

# Commonhold Assessment

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# 1. Appreciation for the different structures of market ownership

## Introduction

4.1 We'll look at how aware the public are of the number of different flat ownership structures and how they differ. These include:

- Freehold
- Share of Freehold
- Leasehold
- Commonhold

4.2 The view of those in the industry is that Commonhold, introduced in 2002, is the most beneficial to residents, but has yet to gain much momentum and/or exposure. This is mainly due to the 'little incentive for property developers to choose Commonhold over Leasehold when constructing new-build flats'<sup>1</sup>. This is because they will not receive additional income through lease extensions in the future. Economically speaking, you would expect the difference to be accounted for in the original sale price, but this does not seem to be the case. The most common structure, at least for residents of flats, is Leasehold. Unlike with Commonhold, Leaseholders have to extend their leases and pay yearly ground rent to the Freeholder who owns the rights to the land. Share of Freehold is where Leaseholders come together to collectively buy the rights to the land and therefore no longer pay ground rent.

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<sup>1</sup> <http://www.leaseextension-uk.info/what-is-Leasehold.html>

## Methodology

4.3 Much like section 3, a survey needed to be created and sent out in order to gain the information. A second survey was created, again using SurveyMonkey, but sent to a wider audience since it no longer needed to be constricted to those who had completed the RTM – in fact it was sent to just under double the amount of the first survey. Again, by using SurveyMonkey we were able to easily turn the collected data into graphs and charts in order to visually analyse the information.

4.4 Some of the questions in the survey include:

- If purchasing another flat, what would be the highest priority to consider financially, other than the core price?
- Did you consider the amount of ground rent you would have to pay when comparing the value of comparable flats?
- In which of the following ownership structures would you expect to pay for a lease extension? (Select all that apply)

## Statistical Significance

4.5 Using the same 'Margin of Error Calculator', provided by SurveyMonkey, we were able to calculate the percentage by which the results may deviate from the exact result (caused by sampling). For the second survey, the population, in this case the number of people the survey was sent to, equaled 2,675, the sample size was 227 since that's the number of responses we received. Using the same confidence level of 95% we get a z-value of 1.96. Inputting these figures into the calculator results in a margin of error equaling  $\pm 7\%$ .

4.6 This means that, if the survey were to be repeated 100 times, 95 of the surveys would feature results within 7% of the results we've collected in this survey.

## Findings

4.7 As with in the other sections, below are the raw statistical findings which will be analysed and explained in detail from 4.8 onwards. The results are as follows:

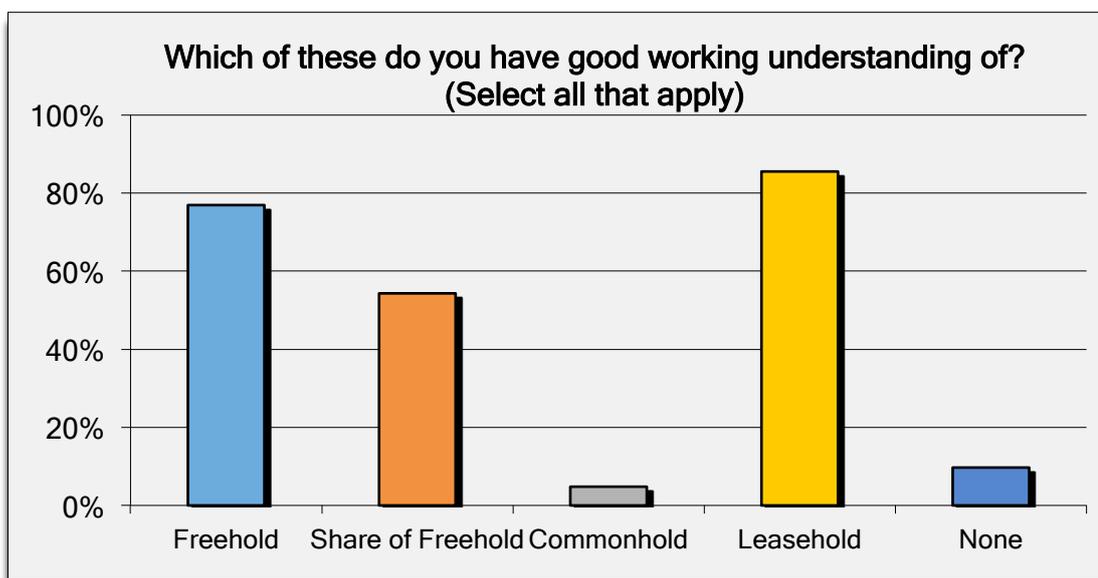
- When you purchased your flat, did you read the lease and its conditions?
  - Yes = 77.97%
  - No = 22.03%
- When you purchased your flat did your solicitor walk you through the main conditions of the lease?
  - Yes = 59.91%
  - No = 40.09%
- Flats can be owned under a number of ownership structures, which of the following structures are you aware? (Select all that apply)
  - Freehold = 69.60%
  - Share of Freehold = 67.84%
  - Commonhold = 13.22%
  - Leasehold = 94.27%
  - None = 1.32%
- Which of these do you have good working understanding of? (Select all that apply)
  - Freehold = 77.09%
  - Share of Freehold = 54.63%
  - Commonhold = 4.41%
  - Leasehold = 85.90%
  - None = 8.81%
- Do you own a Share of Freehold of your block of flats?
  - Yes = 31.28%

