LRA/44/2007

LANDS TRIBUNAL ACT 1949

LEASEHOLD ENFRANCHISEMENT – collective enfranchisement – status of appellant as witness – deferment rate – marriage value – whether participating tenants' interests to be valued without Act rights – caretaker's flat – whether intermediate lessee entitled to charge rent for this – held Act rights to be left out of account and no right to charge rent for caretaker's flat – appeal dismissed – Leasehold Reform, Housing and Urban Development Act 1993 Sch 6 para 4

IN THE MATTER OF AN APPEAL AGAINST A DECISION OF THE LEASEHOLD VALUATION TRIBUNAL

BETWEEN **(1) HENRY McHALE**
(2) 10 SLOANE GARDENS MANAGEMENT CO LTD **Appellants**

and

THE RIGHT HONOURABLE CHARLES GERALD JOHN EARL CADOGAN **Respondent**

Re: Premises comprising 6 flats,
10 Sloane Gardens,
London SW1W 8DL

Before: The President and Mr P R Francis FRICS

Sitting at Procession House, 110 New Bridge Street, London EC4V 6JL
on 27 October 2008

The appellant Mr McHale for himself and the second appellant
Anthony Radevsky instructed by Pemberton Greenish for the respondent

The following cases are referred to in this decision:

Armchair Passsenger Transport Ltd v Helical Bar Plc [2003] EWHC 367 (QB) (unreported)
Cadogan v 44/46 Lower Sloane Street Management Co Ltd and McHale (Lands Tribunal ref LRA/29/2003, 30 July 2004, unreported)
Cadogan v Sportelli [2007] 1 EGLR 153 (unreported)
Cadogan v 27/29 Sloane Gardens Limited [2006] EWCA Civ 1331 (unreported)

The following further cases were referred to in argument:

Wellcome Trust Ltd v Romines [1999] 3 EGLR 229
Ayling v Wade [1961] 2 QB 228
Yorkbrook Investments Ltd v Batten [1985] 2 EGLR 100

DECISION

1. This is an appeal against a decision of a leasehold valuation tribunal on an application made to it in respect of a collective enfranchisement under section 24 of the Leasehold Reform, Housing and Urban Development Act 1993. The appellants are the nominee purchaser, 10 Sloane Gardens Management Company Limited, and the intermediate landlord, Mr Henry McHale . The premises consist of six flats. Five of these are let on long leases, and the sixth is a caretaker's flat. The headlease, vested in Mr McHale, is for a term of 62¼ years from 24 June 1983. Mr McHale signed the initial notice as qualifying tenant of the caretaker's flat, and the notice was also signed by the tenants of two of the flats. The tenants of the other three flats are not participating in the collective enfranchisement.

2. By its decision of 17 January 2007 the LVT determined the enfranchisement price at £777,940, of which £9,212 was payable by the freeholder to the headlessee. The parties were agreed that there was one small error in the LVT's calculation in that the ground rent of one of the participating flats was taken as £2,100. It should have been £3,000. There was a small difference between the parties as to the consequences of this error, but Mr McHale said that he would accept the end figure put forward by the respondent. However, we have identified a further minor mathematical error in the valuation of the reversion, where the LVT used a long-lease value of £1,467,000 whereas the correct figure should have been £1,467,300. The effect of these corrections, carried through the valuation, is to increase marginally the enfranchisement price to £780,405, of which £12,520 is payable by the freeholder to the headlessee. We set out the LVT's valuation with the necessary corrections made in the Appendix to this decision.

3. In issue before the LVT were the capital values, hope value, the deferment rate, the yield rate, marriage value and the value of the caretaker's flat. The LVT granted permission to appeal which was not limited in its scope. Before us Mr McHale pursued contentions on three of the issues, the deferment rate, marriage value and the value of the caretaker's flat.

