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**RESIDENTIAL PROPERTY TRIBUNAL SERVICE**

**LEASEHOLD VALUATION TRIBUNAL FOR THE SOUTHERN RENT  
ASSESSMENT PANEL**

**Case Number: CHI/24UJ/OCE/2006/0013**

**Leasehold Reform, Housing and Urban Development Act 1993**

**In the matter of: Land to the West Side of Watership Drive, Hightown,  
Ringwood, Hampshire.**

**Parties: Watership Drive Freehold Ltd Applicant**  
**Abbey Developments Ltd Respondent**

**Appearances: For the Applicant:**  
**Miss E Smalley, Lester Aldridge, Solicitors;**  
**Mr S Dancer FRICS MCI Arb, Expert Valuer;**  
**For the Respondent:**  
**Ms K Walden-Smith, Counsel instructed by Dickins**  
**Shiebert, Solicitors;**  
**Mr C Wetherall BSc FRICS FNAEA, Expert Valuer.**

**Hearing Date: 28<sup>th</sup> April 2006.**

**Tribunal members:**

**Mrs H Bowers MRICS**  
**Mr M R Horton FRICS**  
**Mr S Griffin LLB**

**Decision Date: 17<sup>th</sup> May 2006**

## **1. Introduction**

1.1 This matter relates to Land to the West Side of Watership Drive, Ringwood, Hampshire, identified as 24–50 Watership Drive (the subject property) and an application pursuant to section 24 of the Leasehold Reform, Housing and Urban Development Act 1993 (“the Act”).

1.2 On 17<sup>th</sup> June 2005, a notice was served on the Landlords, Abbey Developments Limited under section 13 of the Act. The premium proposed in the initial notice was £39,999 for the four blocks of flats and £1 in respect of communal land to the four blocks. The Nominee Purchaser was named as Susan Alexandra Gilks. A counter-notice dated 18<sup>th</sup> August 2005 was served by Abbey Developments Limited that recognised the Applicants’ right to collectively enfranchise and amongst other matters, proposed a premium of £198,453 for the specified premises and £100 for the communal land. Under Section 15 of the Act, a notice dated 30<sup>th</sup> January 2006 was served to replace the original Nominee Purchaser, with Watership Drive Freehold Limited. An application was made on the 31<sup>st</sup> January 2006 to the Tribunal to determine the terms of acquisition that were in dispute between the parties.

1.3 No evidence or representations were made at the hearing in respect of the transfer and costs. The parties were each given fourteen days from the hearing to submit their costs and reach agreement. These further matters are adjourned until 19<sup>th</sup> June 2006. Unless an application is made by either party for a hearing date to dispose of all outstanding issues by that date, the application relating to those issues will stand dismissed.

## **2. The Law**

2.1 Chapter I of the Act sets out the provisions for the collective enfranchisement of a property. Schedule 6 of the Act sets out the

provisions for the calculation of the premium that is payable in respect of the freehold interest of the property.

**3. The Premises**

- 3.1 Prior to the hearing the Tribunal had the opportunity to carry out a brief external inspection of the subject property. Flats 24-50 Watership Drive form part of a modern residential estate. The properties would appear to date from the late 1980's and are of brick and tiled construction. There are four two storey blocks; one block comprises two flats and the remaining three blocks have four flats each. There are some garages that are demised to individual flats. Additionally there are some carport facilities, further open parking available and there is a bin store which would appear to serve the fourteen flats. The four blocks are situated in communal gardens and at the rear of this part of the development there are views over a small lake. In general it is an attractive development that is well maintained.

