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(LVT 9)

Ref: LON/LVT/1081/99

**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:** The Grosvenor Estate Belgravia

**Respondent:** Mr & Mrs R Davies

**RE:** 4 Grosvenor Studios, Eaton Terrace, London, SW1

**Date of Tenant's Notice:** 4 September 1998

**Application to the Tribunal dated:** 25 January 1999

**Hearing dates:** 28 & 29 September 1999

**Appearances:**

Mr S Atkins (of Counsel)  
Mr C S R Marr - Johnson FRICS (Marr - Johnson & Stevens)  
Lord Francis Russell BSc ARICS ASVA (Francis Russell Chartered Surveyors)  
Mr R Davies

for the Tenant

Mr G Cowan (of Counsel)  
Mr P Scoble (Boodle Hatfield, solicitors)  
Mr I MacPherson MA (Cantab) FRICS (Gerald Eve)  
Mr G Pope FRICS FSVA  
Mr T Martin (the Grosvenor Estate)

for the Landlord

**Members of the Leasehold Valuation Tribunal**

Mrs J S L Goulden JP (Chairman)  
Mr R R B Shutler CB FRICS FAAV FSVA  
Mr D Z Myer-Smith LLB

**Date of the Tribunal's Decision** 16 November 1999.

## FACTS

4 Grosvenor Studios, Eaton Terrace, SW1 (hereafter called 'the Subject property') was inspected by the Tribunal on 29 September 1999. It is a three storey mid terrace mews property circa 1850 of brick and pantile construction in a secluded position off Eaton Terrace and close to Sloane Square behind a gated entrance and comprised the following accommodation at the valuation date:-

Floor	Description	Dimensions in	
		Metres	Feet & Inches
Ground	Dining Hall	4.29 x 3.28	14'1" x 10'9"
	Kitchen	3.40 x 3.02	11'2" x 9'11"
	Cloakroom		
	Drawing room	8.00 x 5.56	26'3" x 18'3"
	Conservatory	2.95 x 2.18	9'8" x 7'2"
First	Bedroom 1	5.56 x 4.95	18'3" x 16'3"
	Bathroom en suite		
	Dressing room	5.64 x 2.87	18'6" x 9'5"
	Bedroom 2	4.22 x 3.96	13'10" x 13'0"
	Bathroom en suite	4.06 x 2.13	13'4" x 7'0"
Second	Bedroom 3	5.56 x 3.86	18'3" x 12'8"
	Bathroom en suite		

The gross internal area in its improved state to include the second floor mansard extension and conservatory is approximately 193.7 square metres (2085 square feet) and without the extension and conservatory is approximately 158 square metres (1700 square feet). The measurements were agreed by both sides.

There have been two licences granting landlord's consent for alterations to the subject property, the first being 29 December 1987 giving the leaseholder consent to construct

a dormer window at the rear of the property, to create a bedroom and bathroom in the roof space and to alter the front elevation, internal layout and drainage system.

The second was dated 17 September 1991 giving the leaseholder consent to remove the existing ground floor and first floor casement windows and to replace them with full length floor to ceiling windows on the rear elevation and to construct a conservatory in the rear yard.

The Tribunal also inspected the exterior and interiors of 1 and 2 Grosvenor Studios and 3 Grosvenor Studios and the exteriors only of 2 Grosvenor Cottages, Eaton Terrace SW1 and Chandos House 17A Chester Street, SW1.

The subject property is subject to an underlease dated 15 July 1982 and granted for a term of  $53\frac{3}{4}$  years from 25 March 1982 (expiring on 25 December 2035). The lease reserved a rent of £1100 per annum with rent reviews from 25 December 2002 and 25 December 2023 to 10% of the full market rental of the subject property at each of those dates respectively for the letting of the subject property as a whole upon the terms of the lease (save as regards the rent and premium) and, in the case of the second review, any additional annual sums already payable.

No statement of agreed facts was presented to the Tribunal but during the course of the Hearing, the following matters of agreement were identified:-

1. The valuation date is 10 September 1998
  
2. The yield rates applicable in the relevant valuation of the landlord's interest excluding marriage value as follows:-  
  
5% for capitalising rental income until review  
6% for capitalising and deferring rental income following the review  
6% for deferring the value of the landlord's ultimate reversion to the freehold with vacant possession.  
  
(The capital value of the rental streams was therefore agreed).
  
3. The amount of the ground rent due on review in the year 2002, £4850 per annum
  
4. Transfer Terms.
  
5. Landlords share of marriage value at 50%.
  
6. That the freehold revisionary interests (owned by Trustees) and the headlease (owned by the Estate) are deemed to be merged and vested as a single interest in Grosvenor Estate.