4. At the LVT hearing Mr McHale submitted substantial evidential material. Mr Anthony Radevsky for the freeholder submitted that Mr McHale should not be accepted as an expert witness, and the tribunal agreed with this. It said:

> "20. Mr McHale admits that there is a conflict of interest between himself and the other participating tenants and expects the Tribunal to bear that in mind. Although he argued that there was no serious conflict between his role and that of the other participating tenants, and the tenants would not be substantially affected, the Tribunal does not agree. The tenants were not advised by Mr McHale to seek independent advice. Whilst Mr McHale may be, as he says, a man of principle, it is noted that in his long explanatory letter to the tenants dated 12 July 2004, he makes no mention of any conflict of interest and indeed states therein '.. in pursuing these issues I am acting against my own personal interests as a head lessee landlord' Mr Radevsky described this statement as 'thoroughly misleading and incorrect' and the Tribunal agrees with this assessment.

21. Mr McHale has a direct financial interest in the outcome of these proceedings and this could affect the quality of the evidence given to the Tribunal…"

5. The LVT then referred to *Armchair Passsenger Transport Ltd v Helical Bar Plc* [2003] EWHC 367 (QB) (unreported) and *Cadogan v 44/46 Lower Sloane Street Management Co Ltd and McHale* (Lands Tribunal ref LRA/29/2003, 30 July 2004, unreported). The circumstances in the latter case were similar to those in the present case. The tribunal then said, referring to the latter case:

"21. ... Notwithstanding the clear views expressed in that case as to the wisdom of Mr McHale representing all the Respondents, he has chosen to do so again.

22. The Tribunal had already confirmed that it would not preclude Mr McHale from giving evidence, but it has borne in mind the particular circumstances of this case when consideration is given to the evidence of Mr McHale. For the reasons as set out above, the Tribunal does not consider Mr McHale to be truly independent and his opinion evidence is not accepted as that of an expert witness. The Tribunal rejects his contention that his evidence is 'factual and not opinion based on facts or proper analysis'."

6. In the present proceedings the Registrar ordered on 27 November 2007 that the appeals lodged by Mr McHale as intermediate lessee and on behalf of the nominee purchaser should be consolidated and the time for service of experts' reports should be extended to 19 November 2007. On 5 February 2007 the Registrar ordered that unless Mr McHale and the nominee purchaser filed and served their experts' reports within 14 days they would be debarred from calling expert evidence. On the same day Mr McHale delivered to the Tribunal a "Valuation Report" prepared by himself. On 14 February 2008 he applied for an extension of time of 3 months for the services of experts' reports. The President refused this application on 16 April 2008. He said that Mr McHale, in accordance with his stated intention, could rely on the evidence that he had given to the LVT but that it would not be accepted as that of an expert.

7. At the hearing before us Mr McHale argued that what he had to say on the deferment rate, the only outstanding matter on which evidence could be relevant, should be treated as expert evidence. He said that he had financial expertise. Among his qualifications was that of Chartered Accountant and he had worked for several years as a management consultant specialising in finance and mergers and acquisition work. He had also had considerable experience on the main boards of companies as finance director and also as a non-executive director specialising in legal and financial matters.

8. It would be wrong to treat Mr McHale as an expert witness in this appeal for the reason given by the LVT: that he manifestly lacks the independence required of an expert, being both the intermediate lessee and a participating tenant. While we have considered the matters contained in the material that he submitted to us, we have done so only on the basis that they consist of arguments that may be relevant to the deferment rate issue. To the extent that expert evidence would be needed to show that the deferment rate should be other than that determined

by this Tribunal in *Cadogan v Sportelli* [2007] 1 EGLR 153 the appeal on this point could not succeed. Nevertheless we will deal shortly with the points that Mr McHale raises.

9. Expert evidence by James Geoffrey Goddard Wilson MRIC of W A Ellis LLP was filed on behalf of the respondent, but since there was no expert evidence on the part of the appellants Mr Wilson was not called on as a witness. Mr Radevsky said, however, that, in view of the appeal on hope value in *Sportelli*, which the House of Lords had heard last week, he would wish to advance a contention on hope value, if the *Sportelli* appeal were allowed, and to adduce evidence from Mr Wilson upon it. We said that we would not entertain a contention by the respondent on hope value. He had not sought permission to appeal on this issue, and for it to be kept open for argument would require the postponement of the decision and a possible re-opening of the hearing.

