



Residential
Property
TRIBUNAL SERVICE

Case reference: LON/00AH/OLR/2010/0837

**DECISION OF THE LONDON LEASEHOLD VALUATION TRIBUNAL ON
AN APPLICATION UNDER SECTION 48 OF THE LEASEHOLD REFORM,
HOUSING AND URBAN DEVELOPMENT ACT 1993**

Property: 162 Cheston Avenue, Shirley, Croydon

Applicant: Robert Charles Harry Baxter
Barbara Kathleen Baxter

Respondent: The Honourable Robin Lawrence Dundas

Date heard: 8 March 2011
(inspection 9 March 2011)

Appearances: John Card FRICS, Michael Charles Surveyors Limited,
chartered surveyors, for the applicant

Greville Healey, counsel, instructed by Forsters LLP,
solicitors,
Karolina Tolgyesi MRICS, Beckett and Kay, chartered
surveyors, for the respondent

Members of the leasehold valuation tribunal:

Margaret Wilson
P M Casey MRICS

Date of the tribunal's decision: 22 March 2011

Background

1. This is an application by the tenants under section 48 of the Leasehold Reform, Housing and Urban Development Act 1993 ("the Act") to determine the price to be paid for a new lease of 162 Cheston Avenue, Shirley, Croydon, which is a flat on the ground floor of a two storey purpose-built semi-detached building on an estate of similar properties called the Zetland Estate, but known locally as "the Parkfield Estate", built in the 1930s. The flat has its own separate entrance and has three rooms, a kitchen and bathroom wc and a garden at the front and at the rear. The agreed gross internal area of the flat is 60.55 sq m.

2. The flat is subject to a lease dated 16 May 1986 for a term of 99 years from 25 March 1983 at a ground rent of £25 per annum, increasing by £25 every 15 years. At the valuation date, which is 25 March 2010, the unexpired term was 72 years.

3. At the hearing of the application on 8 March 2011 the tenants were represented by John Card FRICS of Michael Charles Surveyors Limited, chartered surveyors, who acted as advocate and gave expert evidence. The landlord was represented by Greville Healey, counsel, who called Karolina Tolgyesi BSc (Est Man) MRICS of Beckett and Kay, chartered surveyors, to give expert evidence. The hearing occupied most of one day. On the day after the hearing we inspected the flat in the presence of the tenants and, unaccompanied, we inspected all the properties relied on as comparable evidence by either or both of the valuers.

4. The following matters were agreed:

i. a schedule of comparable transactions, all of them on the Zetland Estate, which may be used to arrive at the freehold value is at appendix F of the statement of agreed facts and those which may be used to arrive at the value of the existing lease are at appendix G;

- ii. adjustments for time are to be made by reference to the Land Registry Croydon House Price Index;
 - iii. there is no difference in value between flats on the ground and on the first floors;
 - iv. long leasehold values are 99% of freehold values;
 - v. the ground rent is to be capitalised at 10%;
 - vi. the appropriate deferment rate is 5%. Before and at the commencement of the hearing Mr Card had suggested that the correct rate was 6%, but during the hearing he realistically accepted that he did not have evidence sufficient to establish that the guideline rate of 5% should not be applied, and he accepted that it should be applied.
5. The issues were the freehold vacant possession value of the flat and the value of its existing lease.

Freehold vacant possession value

6. Mr Card submitted that the freehold value of the flat with vacant possession was £188,009. He relied mainly on the sale of 445 Wickham Road, a 162 year lease of which was sold on 1 February 2010 for £180,000. He said that it was a very good and helpful comparable because the transaction was very close in time to the valuation date and the property had been in average condition at the valuation date and so required very few adjustments. He had in his written statement adjusted this price upwards by 2.5% to £184,500 to reflect the slightly quieter location of the subject but had made no other adjustments, but at the hearing he said that he was prepared to accept Ms Tolgyesi's proposed further adjustments for time and to freehold, and thus arrived at £188,009, her adjusted figure derived from the sale of 445, and he adopted this as his proposed freehold value.

