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# The search for the Holy Grail

Following Lord Justice Lewinson's plea that hopefully *"The Holy Grail will one day be found"* in the recent Court of Appeal case of **Mundy v Sloane Stanley (2018),** we have set about trying to find a graph that will hopefully satisfy both Leaseholders and Freeholders alike in the absence of short lease sales evidence.

The original Upper Tribunal Decision found favour with the Gerald Eve Graph ("industry standard") and both Savills 2002 and Savills 2015. As part of that decision and on several cases after that decision there has generally been a view that relativities have fallen since the graph was formulated:

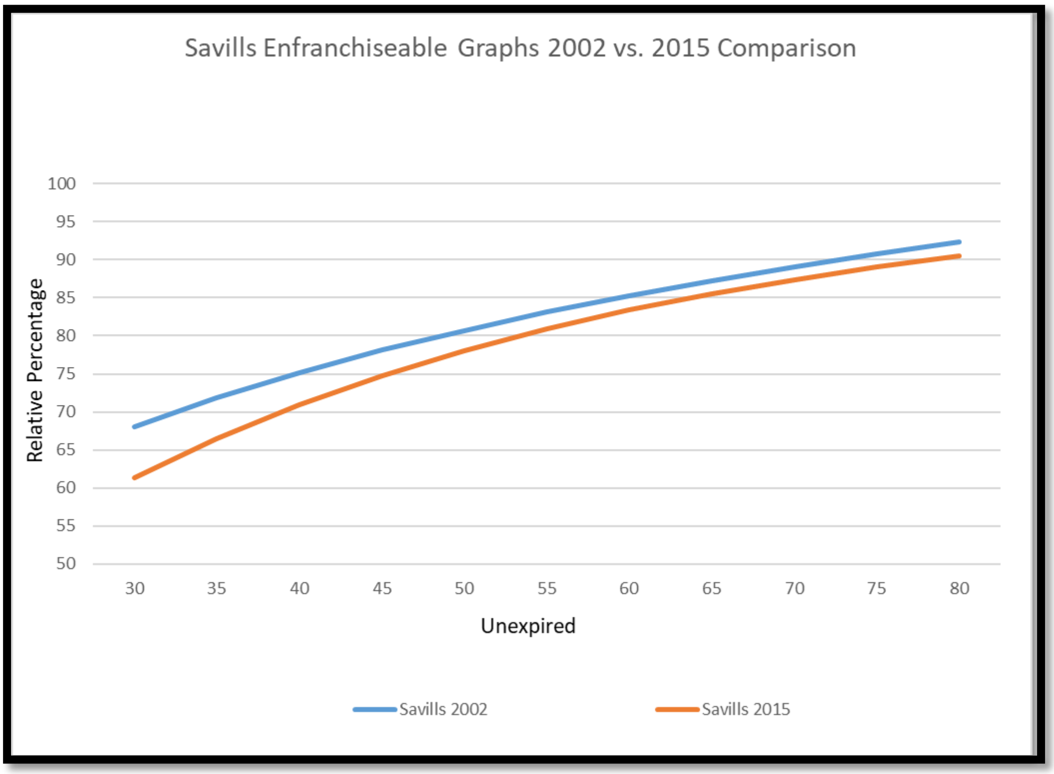
*"One of the concerns that the UT had about the reliability of the Gerald Eve graph was that because the relativities shown by that graph had not changed since the graph was first compiled, it no longer reflected relativities as they were in 2014. Structural changes in interest rates and rates of investment returns, changes in the nature of the market such as an influx of foreign buyers, and changes in the institutional and legal structure of the residential market all suggested that the Gerald Eve graph overstated the relative value of a lease by comparison with the value of a freehold. These concerns were summarised at [28] to [32] of Appendix B to the UT's decision and reiterated in Appendix C at [64]."*

In order to work out how much relativities have fallen, I have considered the Savills 2002 and Savills 2015 Enfranchisable graphs and noted the Lands Tribunal view:

*"If market transactions involving leases with rights under the 1993 Act relied exclusively on the relativities shown by the GE graph, then there would be no reason for relativities for leases with rights under the 1993 Act to have changed between 2002 and 2015 (the dates of the two Savills enfranchisable graphs) since the GE graph has not changed over that period. Nonetheless, a comparison of the Savills 2002 graph and the Savills 2015 graphs does suggest that there has been a change in relativities for leases with rights under the 1993 Act. This may be due to either the difference in the methodology of construction of the Savills 2002 and 2015 graphs,* ***or a real change in relativity in the market*** *(my emphasis).*

