

Housing, Communities and Local Government Committee

Oral evidence: Leasehold Reform, HC 1468

Monday 19 November 2018

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Members present: Mr Clive Betts (Chair); Bob Blackman; Mr Tanmanjeet Singh Dhesi; Helen Hayes; Kevin Hollinrake; Andrew Lewer; Teresa Pearce; Mr Mark Prisk; Mary Robinson

Questions 95 - 267

Witnesses

I: Jason Honeyman, Chief Executive, Bellway; David Jenkinson, Group Managing Director and Main Board Director, Persimmon; Jennie Daly, Group Operations Director, Taylor Wimpey.

II: Richard Silva, Executive Director, Long Harbour; Mick Platt, Wallace Partnership Group Ltd; John Dyer, Director, Savills, and Chair of Residential Management Committee, British Property Federation; Dr Nigel Glen, Chief Executive Officer, Association of Residential Managing Agents.

Examination of witnesses

Witnesses: Jason Honeyman, David Jenkinson and Jennie Daly.

Chair: Good afternoon and welcome to the Committee's second evidence session in our inquiry into leasehold reform. Thank you very much for coming. I will ask Committee Members to put on record any particular interests they have that may be relevant to this inquiry. I am a vice-president of the Local Government Association.

Teresa Pearce: Aside from my register of interests, I employ a councillor in my office.

Helen Hayes: I employ a councillor in my office. I am a vice-president of the Local Government Association and I am a leaseholder.

Mr Dhesi: I am a councillor, as per the Register of Members' Interests.

Bob Blackman: I am a vice-president of the Local Government



HOUSE OF COMMONS

Association.

Kevin Hollinrake: I employ a councillor in my office and have connections with this industry, which are fully declared in the Register of Members' Interests.

Mary Robinson: I own a property that is subject to leasehold.

Andrew Lewer: I am a vice-president of the LGA.

Mr Prisk: I am a fellow of the Royal Institution of Chartered Surveyors.

Q95 **Chair:** Thank you very much for coming to give evidence to the Committee this afternoon. Could we ask you to say who you are and the organisation you are representing today?

David Jenkinson: I am David Jenkinson from Persimmon Homes.

Jason Honeyman: I am Jason Honeyman, CEO of Bellway Homes. We build around 10,000 homes per annum across the country.

Jennie Daly: I am Jennie Daly. I am the group operations director of Taylor Wimpey. I sit as an executive board member and a member of Taylor Wimpey Plc.

Q96 **Chair:** Thank you for coming to the Committee this afternoon. As a first question, you as companies all sell leasehold properties, and many of them will have clauses in the contracts about escalating ground rents. How do you justify those clauses?

David Jenkinson: The problem is that there is no real definition of what an onerous ground rent is. If you look at the definitions, there is not really any definition of what onerous is or of what new build is. That has led to a bit of confusion around the numbers and the scale of the problem. That confusion has led to a bit of confusion for the customer. My own view of what an onerous ground rent would be is one that materially affects the customer's ability to sell or to dispose of their home. Personally, I am not aware of any Persimmon leases where that is the case. I am not really sure where the definition comes from.

Jason Honeyman: As Bellway, we do not have any onerous leases. Our standard lease is based upon a rent review based on RPI, which is acceptable to all the main lenders. We do not have any complaints with regard to onerous leases. I would echo what Dave has said. Where a ground rent value becomes disproportionate to the value of the home, that is where you capture an onerous or a defective lease.

Q97 **Chair:** You are right, but why is there an escalation at all? You are not doing any more for collecting more money, are you?

Jason Honeyman: The purpose of an RPI increase is an index that is acceptable to the lenders. The purpose, as I understand it, is to ensure



HOUSE OF COMMONS

the ground rent at the time of purchase is the same in real terms at some point in the future. That is the idea.

Q98 **Chair:** Why, if you are not doing more for it?

Jason Honeyman: It is just an index that is acceptable to the lenders.

Q99 **Chair:** Is it acceptable to the person who is buying the property? That is surely the test.

Jason Honeyman: It is a good question. The purpose is simply to design it so the value at the point of sale is in real terms the same value in 25 years' time. That is the idea.

Q100 **Chair:** You have not really answered the question of what more you are doing to bring more money in.

Jennie Daly: First, I welcome the opportunity to appear before the Committee today, both to repeat our apology to those customers who have been affected by a very specific lease that Taylor Wimpey had historically, which was a 10-year doubling ground rent lease, and, if I have the opportunity, to explain the measures that Taylor Wimpey has taken to date and is taking to help resolve that issue for our customers.

Chair: We will come back to that particular compensation scheme in due course.

Jennie Daly: In respect of ground rent, picking up on the matter of RPI, the expectation is that an RPI index is merely to reflect the progressive value of money.

Q101 **Chair:** Yes, but not necessarily the value of what you do. Nobody has managed to explain that quite yet. Right, so I go into one of your salesrooms and buy a property freehold, as opposed to leasehold. Do I get charged more for that property if it is freehold?

Jennie Daly: It is important to differentiate between houses and apartments.

Q102 **Chair:** Let us start on houses then, because clearly properties of a similar nature are sold both freehold and leasehold.

Jennie Daly: The expectation is that a customer would pay more for a freehold property than a leasehold property.

Q103 **Chair:** Right, so a customer comes into your showroom and wants to buy a property. Do you offer them two different prices for freehold and leasehold?

Jennie Daly: We no longer sell houses—

Q104 **Chair:** You did in the past.



HOUSE OF COMMONS

Jennie Daly: We did in the past. A property would have been offered leasehold and there would have been potentially a separate premium for the freehold.

Jason Honeyman: Can I give you an example of that? We are the same as Taylor Wimpey in that regard. There are only certain areas in the country that seem to have leasehold homes, predominantly now in the north-west, some parts of the north-east and very central parts of London. If you were to come into a home in Newcastle, say, and you wanted to buy a home of around 1,000 square feet, you could buy that at £196,000 on a leasehold basis. If you wanted to acquire the freehold it would cost you around £200,000. That is the sort of difference.

Q105 **Chair:** That can be done at the same time. You could go in and choose, could you, which sort of arrangement you had?

Jason Honeyman: Not today, but you could in 2016 when we were selling leasehold properties.

Q106 **Chair:** That was clearly advertised to anyone coming in to buy a property from you, was it?

Jason Honeyman: Our group instructions to all our sales offices are to offer either leasehold or freehold.

David Jenkinson: That was not the case in Persimmon. Once we decided a site was going to be leasehold, the site would be sold leasehold and they would all have a lease, and the same if we sold a house that was going to be freehold. The only exception to that rule would be if it was an apartment. An apartment would have the ground rent to do with the management of the building.

