr. R.A. Wilkey JP FRICS FInstCPD

Date decision Issued: 4th September 2006

RE: CRAYTHORNE HOUSE, BEACON OAK ROAD, TENTERDEN, KENT

Background

1. The Applicant made an application to the County Court (Claim No. 6AS00168) for collective enfranchisement in relation to Craythorne House, Beacon Oak Road, Tenterden, Kent ("the subject property") and the County Court being satisfied that the Applicant had rights to collective enfranchisement in relation to the subject property and that the Applicant was prevented from giving notice in accordance with the Leasehold Reform, Housing and Urban Development Act 1993 ("the Act") because the whereabouts and the identity of the person to be served with Notice could not be ascertained, made an order that the freehold interest of the Respondents in the subject property be vested in the Applicant pursuant to Section 26(1) of the Act and that the consideration to be paid be determined by the Leasehold Valuation Tribunal in accordance with Section 27 of the Act.

2. The following evidence was provided to the Tribunal by Mr. A.J. Pridell FRICS on behalf of the Applicant. Flat 1 is on the ground floor and includes a garage. The term of the lease is 99 years from 7th August 1987. Flat 2 is on the ground floor and includes a garage and a section of the garden. By a deed of variation dated 10th December 1984 the cellar was added to the demise. The term of the lease is 99 years from 24th June 1974. Flat 3 is on the first floor. The term of the lease is 99 years from 16th November 1978. Flat 4 is on the first floor and includes a garage and garden ground. The term of the lease is 99 years from 7th September 1977. Flat 5 is on the second floor and includes a garage. The term of the original lease was 99 years from 24th February 1978 but by a deed of surrender and lease dated 30th October 2001 the residue of the term granted by the original lease was surrendered and a lease was granted for a new term of 123 years from 24th February 1978. The ground rent in respect of all the leases is £25 per annum throughout the term.

3. Mr. Pridell's inspection of the subject property was on the 22nd November 2004. His date of valuation was the date of the initial notice: 29th July 2005.

Inspection

4. On the 14th August 2006 in the presence of Mr. Pridell and some of the lessees we inspected the subject property.

The Determination

5. On the basis of the evidence provided to us that the Respondents are the freeholders of the subject property subject only to the 5 leases, we calculated that the appropriate sum to be paid for the Respondents' interest in the subject property is £12,000.

Reasons

6. The hearing was attended by Mr. Pridell. There was no appearance by the Respondents or anyone on their behalf.

7. Mr. Pridell in his proof of evidence calculated the sum which it was submitted should be paid for the freehold reversion in the subject property.

(a) He drew our attention particularly to the improvements which the lessees had made to their own flats and to the building as a whole. The photograph of the property provided by Mr. Pridell showed the condition of the property when he inspected it on the 22nd November 2004. The lessees realised that major repairs to the fabric of the building were necessary. Under the terms of the leases such repairs would have been the responsibility of the freeholder who would have then claimed the cost from the lessees. As they were unable to contact the freeholder the lessees arranged for the repairs to be carried out and the cost was over £80,000. The building is of unusual construction with a timber frame of oak and softwood cladding which from a distance gives the impression that the walls are of dressed stone. Mr. Pridell stated that a lot of the timber was rotten and had to be cut out and replaced. This applied not only to the cladding but also to the oak frame which had rotted as a result of water ingress particularly on the front elevation and the west side. The roof is covered with peg tiles, many of which were slipping and many of the pegs needed to be

replaced. The roof was stripped, felted and re-tiled with the majority of the tiles being reused.

(b) Mr. Pridell also pointed out the difficulty of providing evidence of the value of comparable flats in Tenterden. He had found that there were very few flats in Tenterden and added to that the flats in the subject property were unusual. While the flats were full of character, there were practical matters which depressed their value. Except for Flat 5 the main disadvantage was the size of the kitchens and bathrooms.

(c) Mr. Pridell stated that all the flats had been improved to varying degrees and that Schedule 6 to the Act requires that improvements by the current lessees and their predecessors in title since the leases were granted must be discounted and that it was not the cost of the works but by how much the value of the flat was uplifted by the works which had to be considered. For example: (1) The present converted state of the cellar in Flat 2 should be discounted because, as the lessee of Flat 2 had told us at the inspection, when the cellar was added to the demise it was simply a cellar with access via a trap door and ladder and (2) The improved value of Flat 5 resulting from the exposure of the timber should be discounted.

(d) Mr. Pridell argued that a yield of 7.5% was appropriate in this location. He considered that there were not many investors in the market who would be interested in acquiring the freehold of the subject property with a total ground rent of £125 per annum. He referred to the case of *Arbib v Codogan* and stated that it was the view of the majority of provincial surveyors in this field that it was only in prime central London that a yield of less than 5% was appropriate. In that case the leases had thirty years to run and values were enormously different from the subject property.

(e) Because of the length of the leases still to run, marriage value arose only in respect of Flats 2, 3 and 4.