10. On the deferment rate, the LVT applied a rate of 5% in accordance with the decision of this Tribunal in *Sportelli*. Mr McHale had contended, and he contended before us, for a deferment rate of 8%. He did not challenge the basic methodology used by the Tribunal in *Sportelli*. Indeed he said that he had demonstrated such a calculation, which he described as a discounted cash flow calculation, as long ago as mid-2003. He said that the *Sportelli* 5% reflected a risk premium, to be added to the risk-free rate with an allowance for real growth, of 3.9%. This was not sensible, since it was even lower than the risk premium for equities. The risk premium for a reversion falling in after 40 years, reflecting the disadvantages of an investment in reversions compared with equities, with no possession and therefore no significant income, illiquidity combined with the extreme volatility of housing, high costs of realisation, and the danger of depreciation and obsolescence, would be considerably higher, at least say 7% to 9%, giving a deferment rate of 8% to 10%.

11. All these factors to which Mr McHale referred were the subject of extensive evidence and argument in *Sportelli,* and Mr McHale's contentions in this respect brought nothing new to the debate. He went on to say that the deferment rate must reflect alternative investment opportunities available to the freeholder in a comparable area of investment, with the same risks as investments in freehold ground rent reversions; and the evidence for this was contained in the IPD UK Annual Index 2006 for Commercial Properties and the UK Residential Index 2006. This showed that the long-run rate of total return that was being achieved by property developers of 12.5% nominal, supporting a real rate net of inflation of 10%. Again, the alternative investment opportunities that required consideration were the subject of evidence and argument in *Sportelli*, and at paragraph 78 the Tribunal said why it found no assistance in the returns of property companies. Here also Mr McHale's contentions added nothing to the debate, and they provide no basis at all for a conclusion that the LVT was wrong to adopt the *Sportelli* 5% generic rate. There is, unsurprisingly, no suggestion on his part that factors specific to the property require a departure from the generic rate.

12. The second matter pursued by Mr McHale was in relation to marriage value. The LVT's calculation, prepared on the conventional basis, is set out at (vii) in its valuation. It deducted from the value of the tenants' future interests the value of the current interests of the landlord, the head lessee and the participating tenants. It assessed the value of the participating tenants'

current interests, in flats 3 and 4, at £455,000 and £360,000 respectively, giving a total of £815,000. The current lease value of the caretaker's flat was taken as nil (and Mr McHale says this was wrong – the third matter that he pursues, and which we deal with below). It appears from the LVT's decision that the values adopted for the two flats were reached on the assumption that there were no rights of collective enfranchisement or lease extension under the 1993 Act. At paragraph 42 of its decision the LVT said:

> "Mr McHale did not wish to make any adjustments to his figures, particularly in relation to the 'No Act' world. The Applicant made a 10% deduction in this respect. Schedule 6 values the freeholder's interest on the assumption that this Chapter and Chapter II confer no right to acquire any interest in the specified premises or to acquire any new lease. This is a repeat of similar assumptions in 9(1A)(a) of the 1967 Act. Valuations are carried out in the 'No Act' world and, in the view of the Tribunal, adjustments must be made to reflect the lack of 1993 Act rights. The Tribunal therefore rejects Mr McHale's arguments in this respect and considers the Applicant's deduction of 10% to be justified. The Tribunal accepts that there is no value in respect of Flat 1A (see below)."

Mr McHale's contention was that it was wrong in law to make the assumption, for the purpose of valuing the interests of the participating tenants' current leases, that there were no 1993 Act rights.

13. Paragraph 4 of Schedule 6 ("Freeholder's share of marriage value"), so far as material, provides as follows:

> "4. (1) The marriage value is the amount referred to in sub-paragraph (2), and the freeholder's share of the marriage value is 50 per cent of that amount.
>
> (2) Subject to sub-paragraph (2A), The marriage value is any increase in the aggregate value of the freehold and every intermediate leasehold interest in the specified premises, when regarded as being (in consequence of their being acquired by the nominee purchaser) interests under the control of the participating tenants, as compared with the aggregate value of those interests when held by the persons from whom they are to be so acquired, being an increase in value –
>
> (a) which is attributable to the potential ability of the participating tenants, once those interests have been so acquired, to have new leases granted to them without payment of any premium and without restriction as to length of term, and
>
> (b) which, if those interests were being sold to the nominee purchaser on the open market by willing sellers, the nominee purchaser would have to agree to share with the sellers in order to reach agreement as to price.
>
> (3) For the purposes of sub-paragraph (2) the value of the freehold or any intermediate leasehold interest in the specified premises when held by the person from whom it is to be acquired by the nominee purchaser and its value when acquired by the nominee purchaser –

