

# Leaseholders quietly unite

Kat Callo explains why more London flat owners are collectively taking control of their buildings

A residential property movement that took New York by storm more than 20 years ago looks ready to transform London home ownership, pushing up the value of flats and creating a generation of newly empowered owners.

When a change in tax rules made it possible in the 1970s for New York's apartment renters to join together and buy their building, there was a rush to do so. It became known as "taking one's building co-op" and resulted in a dramatic price rise in co-ops and a more hands-on management style of apartment blocks by residents.

Now growing numbers of flat

owners on this side of the Atlantic are making use of a new legal right to compel their landlord to sell them the freehold of their building. It's easy to see why. The legislation is complex, but the maths and logic are simple. Prices vary from building to building, but someone owning a London flat worth £500,000, for example, can increase the value to £600,000 by paying £50,000 to buy the freehold.

The law that widened the right for leaseholders (flat owners) in England and Wales to "collectively enfranchise", that is, to compel their freeholder (landlord) to sell to them the building

freehold was enacted two years ago, but many Britons are only now becoming aware of its existence. The Commonhold and Leasehold Reform Act 2002 said a mere 50 per cent of all flats needed to participate for a building to collectively enfranchise, and all leaseholders could take part, including companies, buy-to-let and other absentee leaseholders.

The change in law was meant to address a mess in British home ownership. While many apartment owners in the US, Australia and most of Europe also own a share of the company that owns their building, UK leaseholders merely hold a lease giving them the right to use the flat for a defined period of time. Leaseholders are liable, through service charges, for all costs in running and maintaining the building, while the freeholder, as landlord, enjoys full ownership and control.

The value of the freehold can equal as little as 2 per cent of the combined value of the flats. So, for instance, leaseholders owning flats worth a combined £25m bear all the financial risk while the landlord, owning a freehold



Signs of change

worth £500,000, bears minimal risk and enjoys near-full control.

Flat ownership is an emotive issue in London, one of the world's most expensive cities. It's about money, one's home - the largest asset owned by most people - and quality of life. Throughout the 1990s I met London residents enraged over landlord mismanagement of their buildings, soaring service charges, and minimal transparency and accountability. One still hears plenty of horror stories about beautiful century-old red brick mansion blocks in prestigious London neighbourhoods with appallingly poor services, no gas and heating, and covered for years with scaffolding, all due to mismanagement.

Someone owning a flat worth £500,000 can increase the value to £600,000 by buying the freehold for £50,000

However, a growing number of these angry residents are now quietly working with neighbours to form a resident management company to buy the freehold.

Building mismanagement is only one motivator.

Another is the sobering reality of leasehold properties as diminishing assets. A flat with 70 years left on the lease is less valuable than a flat with 90 years.

Once a lease has 50 years left, buyers can have trouble securing a mortgage. The reason is that ownership of the flat reverts to the landlord at the end of the lease period.

This helps explain how the freehold price is determined. When leaseholders serve notice they are enfranchising, they

must present an offer price for the freehold. The landlord then states his counter offer and the final price is determined by a Leasehold Valuation Tribunal.

Flats in an enfranchised building increase in value because the new freeholder (the residents) can grant themselves 999-year leases, thus making the flats more valuable. By law, the leaseholders must pay the landlord, as part of the freehold cost, half of the anticipated value created by buying the freehold, the so-called "marriage value".

The UK government publishes no figures on enfranchised buildings, but experts estimate that thousands of leaseholder groups have bought their freehold since the 1990s and the trend is accelerating.

According to the Residential Property Tribunal Service, the umbrella body for LVTs, enfranchising leaseholders filed 861 applications in 2000 and are forecast to file 2,500 this year.

The number of applications is expected to treble next year. But this is only the tip of the iceberg. Industry experts say that for every leaseholder group applying to the LVT, as many as 40 other

groups are quietly and successfully enfranchising without making an application. Some of London's biggest landlords, including Grosvenor Estate, Cadogan Estate and Wellcome Trust, have seen the writing on the wall and have taken steps to sell off their residential properties.

Banks and mortgage lenders have been surprisingly slow to address the needs of this new enfranchiser client group. As a result, many leaseholders are turning to alternative sources of finance, including specialist funds and boutiques.

Enfranchisers face other challenges. Peter Haler, chief executive of the Leasehold Advisory Service, cites a lack of qualified solicitors and surveyors as the single biggest obstacle for would-be freehold buyers. A growing number of leaseholders have filed malpractice suits against lawyers for allegedly providing incorrect or inadequate legal advice on enfranchisement.

*Kat Callo is a strategy consultant whose Rosetta Consulting advises leaseholders on enfranchisement.*

[kat.callo@rosettaconsulting.com](mailto:kat.callo@rosettaconsulting.com)