



**FIRST-TIER TRIBUNAL
PROPERTY CHAMBER
(RESIDENTIAL PROPERTY)**

Case Reference : LON/00BJ/OLR/2016/1859

Property : Flat 3 Terrapin Court, Terrapin Road, SW17 NQW

Applicant : Ms Mhairi Ann Watson

Representative : Mr. Matthew Price BSc (Hons) MRICS

Respondent : Gateway Trust Limited

Representative : Mr. John Naylor MRICS of HNF Property

Type of Application : Lease extension

Tribunal Members : Judge LM Tagliavini
Mr. P Casey MRICS

Date and venue of hearing : 10 Alfred Place, London WC1E 7LR
04 April 2017

Date of Decision : 9 May 2017

DECISION

The tribunal determines the following:

- (1) The premium to be paid by the Applicant to the Respondent for the extension of the lease for the subject property is £70,150.

The application

1. The Applicant seeks a determination pursuant to section 48(1) of The Leasehold Reform Housing and Urban Development Act 1993 (“the Act”) as to the premium payable for an extension of the lease of the subject property situate at Flat 3 Terrapin Court, Terrapin Road, SW17 NQW (“the property”).

The hearing

2. The tribunal held an oral hearing of the application at which Mr. Price represented the Applicant and gave valuation evidence. Mr. Naylor both represented the Respondent and gave valuation evidence.

The background

3. The property, which is the subject of this application is a self-contained two bedroom flat on the first floor of a 1930’s purpose built building, containing 16 flats over four floors. The subject building is located between Balham, Streatham Hill and Tooting Bec within the Borough of Wandsworth. The lease for the subject property is for a term of 99 years from 25 December 1970 and therefore has 53.71 years remaining as at the valuation date.
4. The parties’ valuers agreed the following;
 - (i) Valuation date of 8 April 2016.
 - (ii) Unexpired term of 53.71 years.
 - (iii) Ground rent schedule: £21 per annum rising to £41 per annum.
 - (iv) Deferment rate: 5%
 - (v) Capitalisation rate: 7%
 - (vi) Freehold Value taken as a 1% uplift of Long Lease Value.
 - (vii) The property is a first floor two-bedroom flat 65.03m²/700 sqft.

The parties also agreed the terms of the new lease.

5. The parties’ valuers did not agree;
 - (i) The freehold value of the subject flat.

- (ii) The value of an extended lease.
 - (iii) The value of the existing lease.
 - (iv) The premium.
6. Mr. Price for the Applicant relied upon his report dated 24 March 2017 in which he calculated a premium payable of £54,303 for the extended lease Mr. Naylor for the Respondent relied on his report dated 20 March 2017 in which he concluded that the premium payable for the lease extension is £95,145.

The hearing

7. The tribunal was provided with documentary and oral evidence from both of the parties.

The Applicant's case

7. In his oral evidence to the tribunal Mr. Price spoke to his valuation report. He relied largely on the comparable sale of Flat 2, Terrapin Court in November 2016 a ground floor flat with a reasonably private garden. Mr. Price did refer the tribunal to the comparable properties at 3 Larch Close and Flat 2, 1 Elmfield Road but preferred the sales evidence provided by Flat 2 as being the most reliable comparable.
8. Mr. Price told the tribunal that he had adjusted the sale price of Flat 2 by arriving at a deduction of £10,000 for the ground floor level and £40,000 for the garden and an addition of £40,000 for Flat 2's larger floor area than the subject property and arrived at a figure of £432,463 as the value of the subject flat with an extended lease, in unimproved condition as at the valuation by applying a relativity of 99% to the freehold value.
9. Mr. Price went on to consider the value of the existing lease of the subject property by adopting a relativity of 81.43% of the freehold value by taking the average of the five Greater London and England graphs presented in the RICS Leasehold Reform – Graphs of Relativity 2009 Research Paper, less Beckett and Kay and Austin Gray. Mr. Price stated that he did not regard Wandsworth as located in Prime Central London (PCL) and that the relativity figure should reflect this. By the application of the relativity of 81.43% to the freehold value as at the valuation date Mr. Price arrived at a figure of £355,712 as the existing lease value. Mr. Price then applied the parties agreed factors and matters to reach a premium payable of £54,303.
10. Mr. Price told the tribunal that he did not agree with adjustments made by Mr. Naylor in respect of Flat 2, Terrapin Court as he had made no adjustment for the location, the floor level or the garden space. Mr. Price submitted that the other comparables relied upon by Mr. Naylor

were large Edwardian properties with distinctly different characteristics from the subject property and therefore should not be relied upon.

