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2009

ASTBERRYS

Newsletter

We are property specialists for:

- Lettings
- Short Let Apartments
- Sales
- Block Management

We operate in:

- South Kensington
- Gloucester Road
- Earls Court
- Knightsbridge

**WHAT PRICE DO YOU PUT ON MARRIAGE?
THE CONCEPT OF “MARRIAGE VALUE”
IN A LEASE OF LESS THAN 80 YEARS**

The problem.

In the last newsletter [available at www.astberrys.co.uk, click on newsletter on the top bar] we looked at the effect of falling house prices on claims for individual lease extensions and concluded that now is a good time to obtain a new lease. In this article we examine the position of a leaseholder who has a lease of less than 80 years.

Flats with short leases, especially those with less than 80 years to run, in all but the most expensive areas of Kensington and Chelsea are harder to sell. The Leasehold Reform, Housing and Urban Development Act 1993 gives to most leaseholders the right to a new extended lease. Under the provisions of the Act your lessor [usually the freeholder] has to extend your lease by 90 years. This means, that if you have a lease of 70 years then you will end up with a new lease of 160 years. Your obligation to pay ground rent also disappears.

What do you pay? In leases of less than 80 years you pay to compensate the freeholder for the loss of ground rent over the remaining years of the lease, a further sum to compensate him for the loss of the value of your flat at the end of the original lease and finally half of the “marriage value”.

An example, the flat with a 70 year lease – You have a flat with a 70 year lease and annual ground rent of £200 for the duration of the lease. The flat would be worth £500,000 now if empty and the freeholder had it back.

1. Using investment tables you can calculate the value of the right to receive ground rent of £200 over 70 years at a capitalisation rate of say 6%. The figure comes to about £3,300
2. Using the tables you will also be able to calculate the present value of the freeholder’s interest, which is £500,000 deferred for 70 years. A deferment rate of 5% is used for this part of the valuation. The figure comes to about £16,500

3. **“Marriage Value”**. In simple terms this is the additional value that is created overall by the process of lease extension. The Act says that you have to pay the freeholder 50% of this additional value.
How does this work in practice?

3a) First you calculate the value of the freeholder’s present interest in your lease.
This is £3,300 plus £16,500 = £19,800.

3b) Next you calculate the value of the freeholder’s interest in the flat after the lease extension. This will be virtually nothing in this case.

3c) Finally you calculate the value of your flat with the existing 70 year lease. A lease with 70 years left to run is likely to be worth about 90% of what it would be worth if the freeholder had it back without your lease. In your case the flat would be worth about £450,000.

3d) Calculating marriage value.

Take the value of your extended lease - £500,000

Then add the value of the freeholder’s interest after extension - nothing in this case

Total = £500,000

Take the value of the freeholder’s present interest - £19,800 [£3,300 plus £16,500]

Then add the value of your interest - £ 450,000

Total = £469,800

The additional or marriage value created is the difference between these two figures [£500,000 - £469,800] or £30,200. You must pay 50% of this, £15,100

4. The total sum you will pay for your new lease of 160 years is the addition of the sums above i.e.

1. £3,300
2. £16,500
- 3d) £15,100

This total comes to £34,900.

As a result of this process you will have spent roughly £35,000 plus professional fees, but obtained a new lease. This would make your flat far easier to sell and worth £500,000 when before it was worth £450,000. So, even paying marriage value most leases are worth extending.

If you have a lease approaching 80 years then you should always think about extending it before the term drops below 80 years. Do not pay marriage value unless you have to.

If you would like help with lease extensions then please contact us at business@astberrys.co.uk

REFURBISHMENT AND MAINTENANCE

11 Hogarth Road, SW5 - managed and recently refurbished by us

We manage:

- Individual properties
 - Blocks of flats
- We can maintain and refurbish your property or building using our own in house maintenance contractors.
- If you choose our managed letting service then you will benefit from our fixed fee structure, which covers all works up to £500.
- With us you know exactly what you have to pay if work has to be done.



Our Offices in Kenway Rd, SW5 - converted by us



| Service | Per hour | Subsequent hour |
|----------------|----------|-----------------|
| Electrical | £100 | £ 75 |
| Plumbing | £ 90 | £ 50 |
| Carpentry | £ 75 | £ 45 |
| Tiling/Masonry | £ 75 | £ 45 |
| Painting | £ 60 | £ 35 |
| Odd Jobs | £ 50 | £ 25 |

All fees are for the first hour with the subsequent hourly rates shown. The fees are inclusive of travel, parking and small items such as washers, screws, hinges, hooks and similar and also small amounts of materials such as filler or certain paints, all up to a value of £10. Items costing more than £10 will be charged at cost price. Vat will be added to the hourly rates and any items purchased.

- All our landlords and freeholders also benefit from our in house legal advice and administrative expertise.

At Astberrys we only charge for work we do. Our fees are 10% plus Vat for our let only service. We do not charge renewal commission if your tenant stays on. If you take our managed service we charge 15% plus Vat for the first year and thereafter 10% plus Vat, if the same tenant renews.

To talk to Astberrys about property management whether you have one property or are a freeholder, telephone us on 0207 370 0123 or email us at management@astberrys.co.uk



2 bedroom flat,
Penywern Rd, SW5
short term let
for summer
£750.00 per week

thirty three
**Bedford
Row** Barristers'
Chambers

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f: 020 7631 6065
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Our specialist property law team deals with
...leasehold enfranchisement...service charges...
residential and commercial tenancies

We are delighted to accept instructions from Astberrys and their clients and will be pleased to advise in relation to all areas of property and landlord and tenant law.



3 bedroom
maisonette,
Marloes Rd, W8,
long term let
£650.00 per week

MARKET UPDATE

SALES

The current state of the housing market may appear to be giving mixed messages. Where is it heading?

The main indices are reporting price rises for last month. For example according to the Nationwide house prices rose in May, up 1.2% from April. The figures from the Halifax are even more bullish and point to house price rises of 2.6% for May. Mortgage lending is moderately up. In Kensington and Chelsea there are reports of a return to “gazumping” and “sealed bids”.

However price rises are not uncommon within a period of overall house price decline. During the last house price recession in the early 1990s, prices rose in about a third of all months. Overall, however prices fell. The housing market is related to the strength of the economy even in Kensington and Chelsea. The worst of the cull in the City may be over, but there will be more redundancies and employers are going to be far more careful with salaries and bonuses for the foreseeable future. As a result there are likely to be more properties for sale in the coming months and this will put downward pressure on prices. Unless surveyors acting for mortgagees are convinced that the market has turned they will continue to value properties on a conservative basis. Finally the yield generally in Western Governments’ long term bond markets is rising. The market is pricing in rising inflation. The vast recent stimulus to developed economies will have to be paid for with rising interest rates and/or increased taxation. Neither is likely to be good for property in the short term unless you take the view that an investment in property offers a good hedge against inflation.

RENTS

The rental market in Kensington and Chelsea remains competitive, especially for the bigger flats. Landlords are however now advertising properties at or very near the price tenants can expect to pay. Some property owners found that they could not or did not want to sell last year and in consequence entered the rental market. Many have now found tenants, some have found buyers. The backlog, which started to build up 12 months ago is now easing and as a result **there are generally fewer good quality properties now available and with the September/October letting season in sight we think that rents will firm over the coming months.** There is also a real shortage of quality small accommodation suitable for one or two people of around 400 ft² in the region of £300 per week.

Whether you are buying or selling, renting or letting talk to Astberrys.



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