**4. The Leases**

- 4.1 Mergeswift Property Management Limited holds a head-lease interest in the property from Abbey Developments Limited. The lease is dated 10<sup>th</sup> December 1991 and is for a term of 99 years from 29<sup>th</sup> September 1991.
- 4.2 There was a copy of the lease for Flat 26. This lease is dated 30<sup>th</sup> April 1993 and the original parties to the lease are Mergeswift Property Management Limited as the Lessor and Robert Price as the Lessee. It was acknowledged that the occupational leases were generally in a similar format. Each lease is for a term of 99 years (less three days) from 29<sup>th</sup> September 1991. The initial ground rent for each flat is £150 per annum, subject to review. The review provisions are set out in clause 1(i) of the lease and state "such rent to be reviewed each twenty-fifth anniversary of the grant hereof and shall then be increased to such sum as is the same percentage of the review value of the Block as the rent hereby reserved is of the first value of the Block."

4.3 Under the occupational leases Mergeswift covenant to insure, repair and maintain the property and to recover the associated costs via the service charge provisions.

**5. The Agreed Matters**

5.1 The following matters were confirmed to be agreed by both experts:

|   |                             |
|---|-----------------------------|
| Valuation Date:   | 17 <sup>th</sup> June 2005. |
| The total original selling price of the flats:                          | £1,078,688                  |
| The total open market value of each flat at 17 <sup>th</sup> June 2005: | £3,240,000                  |
| The total passing rent at 17 <sup>th</sup> June 2005                    | £2,100                      |
| The total "reversionary" rent at 27 <sup>th</sup> June 2005:            | £6,334                      |

**6. Matters Outstanding**

6.1 Given that the above matters had been agreed, the matters that were still outstanding and requiring determination by the tribunal were:

The appropriate yields to be applied and accordingly the premium to be paid for the freehold interest in the subject property.

**7. Hearing**

7.1 Both Valuers had supplied proofs of their evidence to the tribunal prior to the hearing, but at the commencement of the hearing, Mr Dancer provided a substitute valuation. We have summarised each case below.

**Applicant's Case.**

7.2 The all risk yield reflects the risk associated with an investment. Yields on retail properties on a high street location and with the benefit of a five year review pattern would be in the region of 5% to 6%. A poorer location would command a higher yield to reflect the greater risks. Mr Dancer produced an extract from the Estates

Gazette showing yields on properties with a traditional five year review pattern at levels of between 6.43% and 7.5%. It was acknowledged that Mr Dancer had no details on the sale, the particulars of the lease or the current open market rental value of these properties. We were also provided with details of an overview of the local market from Austin Adams showing commercial yields at a level of between 4% and 6.5%.

7.3 Mr Dancer then went on to produce details of residential settlements and sales in the local area. The first transaction was in respect of Holly Court, West Moors. This is a transaction that had no element of marriage value, as marriage value may sometimes be a factor that has an effect on yields. The analysis suggested an initial yield of 6.22% and an adjusted yield of 8%. There was some confusion in respect of the interest purchased for this property as the Land Registry showed different details from the information supplied by Mr Dancer.

7.4 Mr Dancer produced details of four settlements under the Act, but confirmed that the negotiations had been carried out with the assumption that the effect of the Act should be ignored. All four properties were subject to leases with terms less than 80 years. Seabanks, Poole was a settlement in respect of a freehold interest, subject to a number of 99 year leases with fixed rent reviews every 33 years. The valuation date was 10<sup>th</sup> February 2004 and the analysed yield was 9%.

7.5 Seahaven, Poole was a settlement for a freehold reversion subject to six leases with a ground rent with a fixed review every 33 years. The equated yield was 9%.

- 7.6 Moonrakers, Poole was agreed as a sale of a freehold subject to six 99 year leases with the ground rent fixed throughout the period at £40 per annum. The yield is analysed to 8%.
- 7.7 Finally, Falcon Court, Poole is a freehold interest subject to leases with a fixed ground rent and reviewed rent for the first 42 years and then reviewed every subsequent 21 years to the current open market ground rents prevailing at that time. This transaction analysed to show a yield of 8.5%.
- 7.8 From the above comparable information, Mr Dancer was of the opinion that the yield in this case should be 8%. His rationale behind adopting 8% is that in respect of the subject property there is still 11 years to go before the next rent review and that the capital values may go up or down. An investor would consider the possibility that the review in the subject leases may fall at a time when there was a downturn in the residential property market. By adopting this yield on the term and reversion, his calculations show a premium for the freehold interest in the subject property to be £52,913. Mr Dancer's valuation is shown in Appendix A to this decision.
- 7.9 In response to questions asked by Ms Walden-Smith and the Tribunal, Mr Dancer acknowledged that if there is some protection against inflation then the yield would generally be lower. The same principles regarding yields apply to commercial properties as well as residential properties. With regards to management costs and potential voids problems, these are issues that could be experienced with a residential property.