The Respondent's case

10. Mr. Naylor relied on six sales transactions at Flat 2 Terrapin Court, 54 Hillbury Road, 15 Ritherdon Road, 29D Terrapin Road, 24B Veronica Road and 47 Hillbury Road, which provided an average adjusted sales price of £837 per sqft. Mr. Naylor then applied this rate to the subject property, which provided an extended Lease value of £585,900. Mr. Naylor made deductions of £4,000 for a modern kitchen and £3,000 for double glazed windows at the subject property totalling £7,000 for tenant's improvements. Mr. Naylor then calculated an unimproved extended lease value of £578,900. An agreed 1% differential was applied to this figure providing a freehold vacant possession value of £584,689. It was agreed by the parties that Marriage Value of 50% applies.
11. In calculating the exiting lease value Mr. Naylor referred the tribunal to the decision in *Arrowdale Limited v Coniston Court (North) Hove Limited* LRA/72/2005 in respect of his approach to relativity. Mr. Naylor considered the RICS Research Report: Graphs of Relativity October 2009 for Greater London and England. Mr. Naylor stated he had used the 'My Leasehold' graphs for the relativity rates for unexpired Lease terms of 53.71 years. Mr. Naylor also referred in his evidence to *Sloane Stanley Estate v Adrian Howard Munday* [2016] UKUT 0223 (LC). Mr. Naylor gave consideration to Savills Enfranchiseable graph, which provides a ratio of 80.17% for an unexpired term of 53.71 years. Mr. Naylor adopted a discount of 7.98% for a 'no-Act World' producing a relativity of 73.77%. Mr. Naylor split the difference between the relativity of 73.77% (Savills Unenfranchiseable graph) and the relativity of 73.68% (five graphs for Greater London and England, after deducting his Act rights figure of 7.98%) arriving at a relativity of 73.73%. Mr. Naylor applied this figure to the Freehold vacant possession figure to produce an existing Lease value of £431,091 and after applying the adjustments, arrived at a premium figure of £95,145.

The tribunal's decision and reasons

12. Before reaching a determination the tribunal inspected the subject property and the adjacent roads in which a number of the comparable properties relied upon by the parties, are to be found. The tribunal found the subject property to be atypical of the properties in the area of the Hever Estate, which, largely comprised large terraced Edwardian houses in either single use or converted into flats.
13. The tribunal finds Mr. Price's evidence in respect of the extended lease value not to be particularly persuasive as it finds the adjustments made

to be entirely subjective. Further, the tribunal were not persuaded that Mr. Price had sufficient experience or knowledge of the local area and sales to make the adjustments he relied upon. Specifically, the tribunal finds that the difference in floor level between the subject property and Flat 2 are effectively "net neutral" and require no adjustment and the dark and less than private garden of Flat 2 did not require any deduction. The tribunal finds the comparables at 3 Larch Close and 29 Elmfield Road to be unhelpful as neither is located on the more desirable Hever Estate.

14. On balance, the tribunal preferred the approach of Mr. Naylor who had a long professional history in the subject area of Wandsworth and the surrounding area, although this too was not without its shortcomings. The tribunal finds Mr. Naylor's approach of simply adjusting for the passage of time and taking the average of six sales, three of which comprised conversions in Edwardian houses to be unhelpful as this approach suggested that Flat 2 Terrapin Court had been undersold by £65K. However, the tribunal finds that the other comparables relied upon by the parties do help to establish that the price achieved for Flat 2 provides a reliable transaction, and which needs no adjustment except for a small one to reflect the passage of time. The tribunal does not agree with Mr. Naylor's submission that Flat 2 was likely to be dark at the rear having the benefit of having inspected the exterior of Flat 2 and its garden.
15. Therefore, using Flat 2 as a reliable transaction on which to make the required premium calculation, the tribunal determines that the extended lease value is £515,200 being the agreed GIA of 700 sqft. x £736 being the rate given from the devaluation of the sale price of Flat No 2. The tribunal then deducted the £7,000 improvements suggested by Mr Naylor to give the unimproved extended lease value of £508,200. Applying the agreed 1% uplift for the freehold, gives a freehold value of £513,333 say £513,500.
16. For the existing lease value, doing the best it can with the evidence before it, the tribunal adopted 79% of this figure, to provide a figure of £405,665.
16. Both valuers relied on graphs and neither used any sales' evidence adjusted for the Act rights as per *Sloane Stanley*. In that case the only graphs given any credence by the Upper Tribunal were the Gerald Eve (GE) graph of relativities in the "no Act world" and the Savills 2002 graph showing actual relativities. As the Gerald Eve graph is PCL related the tribunal would not, without good sales' evidence, wish to adopt a figure below that for the area of Wandsworth. The tribunal finds Mr. Naylor is plainly too low as GE shows 76.97%. Mr. Price on the other hand purports to use the outer London/England graphs but of the five ignores two. Whilst the tribunal does not find any of those graphs compelling, the average of the five is actually 80.7%.

17. Applying the figures above the tribunal calculated that the premium payable of £70,150 (*see Appendix I*).

Signed: Judge LM Tagliavini

Signed: 9 May 2017

Appendix I

LON/00BJ/0LR/2016/1859

FIRST TIER TRIBUNAL
PROPERTY CHAMBER (RESIDENTIAL PROPERTY)

S48 Leasehold Reform Housing and Urban Development Act 1993

Determination of the premium payable for an extended lease of
3 Terrapin Court, Terrapin Road, London SW17 8QW

Valuation date: 8 April 2016 – Unexpired term 53.71 years

Diminution in Value of Freehold Interest

Capitalization of ground rents
for term – Agreed at £463

Reversion to F/H value with VP	£513,500		
Deferred 53.71 years @ 5%	0.072765	£37,365	

Less value of F/H after grant of new lease	£513,500		
Deferred 143.71 yrs @5%	0.0009	£462	£36,893
			£37,356

Marriage Value

After grant of new lease

Value of extended lease	£508,200		
Plus freehold value	£462	£508,662	

Before grant of new lease

Value of existing lease @ 79% f/h	£405,665		
Plus freehold value	£37,365	£443,030	
		£65,632	£32,816

**50% share to Freeholder and
Intermediate Leaseholder** £70,172

Premium Payable Say £70,150