

Orme Associates

Property Advisers

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COLLECTIVE ENFRANCHISEMENT BUYING THE FREEHOLD OF YOUR BLOCK UNDER THE LEASEHOLD REFORM ACT 1993



- Owners of flats can collectively elect to buy their freehold from the landlord under the Leasehold Reform Housing and Urban Development Act 1993.

- In order to qualify:-

- i. The building must contain two or more flats
- ii. 66.6% of flats in the block must be held on long leases
- iii. At least 50% of the long leaseholders in the block must participate

- The price payable will principally depend on the length of flat leases still to run, see relativity graph overleaf as a guide (multiply by number of flats accordingly)

- Other costs will include the Landlords reasonable valuation and conveyancing costs.

- Orme Associates appear on the leasehold enfranchisement practitioners list for the North West by LEASE the enfranchisement advisory service (www.lease-advice.org)

- We are happy to provide a free initial appraisal of the cost of collective enfranchisement and the likely costs. Our contact details are provided below:-

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What We Do

Orme Associates Property Advisers can advise on and effect the purchase of the freehold of your block of flats from your Landlord under the Leasehold Reform Act 1993 on behalf of a group of leaseholders for qualifying blocks, at a price determined by statutory valuation formulae aimed at balancing rights between landlord and tenant.

Collective Enfranchisement of Flats

Collective Enfranchisement is the process of a group of leaseholders through a nominee purchaser usually a tenants company acquiring the freehold of their block of flats compulsorily from their landlord.

The right to collective enfranchisement is provided for by the Leasehold Reform Housing and Urban Development Act 1993.

Why Buy the Freehold of our Block?

1. Collective Enfranchisement gives to the flat owners in a block control over the management of the building through the tenants company rather than a third party investor. It is particularly useful where tenants are dissatisfied as to how the block is managed. However since 2002 there is also a right to manage, see our sister leaflet "Right to Manage"

2. The leases of the individual flats can be extended with long terms by the tenants company. This solves the problem of a lease being a depreciating asset. In particular the value of a lease will not depreciate in a linear fashion. From 70 years still to run the value of a lease will start to fall away more quickly. At 25-30 years still to run the value of a lease will depreciate even more steeply than before. (see relativity graph overleaf).

3. Raising mortgage finance against a leasehold property with less than 70 years to run becomes progressively more difficult as time goes on due to mortgagees lending policies and thereby limits the number of buyers to those with substantial cash reserves, which in turn affects price hence the progressive steepening decline in value as time passes.

4. The terms of the new lease will be the same as before unless the tenant and landlord propose different terms or a new lease. This right can substitute an old lease which may be out dated for a new one with modern terms. The new lease can also formalize the inclusion of other property such as a garage used with the flat, or can combine two leases together. Also a modern lease can make a property more mortgageable.

Qualifying Criteria

Premises Qualifying
In order to qualify for collective enfranchisement:-

a. The building must contain two or more flats held by qualifying tenants

b. 50% of qualifying tenants must agree to participate (where there are 2 flats in the building both qualifying tenants must participate) and additionally;

c. 66.6% of the flats in the building must be owned by qualifying tenants whether or not they decide to participate

d. No more than 25% of the building must be designed for commercial use and occupation

Tenants Qualifying

A qualifying tenant must:-

e. Have a lease with an original term of at least 21 years. Note that the lease may have less than this period still to run at the time of enfranchisement.

f. Not own three flats or more in the building

Lease Extension

The alternative to Collective Enfranchisement is the Individual Right to Lease Extension which gives a flat owner the right to an additional 90 year term. The tenant must be a qualifying tenant as per e. above only and additionally must have owned the flat for the last 2 years. This is a simpler method for a tenant to extend their lease, however the ownership of the freehold and the management of the block would remain unchanged. For further information on the right to Individual Lease Extension see our sister leaflet "Extending

the lease of your flat under the Leasehold Reform Act 1993".

The Participating Tenants

Those qualifying tenants that form a minimum of 50% of tenants of a qualifying block who decide to participate are able to make a claim. The participating tenants will be required to effectively buy the landlord reversion to non-participating tenants flats as well as theirs and any commercial space (although in the latter case subject to landlords right to take a lease-back). Other tenants may join later if the original tenants agree. The more tenants that participate will mean a lower share of the overall cost for each party.

Participation Agreement

A contractual agreement between the participating tenants will ensure that the costs of the enfranchisement are met by all concerned and there are no withdrawals later.

The Nominee Purchaser

A nominee must be appointed to conduct proceedings with the freeholder (and any intermediate landlords) on behalf of participating tenants. The nominee purchaser is often a limited company set up by the participating tenants.

The Process of Collective Enfranchisement

The process is effected through the service of an Initial Notice served on the landlord and any head lessors.

The Initial Notice will include an offer to the landlord as to the amount the participating tenants are prepared to pay for the new lease. The offer must be realistic preferably based on valuation advice as an unrealistic offer can invalidate the notice.

Your landlord must then serve a Counter Notice within two months either admitting your right to acquire the freehold or not. A refusal must be based on facts that exclude you from qualification under the Act.