I have produced a table and graph showing the percentage difference between both these graphs:

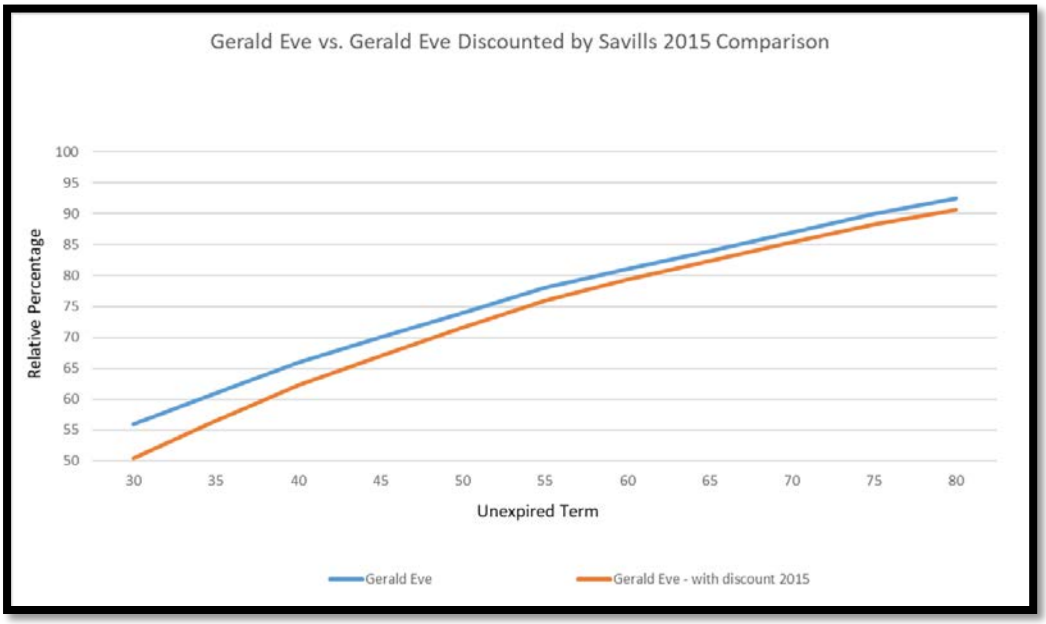
| Unexpired Term | Savills 2002 | Savills 2015 | % difference |
|---|---|---|---|
| 80 | 92.4 | 90.5 | 2.06 |
| 75 | 90.8 | 89.1 | 1.87 |
| 70 | 89.1 | 87.4 | 1.91 |
| 65 | 87.2 | 85.5 | 1.95 |
| 60 | 85.2 | 83.4 | 2.11 |
| 55 | 83.1 | 80.9 | 2.65 |
| 50 | 80.7 | 78 | 3.35 |
| 45 | 78.1 | 74.7 | 4.35 |
| 40 | 75.2 | 70.9 | 5.72 |
| 35 | 71.9 | 66.5 | 7.51 |
| 30 | 68.1 | 61.4 | 9.84 |



On the assumption that the difference between the 2 graphs is made up of changes in relativity rather than a change in the methodology, I have applied this discount to the "industry standard" which is

