Acknowledgments
RICS would like to thank the following for their contributions to this guidance note:

Technical author: James Wilson MRICS (Jones Lang LaSalle)

Mark Chick (Bishop and Sewell)
Douglas Crichton MRICS (Grosvenor)
James Ginley FRICS (Legal and General)
Nicholas Kissen (Leasehold Advisory Service)
Mark Wilson MRICS (My Leasehold)
## Contents

**RICS professional guidance** ................................................................. 1

1 Scope ..................................................................................................... 3
2 Introduction ............................................................................................ 4
3 Leasehold reform legislation ................................................................. 5
4 The tenant’s rights .................................................................................. 6
5 General provisions .................................................................................. 8
6 The valuer’s role ..................................................................................... 9
7 The valuation principles ......................................................................... 10

**Appendices** ......................................................................................... 11

A: Amending and further legislation since the Leasehold Reform Act 1967 (the 1967 Act) ................................................................. 11
B: Collective enfranchisement process ..................................................... 12
C: Problematic areas of leasehold reform .............................................. 13
D: Valuation examples .............................................................................. 14
International standards

RICS is at the forefront of developing international standards, working in coalitions with organisations around the world, acting in the public interest to raise standards and increase transparency within markets. International Property Measurement Standards (IPMS – ipmsc.org), International Construction Measurement Standards (ICMS), International Ethics Standards (IES) and others will be published and will be mandatory for RICS members. This guidance note links directly to these standards and underpins them. RICS members are advised to make themselves aware of the international standards (see www.rics.org) and the overarching principles with which this guidance note complies. Members of RICS are uniquely placed in the market by being trained, qualified and regulated by working to international standards and complying with this guidance note.

RICS guidance notes

This is a guidance note. Where recommendations are made for specific professional tasks, these are intended to represent ‘best practice’, i.e. recommendations that in the opinion of RICS meet a high standard of professional competence.

Although members are not required to follow the recommendations contained in the guidance note, they should take into account the following points.

When an allegation of professional negligence is made against a surveyor, a court or tribunal may take account of the contents of any relevant guidance notes published by RICS in deciding whether or not the member acted with reasonable competence.

In the opinion of RICS, a member conforming to the practices recommended in this guidance note should have at least a partial defence to an allegation of negligence if they have followed those practices. However, members have the responsibility of deciding when it is inappropriate to follow the guidance.

It is for each member to decide on the appropriate procedure to follow in any professional task. However, where members do not comply with the practice recommended in this guidance note, they should do so only for good reason. In the event of a legal dispute, a court or tribunal may require them to explain why they decided not to adopt the recommended practice.

Also, if members have not followed this guidance, and their actions are questioned in an RICS disciplinary case, they will be asked to explain the actions they did take and this may be taken into account by the Panel.

In some cases there may be existing national standards which may take precedence over this guidance note. National standards can be defined as professional standards that are either prescribed in law or federal/local legislation, or developed in collaboration with other relevant bodies.

In addition, guidance notes are relevant to professional competence in that each member should be up to date and should have knowledge of guidance notes within a reasonable time of their coming into effect.

This guidance note is believed to reflect case law and legislation applicable at its date of publication. It is the member’s responsibility to establish if any changes in case law or legislation after the publication date have an impact on the guidance or information in this document.
Document status defined

RICS produces a range of professional guidance and standards documents. These have been defined in the table below. This document is a guidance note.

<table>
<thead>
<tr>
<th>Type of document</th>
<th>Definition</th>
<th>Status</th>
</tr>
</thead>
<tbody>
<tr>
<td>Standard</td>
<td></td>
<td></td>
</tr>
<tr>
<td>International standard</td>
<td>An international high-level principle-based standard developed in collaboration with other relevant bodies.</td>
<td>Mandatory</td>
</tr>
<tr>
<td>Professional statement</td>
<td></td>
<td></td>
</tr>
<tr>
<td>RICS professional statement</td>
<td>A document that provides members with mandatory requirements or a rule that a member or firm is expected to adhere to. This term encompasses practice statements, Red Book professional standards, global valuation practice statements, regulatory rules, RICS Rules of Conduct and government codes of practice.</td>
<td>Mandatory</td>
</tr>
<tr>
<td>Guidance</td>
<td></td>
<td></td>
</tr>
<tr>
<td>RICS code of practice</td>
<td>Document approved by RICS, and endorsed by another professional body/stakeholder, that provides users with recommendations for accepted good practice as followed by conscientious practitioners.</td>
<td>Mandatory or recommended good practice (will be confirmed in the document itself).</td>
</tr>
<tr>
<td>RICS guidance note (GN)</td>
<td>Document that provides users with recommendations or approach for accepted good practice as followed by competent and conscientious practitioners.</td>
<td>Recommended best practice. Usual principles apply in cases of negligence if best practice is not followed.</td>
</tr>
<tr>
<td>RICS information paper (IP)</td>
<td>Practice-based document that provides users with the latest technical information, knowledge or common findings from regulatory reviews.</td>
<td>Information and/or recommended good practice. Usual principles apply in cases of negligence if technical information is known in the market.</td>
</tr>
</tbody>
</table>
1 Scope

1.1 The purpose of this guidance note is to assist the valuer in the provision of leasehold reform valuation advice whether they are acting for the freeholder (landlord), intermediate landlord or tenant.