Q107 **Chair:** Just to come again, you did not sell properties leasehold and freehold for the same site.

David Jenkinson: No, not houses, which was your specific question. If you want to ask whether we ever had sites where we sold apartments and houses—

Q108 **Chair:** No, I am talking about houses now.

David Jenkinson: For houses we did not have that, no.

Q109 **Chair:** You just sold them leasehold.

David Jenkinson: Yes. The only exception to that came a little bit later when we decided to stop selling leasehold.

Q110 **Chair:** You just have freehold sales, full stop.

David Jenkinson: Yes.

David Jenkinson: You have changed now to just sell freehold. That means you have increased the price of those properties accordingly, does it?



HOUSE OF COMMONS

David Jenkinson: We did, depending on prevailing market conditions. If we had a large site, for example, we would come to a logical area where we would finish selling leaseholds and the balance of the site was sold as freehold houses. We looked at the price at the time, increased the price of the freehold units by about £2,000 to £3,000 per unit, and did not sell any more leasehold ones on that site.

Q111 **Chair:** What calculations do you all do about the difference between freehold and leasehold when you are selling? What is the percentage uplift in a freehold property and how would you calculate it?

Jason Honeyman: It varies, but typically it would be 20 times the annual ground rent. That is a typical calculation we would do in valuing the freehold.

Jennie Daly: When we converted to freehold—and I would explain that we really only sold leasehold properties in the north-west of England, where it was established custom and practice to sell on a leasehold basis—we set a premium that was roughly around the 20 times £5,900 that Jason has referred to. When we made that change for freehold, the property prices were increased.

David Jenkinson: We did something very similar.

Q112 **Chair:** If anyone wants to come along and buy the freehold from you, then, all they have to do is pay 20 times the ground rent. Is that right?

David Jenkinson: I will talk about what we have done later, but it is similar. We have a policy along those lines.

Jennie Daly: With any freehold that Taylor Wimpey retained, particularly when we were transitioning from leasehold to freehold, we made a commitment to those customers that would hold it for a period of no less than five years and that it would be available for them to buy at a specific price.

Q113 **Chair:** Is 20 times ground rent what you would offer if someone came to you to buy their freehold?

David Jenkinson: We have a company policy on that. I can talk now about what we have done to help the customer. I do not know whether you want to talk about it later. I am quite happy to answer the question at any time.

Q114 **Chair:** We can look at the compensation issue, but if you have done a calculation about the difference in price—

David Jenkinson: The policy we introduced is that it would be the lesser of the market value of the ground rent or 25 times the multiple. If it was to come in at 15, they would get it for 15. If it was to come in at 10, they would get it for 10. We capped that figure, and it is in the leases, at 25 times.



HOUSE OF COMMONS

Jennie Daly: We have set a specific price.

Q115 **Chair:** We still have not had an explanation of what you collect ground rent for. What do you give to the householder in return for this money you are taking from them?

Jennie Daly: In respect of leasehold houses, that is a fair question. It is one of the reasons that, when these matters came to our attention in autumn 2016, we made a very quick decision to convert the homes that we sell to freehold.

Q116 **Chair:** You do not think you are giving them anything, basically.

Jennie Daly: We believe that they are unnecessary for leasehold houses in the majority of circumstances.

Q117 **Chair:** You were embarrassed into abandoning them, then, because you could not justify them.

Jennie Daly: As I said, it was established custom and practice, particularly in the north-west of England. We did it to remain competitive. When the matter was brought to our attention, it was something that we were uncomfortable with and we made that quick decision, because we believed it was unnecessary in the case of houses.

Q118 **Chair:** Taylor Wimpey does not have any reason to collect the ground rent and cannot justify it. What about Bellway?

Jason Honeyman: The only tangible benefit is to buy a home at a lower price from the outset. There is no other benefit. It is just how I described the price differential at the beginning. That is the only tangible benefit I can offer.

Q119 **Chair:** We had witnesses who came to talk to us about Persimmon. They said, "We bought the property leasehold. They would not sell it any other way, but then, when they sold the freehold properties on the next phase because they had changed the policy, the prices were not any different".

David Jenkinson: I do not know which site that was. I could guess which one it possibly was.

Chair: Quite a few people have complained about it.

David Jenkinson: I imagine it was Harrow. Was it?

Chair: No, it was a northern site.

David Jenkinson: Was it? That is not the company policy. I can assure you that the company policy could not have been clearer. When we stopped building on a particular phase, the instruction went out to increase the price on the balance of the site.

Q120 **Teresa Pearce:** When you sold new build houses as leasehold, was that under the help-to-buy scheme?



Jennie Daly: I have looked at our records and, in respect of leasehold houses—I would repeat that for Taylor Wimpey that was predominantly in the north-west of England—about 2.7% of our leasehold houses were sold under right to buy.

Jason Honeyman: If I can give it to you in context—it is in the thousands, really—we would not differentiate for a buyer whether they are buying cash or whether they are help to buy.

Q121 **Teresa Pearce:** You had to be an approved developer to be under the help-to-buy scheme. Would they have been help-to-buy properties that you sold?

Jason Honeyman: Yes, all properties would be help to buy that are categorised or fit within the criteria. I would guess we sold around 4,000 homes across a five or six-year period on leasehold. As a best guess, looking at the shape of the business, around a third of those would have been on a help-to-buy basis.

David Jenkinson: Just so you understand, when we were developing a site, once we decided it was going to be a leasehold site we did not distinguish between help to buy and any normal form of sale, whether it was a mortgage from help to buy or whether it was a cash purchaser, for that matter. Where it was leasehold for that purchase, when the customer used help to buy it would be a help-to-buy sale of the leasehold.

Q122 **Kevin Hollinrake:** I accept it is custom and practice in the north-west to have leasehold properties, but one of the problems seems to be the level of the charge. Can you just say what you were charging typically on a leasehold house, say, before you changed your practices? What were you charging typically? What was the annual ground rent?

Jennie Daly: The ground rent would have varied.

Kevin Hollinrake: What was it typically?

Jennie Daly: It was somewhere between £150 and £290.

Kevin Hollinrake: Let us say it is an average of £200.

Jason Honeyman: We have always said around £200 is the passing ground rent.

David Jenkinson: Ours would be very similar.

Q123 **Kevin Hollinrake:** What would the figure have been 10 years ago?

Jennie Daly: It was broadly similar.

Q124 **Kevin Hollinrake:** It was around £200 a year 10 years ago. What about 20 years ago?

Jennie Daly: I am unaware.



Jason Honeyman: I would be guessing.