7. The leasehold interest had been sold on 4 occasions:-

ie	1987 (48.5 years unexpired)	£435,000
	1988 (47.5 years unexpired)	£826,000
	1994 (41 years unexpired)	£1.3 m
	1998 (37.25 years unexpired)	£1.85 m

Put briefly, the matters in issue before the Tribunal were as follows:-

1. Value of unimproved leasehold interest
2. Value of unimproved freehold interests
3. Effect of improvements on the values required to be found, as above
4. Amount of the premium payable in accordance with the 1967 and 1993 Acts ("The 1967 Act Price").

1. **Value of unimproved leasehold interest**

Mr MacPherson for the landlord, relying on the evidence of Mr Pope, suggested £1,280,000 and Mr Marr-Johnson, relying on the evidence of Lord Francis Russell, suggested £660,000.

Mr Pope, for the landlord and by way of comparable evidence, referred to transactions of all the properties within the courtyard, namely 1, 2, 3 and 4 Grosvenor Studios. No 1 and 2 Grosvenor Studios sold for £1.1 million in

1996 having some 44 years unexpired. Mr Pope considered this property and its sale "eccentric". This sale price was subsequently - and after the Hearing - disputed by Mr Marr-Johnson. No 3 Grosvenor Studios was sold in July 1996 for £850,000 with an unexpired term of approximately 39 years. He considered that this transaction may have produced a special price because the purchaser already owned Nos 1 and 2 and required further family accommodation. The subject property, on which there have been two transactions, sold in 1994 for £1.3 million when the unexpired term was approximately 41 years and again in October 1998, when contracts were exchanged for £1.85 million.

Lord Francis, for the tenant, relied on his analysis of Mr Pope's comparables together with several other comparables most of which were some distance away from the subject property. He drew different conclusions from Mr Pope partly on account of the weight attached to impressive improvements which fall to be excluded from the valuation.

**2. Value of unimproved freehold interest**

The landlord considered this to be £2,080,000 and the tenant £1,100,000.

Both expert witnesses drew their conclusions as to the freehold value having regard to an appreciation of the leasehold transactions referred to above to which they both applied a scale of relative values between leasehold and freehold prepared by leading London estate agents. Put another way, there

appeared to be a close identity of view that the leasehold interest on this occasion was represented by a relativity of 60-62% of the freehold interest.

3. **Effect of improvements on the values required to be found.**

Mr Pope referred to the improvement works carried out in accordance with the licences dated 29 December 1987 and 17 September 1991 and agreed that "the lion's share of improvements" were carried out then. In addition, Lord Francis submitted a schedule of capital improvements which contained a list of thirty items which had been carried out by successor tenants.

Mr Pope felt that some of these items constituted repair and/or alteration and not necessarily improvements and he also submitted that money spent does not necessarily add value to an interest in property. Lord Francis did not agree in this instance.

Lord Francis for the tenant said that the subject property had been the subject of substantial investment over many years and he was able to put before the Tribunal a plan of the property in 1952. He drew out the substantial differences between the subject property as at 1952 and the date of valuation. He attached great weight to the schedule of 30 items of improvement which he submitted had transformed the unimproved property into the elegant mews house it now is. He conceded that in hindsight, his valuation of the leasehold interest should have included something for the potential to carve out the third

storey. He admitted that the presentations of the valuation of the subject and the comparables were prepared in a somewhat different format.

Mr Cowan, in oral submissions on behalf of the landlord, said that the difference between the parties was how they dealt with the improvements. The tenant's expert had adopted a rigid mathematical approach of allowing 74.69% for full refurbishment, (drawn from a synthesis of the two sales in 1987 and 1988) rather than standing back to see if it made sense. He also argued that the tenant's expert had not inspected the comparables or considered site values but had "latched" on impermissibly to transactions some 10 years before the valuation date with a defective analysis and application. Mr Cowan also said that it was inexplicable that Lord Francis should, in effect, attribute as much as £500 per square foot to the value of improvements which are to be left out of account.

Mr Atkins, in oral submissions on behalf of the tenant, maintained that "the improvements entirely changed the character (of the subject property)" and suggested that No 3 Grosvenor Studios, adjoining, was the most appropriate comparable, having an almost identical lease and a comparable floor area. He argued that the sale of 1 and 2 Grosvenor studios were "somewhat eccentric" and at a "freakish price".

Mr Atkins said that Mr Pope had not properly explained the enormous leaps in value of the subject property in 1987, 1988, 1994 and 1998 and the Tribunal should accept Lord Francis' approach of applying a percentage, which could



only be attributable to the outcome of the highly significant improvements. It was suggested that the Tribunal should also consider comparables outside the immediate area because the subject property was notionally in competition with other unimproved property, and not those which had been considerably upgraded by substantial schemes of improvement.