7. Mr Card said that he considered this value to be consistent with the other comparables in appendix F to the statement of agreed facts. These were all of leases with either 84 or 85 years unexpired, and he said that in his opinion such leases had a relativity of 97% to the freehold value and that insofar as appendix F suggested that the relativity was 94%, he did not agree and had not intended to agree that relativity for the purpose of the determination. He said that the other properties listed in appendix F had been modernised to a high standard and, unlike 445, required significant adjustment for improvements. He said that, according to the estate agents' particulars, 104 Cheston Avenue had a "luxury bathroom" and double glazing, 112 Cheston Avenue had double glazing and had been modernised with "no expense spared", 449 Wickham Road (on which he had carried out the home buyer's survey) had double glazing and a double glazed conservatory, and 108 Cheston Avenue had been recently modernised and had a double glazed conservatory. All had central heating which he believed to be tenants' improvements. He said that all these transactions required adjustment not only for improvements but also for the benefit of the Act and for time. He said that if his proposed adjustments were applied to all the transactions in appendix F the average was £188,880, very close from the value derived only from 445, but that he believed that the value derived from 445 was the more accurate.

8. Ms Tolgyesi considered the value of the freehold to be £201,823. For the purpose of her written statement she had applied no adjustment for improvements to the sale prices of 104 Cheston Avenue and 449 Wickham Road, 2.5% for improvements to 112 Cheston Avenue and 7.5% for improvements to 108 Cheston Road, producing an average value of £203,874, but she revised that value at the hearing to allow for the information about improvements to the comparables which Mr Card produced at the hearing.

9. Ms Tolgyesi accepted that double glazed conservatories could add significantly to the value of small properties because they provided useful additional living space, but she said that she did not accept that her proposed

adjustments for condition were too low. She said that she had understood that Mr Card had previously agreed that the relativity of the 84 and 85 year leases to the freehold was 94%, and she considered that 94% was appropriate. She did not consider that relativities differed between Prime Central London and the suburbs and she said that mortgageability was a major factor which lowered relativities in lower value locations where transactions were more likely to be mortgage-dependant. She said that she had carried out research for the purpose of the latest version of a graph produced by Beckett and Kay on relativities for mortgage dependent properties, which she produced. She said that the graph was based on opinion, largely her own, and that she was personally satisfied that mortgageability was reduced for leases of below 85 years and that that factor had a significant effect on relativity. She said that her adjustment for lease length was consistent with data provided by Savills. She said that she considered that her approach of taking into account all the relevant comparables was more sound and accurate than the approach taken by Mr Card, who had relied, she said, on only one of them.

10. We are satisfied that Mr Card's proposed value of £188,009 is realistic and fair, and we accept it. In our view, based on the estate agents' particulars and other evidence given by Mr Card, Ms Tolgyesi's adjustments for condition are too conservative, and we prefer those suggested by Mr Card. Improvements, and in particular good quality conservatories, can add significantly to the value of small properties, and we consider that Mr Card was right to give primacy in his analysis to the sale of 445 Wickham Road, which requires few adjustments, the more so because his value derived from that transaction is reasonably consistent with both valuers' analyses based on all the long lease comparables. Even if Ms Tolgyesi is correct to say that an 85 year lease has a value of 94% relative to the freehold value, Mr Card's proposed value remains reasonable.

The value of the existing lease

11. The valuers agreed that the market evidence listed in Appendix G to the statement of agreed facts was relevant to the value of the existing lease. These were the sales of 73 or 72 year leases of 134, 32 and 56 Cheston Avenue, sold respectively in August 2009 for £175,000, in December 2009 for £153,250 and in March 2010 for £182,500.