Q125 **Kevin Hollinrake:** Could you let us know? Can you write to us and let us know what you were charging, say, 20 years ago? Is it not the case that the level of ground rent seems to be much higher? I have been dealing with ground rent with leasehold properties for many years, in my life prior to entering Parliament, and grounds rents used to be pretty much peppercorn, yet they seem to have in recent years gone through the roof. The only explanation you can see for that, because, as the Chair said, there is no tangible work, especially for a leasehold house, is that this is just a side door into a profit opportunity. Is that a fair reflection of where we have been?

Jennie Daly: As I say, in respect of leasehold houses, we have taken the decision that it is unnecessary.

Q126 **Kevin Hollinrake:** Is it fair to say the level of ground rent increased well beyond the level that was fair?

Jennie Daly: As I have indicated, it was broadly similar 10 years ago and I am not able to comment on 20 years ago. We will take away your question and reply.

Jason Honeyman: I am certainly not aware of any step change in ground rent in the past 10 years, but I will look into it and see if we can see some correlation over the past decade or two.

Kevin Hollinrake: Two decades would be great.

David Jenkinson: It is a valid question. I will come back to you as well.

Q127 **Mary Robinson:** We heard evidence that up to 80% of new homes in the north-west were being built and sold with leaseholds attached to them. We seem to be thinking that it is custom and practice. It has always been done that way. Given where we are now, inquiring into it, and some of the changes that have been made by Taylor Wimpey, is it still an appropriate model?

Jason Honeyman: Personally, I do not think there is anything wrong with leasehold tenure, which has been used for a very long time, providing you have a fully marketable lease. I do not think there is anything wrong with leasehold tenure, particularly for apartment blocks, which we are also discussing today. I do not know if that answers your question at all.

Q128 **Mary Robinson:** It is for apartments, more so than for housing.

Jason Honeyman: Certainly, yes.

David Jenkinson: I would agree with Jason on that point. A lot depends upon the situation of each individual, but I agree with Jason.

Q129 **Mr Dhesi:** With respect to leaseholders, based on the evidence sessions



HOUSE OF COMMONS

and the round tables we have been involved in, I can inform you that there are a lot of unhappy people out there. That is to put it mildly. Let us look into the compensation schemes with respect to ground rent. Last week, one leaseholder accused developers of offering "as little as they can possibly get away with" to compensate leaseholders affected by onerous ground rents. Is that a fair analysis, in your opinion?

Jennie Daly: I can answer that, on the basis that Taylor Wimpey does have a voluntary assistance scheme for our customers who were affected by a specific 10-year doubling ground rent clause. We took the matter extremely seriously when it was brought to our attention around autumn 2016. The reason for that timing is that the leases we created with that specific clause were used on new developments between 2007 and 2011, and they were coming up for their first doubling and were starting to cause concerns to customers.

We did act very swiftly. We talked about Taylor Wimpey's decision right at the very start of 2017 to move away from the sale of leasehold houses in favour of freehold. We also, having undertaken a detailed internal review, established a provision of £130 million, which we announced in April 2017. We have engaged with freeholders to provide umbrella framework agreements, such that our customers with that particular ground rent clause are able to convert their lease from the 10-year doubling clause to RPI. It has been a slow process, but we have engaged quite well with the freehold sector.

I am able to confirm that we have agreements with freeholders that represent 95% of those leases. We are in detailed and advanced legals with freeholders representing a further 2% of those leases, and we are still in active negotiation with freeholders representing that very small balance.

We have been managing the scheme now for a year, having announced the first agreements with freeholders in September and October last year. While I would accept that progress has been slow, it has been gaining momentum. We have now converted a material number of leases to RPI leases and we will continue to do so.

Q130 **Mr Dhesi:** I will come on to that RPI aspect later as well. Mr Jenkinson, what do you think?

David Jenkinson: We identified a problem mainly with event charges back in 2014, and the company made the decision to not dispose of any ground rents to any third party. We have not made any disposals since 2014. We held them within the business, to ensure our customers got treated fairly to do with them.

Once it became clear after that, we also wrote to all our customers in July 2017 and offered them a right to buy. For ground rents that had materialised since 2014, we offered each customer an opportunity to buy the individual ground rent after two years. That purchase was going to be



HOUSE OF COMMONS

at the lesser of 25 times the ground rent or the market value of the rent at the time. Interestingly, not that many people have taken up that offer. Only 160 people have taken that offer up. Once they knew they could buy that for a sum that equates to roughly 0.5% to 1.5% of the value of the property, they did not want to take it up. They just wanted to know the comfort of it.

Secondly, we have controlled the event charges in there, so there can never be more than £250 for a major extension. Minor issues are free and structural are £75. We also put these clauses into future leases, to protect not just our current customers, but the ones beyond the first sale.

Thirdly, we reviewed all the leases that we had, to see if there were any that we considered to be onerous leases. We identified 60 potential leases where we had a problem, wrote to our customers and changed their leases to terms that were acceptable at no cost to them.

Jason Honeyman: Similar to Dave, we do not experience the level of complaints that I sometimes read in the press. Across our group, over the past few years, we have had 142 divisional complaints about leaseholds. We have had 18 at group level. I can only put that down to the fact that we do not have, as a business, any defective leases. We do not have the onerous leases that Jennie has referred to. All of ours are subject to RPI, and hence the lenders are willing to lend on that basis. The majority of complaints we have experienced have all centred on consent fees and the cost of acquiring the ground rent in the future.

Q131 **Mr Dhesi:** As I said, I will come back to RPI later on. Let me reassure you that we have experienced lots and lots of complaints in the evidence sessions, so somewhere along the line our things are not quite corroborating. In terms of Taylor Wimpey, during our last session we had discussion about the Taylor Wimpey ground rent review assistance scheme. It was criticised for having paid out only £11 million of the £130 million that was reportedly set aside, as well as being very, very slow and very difficult to understand. Should you not really revisit how that scheme works?

Jennie Daly: First, the £11 million figure referred to was a point in time and was reported for accounting purposes in July to the City. Reporting on our progress in the utilisation of the provision is not necessarily the best indicator for members as to the progress we have made. We have made substantial progress. We have expended or utilised a significantly greater figure than has been identified.

We have had a significant number of our customers apply. As I say, we have had over 2,200 deeds of variation now completed. We have a significant number of customers in the system. It is a complex process. We have sought on behalf of our customers to take as much of the complexity out of it as possible. We have worked with the freeholders to agree that framework agreement. We have set up, through external solicitors, a legal hub that will assist the customer and their solicitors. We



HOUSE OF COMMONS

have a customer-facing team, who will assist customers. We have a website with readily understandable FAQs.