### **Respondent's Case**

- 7.10 In this development, due to the existence of the Headlease that carries out all the management functions, the Landlord is remote from the day to day running of the property and therefore his interest in the property is purely an income stream.

- 7.11 If a lease has a fixed review pattern, that purely doubles the rent every 25 years, then this would effectively have an annual compound growth rate of 2.8% and such an investment would only be attractive in periods of very low inflation. As the review pattern in the subject leases is reviewed with reference to the capital values of the flats, then there is anticipated annual compound growth of 7.75% and would be perceived as being a far better investment than a property with a fixed rental pattern.
- 7.12 Mr Wetherall produced details of three ground rent investment sales to provide some indication of the appropriate yield rate. 5-6 Hunter Street, Bloomsbury, London sold in March 2006 for £90,500. The interest sold was the freehold subject to various residential leases with 997 years unexpired. The ground rents are set to a fixed review pattern. The yield from this transaction is 6.5%.
- 7.13 Landsdowne House, Christchurch is a substantial building with a mix of residential and commercial leases. The commercial leases are for a period of 199 years and at a peppercorn rent, the flats are for 99 years and with a mixture of fixed ground rents and some flats are let out on a peppercorn rent. Mr Wetherall's analysis suggests a yield of 6.65%.
- 7.14 Quarr House, Sway is a substantial mansion block that has been converted into seven residential units. The leases appear to have an unexpired term of 55.5 years. Mr Wetherall has calculated the yield to be 6.8%.
- 7.15 In addition to these three open market transactions, Mr Wetherall also made mention of a LVT decision relating to Fairwinds, Sandbanks, in which a yield of 6.5% and a deferment rate of 7% was adopted.

7.16 After considering the above sources Mr Wetherall concluded that a yield of 6.5% was appropriate in this case. His reasoning for adopting this figure was the fact that the ground rent was risk free, the ground rent review structure allowed growth potential and some protection against the effect of inflation and the fact that in a "No Act World" a potential purchaser of the interest would see some benefits in negotiating lease extensions at some stage in the future. The benefits of this freehold interest are that there is minimal management of the asset, there is one body from which the rent is collected. Treasury bonds show yields in the region of 4.17% to 4.69% and this subject investment is quite attractive, but there needs to be some adjustment to reflect the problems associated with property such as illiquidity. By using this yield for the term and reversion in his valuation, Mr Wetherall has calculated that the premium to be paid for the freehold interest for the subject property is £78,956 and his valuation is shown in Appendix B.

## **8. Decision**

8.1 We acknowledge that both Valuers have tried to provide some evidence to the tribunal of open market transactions. Open market evidence is always the best source of information when carrying out the valuations we are obliged to consider, but we realise that information is very difficult to come by and that often the full information regarding a transaction is not always available and thereby makes analysis difficult.

8.2 The evidence provided by Mr Dancer in respect of the extract from the Estates Gazette and local market overview was not of any assistance, this information was far too general to be relied upon. Turning to the more specific evidence, the first property related to an open market sale. There was some confusion over the interest that was being purchased and whether the matter had been completed. We were also



concerned that this investment had a fixed review pattern and could be clearly distinguished from the review pattern in the subject property.

