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LEASEHOLD VALUATION TRIBUNAL
OF THE
MIDLAND RENT ASSESSMENT PANEL

M/EH 2412c
M/LRC 396

DECISION OF THE LEASEHOLD VALUATION TRIBUNAL

ON APPLICATIONS UNDER SECTION 21 OF THE LEASEHOLD REFORM ACT 1967

Applicants: Mr G and Mrs P J Blackburn (leaseholders)

Respondent: Mansal Securities Ltd (freeholder)

Subject property: 14 Branden Road
Alvechurch
Birmingham
B48 7PE

Date of tenant's notice: 17 October 2001

Applications to the LVT: 11 February 2002 (price payable)
8 March 2002 (reasonable costs)

Hearing: 14 May 2002

Appearances:

For the applicants: Mr A W Brunt FRICS

For the respondent: Mr S J M Laing FRICS

Members of the LVT: Professor N P Gravells MA
Mr M Williams FRICS
Mr D Underhill

Date of determination:

26 JUN 2002

UNEXPIRED LEASES 2 ²/₃ YEARS
ANNUAL GROUND RENT £12.50
VALUE OF PROPERTY £120,000

Introduction

- 1 This is a decision on two applications under the Leasehold Reform Act 1967 ("the 1967 Act") made to the Leasehold Valuation Tribunal by Mr and Mrs Blackburn, leaseholders of the house and premises at 14 Branden Road, Alvechurch, Birmingham B48 7PE ("the subject property"). The two applications are, first, under section 21(1)(a) for the determination of the price payable under section 9 for the freehold interest in the subject property; and, secondly, under section 21(1)(ba) for the determination of the reasonable costs payable under section 9(4).
- 2 The applicant leaseholders hold the subject property under a lease, dated 18 July 1956, for a term of 99 years from 24 June 1955 at a ground rent of £12.50 per year. The lease was assigned to the applicants on 21 November 1997. The unexpired term at the date of the Notice of Tenant's Claim to Acquire the Freehold ("the relevant date") was approximately 52 2/3 years.
- 3 The applicants served on the respondent freeholder a tenant's notice dated 17 October 2001, claiming to acquire the freehold interest in the subject property under the terms of the 1967 Act; and they subsequently made the present applications.
- 4 The parties do not dispute and the Tribunal accepts that the qualifying conditions for enfranchisement under the 1967 Act are satisfied.

Subject property

- 5 The subject property is a semi-detached bungalow of brick and tile construction, located on Branden Road, in a residential area of Alvechurch. The accommodation comprises a hallway, sitting room, dining-kitchen, two bedrooms and bathroom/wc. A lean-to utility area has been added to the side of the property. The property is fully double-glazed. Space heating is by gas-fired central heating with radiators in all rooms. Outside there are gardens to the front and rear of the property. The available space at the side of the property (even without the lean-to construction) is insufficient to accommodate a garage; but there is car standing space to the front of the property. The frontage of the property is approximately 10.5 metres; and the total site area is approximately 380 square metres.
- 6 At the bottom of the rear garden there is an embankment carrying the single-track railway line from Birmingham to Redditch. There are approximately four train movements each hour between 6.00am and midnight.
- 7 The property has been very well maintained by the leaseholders and has benefited from a number of internal and external improvements.

Inspection and hearing

- 8 The Tribunal inspected the subject property on 14 May 2002 in the presence of Mr Blackburn, one of the applicant leaseholders, and Mr Brunt.

- 9 The subsequent hearing was attended by Mr Brunt, representing the applicant leaseholders, and by Mr Laing of Laing & Co, representing the respondent freeholder, Mansal Securities Ltd. Mr Laing is also a director and shareholder of Mansal Securities Ltd.