We do, however, have a meaningful number of customers in our system who have, for reasons of their own, chosen to pause their applications while the Government's consultation is in train. We can process applications in somewhere between eight and 10 weeks. We have achieved conversions much more quickly than that. Sometimes it takes a little longer. We have a number of solicitors, the freeholders, lenders and management companies, but we are determined to resolve this matter on behalf of our customers. We have indicated no end date on that scheme and we will continue to work hard on their behalf.

Q132 **Mr Dhesi:** Taylor Wimpey seems to be ahead of the curve on this particular aspect. Gentlemen, in terms of Bellway and Persimmon, do you have any similar plans to introduce such compensation schemes?

David Jenkinson: "Ahead of the curve" is not quite the right line. It is behind the curve, almost, because we are not in that position. We did not have the leases, exactly the same as them. We were not in the same position as they were, so we did not have to carry out the same actions. We did not rest on our merits. We noted back in 2014 that there was an issue with event charges. Therefore, we did not sell the freeholds. They were kept by us. Therefore, third parties were not able to charge the amounts that have caused so much concern.

We have not just done that. We have gone much further than that. We have introduced a right to buy to our customers, so if they want to buy that freehold they can buy it off us at the lesser of market value or 25 times.

Q133 **Mr Dhesi:** What other compensation schemes are you looking to introduce?

Jason Honeyman: We do not have any onerous leases, so we have not had the level of complaint that Taylor Wimpey has. We just do not have that volume of complaints coming through our business. All our leases are perfectly marketable, as they would be on an apartment scheme. I just do not have that problem.

Q134 **Mr Dhesi:** Okay, fair enough, it is there for the record. Let us come back to the issue about RPI. Some developers have made offers to leaseholders to convert the doubling ground rent clause to one that increases at the rate of RPI. Is that really a better deal for leaseholders?

David Jenkinson: It depends on who controls the freehold itself. Personally, I do not think that is the real issue, whether it is RPI or doubling. If you are doubling £2, for example, it would only be £4. What is more important is the starting amount, where it ends up and whether it is capped. The crux of this whole point is whether they have a marketable product at the end and whether it materially affects the value of that customer's house. We do not believe we have leases like that. However,



if anybody brings a lease like that to me, I am more than happy to look at it and deal with it personally. Similar to Jason, I do not believe we have those leases.

Q135 **Mr Dhesi:** You do not mind which one, whether it is doubling ground rent clauses or whether it is at the rate of RPI.

David Jenkinson: From Persimmon's experience, that is not what really worries customers. What worries the customer is how much it is going to cost them to buy the freehold.

Q136 **Mr Dhesi:** We had one person giving written evidence who said, "I must sign away my rights to take any further action and be prepared to have RPI increases for the entire length of the lease—some offer". That was against Taylor Wimpey. "The current doubling lease terms provide the freeholder with a ground rent in excess of £800,000 for the term of the lease. The proposed changes to RPI generate ground rent in excess of £2.2 million for the term of the lease. How can this be judged as a good offer?" It is very well put. What do you think?

Jennie Daly: There are a few points that you have raised there. The first is in respect of what is known as the settlement agreement, to which the customer is referring. It is not a requirement to sign away their rights. The settlement agreement has been defined in the narrowest terms, and we have set it on the narrowest terms, to address only and very specifically the doubling ground rent provision clause. It in no way prohibits or would prevent any customer from seeking legal remedy on any other matter to do with their lease or, indeed, from third parties. I am quite happy to provide the Committee with a copy of the settlement agreement. It is very straightforward. It is a single A4 page. We have made that point with great clarity to customers who are concerned.

Regarding RPI, RPI is by far the most significant lease in the residential leasehold sector. It is readily understood. We talked earlier about preserving effectively the value of money. If a lease is set at £150, effectively RPI reflects what that would be worth in years hence.

The issue with the doubling ground rent was specifically around the affordability of that ground rent. The clause only doubled five times. There were only five review events, but the escalation was a matter of some concern to our customers, which we entirely understood and we felt that we should respond to. In returning them to an RPI lease, we have effectively returned them to a lease that would have been the case had we not introduced the doubling ground rent, and which is the lease of preference for the sector. Really, we have put them on a level playing field with the vast majority of leases in the residential leasehold sector.

Q137 **Mr Dhesi:** For the record, Mr Honeyman, what are your views on this issue?

Jason Honeyman: Sorry, I feel like I am always trying to blame Jennie for the problem, but it is the doublers that are the problem. Our standard



lease from Bellway is compliant with CML, which is the Council for Mortgage Lenders. It is accepted by all the main lenders, so we do not experience the problems that you are referring to. All our leases are perfectly marketable. It is a very similar lease to the one that we use for our apartments, where we do not experience any problems.

Q138 **Bob Blackman:** I just want to clarify the understanding from each of your perspectives. I understand that maybe this does not apply to Bellway, but from Jennie and David's perspective it is the principle of the doubling I just want to confirm. If the ground rent typically starts at, say, as Mr Hollinrake referred to, £200, after 10 years that becomes £400, after 20 years it becomes £800, and so on up to 50 years, when it becomes £6,400. There are companies out there that double the ground rent after five years, so you get to £6,400 after 25 years. What is your understanding of what your company classifies as the doubling of ground rent?

Jennie Daly: I am referring specifically to a lease that Taylor Wimpey introduced in 2007 to new developments up until 2011, which was a 10-year doubling ground rent lease.

Q139 **Bob Blackman:** Every 10 years, the ground rent would double. Starting at £200, after 10 years it would go up to £400.

Jennie Daly: That is correct.

Q140 **Bob Blackman:** After 20 years it would be £800, and so on.

Jennie Daly: Yes. As I have said, we are uncomfortable with that and we have introduced the voluntary assistance scheme to resolve the matter with our customers.

Bob Blackman: We have clarified that.

David Jenkinson: We had some doubling ground rents and it is important to understand how that came about. It was to do with customers wanting certainty on what they were going to pay in the future, but they are capped, so the actual amount of money works out the same as if it was RPI, or as near as could be expected.

Q141 **Bob Blackman:** How can you predict what RPI is going to be?

David Jenkinson: You cannot. That is why some of the customers would rather have certainty of knowing what the payment was going to be. What we did not want to do was to keep doubling.

Q142 **Bob Blackman:** So you cannot say it was capped.

David Jenkinson: No, it was capped once it doubled. When it reached £1,200, for example, it was capped. It could not go any higher.

Q143 **Chair:** Very briefly, you are saying that you do not have onerous ground rent arrangements because they are linked to RPI. You are all saying, if ground rent increases are linked to RPI, they are not onerous. That is



your view.