- 8.3 The information relating to Seapoint, Seahaven, Moonrakers and Balcombe Court are all negotiated settlements and as such are probably poorer evidence than open market transactions. All four properties have an element of marriage value and the first three properties have either small fixed ground rents or rents with fixed reviews. The fourth property has a review pattern that adjusts the ground rent to open market ground rent at that time. These settlements are again different from the property under current consideration.
- 8.4 With respect to the evidence supplied by Mr Wetherall, these transactions are open market sales and as such should be more useful comparable information. The sale of the investment in Hunter Street, London is a pure investment and valuation of an income stream, with fixed increases. The length of the leases would indicate that there is no hope value in relation to future opportunities for a freeholder in respect of lease extensions, but it was acknowledged that there may be business opportunities in respect of the management of the building. Yet, given current legislation, this factor should have minimal effect on the premium obtained. The premium paid for this interest is £90,500 and the yield devalues to 6.5%. The amount of the premium would seem to indicate that this was not some causal bid at the time of the auction.
- 8.5 Turning to Lansdowne House and Quarr House, we were more concerned about the level of assumptions that had to be made to calculate the yield. In particular, at Quarr House there would appear to be a large element of hope value which may be reflected in the yield.
- 8.6 The subject property is an attractive investment opportunity. The income stream without the problems associated with property management would mean that this would seem a good investment.

However, the more compelling factor that this is an attractive investment, is that the ground rent review pattern is linked to the capital values of the flats. Even if the property market suffers from occasional property slumps, the general perception is that capital values in residential property experience growth over the long term. It is the perception that will be the determining factor in the investment market. Given that the best evidence before the Tribunal would appear to be Hunter Street in London and that the subject property could be viewed as a more attractive investment in comparison, then a yield of 6.5% would not be an unreasonable figure to be adopted for this particular investment. The other evidence provided to the Tribunal also gives encouragement that a yield of 6.5% is correct. Despite the shortcomings in the other evidence discussed above, a clear distinction can be made from the yields of those other investments to the extent that they have neither hope value for future capital sums from such aspects as lease extensions and the fact that there is no real protection against the effect of inflation in the rent review pattern. The subject property is a highly geared investment. Given this the Tribunal determine that in this particular case the yield should be 6.5%. Accordingly the Tribunal determine that the premium to be paid for the freehold interest is £78,956 and our valuation is found in Appendix C to this decision.

**9. Determination**

- 9.1 In summary the yield that we have determined is 6.5%.
- 9.2 The premium to be paid for the freehold interest in the subject property is £78,956.



Helen C Bowers  
Chairman

Date 17/5/06.

## VALUATION OF WATERSHIP DRIVE

YP 11.28 yrs @ 8% = 7.25 x GR £2,100  
£15,225.00

Reversion to £6,334

YP 25 yrs @ 8%

deferred 11.28 yrs @ 8% = 4.48 x GR £6,334  
£28,376.00

Reversion to £6,334

YP 25rs @ 8%

Deferred 36.28 yrs @ 8% = 0.654 x GR £6,334  
£ 4,142.43

Reversion to £6,334

YP ~~24~~<sup>4</sup> yrs @ 8%

Deferred 61.38 yrs @ 8% = 0.0955 x GR £6,334  
£ 605.10

Reversion to £3,240,000

Present value @ 8% 85.3 years = £4,565

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£52,913

House and Son

Watership Drive

20/04/2006

|                           |          |   |    |       |           |           |           |   |    |           |           |   |
|---------------------------|----------|---|----|-------|-----------|-----------|-----------|---|----|-----------|-----------|---|
| No of non-participants    | 0        |   |    |       |           |           |           |   |    |           |           |   |
| FH Yield Rate             | 6.5      |   |    |       |           |           |           |   |    |           |           |   |
| FH Yield Rate             | 6.5      |   |    |       |           |           |           |   |    |           |           |   |
| LH Yield Rate             | DR2.5%SF | 0 |    |       |           |           |           |   |    |           |           |   |
| Extra Value to Head Lease | 0        |   |    | 0     |           |           |           | 0 |    |           |           |   |
| Improvements              | 0        |   |    |       |           |           |           |   | 0  |           |           |   |
|                           |          |   | 14 | 2,100 | 1,078,688 | 1,078,688 | 3,240,000 |   | 14 | 1,078,688 | 3,270,000 | 0 |