1.2 The provisions, which include the way in which the prices and premiums are to be assessed, are highly complex. Therefore this guidance note can only provide a brief outline of the most basic principles.

1.3 This guidance note applies only in England and Wales and is written on the basis of the law as at 1 June 2015.

1.4 This third edition guidance note is effective from 1 December 2015.
2 Introduction

2.1 Following its introduction in 1967, the leasehold reform legislation has been considerably amended and the rights have been extended to many more lessees.

2.2 A valuer intending to provide advice on leasehold reform matters requires a high level of competence and the ability to work closely with the client’s legal advisers. The valuer needs to be aware that whereas leasehold reform valuations fall outside the ‘Red Book’, aspects of negotiations on price and premium and preparation and attendance for any tribunal or court fall within and accordingly the valuer needs to satisfy the requirements of the RICS Professional Standards, PS 2 paragraph 3.1, Member qualification.

2.3 The appendices showing worked examples of valuations in various standard scenarios are designed to aid the understanding of the valuation requirement. They are intended to outline the process and are not designed to be templates for wider use, because every valuation has to reflect its own circumstances.
3 Leasehold reform legislation

3.1 There are two primary statutes that govern leasehold reform. They are the Leasehold Reform Act 1967 (the 1967 Act) and the Leasehold Reform, Housing and Urban Development Act 1993 (the 1993 Act). The provisions cover:

- the 1967 Act – enfranchisement and extended leases for houses and
- the 1993 Act – collective enfranchisement (blocks of flats) and new leases for flats.

3.2 The Acts have been amended to extend their application, or to nullify the effect of loopholes upheld by the courts. Appendix A contains a list of the subsequent legislation and a brief note on its principal effects.
4 The tenant’s rights

4.1 The exercise of enfranchisement, either individually or collectively, and the right to a new lease is a form of compulsory purchase. There are three main areas:

- houses: enfranchisement and an extended lease
- flats: collective enfranchisement and
- flats: a new lease.

4.2 Each of the areas of leasehold reform has its own set of rules and assumptions, with corresponding valuation principles. In general terms, the enfranchisement price or premium payable will include (as the case may be):

- compensation to the freeholder (or landlord) and to any intermediate leaseholder for their loss (or diminution) in the value of their interest
- a 50% share of the marriage value (if applicable) and
- compensation payable for the landlord’s other losses (if applicable).

4.3 Houses: enfranchisement and an extended lease

When originally enacted the 1967 Act applied to ‘lower’ value houses and gave tenants the right to take either an extended lease or to enfranchise (buy their freehold interest). The principle behind the basis of valuation (section 9(1)) was that the land (the site) belonged to the freeholder, and the building (the house) belonged to the tenant. Following the subsequent amendments there are five areas of valuation:

- the extended lease (at a modern ground rent)
- section 9(1) (no marriage value payable)
- section 9(1A) (marriage value payable)
- section 9(1C) (like 9(1A) with compensation) and
- section 9(1AA) (vacant possession value, subject to assumptions).

4.4 The extended lease

The right to an extended lease is rarely exercised, but its provisions need to be understood as it is fundamental to the section 9(1) basis of valuation. The extended lease is for a term of a further 50 years from the original term date, at a rent assessed in accordance with section 15, called a ‘modern ground rent’. The modern ground rent can be extremely onerous on the tenant. There is provision for a review after 25 years. The modern ground rent is effective from the start of the new term and is the rent for the site. It is established by applying an appropriate yield to decapitalise the ‘site value’. There are three methods of establishing site value:

- the ‘cleared site’ approach
- the ‘standing house’ approach and
- the ‘new for old’ approach.

4.5 Section 9(1)

This applies to low value houses, for which the enfranchisement price is the aggregate of:

- Stage 1 – the value of the existing lease ground rent
- Stage 2 – the value of the modern ground rent and
- Stage 3 – the value of the freeholder’s reversion at the expiry of the extended lease.

Under the section 9(1) basis of valuation, it is to be assumed the tenant has taken an extended lease, which is why it is necessary to understand the valuation principles of the modern ground rent.

4.6 Section 9(1A)

This applies to higher value houses and the enfranchisement price includes 50% of the marriage value. The price is the aggregate of:

- the value of the existing lease ground rent
- the value of the freeholder’s reversion to vacant possession deferred over the unexpired term and
- 50% of the marriage value.