The Counter Notice if admitting your right must either accept the price you propose or state a realistic counter offer. It is then down

Past Enfranchisements

Address
Tudor Grange, Court Road,
Wrexham, LL13 7RH

Lease length still to run
72 years

Ground rent
£100 pa

Price for 90 year extension
Expected £7500 + landlords
costs



Address
6 no flats and 9 no houses at
Old Mill Ct, Chester, CH2 1DW

Lease length still to run
91.5 years (average)

Ground rent
£40 pa x 15 properties

Freehold purchase price
£15495 + costs (overall) shared
between 15 tenants



Address
4 flats at 2 Marine Park, West
Kirby, Wirral, CH48 5HW

Lease length still to run
65.6 years (average)

Ground rent
£15 pa x 4 properties

Proposed purchase price
£33120 + costs (overall) shared
between 4 tenants

to the respective parties and their surveyors to agree upon a price for the freehold. Either party can apply to the Leasehold Valuation Tribunal (LVT) during this process for determination of the price.

A failure by the Landlord to serve a Counter Notice or to specify a realistic price leaves the nominee purchaser free to apply to court for an order effecting the transfer of the freehold on the terms in the Initial Notice.

Upon agreement on price the freehold is transferred to the tenant company and the price is paid to the landlord.

Stamp Duty

From April 2009 Stamp Duty is not longer payable on freehold purchases by way of collective enfranchisement.

Withdrawal

The nominee purchaser is free to withdraw at any time after the service of the Initial Notice, although this right will expire 1 month following an agreement on the purchase price. In this instance reasonable landlords costs are payable.

Landlords Right to Redevelop

A landlord can resist the tenants Initial Notice where he intends to redevelop the property and:-

- (i) not less than 66.6% of the flats held on long leases are due to expire within 5 years, and
- (ii) the landlord could not reasonably do so without obtaining

possession of the flats.

The Cost of the Freehold

The price payable for the freehold is found using the prescribed statutory valuation method. The valuation is the aggregate of:-

a. The Ground Rent

The capitalized (rolled up) ground rent is payable. Peppercorn rents are valued at zero.

b. The Landlords Reversions

The landlords reversions to the flats comprise the main proportion of cost involved and will depend upon the length of the leases still to run. For instance where leases have on average 20 years to run the cost will be in the region of 45%-50% of the freehold value of each flat, where leases have 70 years still to run it will be 5%-10% of the freehold value of each flat. Below is a relativity graph showing approximate % of the property value against the years still to run. NB A lease of 100 yrs is considered near equal to a freehold in value.

c. The level of Marriage value

For properties having less than 80 years to run at the date of the Initial Notice only, a marriage value will also be payable. This is the value created above the sum of the landlords existing interest in reversion and the tenants existing leasehold interest as against the value of the new lease. This uplift in value is split 50/50 between the landlord and tenants.

d. Outstanding service charges
All outstanding rents, service

charges and insurance premiums must be paid up.

Landlords Costs

Also you will have to pay the Landlords allowable costs.

These are:-

- a. the landlords reasonable valuation costs (but not the costs of negotiation)
- b. the landlords reasonable conveyancing costs
- c. the costs of investigating the tenants right to enfranchise (but not service of a Counter Notice or taking advice)

Additionally costs must actually be "incurred" by the freeholder to be claimable.

Valuation Estimate

We can provide a free estimate of the price likely to be payable before you decide to proceed.

Further Information / Appraisal

For further information and advice on Collective Enfranchisement contact:-

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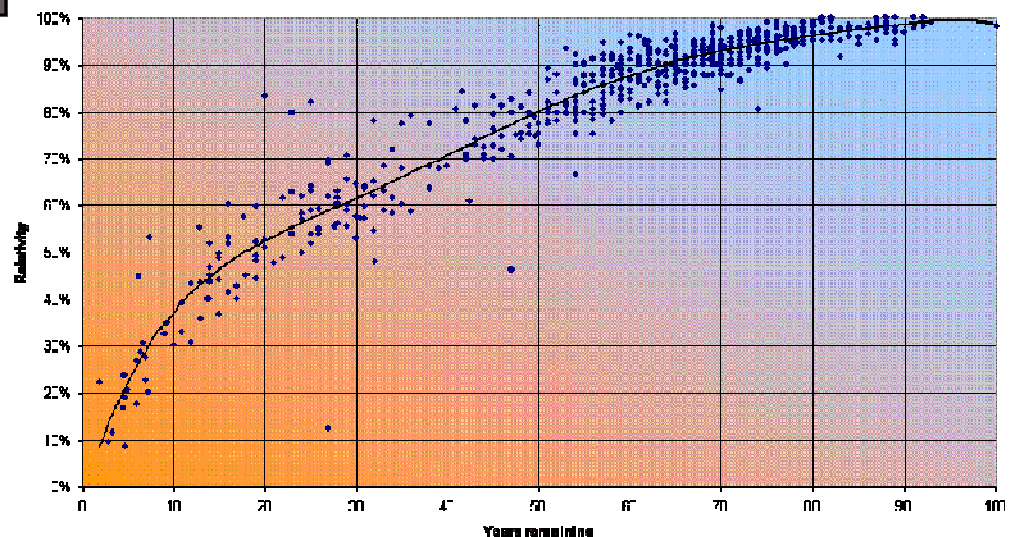
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Relativities derived from LVT determinations 1994-2007

NB: The Relativity Graph above shows the flats' value is a virtual freehold at 100 years still to run. At 30 years still to run for example approximately 60% of the flats value belongs to the leaseholder and 40% has been lost to the Landlord.