|                    |           |
|--------------------|-----------|
| Garage Adj         | 0         |
| Average Uplift %   | 200.4%    |
| Relativity         | 0.3329284 |
| Initial Notice Adj | 0         |

|                         |      |        |        |
|-------------------------|------|--------|--------|
| Passing Ground Rent     |      | 2,100  |        |
| 11.28 Years Purchase at | 6.5% | 7.824  |        |
|                         |      | =====  |        |
|                         |      | 16,430 | 16,430 |

|                              |                |        |         |
|------------------------------|----------------|--------|---------|
| 1st Reversionary Ground Rent |                | 6,334  |         |
| 73.98 Years Purchase at      | 6.5%           | 15.239 |         |
| Present Value                | 11.28 years at | 6.5%   | 0.49146 |
|                              |                | =====  |         |
|                              |                | 47,435 | 47,435  |

|                              |                |        |         |
|------------------------------|----------------|--------|---------|
| 2nd Reversionary Ground Rent |                | 0      |         |
| 24.99 Years Purchase at      | 6.5%           | 12.197 |         |
| Present Value                | 85.26 years at | 6.5%   | 0.00466 |
|                              |                | =====  |         |
|                              |                | 0      | 0       |

|                              |                 |        |         |
|------------------------------|-----------------|--------|---------|
| 3rd Reversionary Ground Rent |                 | 0      |         |
| 24.99 Years Purchase at      | 6.5%            | 12.197 |         |
| Present Value                | 110.25 years at | 6.5%   | 0.00097 |
|                              |                 | =====  |         |
|                              |                 | 0      | 0       |

Appendix B.

House and Son

Watership Drive

20/04/2006

|                              |                   |          |      |           |                |
|------------------------------|-------------------|----------|------|-----------|----------------|
| 4th Reversionary Ground Rent |                   |          |      | 0         |                |
| 24.99                        | Years Purchase at | 6.5%     |      | 12.197    |                |
| Present Value                | 135.25            | years at | 6.5% | 0.00020   |                |
|                              |                   |          |      | =====     |                |
|                              |                   |          |      | 0         | 0              |
| 5th Reversionary Ground Rent |                   |          |      | 0         |                |
| -25.99                       | Years Purchase at | 6.5%     |      | -63.680   |                |
| Present Value                | 160.24            | years at | 6.5% | 0.00004   |                |
|                              |                   |          |      | =====     |                |
|                              |                   |          |      | 0         | 0              |
| Reversion                    |                   |          |      | 3,240,000 |                |
| Present Value                | 85.3              | years at | 6.5% | 0.00466   |                |
|                              |                   |          |      | =====     |                |
|                              |                   |          |      | 15,091    | 15,091         |
|                              |                   |          |      |           | <b>£78,956</b> |
|                              |                   |          |      |           | 0              |

Appendix C

Tribunal's Valuation of Watership Drive, Ringwood.

|                                     |               |                  |                |
|-------------------------------------|---------------|------------------|----------------|
| Existing Ground Rent                |               | £2,100 per annum |                |
| YP 11.28 years @ 6.5%               |               | <u>7.824</u>     |                |
|                                     |               |                  | £16,430        |
| Reversion to Reviewed Ground Rent   |               | £6,334           |                |
| YP 73.98 years @ 6.5%               | 15.239        |                  |                |
| PV in 11.28yrs                      | <u>0.4915</u> |                  |                |
|                                     |               | <u>7.489</u>     |                |
|                                     |               |                  | £47,435        |
| Reversion to                        |               | £3,240,000       |                |
| PV of £1 deferred 85.3 years @ 6.5% |               | <u>0.00466</u>   |                |
|                                     |               |                  | <u>£15,091</u> |
| Total Premium                       |               |                  | £78,956        |

Say **£78.956**