Section 23 of the Housing and Planning Act 1986 amended the 1967 Act so as to include the words ‘… or an extended lease and, where the tenancy has been extended under this Part of the Act, that the tenancy will terminate on the original term date’. This closed what was known as ‘the Hickman’ loophole.

4.7 Section 9(1C)

This basis of valuation applies to all those houses that did not qualify for enfranchisement until the amendments of the 1993 Act were introduced. Section 9(1C) broadly follows section 9(1A) but adds provision for the payment of compensation.

4.8 Section 9(1AA)

The Commonhold and Leasehold Reform Act 2002, section 143(4), amends section 9(1A) of the 1967 Act to allow tenants who have already taken an extended lease to buy their freehold interests. Where the original term date has passed, the basis of valuation for the freehold price is section 9(1A), subject to disregarding tenant’s improvements and taking into account the tenant’s rights (if any) to an assured tenancy under Schedule 10 of the Local Government and Housing Act 1989. The principal behind the assessment of the price in this case is that the tenant paid nothing for the extended lease (other than the modern ground rent by way of ‘mesne profits’) and so the freeholder is entitled to the vacant possession value of the house.
4.9 Flats: collective enfranchisement

The 1993 Act introduced the collective right of tenants to enfranchise, applicable to blocks of flats. The basis of valuation is in Schedule 6 and the enfranchisement price is the aggregate of:

- the value of the freeholder’s and any intermediate leaseholder’s interests
- 50% of the marriage value and
- any compensation payable for landlords’ other losses.

4.10 Flats: a new lease

The 1993 Act also introduced the individual right of a tenant of a flat to a new lease (in substitution for the existing lease), which is:

- at a peppercorn (i.e. a nominal) rent and
- for a term expiring 90 years after the term date of the existing lease.

The basis of valuation is in Schedule 13 and the new lease premium is the aggregate of:

- the diminution in the value of the competent landlord’s interest and in that of any intermediate leaseholder’s interest in the tenant’s flat
- 50% of the marriage value and
- any compensation payable for landlords’ other losses.
5 General provisions

5.1 The tenant’s rights arise only where the original term of the lease (including terms extended by the surrender and re-grant of a lease) exceeded 21 years.

5.2 If a tenant has served notice to exercise his or her rights in leasehold reform or, in the case of collective enfranchisement, is a ‘participator’, the tenant’s rights can be assigned to a purchaser of the existing lease.

5.3 There is an outline of the collective enfranchisement process at Appendix B.
6  The valuer’s role

6.1  The valuer may be asked to provide some or all of the following services:

• to assist with the tenant’s decision making process (including whether to exercise the rights), the provision of a preliminary report (including valuation and general advice as to the tenant’s rights, and the price or premium payable)
• the provision of valuation advice as to the amount(s) of any offer or counter-offer to be included in a notice of claim or counter-notice
• undertaking negotiations to see whether the price or premium can be agreed and
• the preparation and presentation of evidence to a First-tier Tribunal (Property Chamber) (F-IT) or, on appeal, to the Upper Tribunal (Lands Chamber) (UT).

6.2  It may be unwise for a valuer who is inexperienced in leasehold reform matters to take instructions in this field, which can be highly complex. Valuers should consider whether they have the necessary experience and resources to give the advice required.

6.3  Generally the responsibility for complying with the statutory procedure rests with the legal advisers, but the valuer should be aware that one of the matters that could invalidate a notice is the sum(s) either within it or omitted.

6.4  The information to be obtained and considered by the valuer includes:

• the terms of all existing leases, including intermediate leases, and details of any other tenancies and occupational tenancies
• details of any deeds of variation
• the ground rents payable, whether they are fixed or variable and, if so, to what extent
• any licences to alter and whether there have been tenant’s improvements which should be ignored in the valuation
• the planning history
• in the case of enfranchisement, details of any estate management scheme and covenants that may be included in the freehold transfer
• in the case of enfranchisement of houses, the rateable value history of the property (although determining the appropriate basis of valuation is a legal issue) and
• information on the landlord’s ownership of adjacent property.

6.5  It may also be appropriate to obtain the deeds, including plans, and the solicitor’s report thereon, and the official copies from the Land Registry.

6.6  It is always necessary to establish the extent of the premises to be valued. This might include ‘appurtenant property’ and property over which the tenant has rights.

6.7  The valuer may be asked to provide, from inspection, an opinion as to the extent of the property to be the subject of a freehold claim, particularly where the premises are physically joined to other buildings. The extent of the premises claimed will be specified in the notice and will also be dealt with in the freeholder’s (landlord’s) counter-notice.