(a) shall be determined on the same basis as the value of the interest is determined for the purposes of paragraph 2(1)(a) or (as the case may be) paragraph 6(1)(b)(i); and

(b) shall be so determined as at the valuation date.

(4) Accordingly, in so determining the value of an interest when acquired by the nominee purchaser –

(a) the same assumptions shall be made under paragraph 3(1) (or, as the case may be, under paragraph 3(1) as applied by paragraph 7(1)) as are to be made under that provision in determining the value of the interest when held by the person from whom it is to be acquired by the nominee purchaser, and

(b) any merger or other circumstances affecting the interest on its acquisition by the nominee purchaser shall be disregarded."

14. Paragraph 2(1)(a) provides that the value of the freeholder's interest is to be determined in accordance with paragraph 3; and paragraph 6(1)(b)(i), as read with paragraph 7, requires the value of the intermediate interest (if it is not a minor intermediate leasehold interest) to be determined in accordance with paragraph 3 with such modifications to that paragraph as are appropriate to relate them to the sale of an intermediate interest. Paragraph 3(1) requires that in valuing the freeholder's interest certain specified assumption are to be made. They include:

> "(b) on the assumption that this Chapter and Chapter II confer no right to acquire any interest in the specified premises or to acquire any new lease (except that this shall not preclude the taking into account of a notice given under section 42 with respect to a flat contained in the specified premises where it is given by a person other than a participating tenant);"

15. Mr McHale argued, firstly, that the paragraph 3(1) adjustments applied only to the 'freeholder interest' for the purpose of determining the paragraph 2(1)(a) value; secondly, that paragraph 3(1)(b) meant only that the paragraph 2(1)(a) value, that was to be an open market price (excluding the participation of the persons defined in sub-paragraph (1A), namely the freeholder, the nominee purchaser and any tenant), was not to be contaminated by the existence of rights under Chapter I or Chapter II of the 1993 Act and the value was to be assessed as if there were not any rights and the freeholder would have continued undisturbed ownership of the reversion; and, thirdly, that paragraph 4(3)(a) and paragraph 4(4)(a) imported the paragraph 3(1) adjustments into the marriage value calculation so as to apply only to the 'freeholder or any intermediate interests' that were 'acquired by the nominee purchaser', and did not warrant that the paragraph 3(1) adjustments should be applied to the existing leasehold interests – neither for 1993 Act Rights nor for tenant's improvements; nor that the paragraph 3(1)(c) adjustments should be applied to the value of the near- freehold 999-year leases acquired by the participating tenants, used in the marriage value calculation for determining the marriage value increase.

16. For the respondent Mr Radevsky said that the definition of marriage value in paragraph 4(2) did not say anything about how the interests of the participating tenants were to be valued:

but it did not need to because the increase in value was, under paragraph 4(2)(a), the increase "attributable to the potential ability of the participating tenants" after the acquisition of the interests of the freeholder and intermediate lessee to have new leases granted to them in accordance with the Act. The assumption under paragraph 3(1)(b) was that there were no rights under Chapters I and II to acquire any interest in the specified premises. Under paragraph 4(3)(a) the value of the freehold was to be determined "on the same basis" as under paragraph 2(1)(a), and thus the paragraph 3(1) assumptions applied; and those assumptions were expressly applied under paragraph 4(4) in determining the value of an interest acquired by the nominee purchaser. Thus the same assumptions applied all through the determination of the marriage value as when calculating the value of an interest being acquired.