12. Mr Card arrived at a value of £171,836 for the existing lease, equivalent to a relativity of about 91.14% to his (and the tribunal's) freehold value. He said that the various graphs of relativity, including the 2009 version of a graph of relativities for mortgage-dependant leases produced by Beckett and Kay, suggested a relativity of about 94%, and said that a relativity of 94% or thereabouts accorded with his own experience. He said that he had considered the market evidence and this suggested that 94% might be too high a relativity in the present case. He agreed with Ms Tolgyesi's adjustments to the sale price of 56 Cheston Avenue (deductions of 5% for Act rights and 2.5% location, and with her adjustment for time), and therefore agreed with her adjusted figure of £168,813 derived from that sale. He also agreed with her adjustments to the sale price of 134 Cheston Avenue, which produced an adjusted price of £179,345. He accepted Ms Tolgyesi's suggestion that £5000 should be deducted from the sale price of 32 Cheston Avenue to allow for the fact that a separate garage was included in the sale, and he also agreed her adjustments for time and for Act rights. He said, however, that 32 was in very poor condition at the date of the sale, and he added £10,000 for that factor, arriving at an adjusted figure of £152,675. He then averaged the three values derived from those sales, arriving at £166,944. He then considered the graphs, and took an average between the 94% which he considered to be derived from the graphs, and the average derived from the market evidence.

13. Ms Tolgyesi considered that the value of the existing lease was £164,822, based on the average derived from her analyses of the market evidence. She said that Croydon was a mortgage-dependant market and that in such a market the relativity of a 72 year lease would not be higher than 84%. She referred to three settlements reached in 2008 relating to similar

properties on the Estate, all at much lower sums than that for which she was contending, but said that the market evidence in the present case showed that relativities had changed, due to the difficulties of obtaining a mortgage at the valuation date which, in her opinion, had affected relativities in respect of mortgage-dependant properties..

14. Both valuers had regard to market evidence, and they agreed two of the three adjusted sale prices derived from that evidence. Bearing in mind the dispute between them in relation to the adjustments required to the sale price of 32 Cheston Avenue for condition, we consider that it would be unwise to place too much emphasis on that transaction, which is out of line with the other two short lease comparables. The average derived from the other two is about £174,000, equivalent to a relativity of about 92.5%. We have also considered the graphs. There is little or no evidence to support Ms Tolgyesi's views as to the dramatic effect, at the valuation date, on relativity of the financial crisis in a mortgage-dependant market, and the majority of the graphic evidence other than her own revisions to the Beckett and Kay graph suggests a relativity for the 72 year lease of about 90%, or £169,200. This seems to us to be a reasonable value, given the market evidence as well as the graphs, and we adopt it.

Determination

15. Accordingly the premium to be paid for the new lease is £11,600, in accordance with the valuation which is attached to this decision.

CHAIRMAN.....

DATE.....22 March 2011

TW/LON/00AH/OLR/2010/0837

**Leasehold Valuation Tribunal
For the London Rent Assessment Panel**

S48 Leasehold Reform, Housing and Urban Development Act 1993

**Determination of the premium payable for an extended lease of
162 Cheston Avenue, Shirley, Croydon CR0 8DD**

Valuation date: 25 March 2010 – Unexpired term 72 years

Diminution in Value of Freehold Interest

Capitalization of ground rents for term
agreed at £746

Reversion to F/H value with VP	£188,009		
Deferred 72 years @ 5%	<u>0.02981</u>	<u>£5605</u>	£6351

Less value of F/H after grant of new lease	£188,009		
Deferred 162 yrs @ 5%	<u>0.0004</u>	£75	<u>£75</u> £6,276

Marriage Value

After grant of new lease

Value of extended lease @ 99%	£186,129		
Plus freehold value	<u>£75</u>	£186,204	

Before grant of new lease

Value of existing lease	£169,200		
Plus freehold value	<u>£6351</u>	<u>£175,551</u>	£10,653

50% share to Freeholder			<u>£5,326</u> £11,602
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Premium Payable Say £11,600