6.8  In the case of a block of flats, if there is a commercial element (typically shops on the lower floors) or parts that are let on non-qualifying tenancies, the nominee purchaser (the body that represents the participating tenants) is obliged to offer to buy them, so their value must be included in the notice.
7 The valuation principles

7.1 The established method of assessing the value of the freeholder’s loss (or the landlord’s diminution in value) is ‘term and reversion’. All elements that might give rise to value have to be considered.

7.2 During the term of the existing lease the rent receivable, including any increases (i.e. rent reviews), must be valued.

7.3 On expiry of the existing lease, the freeholder (or landlord) expects to receive vacant possession and that reversion must be valued too. If the reversionary term is ‘a few days’ (as is generally the case with intermediate leases) the value will probably be nominal, i.e. nil.

7.4 If the existing lease is short (say less than 5 years), consideration should be given as to whether possession will actually be given at the end of the term, because the tenant may claim a tenancy under the Local Government and Housing Act 1989. The statutory limit on the rental value is £100,000 per annum. It is up to the valuer and the legal adviser to consider, under the particular circumstances, whether a deduction is appropriate.

7.5 Other factors may include:

- the potential to earn premiums by granting licences to alter or for the rectification of leases and
- in collective enfranchisement, ‘hope value’ for non-participating tenants may be appropriate.

7.6 The interest may comprise other elements that have to be valued, such as development potential and, in the case of blocks of flats, flats and other areas in hand to the landlord.

7.7 Marriage value

Marriage value (the value released by the coalescence of the freehold and leasehold interests) is assessed in the conventional way.

The aggregate value of all the interests in the property prior to the transaction is deducted from the corresponding aggregate value of all the interests once the transaction has taken place. Fifty per cent of any marriage value arising is payable to all those parties whose interests are acquired and apportioned between them in proportion to the values (or diminution in the values) of those interests.

If the marriage value calculation results in a negative figure, the question arises as to whether there is any benefit to be gained from making the claim, or whether some part of the calculation carried out to this point may be erroneous or misconceived.

Where the unexpired term of the existing lease is over 80 years the amount of marriage value will be comparatively small. To avoid lengthy and costly arguments over small sums, the Acts prescribe that in such cases, the share of marriage value payable should be taken as being nil. That is not to say there is no marriage value, it is simply that nothing is payable.

7.8 Appendix C lists typical problematic areas of leasehold reform.

7.9 Appendix D contains a number of basic valuation examples to demonstrate the application of the legislation.
Appendix A: Amending and further legislation since the Leasehold Reform Act 1967 (the 1967 Act)

Housing Act 1969:
Excluded the tenant’s overbid from valuations under section 9(1).

Housing Act 1974:
Extended the application of the 1967 Act to houses having a rateable value of between £1,000 and £1,500 in Greater London or £500 to £750 elsewhere, with new valuation rules in section 9(1A).

Leasehold Reform Act 1979:
Prevented the enfranchisement price being increased by the creation of a superior interest.

Housing Act 1980:
Reduced the period of occupation for residency from five years to three years.

Introduced the formula for the valuation of a minor intermediate leasehold interest (MILI).

Set up Leasehold Valuation Tribunals, now called the First-tier Tribunal (Property Chamber) (F-tT), as valuation tribunals of first instance with only appeals being heard by the Lands Tribunal, now called the Upper Tribunal (Lands Chamber) (UT).

Housing Act 1985:
Extended the 1967 Act to former secure tenants who had exercised the right-to-buy.

Housing and Planning Act 1986:
Extended the 1967 Act to leaseholders under shared ownership leases provided their ownership was 100%; and plugged the ‘Hickman’ loophole whereby tenants had been able to secure large reductions in the enfranchisement price by opting first for a 50 years extended lease and then enfranchising.

References to Rating (Housing) Regulations 1990 (SI 90/434):
Made amendments to the rateable value and low rent tests further to the abolition of rateable values.

Leasehold Reform, Housing and Urban Development Act 1993 (the 1993 Act):
Abolished the rateable value test, made amendments to the low rent and long tenancy tests (providing the sections 1A and 1B rights to enfranchise) and introduction of section 9(1C) valuations.

Introduced the right to a new lease for a flat (Schedule 13), and the right to collective enfranchisement for a block of flats (Schedule 6).

Housing Act 1996:
Abolished the low rent test for houses held on leases granted for terms in excess of 35 years (providing the section 1AA right to enfranchise).

Commonhold and Leasehold Reform Act 2002:
Removed the need for claimants to reside in either flats or houses.

Increased the permissible limit on commercial content of blocks of flats for collective enfranchisement to 25%.

Reduced the number of participants required for collective enfranchisement.

Allowed tenants of houses under section 14 leases to enfranchise.

Prescribed the valuation date to be the date the notice of claim is received by the freeholder/competent landlord.

Marriage value to be disregarded (i.e. to be taken to be ‘nil’) where the existing lease term exceeds 80 years at the valuation date.