The Valuation

8. The Respondents were entitled to receive the ground rents as provided by the leases. We considered whether the price to be paid for the freehold should include a sum to represent the ground rent which has not been paid for a number of years but we decided that as it had not been demanded no such sum should be included.

9. The Respondents would be entitled to receive the ground rents as provided by the leases for the remainder of the terms. We considered the yield rate to be applied. While the subject property has an investment value it could not be considered a prime investment such as the properties concerned in the case of *Arbib v Cadogan* and we came to the conclusion that a rate of 7.5% should be applied.

10. Set out below are the calculations made by Mr. Pridell in his report. They are included in full so that the way in which the final figure is arrived at is evident from the content of the determination. The Tribunal noted arithmetical errors in the calculations in respect of Flats 4 and 5 which if corrected would have made minor differences to some of the figures but they did not affect the final conclusion as to the price to be paid. We are therefore prepared to adopt the figure of £12,000.

FLAT 1

a) Value of Freeholder's interest

(i) Capitalisation of Ground Rental Income

Ground rent 2005 - 2086	£25	
YP 81 yrs @ 7.5%	<u>13.2952</u>	£ 332

(ii) Value of reversion

Reversion to capital value of £135,000		
PV of £1 in 81 yrs @ 7.5%	<u>0.0028</u>	£ 378

Total value of Freeholder's Interest £ 710

b) Marriage value

As unexpired term on lease exceeds 80 years
Marriage value -

NIL

£ 710

or say £700

FLAT 2

a) Value of Freeholder's interest

(i) Capitalisation of Ground Rental Income

Ground rent 2005 - 2073	£25	
YP 68 yrs @ 7.5%	<u>13.2358</u>	£ 330

(ii) Value of reversion

Reversion to capital value of £127,500		
Adjust to freehold (+6%)	£135,150	
PV of £1 in 68 yrs @ 7.5%	<u>0.0073</u>	£ 986

Total value of Freeholder's Interest £1,316

b) Marriage value

Value of existing unimproved leasehold interest £127,500
Value of virtual freehold (+6%)

£135,150

Less

1. Value of existing unimproved leasehold interest	£127,500	
2. Value of freeholder's interest	<u>£ 1,316</u>	<u>£128,816</u>
Total Marriage Value		£ 6,334
Freeholder's share at 50%		<u>£3,167</u>
		£4,483
or say	£4,500	

FLAT 3

a) Value of Freeholder's interest

(i) Capitalisation of Ground Rental Income

Ground rent 2005 - 2077	£25	
YP 72 yrs @ 7.5%	<u>13.2603</u>	£ 331

(ii) Value of reversion

Reversion to capital value of	£125,000	
Adjust to freehold (+4%)	£130,000	
PV of £1 in 72 yrs @ 7.5%	<u>0.0054</u>	<u>£ 702</u>
Total value of Freeholder's Interest		£1,033

b) Marriage value

Value of existing unimproved leasehold interest	£125,000	
Value of virtual freehold (+4%)		£130,000

Less

1. Value of existing unimproved leasehold interest	£125,000	
2. Value of freeholder's interest	<u>£ 1,033</u>	<u>£126,033</u>
Total Marriage Value		£ 3,967
Freeholder's share at 50%		<u>£1,983</u>
		£3,016
or say	£3,000	

FLAT 4

a) Value of Freeholder's interest

(i) Capitalisation of Ground Rental Income

Ground rent 2005 - 2076	£25	
YP 71 yrs @ 7.5%	<u>13.2548</u>	£ 331

(ii) Value of reversion

Reversion to capital value of	£124,500	
Adjust to freehold (+4.5%)	£130,102	
PV of £1 in 72 yrs @ 7.5%	<u>0.0058</u>	<u>£ 754</u>
Total value of Freeholder's Interest		£1,085

b) Marriage value

Value of existing unimproved leasehold interest	£124,500	
Value of virtual freehold (+4.5%)		£130,102

Less

1. Value of existing unimproved leasehold interest	£124,500	
2. Value of freeholder's interest	<u>£ 1,085</u>	<u>£125,585</u>

Total Marriage Value		£ 4,517
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Freeholder's share at 50%		<u>£2,258</u>
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£3,343

or say **£3,350**

FLAT 5

a) Value of Freeholder's interest

(i) Capitalisation of Ground Rental Income

Ground rent 2005 - 2103	£25	
YP 98 yrs @ 7.5%	<u>13.3222</u>	£ 333

(ii) Value of reversion

Reversion to capital value of	£149,000	
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PV of £1 in 96 yrs @ 7.5% 0.0009656 £ 144

Total value of Freeholder's Interest **£ 476**

b) **Marriage value**

As unexpired term on the lease exceeds 80 years
Marriage value -

NIL

£ 476

or say £475

c) **Compensation**

NIL

Total £12,025 or say £12,000



R. Norman
Chairman