## CONCLUSIONS

At the Tribunal's inspection, the subject was considered to be a low built elegant property refurbished to a very high standard and in a prime and secluded location. The Tribunal accepted that the value of the property was greatly enhanced by the quality of the improvements and the imaginative design.

The Tribunal found it unusual and helpful that there were relevant recent transactions before them in respect of all the properties in Grosvenor Studios including the subject. In those exceptional circumstances the Tribunal did not need to look beyond the immediate location.

Moreover, the subject property was contracted to be sold for £1.85 million in October 1998. The Tribunal accepts this as the best evidence provided. Its task is to analyse that transaction so as to reach the unimproved values in accordance with the Act.

Whilst the Tribunal agrees with Lord Francis' view that the works were significant and wide ranging, it found it difficult to reconcile his valuation of £660,000 against a sale transaction of £1.85 million and also did not accept his contention that only a property developer would buy it in its unimproved condition. Nor did the Act appear to exclude the bid of a special purchase, if indeed there had been such an enhanced bid.

On the other hand, the Tribunal were of the view that Mr Pope's valuation of £1.28 million was somewhat too high, having regard to the creation of the second floor which must be left out of account apart from the latent potential.

The other works, too, were substantial, and in the circumstances, and taking careful account of all the evidence as well as the conclusions to be drawn from the sales of the two other leasehold interests in the Studios, (particularly No 3 in July 1996 for £850,000), the Tribunal decided that the open market value of the leasehold interest in accordance with the Act was the sum of £1.05 million. Taking account of the further evidence submitted in respect of the relativities, the Tribunal determined a value of £1.65 million for the freehold interest on the statutory basis.

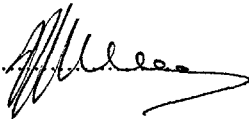
4. **PREMIUM PAYABLE**

Mr MacPherson for the landlord proposed a premium of £547,700 and Lord Francis Russell for the lessees a premium of £311,765. Their valuations are attached to this decision as Appendices B and C respectively.

The Tribunal determines the sum to be paid for the freehold interest is £423,150.

Details of the Tribunal's valuation is set out in Appendix A.

CHAIRMAN.....



DATE 16 November 1999.....



Appendix A

Determination of the Tribunal

Lessor's interest

Ground rent payable	£1,100	
YP for 4.25 years @ 5%	<u>3.745</u>	4120
Reversion to rent review in 2002	4,850	
YP of 33 years, def 4.25 years @ 6%	11.114	53,903
Value with V.P on statutory basis	£1,650,000	
Def. 37.25 years @ 6%	<u>0.1141</u>	
	£188265	
		<u>188,265</u>
		246,288

Marriage Value Value V.P £1,650,000

Less Lessor's interest 246,288  
Lessee's interest 1,050,000  
1,296,288

£1,296,288

Gain on marriage 353,712

Allow ½ to landlord 176,856  
£423,144

The 1967 Act Price say £423,150



APPENDIX B

LEASEHOLD REFORM ACT 1967 AS AMENDED

Section 9(1C)