Prescribed the freeholder’s (landlord’s(s’)) share of marriage value to be 50%.

Housing and Regeneration Act 2008:
Amended the 1967 Act and repealed the low rent test, although it is retained as a qualifying condition for extending the lease.

The Tribunal Procedure (First-tier Tribunal) (Property Chamber) Rules 2013:
Effective from 1 July 2013.

Leasehold Reform (Amendment) Act 2014:
The requirement for the tenant(s) to sign their notice under section 13 or 42 of the 1993 Act (as the case may be) is limited to premises in Wales.

Housing (Wales) Act 2014:
Amends the 1993 Act to provide that where notices are served under section 13 or section 42, these notices are no longer required to be signed personally by the tenant(s) but may be signed on their behalf.
Appendix B: Collective enfranchisement process

This appendix provides a general and simplified explanation of the procedural steps to be followed when advising a group of tenants in a collective enfranchisement. The steps shown in italic are normally the responsibility of the legal advisers.

Step

1. Steering committee set up and participants identified
2. Valuer and solicitor appointed
3. Valuer inspects the premises and prepares report
4. Solicitor serves and registers the notice of claim
5. Notice accepted as valid?
   - YES
     6. Freeholder serves counter-notice
     Notice valid
     7. Negotiations open
     8. Apply to F-TT* if application is received in time
     Application received in time
     9. Directions given, including the hearing date
     10. Prepare for F-TT
     11. Hearing
     12. F-TT decision
     13. Not accepted
     - Seek leave to appeal (any appeal beyond seeking leave to appeal is not covered here)
   - NO
     Consider application to court

- Participation agreement, if any, prepared
- Valuer advises on apportionments of price
- Participants agree details (or withdraw)
- Price, transfer and costs agreed
- Contract agreed
- New long leases agreed

*Only unnecessary if terms openly agreed within the time limits
Appendix C: Problematic areas of leasehold reform

The following are some of the problem areas in leasehold reform.

1 Intermediate leases
   • Leaseholds with negative values
   • ‘MILI’ (minor intermediate leasehold interest)
   • Dual rate and single rate tables approaches
   • Intermediate leaseholder’s rights
   • Position on leasebacks

2 Section 61 (break clause at end of original term)
   • Effect of development rights on the value of the landlord’s investment
   • Effect of development rights on the value of the new lease

3 Very short and short existing lease terms
   • Security of tenure on expiry of existing lease
   • Deferment rate
   • Liability for dilapidations
   • Effect of recoverable costs on viability

4 Freehold, share of freehold/999 years lease, new and existing lease values
   • The helpfulness of historical data
   • Sales transactions in a contaminated market
   • Benefit of the Act (Act rights)
   • Graphs of relativity
   • Very short and short terms
   • Effect of onerous or restrictive covenants
   • Effect of onerous ground rent provisions

5 Tenanted flats
   • Whether the effect of protected tenancies is to be reflected in the price or premium computation

6 Improvements
   • What constitutes an ‘improvement’?
   • Effect on value of a short existing lease term (as compared to effect on long lease/freehold value)
   • Effect on rent review
   • Effect on existing ground rent where fixed on review

7 Houses
   • What is a house?
   • Identification of the unit to be enfranchised (contrasted with flats)
   • Assumptions as to repairing covenants
   • Commercial uses

8 Collective enfranchisement
   • Identification of the unit to be enfranchised
   • Mixed-use premises, excluded where non-residential parts exceed 25%
   • Hope value for non-participators
   • Intermediate leaseholders as participants
   • Leasebacks (of what and to whom)
   • Porter’s and caretaker’s flats
   • Development value

Appendix C: Problematic areas of leasehold reform
Appendix D: Valuation examples

The bases of valuation in leasehold reform vary according to the legislation applicable. The following examples are outlines of the valuations required.

For these purposes the ground rent, vacant possession values and unexpired terms in the examples are matters of fact.

The capitalisation and deferment rates, capital and rental (if applicable) values are matters for the valuer’s judgment and opinion (although on the question of deferment rate there are various case precedents to apply). As with all valuations, these are ideally drawn from comparable open market transactions. However, a paucity of sales evidence and the fact that the transactions have taken place in a market contaminated by the effects of the legislation, mean that leasehold reform valuations are generally far from straightforward.

In each of the examples it is assumed that the houses and flats are ‘in repair’ and that there is no value attributable to tenant’s improvements.