Representations of the parties

The price payable for the freehold interest in the subject property

- 10 Mr Brunt, on behalf of the applicant leaseholders, adopted as the basis of valuation under the 1967 Act the generally recognised three-stage approach normally attributed to *Farr v Millerson Investments Ltd* (1971) 22 P & CR 1055. That approach involves (i) the capitalisation of the ground rent payable under the existing lease for the remainder of the unexpired term; (ii) the identification of a modern ground rent (by decapitalising the site value); and (iii) the capitalisation of the modern ground rent as if in perpetuity, deferred for the remainder of the unexpired term. The price payable on this basis is the sum of the capitalisations at stages (i) and (iii).
- 11 Mr Brunt put in evidence the sale prices achieved on two properties similar to the subject property and in the immediate locality of the subject property. The properties at 10 Rose Avenue and 21 George Road had each achieved a sale price of £120,000 in late summer 2001. On the basis of that evidence and his general experience, and weighing the differences between the comparable properties and the subject property, Mr Brunt submitted that the standing house value of the subject property at the relevant date was £120,000. In reaching that figure, he expressed the view that the railway line at the bottom of the rear garden was not a factor that justified a discount in the standing house value of the property.
- 12 Mr Brunt further submitted that, applying a 33.3 per cent figure in calculating the site value on the standing house basis, the site value was £40,000; and that, consistent with the figure applied in the overwhelming majority of decisions of Leasehold Valuation Tribunals in the Midland region and of the Lands Tribunal in appeals from the region, the appropriate percentage yield rate to be applied in capitalising the ground rent at stage (i) of the valuation calculation and decapitalising and recapitalising the site value at stages (ii) and (iii) is 7 per cent.
- 13 On the basis of those figures, he submitted the following valuation:

(i) Capitalisation of existing ground rent to termination of lease

Ground rent payable: £12.50 per year
Years Purchase: 52.66 years @ 7%: 13.881
Capitalised ground rent: £12.50 x 13.881 = £173.51

(ii) Modern ground rent

Standing house value of subject property: £120,000
Percentage attributable to site: 33.3%: £40,000
Annual equivalent @ 7%: £2800

(iii) *Capitalisation of modern ground rent*

Modern ground rent (above): £2800

Years Purchase at 7% in perpetuity deferred 52.66 years: 0.479

Capitalised modern ground rent: £2800 x 0.479 = £1341.20

The addition of the capitalised existing ground rent and the capitalised modern ground rent produces a figure of (say) £1,515.

It should be noted that the factor applied in stage (iii) of the calculation (0.479) appears to be incorrect. The correct figure taken from Parry's Valuation Tables is 0.40512, which, when applied to Mr Brunt's figure of £2800 for the modern ground rent, would produce a figure for the capitalised modern ground rent of £1134.34 and a final figure for the price payable of £1307.85.

- 14 Mr Laing, on behalf of the respondent freeholder, also adopted the three-stage approach in *Farr v Millerson Investments Ltd* as the basis of valuation. However, Mr Laing differed from Mr Brunt in two principal respects:
- Mr Laing submitted that the standing house value of the subject property was £130,000;
 - Mr Laing submitted that the percentage attributable to the site is 40 per cent of the standing house value.
- 15 Mr Laing put in evidence the sales particulars and sale prices achieved in respect of two two-bedroomed properties in Bournville sold by or through Laing & Co. In respect of the property at 18 Lancaster Close, a sale price of £115,000 was agreed in May 2000; and, in respect of the property at 23 Long Wood, a sale price of £130,000 was agreed in October 2001.
- 16 In respect of the percentage attributable to the site, Mr Laing argued that the lower building costs of a bungalow lead to the conclusion that the appropriate percentage must be higher than in the case of a two-storey house.
- 17 On the basis of those figures, he submitted the following valuation:

(i) *Capitalisation of existing ground rent to termination of lease*

Ground rent payable: £12.50 per year

Years Purchase: 52 years @ 7%: 13.86

Capitalised ground rent: £12.50 x 13.86 = £173.00

(ii) *Modern ground rent*

Standing house value of subject property: £130,000

Percentage attributable to site: 40%: £52,000

Annual equivalent @ 7%: £3640

(iii) *Capitalisation of modern ground rent*

Modern ground rent (above): £36400

Years Purchase at 7% in perpetuity deferred 52 years: 0.424

Capitalised modern ground rent: £3640 x 0.424 = £1543

The addition of the capitalised existing ground rent and the capitalised modern ground rent produces a figure of (say) £1,750.