David Jenkinson: There is no definition. It depends where your starting point is with RPI. If a £10,000 ground rent was RPI linked, it would probably affect the value of the house if it was £100,000. I am saying, to be clear, it is anything that materially affects the marketability of that house.

Jason Honeyman: If you have a modest ground rent with a rent review at 10 years on RPI, it is perfectly acceptable.

Jennie Daly: My view would be that there are very specific legal and financial accounting definitions of “onerous”, which I am not qualified to advise the Committee on. I can say that the 10-year doubling ground rent lease that Taylor Wimpey introduced is not consistent with our high standards of customer service. We felt uncomfortable and wished to work on behalf of our customers to resolve the matter.

Q144 **Chair:** Linked to RPI, it is not onerous. That is your definition. It is not onerous if you have a ground rent increase linked to RPI.

Jennie Daly: It is a combination of factors. As I have said, I am not legally qualified to advise members on the definition of what is onerous.

Q145 **Chair:** You can tell the Committee whether you think your arrangements are onerous or not.

Jennie Daly: The Government’s work on—

Q146 **Chair:** I am asking for your view, not the Government’s view.

Jennie Daly: My view is that “onerous” has some very specific definitions in legal and financial terms. We are uncomfortable about the doubling ground rent that we introduced and we are working to resolve that.

Q147 **Chair:** Linked to RPI, your ground rent rates are not onerous.

Jennie Daly: The RPI form of lease that we are returning our customers to, I am satisfied, is marketable, saleable and affordable.

Q148 **Chair:** It is not onerous.

Jennie Daly: It is not onerous.

Q149 **Chair:** Does that go for your rates as well?



David Jenkinson: As I have said previously, there is no definition of what an onerous ground lease is. You have asked me what I think it is. My personal view is that, if it is a lease that affects the marketability of the house, it is onerous.

Jason Honeyman: I am satisfied that our lease is CML compliant. It is satisfactory for purchasers and it is fully marketable.

Q150 **Bob Blackman:** I am going to come back on this issue of what the



definition of “onerous” is, because, Mr Jenkinson, as you are quite rightly saying, it is whether it is marketable or not. Would you accept that marketability is dependent on the lenders being willing to lend money for the purchase of that property?

David Jenkinson: I could not agree more. That is a perfect assessment.

Q151 **Bob Blackman:** The definition of that is 0.1% of the value of the property. If the ground rent is above that, it is considered onerous.

David Jenkinson: Those were the rules that Nationwide introduced. If you have a look at what that rule says itself, it says, on affordability, “Lenders need to establish if the lease will have any impact on the borrower’s affordability. It is a regulatory requirement for lenders to take account of all known future changes [...] As such, understanding the level of ground rents, how they increase over the mortgage term and other known charges due under a leasehold agreement are relevant to lenders’ assessments of affordability”. If ground rents and other charges appear to have an impact on the value and saleability of the property, this needs to be taken this into consideration in deciding whether, and how much, to lend.

That is basically saying, if the ground rent, due to its terms and conditions, affected the saleability of that property, they should not lend on it. To me, that is a reasonable assessment. If any of our ground rents had criteria in them that meant they had to be valued in accordance with those conditions and, therefore, they would not have been able to lend—

Q152 **Bob Blackman:** If any of your customers—they are still your customers, because they are leaseholders as opposed to freeholders—cannot sell their property because other people cannot get a mortgage due to the ground rent issue, you would accept that that is onerous.

David Jenkinson: I totally accept that point. If they cannot, I am more than happy to look into it. I have had a look, over the last two years, at how many of these we have had.

Q153 **Bob Blackman:** I am happy that you are prepared to do that, because we have had lots of evidence from your customers saying that they cannot sell their properties.

David Jenkinson: I am more than happy to look at individual cases for you.

Q154 **Chair:** Coming back to Taylor Wimpey, you have spent more than £11 million on your scheme, so how much?

Jennie Daly: We have utilised over three times that, and then we have a significant amount pending.

Q155 **Chair:** If you do not have a figure immediately to hand, can you let the Committee have the figure?

Jennie Daly: I would be happy to write to you, yes.



HOUSE OF COMMONS

Q156 **Mr Prisk:** Perhaps we can look at the Government's proposals for reforming ground rents. The proposal at the moment is to cap at £10. A number of written and oral evidence pieces have been provided to us saying that this could have adverse impacts. As builders, what impact would a £10 cap on ground rents have on housebuilding?

Jason Honeyman: To put a £10 cap on everything may be a blunt instrument to apply to all. The reason I say that is because certainly some apartment blocks that I build in London are quite complex. You will have 25 storeys. You will have subterranean central heating plants. You have concierge services, gymnasiums, yoga rooms, all sorts of facilities within that envelope.

A £10 ground rent, for a complex building that needs a specialist to manage it for the long term, is probably too low, but it may work on a low rise block of, say, 12 or 15 apartments without all those complexities. I certainly support a calculation for a ground rent, but the complexity and the style of the building, I would suggest, have to be taken into account.

Q157 **Mr Prisk:** Presumably, a lot of the things you have just described would be covered by the service charge.

Jason Honeyman: Yes, they would, but it is about the quality of the freeholder as well. You would not want an inexperienced freeholder managing a building, being responsible for firefighting, lifts and the like, in a complex high-rise building in that instance. You are not going to create sufficient investment value to attract the quality investors for long-term management.

Q158 **Mr Prisk:** Would it affect the housebuilding numbers? Would you build fewer?

Jason Honeyman: Would I build fewer? No, I do not think so.

Jennie Daly: I would agree that the level of income from the sale of freeholds is relatively small against our main business of selling homes. I would share the concern around the incentive for professional freeholders to be involved in buildings of certain typologies that are complex. I would reconfirm the discussion we just had, really. The important thing is that it is clear, appropriate, fair and transparent from a customer's perspective.

Q159 **Mr Prisk:** So you are happy with the £10 cap.

Jennie Daly: It introduced issues, as I say, in respect of the incentive for freeholders to remain involved in the sector, particularly for complex buildings. We will conform to whatever the outcomes of the Government's consultation are.

Q160 **Mr Prisk:** In a normal housing estate in which you have detached properties, how complex does it have to be?



Jennie Daly: We have already moved away from any sale of leasehold houses where we have had the ability to do so, so that is not likely to be an issue. As I have said, it is not a significant income for Taylor Wimpey.

Q161 **Mr Prisk:** What about Persimmon?

David Jenkinson: I have no problem at all with the £10. A lot of the things that Jason was talking about could be dealt with through a management company anyway. As for the effect on production, it would not have any impact at all.