The valuer must be aware of, but not limited to, the following cases:

- Blendcrown Ltd v The Church Commissioners for England [2004] 1 EGLR 143
- Nicholson v Goff [2007] 1 EGLR 83
- Earl Cadogan v Sportelli [2007] 1 EGLR 153
- Nailrine Ltd v Earl Cadogan [2009] RVR 95
- Earl Cadogan v Sportelli & Others [2008] UKHL 71
- Mansal Securities & other appeals [2009] 10 EG 110
- Culley v Daejan Properties Ltd [2009] UKUT 168 (LC)
- Zuckerman (and others) v Trustees of the Calthorpe Estate [2009] UKUT 235
- Lethaby and Regis [2010] UKUT 86 (LC)
- Cadogan Square Properties Ltd (and others) v The Earl Cadogan (and others) [2010] UKUT 427 (LC)
- The Earl Cadogan v Farrokh Faizapour & John Stephenson [2010] UKUT 3 (LC)
- Earl Cadogan v Betul Erkman [2011] UKUT 90 (LC)
- The Earl Cadogan (and others) v Cadogan Square Ltd [2011] UKUT 154 (LC)
- Coolrace Ltd (and others) [2012] UKUT 69 (LC)
- Clarise Properties Ltd [2012] UKUT 4 (LC)
- Daejan Investments Ltd v Benson and others [2013] UKSC 14
- Voyvodova v Grosvenor West End Properties (and another) [2013] UKUT 334 (LC)
- Padmore v Trustees of the High Foundation [2013] UKUT 646 (LC)
- Kosta v Trustees of the Philimore Estate [2014] UKUT 0319 (LC)
- Westbrook Dolphin Square Ltd and Friends Life Ltd and Westbrook Dolphin Square Residential 1 Ltd [2014] EWHC 2433 (Ch)
- 82 Portland Place (Freehold) Ltd v Howard De Walden Estates Ltd [2014] UKUT 133 (LC).

Further reading:
- RICS Research, Leasehold Reform: Graphs of Relativity, October 2009
- RICS Books, Leasehold enfranchisement explained, May 2010
The factors used in the examples are:

<table>
<thead>
<tr>
<th>Item</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Capitalisation rate</td>
<td>6%</td>
</tr>
<tr>
<td>Deferment rate</td>
<td>Either 4.75% or 5.5% for houses and 5% for flats</td>
</tr>
<tr>
<td></td>
<td>It is up to the valuer to decide as to whether departure from the</td>
</tr>
<tr>
<td></td>
<td>generic rates in Sportelli of 4.75% and 5% is appropriate</td>
</tr>
<tr>
<td>Ground rent</td>
<td>£50 per annum (fixed).</td>
</tr>
<tr>
<td>Capital values (vacant possession)</td>
<td>Freehold/share of freehold/999 years lease value – £225,000,</td>
</tr>
<tr>
<td></td>
<td>£250,000 or £500,000</td>
</tr>
<tr>
<td></td>
<td>New (160 years) lease value – £495,000</td>
</tr>
<tr>
<td></td>
<td>Existing (70 years) lease value – £435,000</td>
</tr>
</tbody>
</table>

**Marriage value**

Where two interests in the same property are merged, that merger usually gives the purchaser the ability to release some additional value. That additional value is known as ‘marriage value’. Where at the valuation date the existing lease has 80 years or less unexpired, 50% of the marriage value is payable. This requires an assessment of the value of the existing lease on the assumption that the tenant has no right to a new lease or to enfranchise.
Example 1: Enfranchisement of a house (‘low value’)

In this case the rateable value history is such that the valuation falls under section 9(1), being the basis of valuation that results in a more favourable enfranchisement price (i.e. lower) to the tenant. The unexpired term is only 25 years.

The enfranchisement price computation under section 9(1) is as follows.

<table>
<thead>
<tr>
<th>Stage 1</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Ground rent</td>
<td>£50</td>
</tr>
<tr>
<td>YP for 25 years @ 6%</td>
<td>12.7834</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>£639</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Stage 2</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Entirety value</td>
<td>£250,000</td>
</tr>
<tr>
<td>Value of site @ 40%</td>
<td>0.4</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td>£100,000</td>
</tr>
<tr>
<td>Decapitalise @ 5.5%</td>
<td>0.055</td>
</tr>
<tr>
<td>YP 50 years @ 5.5%</td>
<td>16.9315</td>
</tr>
<tr>
<td>Deferred 25 years @ 5.5%</td>
<td>0.2622</td>
</tr>
<tr>
<td><strong>Total</strong></td>
<td><strong>£24,417</strong></td>
</tr>
</tbody>
</table>

<table>
<thead>
<tr>
<th>Stage 3</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>Standing house value</td>
<td>£225,000</td>
</tr>
<tr>
<td>Deferred 75 years @ 5.5%</td>
<td>0.0180</td>
</tr>
</tbody>
</table>

**Enfranchisement price (excluding costs)**

<p>| |</p>
<table>
<thead>
<tr>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>£29,106</strong></td>
</tr>
<tr>
<td>Say</td>
</tr>
</tbody>
</table>

In the example, note the difference between the entirety and standing house values. Whether an adjustment is made in Stage 3 to reflect the tenant’s right to possession depends on the facts of the case and the valuer’s opinion.
Example 2: Enfranchisement of a house (‘higher value’) – long unexpired term

In this case the unexpired term is assumed to be 85 years. Because at the valuation date the unexpired term is over 80 years, the share of marriage value payable is taken to be nil.