Valuation

of

4 Grosvenor Studios, London, SW1

at 10th September 1998

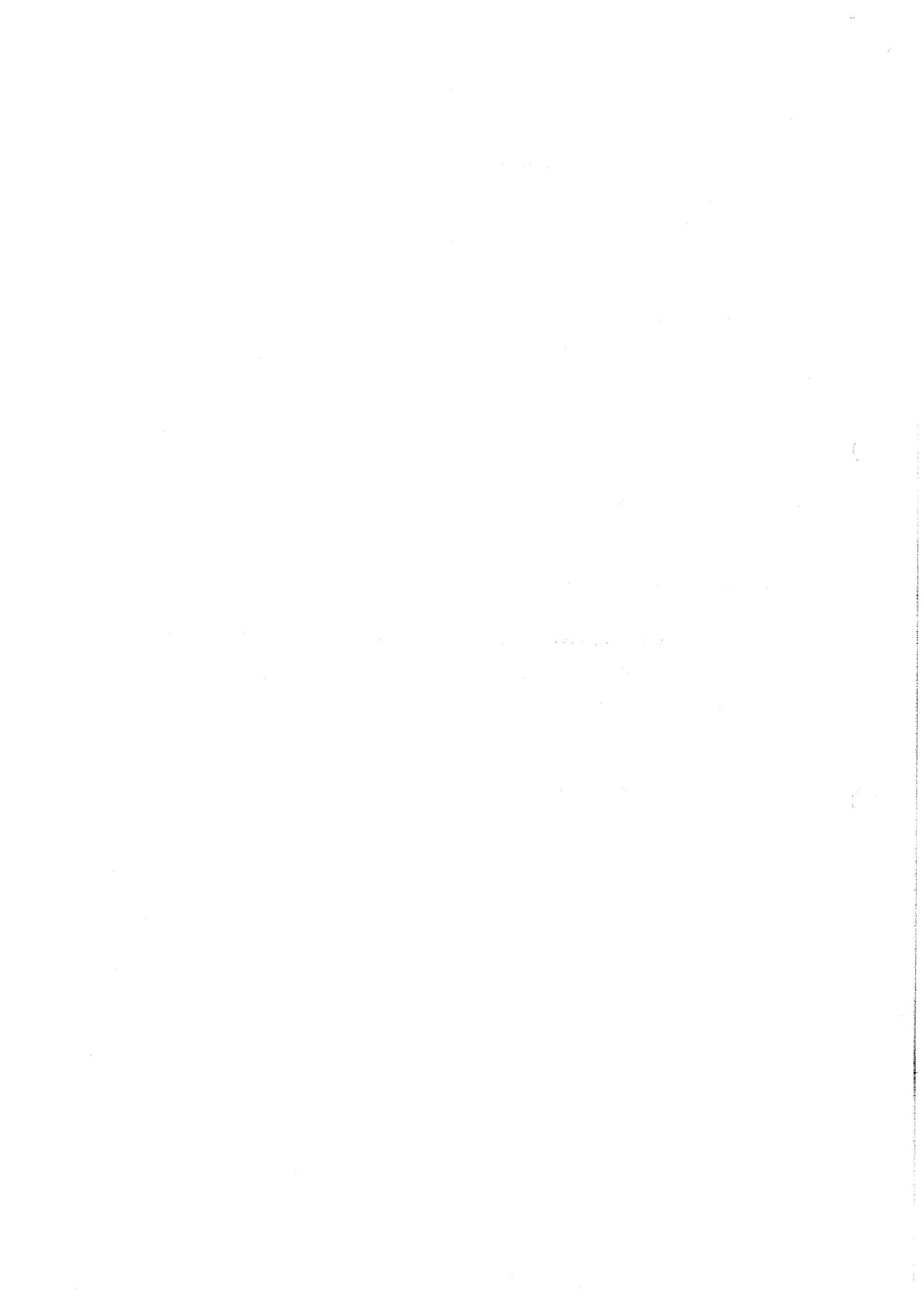
by

Ian Macpherson M.A. FRICS

			£	£	£
<u>Valuation of lessor's interest exclusive of marriage value</u>					
For remainder of term-					
Ground rent currently payable			1,100		
Years purchase for	4.25 years @	5.0%	<u>3,745</u>		
				4,120	
Reversion to rent review @ 25th December 2002					
OMRV GIA 1700 sq ft @ £28.53 psf			48,500		
		@			
		10%	4,850		
Years purchase for	33 years @	6.00%	14,230		
Deferred	4.25 years @	6.00%	<u>0,781</u>		
				11,140	
					53,903
Value of freehold interest with vacant possession			2,080,000		
Deferred	37.25 years @	6.0%	<u>0,1141</u>		
				237,328	
					295,351
<u>Add lessor's share of marriage value</u>					
Value of freehold interest with vacant possession				2,080,000	
<u>Less</u>					
Value of lessor's interest exclusive of marriage value				295,351	
Value of lessee's interest exclusive of marriage value			<u>1,280,000</u>		
Gain marriage				<u>1,575,351</u>	
				504,649	
Attributed to lessor @	50%				<u>252,325</u>
Enfranchisement price					547,676
				Say	<b>547,700</b>

28-Sep-99

**GERALD EVE**  
Chartered Surveyors





APPENDIX C

Mr & Mrs R Davies

**Leasehold Reform Acts 1967 & 1993**

**4 Grosvenor Studios, Eaton Terrace, London SW1**

Freehold Valuation as at

			Sep 1998 claim	Dec 2035 expiry	
Ground rent per annum:					£1,100
Years' purchase for:	4.25	years at	5%		<u>3,745</u>
					£4,119
Rent review at	Dec 2002	to:-		£4,850 pa	
	(years)	(rate)			
Years' purchase for:	33.0	6%	14.230		
Present value of £1 after:	4.25	6%	<u>0.780678</u>		
				<u>11,10915</u>	
					£53,879
Reversion to fully repaired but unimproved value, freehold with vacant possession				£1,100,000	
Present value of £1 after:	37.25	years at	6%	<u>0.114119</u>	
					£125,530
Open market value of landlords' interest					£183,529
<b>Marriage Calculation</b>					
Freehold as above				£1,100,000	
less freeholders' interest			£183,529		
and lessee's interest @ 60%			<u>£660,000</u>		
(ignoring the right to claim)				<u>£843,529</u>	
Total marriage value				£256,471	
Landlords' share @ 50%				<u>0.5</u>	
					<u>£128,235</u>
<b>Enfranchisement price exclusive of costs</b>					<u><u>£311,765</u></u>

C S R Marr-Johnson

28th September 1999