- No = 68.72%
- When you purchased your flat, which of the following were you aware? (Select all that apply)
  - Ground rent is due to be paid each year for the duration of the lease = 89.43%
  - Once the lease ends, you have to pay to extend it = 74.89%
  - There are no ground rents or extensions necessary for a Commonhold flat = 4.85%
  - None = 4.85%
- Did you consider the amount of ground rent you would have to pay when comparing the value of comparable flats?
  - Yes = 47.14%
  - No = 52.86%
- If purchasing another flat, what would be the highest priority to consider financially, other than the core price?
  - Service charges per annum = 65.2%
  - Type of ownership structure = 28.19%
  - Size of reserve funds = 4.41%
  - Size of ground rent payments = 2.2%
- In which of the following ownership structures would you expect to pay for a lease extension? (Select all that apply)
  - Freehold owned by a third party = 77.97%
  - Share of Freehold = 37%
  - Commonhold = 9.69%
- If there was one thing extra you could have been informed about before you purchased your flat what would it have been?
  - Various comments (saved in excel file)
  - More info on ground rent/service charges = 10.83%
  - More info on purchasing Freehold = 9.17%
  - More info on extending the lease = 7.5%



## Conclusions

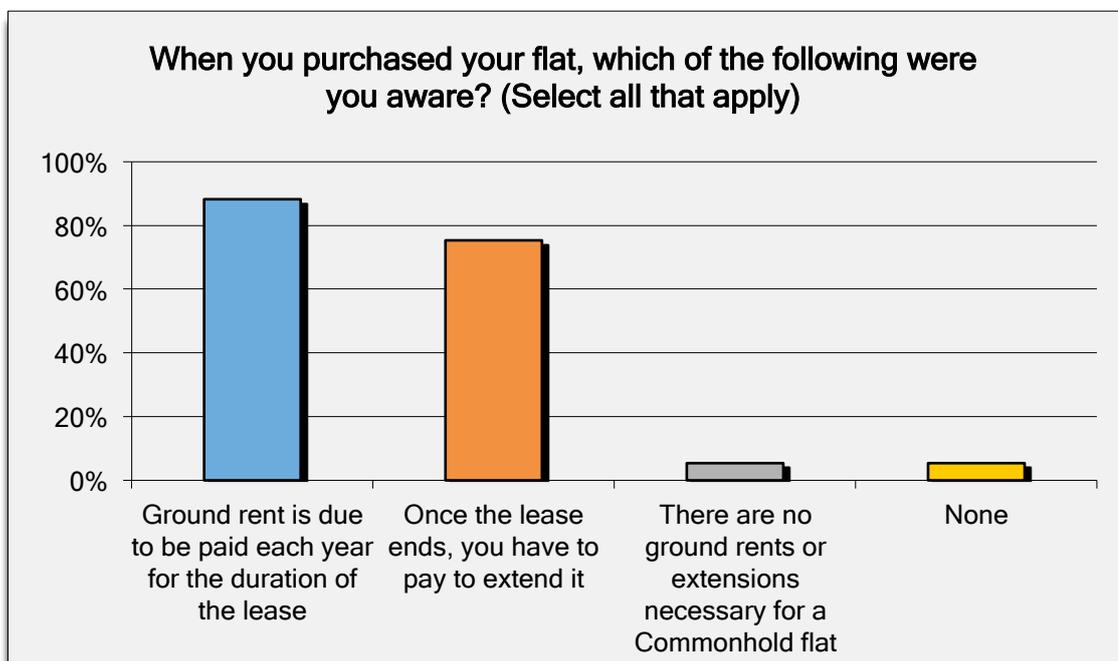
4.8 The first thing we notice from the results in 4.7 is the worryingly high percentage of people who did not read, or have a solicitor explain, their lease and its conditions, 24.2% and 41.9% respectively. Therefore, it is no surprise that over 18% (10.83% + 7.5%) said they wish they had been given more information about the ground rent/service charges and the costs of, and reasons for, extending their lease. It is clear that a large number of people know very little about their own flat ownership structure, so we had low expectations of their awareness of other structures. However, the results were unexpectedly positive – with nearly 70% being aware of both Freehold (69.45%) and Share of Freehold (68.8%), and over 94% being aware of Leasehold (94.1%).