The price is assessed under section 9(1A). After the enfranchisement the tenant becomes a freeholder in possession. The freeholder is to be compensated for the loss of his or her freehold interest which presently comprises the right to receive the ground rent and the right to vacant possession at the end of the lease. The price payable is the present value of the rental income stream and the present value of the reversion to freehold vacant possession value.

The enfranchisement price computation under section 9(1A) is as follows.

<table>
<thead>
<tr>
<th>a)</th>
<th>Value of the freeholder’s interest</th>
<th></th>
</tr>
</thead>
<tbody>
<tr>
<td>i)</td>
<td>Ground rent</td>
<td>£50</td>
</tr>
<tr>
<td></td>
<td>YP 85 years @ 6%</td>
<td>16.5489 £827</td>
</tr>
<tr>
<td></td>
<td>plus</td>
<td></td>
</tr>
<tr>
<td>ii)</td>
<td>Reversion to freehold vacant possession value</td>
<td>£500,000</td>
</tr>
<tr>
<td></td>
<td>Deferred 85 years @ 4.75%</td>
<td>0.0194 £9,700</td>
</tr>
</tbody>
</table>

Enfranchisement price [excluding costs] £10,527

Say £10,525
**Example 3: Enfranchisement of a house (‘higher value’) – medium unexpired term**

This example is similar to Example 2 but assumes an unexpired term of 70 years. As the unexpired term is less than 80 years, 50% of marriage value is payable.

The enfranchisement price computation under section 9(1A) is as follows.

### a) Value of the freeholder’s interest

<table>
<thead>
<tr>
<th>Item</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>i) Ground rent</td>
<td>£50</td>
</tr>
<tr>
<td>YP 70 years @ 6%</td>
<td>£819</td>
</tr>
<tr>
<td><strong>plus</strong></td>
<td></td>
</tr>
<tr>
<td>ii) Reversion to freehold vacant possession value</td>
<td>£500,000</td>
</tr>
<tr>
<td>Deferred 70 years @ 4.75%</td>
<td>£19,400</td>
</tr>
<tr>
<td><strong>£20,219</strong></td>
<td><strong>£20,219</strong></td>
</tr>
</tbody>
</table>

### b) Freeholder’s share of marriage value

Difference between aggregate of values of interests after marriage (post enfranchisement) (freeholder’s interest extinguished)

- **Freehold vacant possession value**
- **£500,000**

And aggregate of values of interest before marriage

<table>
<thead>
<tr>
<th>Item</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value of the freeholder’s interest</td>
<td>£20,219</td>
</tr>
<tr>
<td>Value of the tenant’s interest</td>
<td><strong>£435,000</strong></td>
</tr>
<tr>
<td>Aggregate of values of interests before enfranchisement</td>
<td><strong>£455,219</strong></td>
</tr>
<tr>
<td><strong>Marriage value</strong></td>
<td><strong>£44,781</strong></td>
</tr>
<tr>
<td>50% payable</td>
<td>0.5</td>
</tr>
<tr>
<td><strong>£22,391</strong></td>
<td><strong>£22,391</strong></td>
</tr>
</tbody>
</table>

**Enfranchisement price (excluding costs)**

**Say £42,610**
**Example 4: A new lease for a flat – long unexpired term**

The unexpired term is assumed to be 85 years and as the unexpired term is over 80 years, the share of marriage value payable is taken to be nil.

The valuation is under Schedule 13. As the landlord's interest is not extinguished (the tenant acquires a new lease), whereas the landlord no longer enjoys ground rent, he or she has an entitlement to possession of the flat at the end of the new term.

Thus the landlord's interest is merely diminished in value and it is the diminution in the value of the landlord's interest that attracts compensation.

The new lease premium computation under Schedule 13 is as follows.

**a) Diminution in the value of the landlord’s interest**

Difference between:

1. **The value of the landlord’s interest subject to the existing lease**
   - Ground rent
     - £50
   - YP 85 years @ 6% $16.5489 £827
   - Plus
   - Reversion to share of freehold/999 years lease vacant possession value £500,000
     - Deferred 85 years @ 5% $0.0158 £7,900
   - Total £8,727

2. **The value of the landlord’s interest subject to the new lease**
   - Ground rent – new lease at a peppercorn rent £0
   - Plus
   - Reversion to share of freehold/999 years lease vacant possession value £500,000
     - Deferred 175 years @ 5% $0.0002 £100
   - Total £100

**Diminution in the value of the landlord’s interest** £8,627

**New lease premium (excluding costs)** Say £8,625
Example 5: A new lease for a flat – medium unexpired term

This example shows the new lease premium calculation following Example 4 (Schedule 13), but with an existing lease term of 70 years. Again the landlord’s interest is not extinguished, but now 50% of the marriage value is payable.