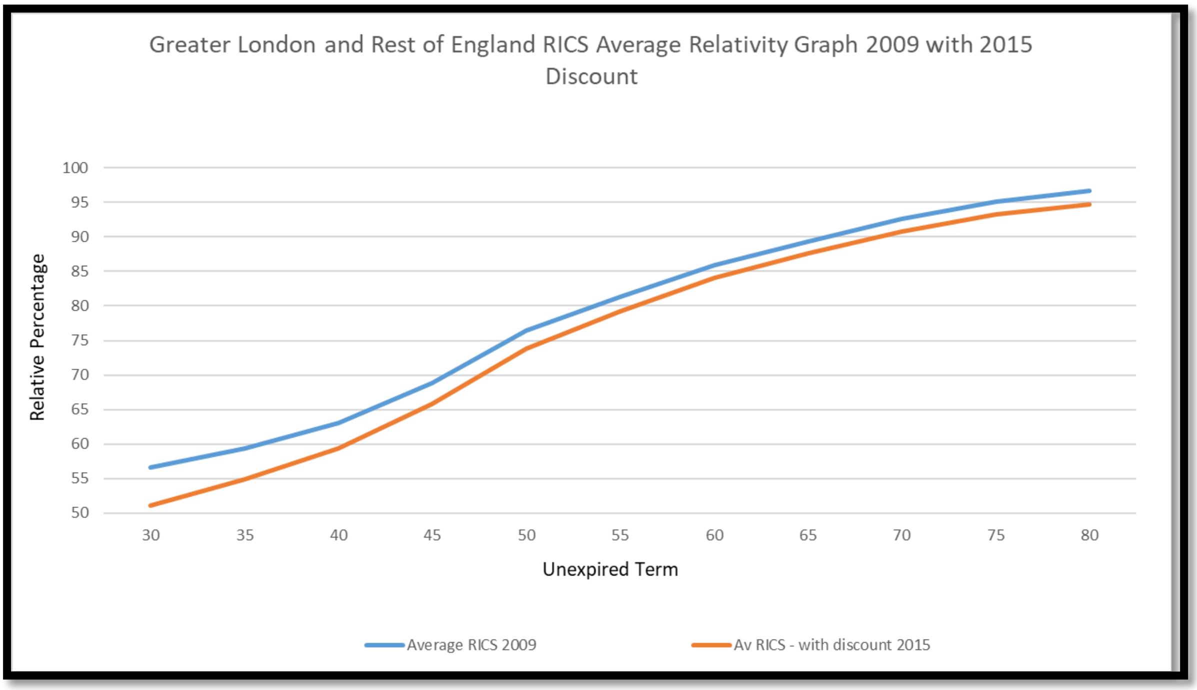
1. **Prime Central London** namely the Gerald Eve Graph:

| Unexpired Term | Gerald Eve | Gerald Eve - with discount 2015 | % difference |
|---|---|---|---|
| 80 | 92.5 | 90.60 | 2.06 |
| 75 | 90 | 88.31 | 1.87 |
| 70 | 87 | 85.34 | 1.91 |
| 65 | 84 | 82.36 | 1.95 |
| 60 | 81 | 79.29 | 2.11 |
| 55 | 78 | 75.94 | 2.65 |
| 50 | 74 | 71.52 | 3.35 |
| 45 | 70 | 66.95 | 4.35 |
| 40 | 66 | 62.23 | 5.72 |
| 35 | 61 | 56.42 | 7.51 |
| 30 | 56 | 50.49 | 9.84 |



2. **Greater London and Rest of England** namely the average of the 5 RICS Research Report (2009) Graphs:

| Unexpired Term | Average RICS 2009 | Average RICS - with discount 2015 | % difference |
|---|---|---|---|
| 80 | 96.72 | 94.73 | 2.06 |
| 75 | 95.08 | 93.30 | 1.87 |
| 70 | 92.55 | 90.78 | 1.91 |
| 65 | 89.33 | 87.59 | 1.95 |
| 60 | 85.93 | 84.11 | 2.11 |
| 55 | 81.35 | 79.20 | 2.65 |
| 50 | 76.4 | 73.84 | 3.35 |
| 45 | 68.78 | 65.79 | 4.35 |
| 40 | 63 | 59.40 | 5.72 |
| 35 | 59.36 | 54.90 | 7.51 |
| 30 | 56.61 | 51.04 | 9.84 |




This discount amounts to approximately 2% between 80 and 60 years and rises from 2% to 10% between 60 and 30 years. If it is felt that one graph in a particular location is better suited than using the above, then it would be simple to apply this discount to that graph in isolation.

Knight Frank have recently commissioned a major research project in this area, led by James Culley and Professor Andrews, using Hedonic Regression modelling on Real World Evidence for leaseholds of different lengths to find current relativities. It will be interesting to see if it accords with the Savills research. I understand it will be published later this year.

I would be interested to hear your views on whether applying these discounts to the relevant graphs could be a contribution to finding the solution to the search for The Holy Grail? Please contact me on: richard@richardjohnclarke.com or on Twitter @RichardMurphy1 and @RJC_Surveyors.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