

Taylor Wimpey

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Sir Peter Bottomley MP
Mr Jim Fitzpatrick MP
Co-chairs, Leasehold and Commonhold APPG
House of Commons
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Dear Sir Peter and Mr Fitzpatrick,

APPG

Taylor Wimpey began to review the practice of selling houses in some regions on a leasehold basis and certain historic leases used by the Group on houses and apartments during November 2016, following concerns raised by a small number of customers and MPs. Our review is not complete as this is a complex historic issue and the situation for individual customers is different. However, we have reached some early conclusions and would like to share these with you.

Sale of houses leasehold

In common with other developers, the Group has sold houses on a leasehold basis in the North West as standard for a long period of time and we understand it has been normal practice in this region going back many decades. Apart from a small number of sites in Yorkshire, and very isolated instances where Taylor Wimpey has never owned the freehold land (which tend to be Government or local authority owned sites), most other houses across the UK are sold by the Group on a freehold basis.

The leasehold nature of the property is made clear during the purchase process and we would expect customers to be aware of this. There is generally a price difference to a customer of buying a leasehold home, where the freehold purchase is more expensive at the point of sale. Customers are made aware that the freehold may sometimes be purchased later at an additional cost and historically, a number of customers have taken this option.

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However, whilst we believe that the practice is normal and reasonable, standing back, we are able to change our practice so that we will make future sales of houses on a freehold basis on any new sites that we develop, except in the very small number of cases where Taylor Wimpey does not own the overall development site on a freehold basis. Whilst we expect that this may mean a small increase in sales prices on previously leasehold sites, it will enable us to offer a consistent, simple product to all customers. We will make this change from the beginning of 2017.

Rent review structures

The Group has reviewed the leasehold structures that it used historically on sites started between 2007 and 2011, noting the concern over the rent review structures on certain leases. In this period, when Taylor Wimpey and the economy and the financial markets generally, were going through an unprecedented level of change, the Group used a number of different leases and industry practice varied widely. Leases in the industry included rent reviews at variable time periods (generally between 5 and 25 years), on different bases (generally either doubling at the review period, fixed price increases or on an RPI basis), and some have effective caps on lease payments, whereas some do not. The initial leases terms also vary between 125 years and 999 years.

From a Taylor Wimpey perspective, the specific leases that have caused some concern have rent reviews every ten years for the first fifty years and double at each review. They are then, however, capped for the balance of the lease (which is between 75 and 949 years). This means that they tend to be more expensive than RPI leases for the first 50 years but then end up cheaper in the later years (dependent on the level of RPI).

The leases with these doubling clauses were introduced in March 2007, at a time when historic RPI had averaged 5.9% pa over the previous 50 years, when RPI was 4.4%, house prices were increasing at around 8-10% pa and land prices were increasing at around 15%pa. The inflation implicit in the first fifty years of these rent reviews was 7%. However, over the life of the lease, (using the example of a house lease of 250 years), the average inflation was c.1.4% (or c. 2.8% on an apartment lease of 125 years), significantly lower than most long term predictions for RPI. The final payment on a 125 year RPI lease with an initial rent of £250, if RPI was 3%, would be c. £10k compared with £8k on the 50 year capped leases. If this was a 250 year lease with RPI at 3% the final payment would be c. £405k.

The Group has always sold its freehold interests to third parties, as do all major housebuilders in the sector. This is because both the financial structures and the administrative structures needed to manage a book of freehold interests is very different to a housebuilders core business. In 2007, RPI expectations were significantly higher than today, and the costs of capital were also higher, meaning that the capital value of these interests (and the value in 2007 of future payments) was considerably lower than today. This, and the capped nature of the leases, is why the average value at which these leases were sold to third parties compared to RPI leases was very small – generally less than 1% of the value of the house or apartment.

In 2011, which was the first time the Group reviewed the lease structures, house prices had declined sharply in 2008/9 and were only just starting to recover. RPI had also fallen and economists were at the early stages of considering this as a potentially long term trend. In this changed environment, and following our review, we reverted to RPI leases across all new sites from the beginning of 2012.

We have reviewed the detail of the lease concerned and are satisfied that the rent review policy is worded simply and clearly in the contract and is contained prominently in the first clause under the

rent review heading. All customers have independent legal advice and we would expect all solicitors to explain the terms of any rent review to their clients.

We have also examined trends on sites where these leases were used, and observed that there has continued to be normal patterns of sales, mortgages and remortgages over the last ten years and to date, plus some instances of customers purchasing the freehold. We do not believe that there is evidence of a widespread issue with saleability or mortgageability, although of course a lender will always take into account lease payments in the affordability criteria on a case by case basis.

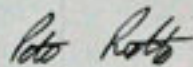
Where customers have been quoted very high freehold purchase prices they may warrant closer examination and, if appropriate, challenge via the applicable legal process. We do however recognise that this is a complex area and that there will be a number of factors used in any valuation.

Whilst we believe that these leases were clear and were also reasonable in the context of when they were introduced in early 2007, our detailed review has shown that there are a number of areas where leasehold can be improved which we welcome. In addition to the proposal set out above with regard to leasehold houses, we are reviewing our current lease structures with a view to making improvements to the provisions and protections for customers.

Given the dynamic nature of development, as a transitional position as we build out existing sites which have already commenced on a leasehold basis, we will in future retain the freehold interests of houses in the longer term providing an extended period for our customers to purchase the freehold should they wish to do so.

Finally, we will conduct a review of commonhold with lenders and customers to determine if we are able to adopt it as a form of ownership and promote it more widely.

Best wishes,



Pete Redfern
Chief Executive