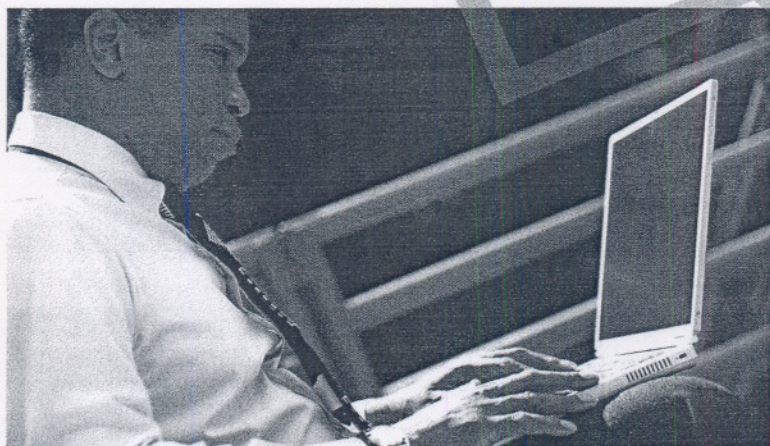


The buying
process

Lease extensions: has the market turned?



The deferment rate is one of the most sensitive parts of the valuation as it is the investment multiplier applied to the assumed freehold vacant possession value of the flat at the end of the lease.

Mary-Anne Bowring, creator of Leaseholder Support, explains

When the Aribib case suggested in September 2005 that the deferment rate applied to lease extensions should be 4.75 per cent (akin to the investment markets) and for freehold enfranchisement cases 4.25 per cent, leaseholders all over London were stunned. The deferment rate is an investment valuation term that represents the percentage rate by which the right to receive either an income or a future capital value is postponed.

While this judgement was not prescriptive on valuers, specialists within the industry pushed harder and harder for their freeholders, and deferment rates slowly moved from previous market rates which were around 6 per cent to 8 per cent towards 4.25 per cent and 4.75 per cent. Bearing in mind that the vacant flat could be £150,000 in Tottenham £6,000,000 for a riverfront penthouse, the impact was immense. For example on a £150,000 flat with 68 years unexpired at a deferment rate of 8 per cent the value to the freeholder is £800, at 5 per cent the value would be £5,435!

During the period of September 2005 to September 2006 valuers had the freedom to negotiate the right capitalisation and deferment rates, depending on the location. Regional variances were emerging nationally and in London post code variances were commonplace.

It was on 15th September 2006 that the market changed again when in the

Cadogan vs Sportelli the Lands Tribunal wrote their decision as a directive to valuers to apply a deferment rate of 5 per cent for flats and 4.75 per cent for houses. In fact, every case heard by the Leasehold Valuation Tribunal since has been determined on this basis.

However, there are 13 input factors in a lease extension valuation, some factual, such as the length of the lease and some where a valuer's skill and judgement is not directed by the Courts. Therefore, there is still no easy answer to an innocent question from a leaseholder who asks, "if I have x years unexpired on my lease and my property is in SW5 approximately how much should the lease extension cost?" The valuer still has a significant role.

With this treatment at a Leasehold Valuation Tribunal it would appear that whether your case was being negotiated informally or

whether you had already served a Section 42 notice to claim your right to a lease extension, the Sportelli decision will apply to you. A freeholder will argue that the Lands Tribunal decision is right as ground rent should be looked at as an investment. After all, the Freeholder has a choice of investing in equities (stocks and shares), gilts (government bonds) or property. Furthermore, surely investing in ground rent is no more risky than the former when the alternative to non payment is having your flat re-possessed by the freeholder!

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The buying process



To qualify for a leasehold extension you will need to have owned the flat for two years

value (the difference in value between the flat with a short lease and the flat with a long lease).

In 2002 marriage value was reduced to Nil for all leases with more than 80 years unexpired.

In 2002 the residency requirement was abolished (formally you had to live in the flat for three consecutive years or three years out of the last ten).

It is now possible to claim a lease extension even if you are not UK resident or if the flat is owned via a company.

To qualify for a leasehold extension you will need to have owned the flat for two years. If you are contemplating buying a flat with a short lease and your negotiation skills are strong enough by virtue of Section 56 of the 1993 Act, you can get the seller to serve notice for you so you don't have to wait two years. This could be critical if the lease has around eighty years unexpired, and marriage value is about to kick in. Clever use of this mechanism could save you thousands.

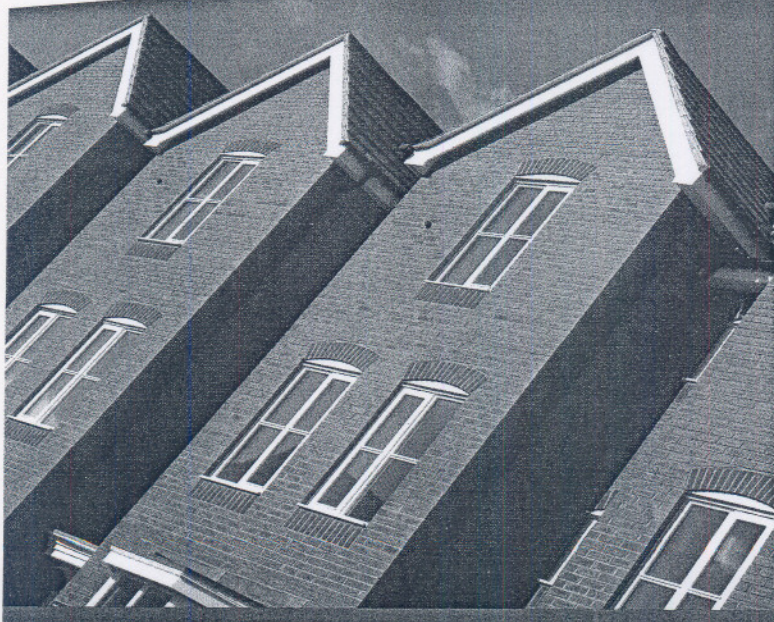
ingly becoming a necessity as one thing is certain every lease is getting shorter. Most selling agents will report an impact on sale prices and a reduction in the number of available and willing purchasers once the lease falls below 85 years. Of course if you live in an area where a short lease is commonplace and therefore the only option, buying a short lease may be a factor when choosing to live in that neighbourhood.

Recent case law decisions and changes to the market should not be seen as all doom and gloom as there have been significant benefits delivered to lessees over the years since the right was first established in 1993. These being:

The landlord cannot claim more than 50 percent of the marriage

To understand more about each of the valuation factors you can visit the step by step guide at leaseholdersupport.co.uk

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