Q162 **Mr Prisk:** Some of the witnesses who have written to us have come out with a number of other things that would be adverse as such. Mr Honeyman, you have suggested that this might impact on complex, high-value flats. One can see that, although service charges would resolve much of that. Are there other adverse impacts from such a cap that you can see, as people who work in the sector, that we as a Committee should be aware of?

David Jenkinson: The only thing I would say is that a lot of Government bodies sell land leasehold, because they like to keep some level of control. If there was a £10 cap on that, it would probably get around that issue. We just need to be careful around that point, because it is generally Government bodies that sell land as leasehold.

Jennie Daly: It is true that many local government disposals are on a leasehold basis.

Q163 **Mr Prisk:** Some people have said that freeholders will be driven out of the market. Some of our constituents might be very grateful for that, given the behaviour of some of them to date. Is that your view? Would that drive freeholders out of the market?

Jennie Daly: In terms of those large institutional freeholders, I fail to see what the incentive would be for them to stay in the market, but I understand that representatives of the freeholders are in the next session. That probably would be an appropriate question to ask them.

Mr Prisk: I am sure it will.

Q164 **Bob Blackman:** Coming back to the evidence we have received, we have got a lot of accusations that purchasers of leaseholds were told, at the time of buying their leasehold, they would be offered the freehold at a future time, either within one or two years, at a lower price. They then discovered that the freehold had been sold on without their knowledge and they were not offered the opportunity to buy the freehold. Can I ask this? We got evidence from individuals who bought leasehold properties from your company, Mr Honeyman, who have been told now that their properties have been sold on to Adriatic Land 4 (GR1). There are several examples here of different developments where the freehold has been sold on without the leaseholder's knowledge and they are now not able to buy the freehold at all. Why is that?



Jason Honeyman: Can I explain how we operate as a business? That may add some colour. We, as a business, are not long-term holders of assets. We sell on the freehold at a point in time when we complete a development.

Q165 **Bob Blackman:** Sorry, can I interrupt you there? Why do you not, at the point that you are selling the freehold, offer it to the leaseholder direct and say, "You now have the opportunity to buy this freehold"?

Jason Honeyman: If I can just explain how we do it, we have never done it that way.

Q166 **Bob Blackman:** I am asking you why you do not do it that way.

Jason Honeyman: Principally, it is because a house does not have the right of pre-emption to acquire the freehold. We have always relied upon that to put all the ground rents in a portfolio and sell that portfolio on to an institutional investor at the end of the development. That is how we have always operated as a business, certainly in the north-west.

Q167 **Bob Blackman:** You sell the leasehold, you sell off the freeholds to someone else, and then the freeholder comes and says, "No, we are not prepared to sell the freehold to you", or, "You can buy the freehold. It has now gone up to £50,000", instead of, as you said at the beginning of your evidence, maybe £3,000 or £4,000 difference.

Jason Honeyman: Yes.

Bob Blackman: Yes, that is the position.

Jason Honeyman: Yes. The purchaser's rights should not change, whether I am the freeholder or whether an investor is the freeholder. What you are referring to, or certainly what we have experienced through a number of complaints, is where we have sold on the freehold interest and you could have acquired the freehold from us at between £3,000 and £5,000. Where we have sold on our interest to an investor, they have charged a higher rate because the market has gone up at that point. We have gone through a period where the market was there, it has gone up and it has come back down again.

I have not heard of a situation, sir, where they have refused to sell the freehold. I have only had experience that the ground rent or the cost of the freehold has increased. As I understand, and you may hear it a little later in the second session, all our purchasers can now acquire the freehold at the original price because the market has now reduced. Does that make sense? I certainly have not heard of people being refused.

Q168 **Bob Blackman:** What is your company's arrangement with this company, Adriatic Land? Presumably this is a normal company you use.

Jason Honeyman: We only sell to institutional blue chip investment companies. Adriatic, which I know as Long Harbour, is an FCA-regulated investor and an experienced property manager.



HOUSE OF COMMONS

Q169 **Bob Blackman:** It is up to them, then, to determine what they do in terms of the freeholds for your previous customers.

Jason Honeyman: It is.

Q170 **Bob Blackman:** Why is it, then, that your company has this policy where you sell it off to a third party and not offer it to the individual leaseholders at the time you are offering the sale?

Jason Honeyman: It is how we have always operated as a business. I am sure that is not the answer you want.

Q171 **Bob Blackman:** I am asking why your customers do not get the chance to exercise the opportunity to buy their freehold. You are selling the freehold out from under them without their knowledge.

Jason Honeyman: Yes, we are.

Q172 **Bob Blackman:** I would regard that as being, quite frankly, a scandal. You are not offering the opportunity for people to buy the property in which they live and have invested a large amount of money. They are suddenly told it is going to be managed by a new freeholder, without having that opportunity. My personal view is that your company should review what you do in terms of business practice. Of course, it is up to you what you do.

Jason Honeyman: Sir, could I just comment upon that? I am not sure I subscribe to it as a scandal. You are offered at the point of sale a freehold and a leasehold, and the law says that you have the right to acquire the freehold after two years of living in it. You are right. You are quite right. You are 100% right that I sell that basket of freeholds to an investor without asking the customer whether they would like to buy it again.

Q173 **Bob Blackman:** Do you think the law should be changed to stop that?

Jason Honeyman: The whole area of first right of refusal is confusing and I would suggest, through the reform process, taking it a step further. I would have a cap on consent fees. I would have a cap on calculation of ground rents. I would have a calculation on the value of the freehold. I would make the whole process more consumer friendly.

Q174 **Bob Blackman:** I agree with you but, in terms of the right of first refusal, should the law be changed in that respect?

Jason Honeyman: It is confusing.

Q175 **Bob Blackman:** Can we have a yes or no?

Jason Honeyman: Yes.

Q176 **Bob Blackman:** You do agree, fine. Can I take from Persimmon and then Taylor Wimpey the view of how you sit, in this particular aspect?

David Jenkinson: Your point is a valid one. We noticed this back in 2014. That is why we took the view not to enter into any further



HOUSE OF COMMONS

arrangements with these third parties, and we decided to introduce a right to buy to the customers, as I have previously outlined, which is capped at 25 times or the market value, whichever is the lesser.

Q177 **Bob Blackman:** What have you done for the people prior to 2014?

David Jenkinson: We were not aware of that situation at that time, but we had very few complaints before 2014.

Jennie Daly: As part of our evidence to the Committee, and in our response to the Government's consultation on tackling the leasehold market last year, we did recommend that **the inequity in offering the right of first refusal to leasehold houses should be changed.** We would be very supportive of that change. We also recommended that the fairness, speed and cost of the enfranchisement process should a freeholder not willingly sell at a fair price be reviewed to benefit customers also.