17. We accept Mr Radevsky's submission. What paragraph 4(2) provides for is the assessment, as marriage value, of any increase in the aggregate value of the freehold and intermediate leasehold interests, and subparagraphs (3) and (4) provide for the application of the paragraph 3(1) assumptions in determining the value of those interests. The provisions do not prescribe the format in which the marriage value is to be determined, and it says nothing about the valuation of the participating tenants' current leasehold interests. But it is clear that the value of those current interests need to be brought into the calculation for the purpose of determining what increase in value of the freeholder's and intermediate leaseholder's interest will result from a marriage of those interests. For the purpose of valuing the freeholder's and intermediate leaseholder's interests it must be assumed that Chapters I and II confer no right to acquire any interest in the demised premises.

18. It follows that that assumption must be made throughout the valuation of those interests and where, as part of that valuation, the value of the participating tenants' current interests is brought into the reckoning, it must apply there. It is moreover implicit in paragraph 4(2(a), which refers to the increase in value attributable to the potential ability of the participating tenants, post-enfranchisement, to have new leases granted to them, that the before valuation must be done on the basis that they have no such rights. In any event it would, in our view, be contrary to the scheme of the provisions to do otherwise than to assume throughout the valuation that Chapter I and II rights do not exist in relation to the premises. The Act provides for the acquisition of the freeholder's and intermediate leaseholder's interests, and so they must be compensated for what they have lost by reason of the provisions of the Act that enable the acquisition to take place. To import into the valuation of the interests before acquisition values that derive from the provisions of the Act itself would be inconsistent with objective and there could be no justification for it. The LVT was undoubtedly right, in our judgment, in approaching the matter on the basis that the paragraph 3(1)(b) assumption was to be applied to the value of the participating tenants' current interest in determining marriage value.

19. The third matter pursued by Mr McHale relates to the caretaker's flat. The LVT took the value as nil on the basis that under the terms of the headlease and the underleases the intermediate lessee had no power to charge a rent for it. Mr McHale's contention was that this was wrong, since on a proper interpretation of the leases he did have the right to charge a rent for the flat. This is the third issue. The head lease contains at clause 2(10) a covenant against using

> "the demised premises or any part thereof ... otherwise than as self-contained flats and/or self-contained maisonettes as shown on the Drawings referred to in Clause 1(a) of the said First Schedule hereto each as a single private residence in one family occupation only with a Caretakers flat and tenants stores in the basement of the demised premises also where shown on the said Drawings."

And under clause 2(11)(c) the lessee covenants to:

> "use its best endeavours to provide for the demised premises throughout the said term a full-time Caretaker (who shall not be the Lessee or a Director or other officer of the Lessee if a company) who shall reside in the Caretaker's flat rent-free as a licensee on a service basis."

20. In each of the underleases the tenant covenants as follows:

> "2(4) To pay to the Lessor without any deduction a proportionate part of the expenses and outgoings incurred by the Lessor in the repair maintenance renewal and insurance of the Building and the provision of services therein."

The Third Schedule sets out the lessor's expenses and outgoings of which the lessee is to pay a proportionate part. They include:

> "3. The cost of employing a housekeeper or housekeepers and also in respect of the accommodation (if any) to be provided for such housekeeper or housekeepers (a) the cost to the Lessor of outgoings for such accommodation (including loss of rack rent thereon)"

The lessor covenants as follows:

> "4. (d) So far as practicable use its best endeavours to maintain the services of a housekeeper for the performance of such duties as shall from time to time be authorised by the Lessor provided always that the Lessee shall not employ the housekeeper to perform any special services for the Lessee.
>
> (e) During the continuance of the said term to pay the rents reserved by the Lease under which the Lessor holds the Building and to perform and observe the covenants therein contained insofar as neither the Lessee nor any other owner of a flat is liable for such performance under the covenants on his or her part contained in this or a similar lease."

