

Red Book: UK Appendix 10

RICS Valuation – Professional Standards 2014 (Red Book), UK Appendix 10, section 6.5(a) is being amended from April 2015. Chief among these amendments is an adjustment to the unexpired lease term assumption (applicable when it is not possible to inspect the lease); this will change from 70 years to 85 years.

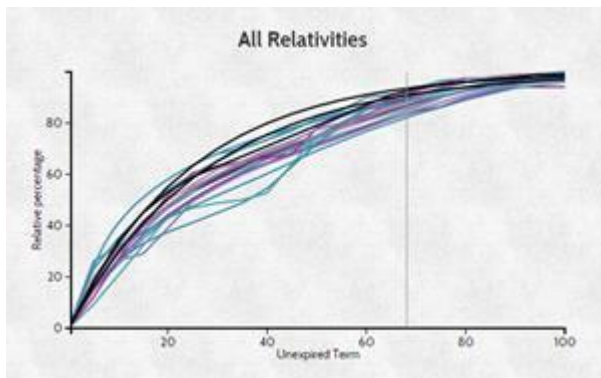
RICS acknowledges that the change to the basis on which a valuation assumption is made may be of concern to both valuers and lenders. Note that this is merely a valuation assumption not a mortgage lender rule. Mortgage lenders will continue to set their own rules around what they consider to be suitable lease length on which to base lending.

The following points should, however, be noted:

- The valuation of leases is set against the backdrop of the leasehold reform legislation. The *Commonhold and Leasehold Reform Act 2002* introduced amending legislation that marriage value is to be ignored where at the valuation date to determine the enfranchisement price or new lease premium the existing lease term exceeds 80 years. Where the remaining term is 80 years or under, half (50%) of the marriage value is payable as a component to the price computation. The premium (or price) will increase as the remaining number of years to the lease diminishes.

As the cost of extending the lease increases, the impact on its value will correspondingly increase. This impact will vary from property to property, but the potential for an impact on value exists for a remaining term of 80 years or less.

- To continue to value on an assumption of 70 years unexpired is a grey area for valuation as, by implication, it requires the valuer to reflect the costs associated with lease renewal. As time passes more and more leases for properties constructed in the 80s and 90s will begin to move into the category of fewer than 80 years unexpired and thus that will require payment of marriage value on enfranchisement or grant of a new lease. Enfranchisement valuation is outside the remit of the valuation for mortgage lending purposes. It is important that, in any assumptions, the valuer can reflect the full value of the property and not be required to undertake a more complex enfranchisement calculation. It is the responsibility of the Lender to decide on how to address this issue and its impact on their back book.
- Leasehold property and its associated valuation impacts are a common issue in central London. Awareness of the valuation implication in this location is high and for some years published Graphs of Relativity have been used to assist in calculating the enfranchisement price (or premium).



- As properties built in the 1970s to 1990s on 99-125 year leases increasingly approach the 80 years unexpired mark, their valuation will become an increasing issue in the provinces, as well as in London.
- We recognise that lender policies have reflected the existing Red Book assumption in the past, but from a valuation point of view we need to ensure that any assumption of remaining lease term is at a level that enables a full and robust market value assessment to be completed.
- Lenders are free to issue specific instructions for valuation on an alternative basis, but must be aware that an assumption of 80 years or less may result in a lower valuation figure.
- The change being proposed should not have an impact on the market; it is merely a reflection of what is already a fact. As an existing reality, it should not therefore affect lending policies. Indeed, there is already an impact on the market under the existing assumption of 70 years in that valuers, particularly in London, have determined that any leasehold property with a remaining lease term of fewer than 70 years is not acceptable for mortgage. This was never the intention of the Red Book which aimed merely to present an the assumption on which to base a valuation when information about lease terms could not be obtained. Lending policies are usually determined more on the basis that lenders know they have a declining asset but the mortgage is reducing at the same time, so the risk is covered.
- There will be no impact on the back book, as all properties with lease terms of 80 years or less are already a diminishing asset. This will not be altered by a change to a valuation assumption to a level prior to the onset of the impact of marriage value on an asset.
- A change in the assumed years could have a positive impact in both raising awareness with lenders, valuers and purchasers and also in protecting the value of the 'front book' of lenders.

RICS understands and recognises that there may be a transition period for this change to become embedded, but feels that it is necessary to reflect the current market situation.