Q178 **Bob Blackman:** Can I come back to you on one issue? There could be conflicting connections between your company as a housing developer and the investment companies that are buying these freeholds. It has been suggested to us that senior executives and managers of the development companies may also be senior executives or directors of the people that are buying the freeholds. Are there any cross connections?

David Jenkinson: That is definitely not the case in Persimmon at the moment.

Jason Honeyman: It is definitely not the case. When you sell a subsidiary company, within that company there are names of directors and that company is then acquired. That is how the freeholds are sold. I think there was some confusion around there, **but we are certainly not linked to any investors in any way, shape or form.**

Q179 **Bob Blackman:** We can be clear that none of your listed directors or senior managers are senior managers or directors, or have any financial interest, in the so-called blue chip companies.

Jason Honeyman: I am 100% certain.

Jennie Daly: I can confirm likewise.

Q180 **Chair:** To follow up with Persimmon, you do not sell houses leasehold now. You are also saying that you are offering, where you have done, the opportunity to buy the freehold. What about flats? You are still selling your flat freeholds on to third parties, are you not?

David Jenkinson: No, we are not. We have not sold any on to third parties since **2014.** We are still selling leasehold, but we have not sold any on to third parties.

Q181 **Chair:** You are keeping the freehold of a flat complex as you build it, are you?

David Jenkinson: Yes.



HOUSE OF COMMONS

Q182 **Chair:** What is the connection, then? We mentioned Adriatic Land. Adriatic Land 2 was originally Persimmon Group (No. 3), so what is your connection?

David Jenkinson: Adriatic was a deal we made in 2013 for the disposal of 470 properties. There has been no contact with Adriatic since 2013.

Q183 **Chair:** You have not sold any freeholds at all as a company.

David Jenkinson: The last one was 2014 of 540 units.

Q184 **Kevin Hollinrake:** You talked about saleability. That is the criterion, whether it makes a property un-saleable, Mr Jenkinson. You talk about saleability as the criteria you would apply for whether a ground rent is fair. There is also an element of fairness here, which we look at aside from the saleability of a property, on these issues. You said before that over the last 10 years none of you have increased ground rent significantly. That is what you said before in your earlier evidence. That was right, was it not?

Jennie Daly: Yes.

Q185 **Kevin Hollinrake:** Yet if you applied RPI to something 10 years ago that was, say, £300 it would now be £403, so that has increased by 33% on RPI. Why is that? If you are saying they have not increased, how can RPI be fair?

Jason Honeyman: I need to do some work to demonstrate what we were charging 10 years ago, and 10 years before that, before I can answer that. The only index that seems to be acceptable to lenders is RPI, and it is CML compliant. I cannot offer you more than that.

Q186 **Kevin Hollinrake:** What would be acceptable to lenders, you would probably agree, is nil increase. It would be perfectly acceptable to lenders.

Jason Honeyman: Yes, it is about having a CML-compliant lease that the main lenders support, and then you have a marketable lease.

Q187 **Kevin Hollinrake:** There is a difference between leasehold houses and apartments in terms of the stewardship. I accept that. On leasehold houses, there is no justification for a ground rent to increase, is there, other than a profit opportunity for you?

Jason Honeyman: In my limited understanding of it, if you have a long-term interest in the property that has a 10-year rent review based on RPI, it is perfectly acceptable.

Q188 **Kevin Hollinrake:** To whom?

Jason Honeyman: To the lenders, to the purchasers and for marketability.

Q189 **Kevin Hollinrake:** We are talking about not just the lenders here. We are talking about the people who live in the houses and own them. It is



HOUSE OF COMMONS

not acceptable to lots of them that there is effectively an increased cost for no purpose. As the Chair said in his first question, there is no purpose to this. It is just an opportunity to create extra revenue from the properties you sell. That is a fact, is it not?

Jason Honeyman: Either we acquire the value at the point of sale and sell it for £200,000, or we sell on the freehold at a later date. You are suggesting that it is bad practice, but it is certainly not the way we operate. We will either collect all the income at the point of sale, or sell a leasehold and sell it on at a later date. That is how we have done it in the past.

Q190 **Kevin Hollinrake:** In terms of the people pre-2014, Mr Jenkinson, you were saying you might have sold those ground rents on at a multiple and there is nothing you can do about that, because you have just sold them on.

David Jenkinson: We do not have the same level of control. If there was an inherent problem with any of them, I would look at that. Having reviewed the ones we have sold, I am not aware of any that would affect the marketability of the property, but I am quite happy to look at any that do.

Q191 **Kevin Hollinrake:** We speak to various different people who live in the houses you have built and are very unhappy about this. Would it not be the right thing to do to make a commitment to buy those freeholds back and sell them back to those people, even if it is pre-2014? You must have an ongoing relationship with the people you are working with, Long Harbour or whoever else. You must be able to do that and do the right thing, even though it might cost you money. If those leases have increased unfairly through an RPI charge that is for no purpose, it is going to cost people more and more to buy these leases back, even if they are available to them. You are saying that they are probably not available to them and they cannot get out of these leases because they were sold on to a third party and they cannot do anything about it.

Jennie Daly: There are a few things there. First, the purchasers of properties will have received information that clearly indicated that they were acquiring leasehold properties. They would have been advised by independent conveyancing solicitors as to the terms of the lease.

Chair: We will come on to that one in a minute.

Jennie Daly: Certainly, Taylor Wimpey's leases were clear and simple. They were aware that they were not buying a freehold property, that it was a leasehold property, and they will have been advised by their independent solicitor of the terms of the rent review. If that is not the case, and I understand issues have been raised, the customers should be going back to their conveyancing solicitors. We have looked at all the relevant information that was available at the time of these sales, and customers have raised some concerns. Where they have done so, we have asked them to present us with any relevant information for review



and consideration. To date, we have not received any relevant information to suggest they were unaware of the nature of the property or the tenure they were acquiring.

Chair: That is slightly different to our experience so far, but we will come on to that point.

Q192 **Mary Robinson:** It leads very nicely on to the question I was going to ask. Contrary to that evidence, previous evidence we have received suggested that people did not know about the terms of the lease and did not know there were onerous ground rents potentially involved in them. In fact, what was described to us was a rather cosy relationship between developers, solicitors, conveyancers, mortgage brokers, which could be termed a commercial relationship, with intimation that there were referral fees being paid in exchange for introductions, et cetera. I would be interested in your comments on that. We heard that some buyers were required or induced through offers of discounts, free carpets, a lawn, et cetera, to use conveyancing solicitors recommended by their developers. They seemed to think there was a list and they should go to this list. Why do you think so many leaseholders therefore claim their solicitors failed to inform them of potentially onerous terms to their leases?