21. The LVT was in our judgment correct in its treatment of the caretaker's flat. Under clause 2(11)(c) of the headlease Mr McHale must use his best endeavours to provide a resident caretaker, who must reside there rent-free on a service basis. He is not entitled to charge a rent for that flat. Nor is the intermediate lessee able under the underleases to include in the service charge the rental value of the flat. The service charge can (paragraph 3 of the Third Schedule) include the cost of employing `a housekeeper "and also in respect of the accommodation (if any) to be provided for such housekeeper ... the cost to the Lessor of outgoings for such accommodation (including loss of rack rent thereon) ..." Mr Radevsky submitted that there

was no loss of rack rent in respect of the caretaker's flat. The lessor under the underleases was not obliged to provide a resident housekeeper within 10 Sloane Gardens but he was obliged to perform and observe the covenants in the headlease under clause 4(1)(e). Since a caretaker was provided there and the flat could not be let out by virtue of the headlease, the head lessee could not recover a rack rent under the service charge provisions.

22. Mr Radevsky's analysis is consistent with the decision of this Tribunal in *Cadogan v 44/46 Lower Sloane Street Management Co Ltd.* That was a case which mirrored the present one in that the head lessee was Mr McHale and the terms of the head lease and underleases were to the same effect. The Tribunal (Judge Rich QC and N J Rose FRICS) analysed them in paragraphs 20 to 24 of that decision. We see no reason to disagree with that analysis, or to reproduce it here. The effect of the analysis was stated to be as follows:

> "25. ... The head-lease grants the basement flat to the head-lessee on the same terms as the common parts of the Building: it is not lettable and must be maintained. The premium paid on the head-lease would reflect this. The underlessees take their underleases on terms that they must pay the cost of the provision of a resident caretaker, but not the cost of providing as opposed to maintaining his accommodation, at least in so far as the underlessor does not incur cost in its provision. In the same way they are granted rights over the common parts and must pay the cost of their maintenance. The premium which would be paid for the underleases should reflect that package of rights granted by the underlease. Although it is right that the underlessees thus have the benefit of a resident caretaker more cheaply than if they had to pay for his accommodation by way of maintenance charge, they do so because the premium paid for the grant of the underlease should, if the provisions of the Third Schedule were properly construed at the date of the grant, have taken account of such benefit."

23. Mr McHale suggested that the Court of Appeal, in refusing leave to appeal from this Tribunal in another case, *Cadogan v 27/29 Sloane Gardens Limited* [2006] EWCA Civ 1331, cast doubt on this analysis. But we can see no foundation for this suggestion in the terms of the judgment. The covenants at issue in that case were materially different from those in the present case.

24. We accept Mr Radevsky's submissions on the effect of the clauses in the headlease and the underleases. His analysis is consistent with that of the Tribunal in the case of 44/46 Lower Sloane Street. Mr McHale is not able to charge a rent for the caretaker's flat or to include a notional rent for it in the service charge. The LVT's conclusion in this respect was correct.

25. The appeal must accordingly be dismissed. As explained in paragraph 2 the purchase price is amended to £780,405 of which £12,520 is payable to the intermediate lessee.

Dated 30 October 2008

George Bartlett QC, President

P R Francis FRICS

APPENDIX A

LANDS TRIBUNAL VALUATION
of
10 SLOANE GARDENS, LONDON SW1

under Schedule 6 of

THE LEASEHOLD REFORM, HOUSING AND URBAN DEVELOPMENT ACT 1993 (As amended)

COMPONENTS

Head Lease: 62½ years from 24th June 1983
39.37 years unexpired

Ground rents payable by Head Lessee

£2,200 until 24th June 2013
£3,300 until 24th June 2023
£4,400 until 24th June 2033
£6,600 until 24th June 2043
£8,800 until 29th September 2045

Occupational leases: 62 years from 24th June 1983
39.12 years unexpired

Ground rents – payable by occupational tenants
(No ground rent in respect of flat 1A)

Flat 1	Flat 2	Flat 3	Flat 4	Flat 5		TOTALS
£ 600	£ 500	£550	£650	£400	until 24th June 2013	£2,700
£ 900	£ 750	£825	£750	£600	until 24th June 2023	£3,825
£1,200	£1,000	£1,100	£1,000	£800	until 24th June 2033	£5,100
£1,800	£1,500	£1,650	£1,500	£1,200	until 24th June 2043	£7,650
£2,400	£2,000	£2,200	£2,000	£1,600	until 24th June 2045	£10,200
			£6,325	£5,900		£29,475

