

## PROPERTY

# Leaseholders are enjoying a new purchasing power

Increasing numbers of residents are realising that it is now not much more expensive to buy their freehold than extend their lease, writes Sharlene Goff

Record numbers of leaseholders are taking ownership of their blocks of flats as they lose patience with inattentive landlords and realise that purchasing the freehold can add thousands of pounds to their property's value.

The Leasehold Advisory Service estimates that tens of thousands of flat dwellers could this year force the owners of their buildings to sell them the freehold by the legal process known as "enfranchisement".

According to the Association of Residential Managing Agents (Arma), the proportion of private flats owned or managed by their residents in England and Wales has risen from about 50 per cent to 65-70 per cent over the past four years. Arma estimates that within

10 years this will be 90-95 per cent.

The rapid growth stems from a change in legislation in 2002, which significantly eased the process of buying a freehold. Also, more and more people are initially opting for leasehold flats, either for the convenience of city living, increased security or because rising property prices have taken detached houses out of their reach.

"There is continued unrelenting demand of people buying their freehold," says Peter Haler, chief executive of the Leasehold Advisory Service. "It is now becoming the accepted thing for leaseholders to do."

He says that the organisation is taking around 30,000 inquiries a year from leaseholders wanting to become their own landlord. Many of these calls are from people representing large blocks of flats.

Kat Callo, director of Rosetta Consulting, which assists leaseholders in buying freeholds, says: "There is a real tidal wave of people buying freeholds as they become aware of their legal right."

One reason this is happening now is that during the 1970s and early 1980s there was a trend to convert Victorian or other period homes into two or more flats. Many of the original leases, which were typically 100-125 years, are now nearing the time when they should be extended.

Demand is also coming from people who have bought luxury apartments in London estates such as Grosvenor Park, as well as own-



Window of opportunity: By taking over the running of the property, individuals may do a more efficient job

Jim Winslet

Lease of life	Leasehold value as a proportion of freehold value (%)
Lease length remaining	
125	99.1
99	97.6
90	95.3
80	92.4
70	89.1
60	85.2
50	80.7
40	75.2
30	68.1
20	58.0
10	40.9
5	23.7

Source: Savills

• London average

ers of properties in new developments and warehouse conversions.

"People whose leases are getting a bit short are realising that it costs about the same, or even a bit less, to buy the freehold as to extend the lease," says Haler.

Also, it is much easier now for people to force their landlords to sell the lease. The 1993 Leasehold Reform Act introduced the right for leaseholders to get together and force the freeholder to sell. And in 2002, the criteria needed to be able to do this was substantially relaxed. Now only half the leaseholders in a block of flats, rather than two-thirds of them, have to agree to buy the freehold to oblige the landlord to sell.

If this is the case, the group of leaseholders can serve an enfranchisement notice on the freeholder, which is essentially their right to buy the freehold. The landlord has no choice but to sell at a reasonable price, which is either agreed with the leaseholders or taken to the leasehold valuation tribunal.

Callo says there are a number of reasons why people are keen to buy a share of the freehold. Most significant is the effect a lease has on what the property is worth. As a lease runs down so does the value of the flat. Callo also says that mortgage lenders' attitudes to leases have become more stringent in recent years. While lenders used to raise concerns only when a lease

fell to around 50 years, now they tend to get nervous if it falls to around 80 years, she says.

According to Savills Research, a typical property with 80 years remaining on its lease would be worth around 92 per cent of its value if it had a 125-plus year lease. If the length of the lease fell to 60 years, the property would be worth around 85 per cent of that value, and at 50 years only 80 per cent.

So by purchasing a share in the freehold - which would generally involve writing new 999-year leases for all residents in the block - leaseholders can significantly enhance the value of their property.

The other main factor is that people increasingly want control over their property. "The system in England and Wales is the only one where you pay for all the maintenance but don't own the property. Leaseholders have all the worst parts of the property ownership without the best part of actually controlling the building," says Callo.

Owning the lease means owning the right to inhabit a part of a building for a defined length of time. Leaseholders have to pay monthly or annual service fees and/or ground rents, which can be expensive and do not guarantee a good service. By taking over the running of the property themselves, individuals may be able to do a more efficient job.

But anyone thinking about buying their freehold should realise that the benefits may not come easily. Negotiation with freeholders can be lengthy and complicated, particularly if you are one flat owner in a block of 20 or 30 flats. Similarly, the responsibility for the upkeep of an entire building and the common areas is not one to be taken lightly.

## Be committed, organised and focused

Buying the freehold on a converted period house or block of flats is much easier than it was five years ago. But the process still demands substantial planning, organisation and patience.

The biggest threat to success is lack of communication and poor organisation between the leaseholders aiming to buy the freehold. Landlords are usually familiar with the law and if they are not keen to sell the freehold, they could look for loopholes that could derail the process.

Experts therefore say you need to be committed, organised and focused before you start the legal process.

If you think you may not have the time, consider appointing an external project manager.

The first step in acquiring the freehold is to serve an enfran-

chisement notice on the landlord, signed by at least 50 per cent of the flat owners in the building. This is your right to force the freeholder to sell. This document must contain an offer price so the freehold must be valued by an experienced chartered surveyor. It is important that you set a realistic price otherwise a landlord can get the notice overturned.

Every freehold is calculated using a set formula based on the following:

■ A lump sum payment to the landlord to compensate for the loss of future ground rent.

■ The "reversion" cost. This is a lump sum payable to the landlord which takes into account the fact that, by selling the freehold interest, the current freeholder loses all rights to regain control of the flat at the end of the lease.

■ The "marriage value". This is the amount by which the value of the property will be enhanced by owning the freehold, as judged by an estate agent.

Take a £200,000 property with 70 years remaining on the lease. Obtaining the freehold should add around 11 per cent to the property's value - or £22,000. Half of this - £11,000 - must be paid to the freeholder. This payment is only due on the flats involved in the enfranchisement. Experts say that the marriage value is usually the most significant cost.

One valuation done by myleasehold.com\* for a flat with 70 years left on its lease and an annual ground rent of £100 calculates the freehold would cost £32,500, including the marriage value.

But, overall the leaseholder would end up better off because

obtaining the freehold was expected to increase the value of the flat from £440,000 to £500,000.

Once the notice has been served on the freeholder, they have two months to either accept or present a counter-offer. If they set an unacceptably high price, the matter can be settled in the leasehold valuation tribunal.

If the landlord fails to respond then you can also go through the tribunal and you should be able to buy the freehold at the initial offer price.

If you live in a large block of flats it could be wise to appoint an external managing agent, or at least, a board of directors to collect service charges and oversee the maintenance of the building.

\*The Survivor's Guide to Buying a Freehold, by Kat Callo.