4.9 Not unexpectedly, the percentage of people with a good working understanding of each structure is lower, seen in the chart above. Only 85.5% have a good understanding of Leasehold (a 10% decrease), while 76.9% have a good understanding of Freehold (confusingly, a 7% increase) and finally 54.3% have a good understanding of Share of

Freehold (a 15% decrease). Note that the largest difference between awareness and understanding is for Share of Freehold, which mirrors the 9% of people who wanted more information about purchasing a Share of Freehold (taken from answers to question 10, included in the appendices).

4.10 Comparatively, Commonhold has a much lower percentage for both awareness and understanding; 14% and 4.8% respectively. It is no wonder that Commonhold has not been particularly successful given that only 5% of people believe they understand what it is. Likewise, just over 5% of people are aware that there are no ground rents or extensions necessary for a Commonhold flat.



On the other hand, it is unclear whether this would make a difference to people if it were well known, since nearly 55% of people admit to not even considering the amount of ground rent payable when comparing flats. Perhaps if Commonhold were more well-known this figure might be less substantial, but we cannot say for sure.

4.11 Finally, we asked people what their highest financial priority would be if they were to buy a new flat. Less than 2% said the size of the ground rent. The most common priority, shared by 66.7% of people, is the cost of service charges per annum, with the type of ownership structure coming second (27.4%). The small percentage of people who chose the size of ground rent payments as their highest priority is further reason for the lack of Commonhold's success. The fact that such a small percentage of people prioritise the size of ground rent suggests indifference towards it, thus few care for Commonhold which has no ground rent.

## **5. Summary**

5.1 The Commonhold/flat ownership survey proved fruitful. It gave us an insight into how much people really understand about ownership structures, which turned out to be surprisingly little. 40% of people surveyed admitted to having not had the lease properly explained to them by a solicitor. Additionally, less than 5% of people have a good understanding of Commonhold. This mirrors the 5% of people that are aware Commonhold does not require ground rent payments or lease extensions. However, less than 2% of people would prioritise the cost of ground rent when purchasing a new flat. Moreover, Commonhold can only be applied to new builds and so the decision lies with the developers, who are unlikely to forego the additional revenue from ground rent and lease extensions, for a greater sale price that is not guaranteed. Therefore, there is little evidence to suggest that greater awareness of Commonhold would lead to greater use of Commonhold.

## 6. Appendices

### Commonhold Survey Question 10 Comments

That the service charge is variable and can be increased at any point - this was a big surprise to us when we were asked to pay more
The truth behind me lease's ground rent
Actual costs involved in acquiring freehold as well as projected service charges
Ground rent
more information concerning the ground rent as this seems to increase each year
The increase of the service charge
How much I would have to pay for service charges over time
How much it would cost to extend the lease
The fact the service charge always works out by being a lot more expensive than it stated on the brochure for the flat and needs to be topped up
The fact that the maintenance can go up by approximately 100% from when you purchased the property and that those on an in elected committee make all the decisions about how the maintenance spent
The amount of service charges per month
That I'd have no say whatsoever in the increase of service charges
Increase of service charges
Price of purchase of share of freehold & time scales
I didn't really know about share of freehold / that it could be possible to buy it at the time of purchase (many years ago.) Much more informed now thanks to work done by neighbourhood to seek to achieve this
Possibility to buy share of freehold as such process was underway and previous owner had not participated to it.
How debts owed by others in building would affect me and any freehold purchase
Likely cost of extending leasehold or cost of buying freehold/share of freehold
For share of freehold, always ask your solicitor to check the lease, side by side with the Articles of the freehold owning company.
That we could all club together and buy the freehold to avoid the large maintenance costs we were all incurring
To have talked to someone face to face about the share of freehold. Although I have a good understanding now