Proportion of ground rents paid by participants = 41.476%

Valuation date: 16th May 2006

Yield rate for ground rents 6%

Deferment rate: 5%

Values used:
Current lease values - Participants

1A	NIL
3	£455,000
4	£360,000
	£815,000

Long lease value		Participants	Non participants
1A	£ 303,000	£ 303,000	
1	£1,023,000		£1,023,000
2	£ 635,000		£ 635,000
3	£ 650,000	£ 650,000	
4	£ 514,300	£ 514,300	
5	£ 376,000		£ 376,000
	£3,501,300	£1,467,300	£2,034,000

VALUATION

Freeholder's current value

i) **Ground rents**

£2,200 for 7.12 years @ 6%		
2,200 x 5.6596	£ 12,451	
£3,300 for 10 years @ 6% def'd 7.12 yrs		
3,300 x 7.3601 x 0.6604	£ 16,040	
£4,400 for 10 years @ 6% def'd 17.12 yrs		
4,400 x 7.3601 x 0.368777	£ 11,943	
£6,600 for 10 yrs @ 6% def'd 27.12 yrs		
6,600 x 7.3601 x 0.2059	£ 10,002	
£8,800 for 2.37 yrs @ 6% def'd 37.12 yrs		
8,800 x 2.1498 x 0.114986	£ 2,175	£52,611

Participants proportion of freeholders ground rent
41.476% of £52,611 = £21,821

ii) **Reversion**

Participants		
£1,467,300 @ 5% deferred 39.37 years		
£1,467,300 x 0.14648	£214,930	£214,930
Non participants		
£2,034,000 @ 5% deferred 39.37 years		
2,034,000 x 0.14648	£297,940	£297,940

iii) **Total of Freeholder's value** £565,481

Head Lessee's value

iv) **Ground rents**

Participants			
£1,200 for 7.12 years @ 6%			
1,200 x 5.6596		£ 6,792	
£1,575 for 10 years @ 6% def'd 7.12 yrs			
1,575 x 7.3601 x 0.6604		£ 7,655	
£2,100 for 10 years @ 6% def'd 17.12 yrs			
2,100 x 7.3601 x 0.368777		£ 5,700	
£3,150 for 10 yrs @ 6% def'd 27.12 yrs			
3,150 x 7.3601 x 0.2059		£ 4,774	
£4,200 for 2.37 yrs @ 6% def'd 37.12 yrs			
4,200 x 2.1498 x 0.114986		£ 1,038	£25,959
Non participants			
£1,500 for 7.12 years @ 6%		£ 8,489	
1,500 x 5.6596			
£2,250 for 10 years @ 6% def'd 7.12 yrs			
2,250 x 7.3601 x 0.6604		£10,936	
£3,000 for 10 years @ 6% def'd 17.12 yrs			
3,000 x 7.3601 x 0.368777		£ 8,143	
£4,500 for 10 yrs @ 6% def'd 27.12 yrs			
4,500 x 7.3601 x 0.2059		£ 6,820	
£6,000 for 2.37 yrs @ 6% def'd 37.12 yrs			
6,000 x 2.1498 x 0.114986		£ 1,483	£35,871
Head lessee's gross ground rent income			£61,830
LESS Payment of ground rents to freeholder			£52,611
		Profit rent	£9,219
		Value of flat 1A	NIL
vi) **Head lessee's current value**			£9,219

vii) **Marriage value**

Value of future interest			
Tenants			£1,467,300
Value of current interests			
Landlord	£ 21,821		
	£214,930	£236,751	
Head Lessee	£ 4,138		
Participating tenants	£815,000	£819,138	£1,055,889
Total of marriage value			£ 411,411
50% payable by participating tenants			£ 205,705

viii) **Amount payable**

Freeholders current interest	£565,481
Head lessee's current interest	£ 9,219
50% marriage value	£780,405

ix) **Share of marriage value**

Freeholder			£565,481	
205,705 x	565,481			
	574,700	=	£202,403	
Amount payable to Freeholder			£767,885	£767,885
Head Lessee				
205,705 x	9,219		£ 9,219	
	574,700	=	£ 3,299	
Amount payable to Head Lessee			£ 12,518	£ 12,520
				£780,405