Reasonable costs

- 18 Mr Laing submitted, and Brunt accepted as reasonable, the figure of £250 (plus VAT if applicable) in respect of costs under paragraphs (b), (c) and (d) of section 9(4) of the 1967 Act.
- 19 In respect of valuation costs under paragraph (e) of section 9(4), Mr Laing submitted that a reasonable figure was £200 (plus VAT). In answer to questions from Mr Brunt and from the Tribunal, Mr Laing confirmed that he had provided a brief written valuation without either an internal or external inspection of the subject property. Nonetheless, Mr Brunt acknowledged that Mr Laing was entitled to remuneration for the time and expertise involved in making a “desk valuation”; and he submitted that an appropriate figure would be no less than £100 (plus VAT if applicable).

Determination of the Tribunal

The price payable for the freehold interest in the subject property

- 20 The Tribunal holds that the basis of valuation adopted by the parties properly reflects the principles of the 1967 Act.
- 21 The Tribunal gave full consideration to the arguments and evidence of the parties in relation to the principal issues in dispute, namely (1) the standing house value of the subject property at the relevant date; and (2) the appropriate percentage attributable to the site.
- 22 On the issue of the standing house value, the Tribunal finds that the comparable properties identified by Mr Brunt provide a better guide to the value of the subject property than the properties identified by Mr Laing. They are similar to, and located in the immediate vicinity of, the subject property. It is apparent from an external inspection that they are not *identical* to the subject property: 10 Rose Avenue is a corner plot and has the benefit of a garage; and 21 George Road has the benefit of a loft conversion; and they might therefore be expected to achieve higher sale prices than the subject property. However, although Mr Brunt was not able to give precise dates as to the sale of the two properties, it seems that in each case the sale price of £120,000 was agreed some months before the relevant date for the valuation of the subject property; and, during that intervening period, it is reasonable to assume that there was a general increase in property values. The Tribunal therefore finds that the standing house value of the subject property at the relevant date was £120,000.

23 On the issue of the appropriate percentage of the standing house value attributable to the site, the Tribunal accepts that a higher percentage figure will not infrequently be appropriate in the case of a bungalow. However, the Tribunal finds that, in the absence of special circumstances, the appropriate figure will only be marginally higher; and in the present case, the Tribunal holds that the appropriate figure is 35 per cent.

24 Adopting those figures, and applying figures of Years Purchase from Parry's Valuation Tables, the Tribunal calculates the price payable as follows:

(i) *Capitalisation of existing ground rent to termination of lease*

Ground rent payable: £12.50 per year

Years Purchase: 52 2/3 @ 7%: 13.8806

Capitalised ground rent: £12.50 x 13.8806 = £173.51

(ii) *Modern ground rent*

Standing house value of subject property: £120,000

Percentage attributable to site: 35%: £42,000

Annual equivalent @ 7%: £2940

(iii) *Capitalisation of modern ground rent*

Modern ground rent (above): £2940

Years Purchase at 7% in perpetuity deferred 52 2/3 years: 0.40512

Capitalised modern ground rent: £2940 x 0.40512 = £1191.05

The addition of the capitalised existing ground rent and the capitalised modern ground rent produces a figure of £1364.56.

25 Accordingly, the Tribunal determines the price payable under section 9 of the 1967 Act for the freehold interest in the subject property at £1365.

Reasonable costs

26 Bearing in mind the acknowledgement by Mr Brunt of the reasonableness of the figure submitted by Mr Laing, the Tribunal determines that the respondent is entitled to recover costs of £250 (plus VAT if applicable) in respect of costs under paragraphs (b), (c) and (d) of section 9(4) of the 1967 Act.

27 In respect of valuation costs the Tribunal accepts the argument of Mr Brunt that, while Mr Laing is entitled to remuneration for his time and expertise, the level of such remuneration must reflect the fact that Mr Laing made no physical inspection of the subject property. The Tribunal therefore determines that the respondent is entitled to recover valuation costs of £125 (plus VAT if applicable) under paragraph (e) of section 9(4) of the 1967 Act.

Summary

- 28 The Tribunal determines the price payable by the leaseholders for the freehold interest in the subject property at £1365 and the freeholder's reasonable costs at £375 (plus VAT if applicable).

Nigel Gravells

NIGEL P GRAVELLS
CHAIRMAN

26 JUN 2002