More explanation about what share of freehold meant
More financial implications of extending a leasehold at the time of purchase so that later purchase of a share of freehold would be cheaper later if the opportunity arose
Information about buying the freehold
The timing of when a lease is deemed low & would require renewal
The leasehold and that I should have accepted the offer to extend at the time. I wasn't advised and wish I had been
Price of a lease extension
The minimum amount of years left on the lease necessary to sell your flat. At present 70 years and under with some lenders is considered a short lease and may not lend which in turn devalues its market value
Extend the lease before 80 years
Cost of lease extension
Advice regarding the need to extend the lease - we learned this from our IFA, but the solicitors failed to mention it
Cost options to buy an extension as part of the initial purchase package
More information about leasehold, particularly at what stage you should consider extending, impact leasehold duration has on value. All the information is out there, but it's not something in depth during the purchase process
More insight into the impact upon me of other leaseholders (in the block) actions and non actions
Check out the Management Company, can be difficult when buying new flat from developer
Structural conditions and future risks. Yes, I did get a survey done, but the quality was poor
Any future work that would need to be completed eg new roof or replacement windows, if purchasing an older property
That the leasehold would have been sold off in the first year of buying our property
Any conditions in relation to subletting my flat, i.e. the requirement to pay a fee when the tenants change or even when they extend their tenancy
The fact that some of the flats in the block are owned by the council
That we had the right to manage ourselves
How PQPML would work in practice
N/A
Nothing

Extent of vandalism and health & safety issues that had not been properly addressed/invested in, meaning that the service charge quoted as being previously paid annually would double in coming years. I would not have purchased it had I known about these issues and the number of people not paying the charges, resulting in added charges for those who are paying
The strategy and attitude of the freeholder
That the current managing agemnt wouldn't necessarily need a mandate from more than a couple of owners to be employed at Quartz
I wish I had done some more research into the relationship and credentials of the associated estate agent (City West) and the designated service provider (Mainstay). Although the relationship has since severed with both, seven years we are still experiencing a legacy of mis-management
Who the freeholder was
The building quality within the property
The amount of hoops I'd have to jump through to get it!
would have been useful to know - ultimate owner - full details of managing agent and contact details
Responsibilities of a leaseholder and freeholder
Knowledge of relationship between managing agent and freeholder
n/a
The relationship between leaseholder and common parts service providers
The management structure and related charges
Better understanding of the structure (or lack of structure) and refurbishment plans of the management company which owns the freehold and manages the block
None
Someone not paying their share
Size of reserve fund and what that meant relative to specific block
Under no circumstances would I let one unelected person make all the decision and then present a fait accomplished
HMO's
Security issues
The amenability of the landlord How much it would be to purchase additional pieces from freeholder to extend value of property
Nothing
Nothing
No idea