The new lease premium computation under Schedule 13 is as follows.

a) Diminution in the value of the landlord’s interest

Difference between

The value of the landlord’s interest subject to the existing lease

i) Ground rent £50
YP 70 years at 6% 16.3845 £819

plus

ii) Reversion to share of freehold/999 years lease vacant possession value £500,000
Deferred 70 years @5% 0.0329 £16,450

And

The value of the landlord’s interest subject to the new lease

i) Ground rent – new lease at a peppercorn rent £0

plus

ii) Reversion to share of freehold/999 years lease vacant possession value £500,000
Deferred 160 years @ 5% 0.0004 £200

Diminution in the value of the landlord’s interest £17,069 £17,069

b) Landlord’s share of marriage value

Difference between aggregate of values of interests after marriage

Value of the landlord’s interest after grant of the new lease £200
Value of the tenant’s interest £495,000
Aggregate of values after grant of the new lease £495,200 £495,200
And

Aggregate of values of interests before grant of the new lease

<table>
<thead>
<tr>
<th>Description</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Value of the landlord’s interest before grant of the new lease</td>
<td>£17,269</td>
</tr>
<tr>
<td>Value of the tenant’s interest</td>
<td>£435,000</td>
</tr>
<tr>
<td>Aggregate of values before grant of the new lease</td>
<td>£452,269</td>
</tr>
</tbody>
</table>

Marriage value

<table>
<thead>
<tr>
<th>Description</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>Marriage value</td>
<td>£42,931</td>
</tr>
<tr>
<td>50% payable</td>
<td>0.5</td>
</tr>
</tbody>
</table>

New lease premium (excluding costs)

<table>
<thead>
<tr>
<th>Description</th>
<th>Value</th>
</tr>
</thead>
<tbody>
<tr>
<td>New lease premium</td>
<td>£38,535</td>
</tr>
</tbody>
</table>

Say £38,550

£21,466 £21,466

Effective from 1 December 2015
Example 6: Collective enfranchisement of two flats

The simplest collective enfranchisement case concerns two flats where both tenants are participating (as they must if there are only two flats in the building). Both flats are valued in the hands of the freeholder at £500,000 and each has a fixed ground rent of £50 per annum. The existing leases have 70 years unexpired so marriage value is payable.

The enfranchisement price computation under Schedule 6 is as follows.

a) The value of the freeholder’s interest
   i) Aggregate ground rent (2 flats at £50 per annum each)
      £100
      YP 70 years @ 6% 16.3845 £1,638
   
   plus

   ii) Reversion to aggregate share of freehold/999 years lease vacant possession values (2 flats at £500,000 each)
      £1,000,000
      Deferred 70 years @ 5% 0.0329 £32,900

   The value of the freeholder’s interest
   £34,538 £34,538

b) Freeholder’s share of marriage value

   Difference between aggregate of values of interests after marriage (freeholder’s interest extinguished)
   Aggregate of share of freehold/999 years lease values £1,000,000

   And aggregate of values of interests before marriage

   Value of freeholder’s interest £34,538
   Aggregate of values of the tenant’s interests (2 flats at £435,000 each) £670,000
   Aggregate of values of interests before marriage £904,538 £904,538

   Marriage value £95,462
   50% payable 0.5

   Enfranchisement price (excluding costs) £47,731 £47,731

   Say £82,269

   Say £82,300
Confidence through professional standards

RICS promotes and enforces the highest professional qualifications and standards in the development and management of land, real estate, construction and infrastructure. Our name promises the consistent delivery of standards – bringing confidence to the markets we serve.

We accredit 118,000 professionals and any individual or firm registered with RICS is subject to our quality assurance. Their expertise covers property, asset valuation and real estate management; the costing and leadership of construction projects; the development of infrastructure; and the management of natural resources, such as mining, farms and woodland. From environmental assessments and building controls to negotiating land rights in an emerging economy; if our members are involved the same professional standards and ethics apply.

We believe that standards underpin effective markets. With up to seventy per cent of the world’s wealth bound up in land and real estate, our sector is vital to economic development, helping to support stable, sustainable investment and growth around the globe.

With offices covering the major political and financial centres of the world, our market presence means we are ideally placed to influence policy and embed professional standards. We work at a cross-governmental level, delivering international standards that will support a safe and vibrant marketplace in land, real estate, construction and infrastructure, for the benefit of all.

We are proud of our reputation and we guard it fiercely, so clients who work with an RICS professional can have confidence in the quality and ethics of the services they receive.