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Dear Lady Scott,

Leasehold and Freehold Reform Bill – Impact Assessment

As the Leasehold and Freehold Reform Bill approaches Report Stage in the House of Lords I wanted to express our concern that the Government's Impact Assessment significantly underestimates the costs of the legislation, and therefore is flawed and potentially subject to future challenge.

This is based on advice from strategic property advisors Cluttons, and Quod, one of the largest independent planning consultancies in the UK. They cast doubt on several assumptions made by the Government, especially on marriage value.

Marriage Value

The Government estimates that its changes to marriage value will cost freeholders £1.9 billion, but the true cost is likely to be closer to £7 billion.

This is because the estimated 10-year cost in the Government's impact assessment is based on an unusually low average level of annual transactions.

Demand for lease extensions has been blighted by the uncertainty around the Government's proposals since before the start of the data capture period and this and the relatively low transaction volumes (leasehold sales are often a catalyst for lease extension claims) mean that the Government has seriously underestimated the financial impacts of the removal of marriage value.

The Government seemingly acknowledges as much at page 83 of the impact assessment where it is stated: "These reforms have been known about for a considerable period of time and we know that large freehold companies have been including warnings about the impact of these reforms in their annual accounts."

Taking a longer historic period would be more realistic and lead to the modelling of a much higher level of transactions and therefore a much higher transfer of value.

Based on Quod and Clutton's experience, they estimate that claims over the last four years are running at about 50% by value (after indexation) and a little less by number against longer averages and that there is a high correlation between the number of property sales and the number of enfranchisement claims. In addition, the legislation is intended to increase the number of transactions, so the costs have very clearly been underestimated.

As such, their assessment of the actual level of transfer over the duration of the reforms is closer to £7 billion. This equates to £5.6 billion of value transfer occurring in London and the South East based on our analysis that 80% of the transfer of marriage value would occur in these regions.

Given that 60% of leasehold flats in London are owned by investors, they would stand to benefit from a c£3.4 billion windfall of which £850 million could be realised by international investors.

Other concerns

There are various other concerns we have about the impact assessment. Its outcomes are very sensitive to minor changes in the methodology that make the cost/benefit outcomes almost meaningless.

- The net present value (NPV) of the total benefits of the legislation is tiny (£91m), both in absolute terms and as a share of what it will cost freeholders (less than 2% of the overall impact on freeholders).
- It is also highly uncertain. In the best case (i.e. low costs and benefits) the benefit is only £112.5m and in the worst case (i.e. high costs and benefits) it is negative (-£96m). The experts illustrate that the high-cost scenario is far more likely.
- Their research makes clear that these proposals result in a massive transfer of wealth to private landlords, not the people who live in leasehold properties, who are the supposed recipients of the benefits.

In conclusion, the impact assessment is likely to overstate the net benefits and understate the costs to freeholders because of the modelling and assumptions adopted. The transfer of marriage value is a significant interference in established UK property rights which will result in very minimal, if any, benefits for genuine owner occupiers seeking to own their own home. Instead, it will result largely in one set of professional investors compulsorily purchasing assets from another at a significant discount to fair market value.

I provide a copy of the report and would urge that you issue a revised Impact Assessment at Report Stage, so that the House of Lords can debate the Bill in full knowledge of its impacts.

Yours sincerely,

Ian Fletcher
<u>Director of Policy</u>