That the management knew all the information about the leasehold
The difficulty of getting the freeholder to carry out works to the building (per the leasehold agreement) when this has clearly been overlooked for a long time and there is no sink fund!
Lack of knowledge of leasehold properties by the seller's solicitor
Size of reserve fund charged on your account yearly
The cost of parking Nothing
Policy on pet ownership and how enforced.
Tenanted flats. You never know who is going to move in.
Right to manage
More information in regards to sink funds and management company who manages the building as it is not necessarily or actually rarely the leaseholder
How the costs of the maintenance of the block would be funded and who would have control of the contractors and payment of invoices
Poor quality of the build
That the building had been designated car free by the local council and that it was considered this should be reflected in the property value
Who the management company / manager was/were. What they were like. Ultimately service/honesty more important than money
If there is a problem with the block - it's up to me to get it fixed, the money is forthcoming - eventually. Personally - I think - if the flats were properly maintained - I wouldn't have to keep getting roofers out to fix the outside of the property. I think its ridiculous the way you have to negotiate access to the other flats in the event of a problem - this can take 2 days only for the tenant to be out at the agreed entry time!
How poor so called professional company's are at being organised, but having to jump when they say so. First time buyers should be well informed as we no NOTHING before hand, never had to worry about bills before. I was treated as if I had done this before so had to learn for myself and fast. The lady in marketing I believe did receive a formal warning thanks to her colleague listening in on how she spoke to me. What I would of liked is an answer on how much bills would cost but no one could even tell me how much council tax would be, electric and ground rent no one could tell me and maintenance charge at the beginning with countrywise (I believe that's their name) demanding £1200 at the end of the first year or action would be taken I find extremely poor no one should be threatened due to countrywise own lack of organisation. Being told that this is a private estate then seeing double yellows everywhere a clamping company causing hell should

<p>never of been allowed anywhere near this place, people on the committee looking out for themselves, being told we would have a full time concierge, care taker and Gardner was not here for the first 5/6 years but still having to pay the same amount of money, the lift (program needs altering) is wrong but you won't change it, it's only been 8 years that we've had to put up with it (good effort there guys) foreign neighbours above not being told about respect for others in flats and partied till early hours, hard floors down so I can hear them running around. My flat sprung leaks when I first moved in, no compensation. and recently the blocks hear at Poole quarter have been revamped due to poor attempt in the first place again on compensation, so please feel free to pass the information on to the relevant people so they can help make sure first time buyers are more in the picture of what life is like on your own. This is the first survey in 8 years I've been asked to fill in so sorry for the rant</p>
<p>The full extent to which the developer, freeholder and management company were connected.</p>
<p>The exact roles of the freeholder and management company.</p>
<p>Pre-existing debt from reserve fund that I had to clear from owners prior to me purchasing the flat</p>
<p>How the freehold company was managed and run, the size of the reserve funds; a schedule of works/repairs/insurance claims over the past few years and a schedule of expected and planned works over the next few years</p>
<p>Plumbing, gas and electrical - location of pipes, tanks and shared items</p>
<p>Nothing comes to mind</p>
<p>The problems on the build itself</p>
<p>Nothing. I renewed my lease early on at a very good rate but the other leaseholders had to pay considerable more</p>
<p>The state of the plumbing</p>
<p>My solicitor failed to "notice" that due to the previous management company's poor managing skills the freehold in fact had returned to the Crown. Together with my neighbourhood we had to buy the freehold back, which cost me a significant amount of money. I complained to the solicitor, but she would not respond and would not answer the phone when I called - no responsibility taken whatsoever for her significant failure. If there is a legislative proposal to put more pressure on solicitors to take more responsibility for their mistakes, I would wholeheartedly support such a law!</p>
<p>What the lease covers</p>

Explanation of the role of management company / management agent and freeholder in a leasehold situation
Come to think about it you raise some valid points here. I did not sufficiently consider all these issues as they look like jumbo jumbo lost in stacks of paper
Clauses for the resale were not made clear. I do not remember being advised about the restrictions that Pocket Living have on their flats. If I had known prior to purchasing, I would not have purchased this property
How the legislation is generally skewed against the leaseholder
How awful Freshwater are as freeholders. I would avoid them like the plague in the future
I made sure I had all the info I needed
N/a
Knowing that whatever repairs were needed we the leaseholders would always have to stump up regardless of total amount
Nothing. I was well informed
If there were any arrears by the previous owner that I would be expected to pay
How bad the management company were and how easily they are removed
Nothing- the lease is peppercorn and no Ground Rent- we are shareholders of the flats
poor quality of the build
How the management company performed
The hassle that was going on with former managers
A report on anti social behaviour and crime within the development
A monthly expenditure plan
Our current management company are not transparent with the lots and extremely poor service received. If my next property is managed by them I would seriously consider pulling out of the sale based on that fact alone
That leasehold is rubbish. You have few rights and those you have are impossible to enforce
Accurate and honest financial information by sales staff or Crest Nicholson
Past history of property managers, as the one previous had been fired and I didn't know about this
unsociable neighbouring tenants
The perils of having being a freeholder and whether services charge

had been paid historically