Jennie Daly: A solicitor is required to act independently on behalf of their client, whether or not they were identified as part of a panel of solicitors. To assist customers, Taylor Wimpey does, as do many of our competitors, identify solicitors who are familiar with the development, operate locally and are familiar with new home sales. It is entirely a matter for the customer to decide who they wish to use. Even if they are on the panel that we recommend, the first duty of that solicitor is to their client. It is the solicitor's responsibility to ensure the customer is fully aware of both the ownership structure of the property and the terms of any lease.

Jason Honeyman: We provide a local list of solicitors on each development and often get asked by purchasers for assistance, whether it is flooring contractors, solicitors, curtains and carpets, those types of things. We have a list of solicitors that are local to that development. We would put on that list where we have previously had experience that they are providing a good service to our customers. There are no commercial relationships between Bellway and any solicitor. We have never received any referral fees. That list will change from region to region across the country.

If I could just explain the purpose, some conveyancing solicitors are set up to work with new builds, to run volume through their business because they have a lot of conveyancers. Those types of solicitors are used to working on developments such as ours or Taylor Wimpey's. Some conveyancers are more boutique, or there are just one or two partners in that practice, and would be slower and less helpful. We always find the repetition and the volume guys provide a better price to the purchaser and are more used to that type of land.



Q193 **Mary Robinson:** Could you see or envisage a situation where a solicitor may not be as inclined to give the full gamut of information about the leasehold and its potential pitfalls because they rely on the business they are getting from the developer?

Jason Honeyman: I would suggest the opposite. If you are a north-west solicitor, you are used to selling leaseholds in that fashion and you should be more adept at explaining that to your customers. We train and instruct all our sales advisers to notify purchasers at the point of reservation what type of tenure they are buying. It is set out clearly on the contract documentation. Further, we insist that they seek independent legal advice. I do not always subscribe to the idea that people were unaware of what they were buying. Doubling ground rents is a whole different issue, but I do not think they were unaware, and I certainly have not had complaints in that regard.

Q194 **Mary Robinson:** It is that the solicitor may not have been telling them the details of the ground rents. Could this be a potential problem? Clearly, from the evidence we received, this is something people are raising.

David Jenkinson: The evidence you received is strange compared to our experience. You have to remember there are five clear points of contact when this would have been made out. At the reservation stage, it is clearly made out. They sign a reservation form. We are trained to tell them. When they meet their brokers, this has to be factored into their financial viability before they even apply for a mortgage. They had to know it was a lease. There is no way the solicitor would not tell them that it was a leasehold property and explain the ground rent. When they apply for their mortgage, it has to be filled in on the mortgage application form. Then, finally, the valuer takes account of it, and I have read the CML rules. I am not sure what more we can do. I just cannot reconcile the information you are being told with how they would not know. They may not fully understand the implications of it, but they must have known it was leasehold.

Q195 **Mary Robinson:** Is it the responsibility of the solicitor to point out the implications of a doubling ground rent or that there would be a ground rent?

David Jenkinson: It would be, yes, and the broker, because he would have to factor in the affordability for the mortgage, and the valuer when he comes to value it. All that is taken into account.

Q196 **Mary Robinson:** Are you satisfied they do that?

David Jenkinson: The code from the Law Society is extremely clear on what they have to do. They have to act independently and look after their interests in all aspects of the transaction. If they have not done that, they have a clear case to go to the Law Society. I know you are going to be speaking to them later. I really struggle with this one, understanding how they would not have known.



HOUSE OF COMMONS

Q197 **Kevin Hollinrake:** It is an interesting point. It is one thing knowing. It is another thing understanding the implications, is it not? Earlier, Mr Jenkinson, you said that if something affects something's saleability that is a problem. You must concede that a ground rent that starts at quite a high level, and then doubles, very definitely affects the saleability of that property.

David Jenkinson: It will have been valued in accordance with the CML rules.

Q198 **Kevin Hollinrake:** I realise that.

David Jenkinson: It would not have got a mortgage. It would not have got a value. I do not know how that could have happened. If they are there, and there are examples Persimmon have done, I am more than happy to look at them, as I keep saying. In terms of understanding, I just cannot see how they would not know it was a lease.

Q199 **Kevin Hollinrake:** I accept that, but you will agree that a ground rent that starts high, say £400 a year, and then doubles every 10 years, renders that property unsaleable. Do you accept that point?

David Jenkinson: I would not say it was rendered unsaleable. It could materially affect the value of a house.

Q200 **Kevin Hollinrake:** You agree therefore that the solicitor who, you are right, has an obligation to look after that client at that point in time—

David Jenkinson: If he has not, there will be recourse through two clear actions: they are referred to the Law Society or they take the normal litigation route.

Q201 **Kevin Hollinrake:** You agree that solicitor—

David Jenkinson: He has to explain to them what the cost is. I think the solicitor would go through it. He would have to explain that, yes.

Q202 **Kevin Hollinrake:** It is clear he has not explained it in such a way that somebody has understood it is going to materially affect the value. Therefore, that solicitor is potential liable, in that position, for not doing their job right in explaining the costs.

David Jenkinson: Potentially, depending upon individual cases. Obviously, I cannot pass comment, but the potential would be there if he had not informed them properly and acted in their interest.

Q203 **Chair:** There are quite a few cases we may well refer on to you. The descriptions to us are of people, who are pretty sensible people, coming in to buy a house. The sales assistant has a customer there. They want to advance it: "Oh, that is the solicitor you go to", not a list, but that is the one. They pick up the phone, talk to the solicitor and make the arrangements for them, because they are a solicitor who knows the area, knows the scheme, knows you as a developer. That is exactly the point you made, Mr Honeyman. They will get it on. They will do it quickly. That



HOUSE OF COMMONS

is the description we have had in a lot of cases. **Something was going wrong, was it not?**

David Jenkinson: Not at all.

Q204 **Chair:** No, so there are no costs.

David Jenkinson: Can I just explain? **The real reason Persimmon uses a panel of solicitors is to save the customer money because they only need to review the title once. If you go each individual time, the biggest part of actual cost from a sale is to review the title.**

Q205 **Chair:** You are saying, "That is the solicitor to go to because they will do it more cheaply for you".

David Jenkinson: No, they will save them the cost of doing the title.

Chair: **I think there is something you need to look at there. It may well be we pick it up with the Law Society as well.**

Q206 **Helen Hayes:** We have heard evidence of a range of very problematic practices around leaseholds, whether it is doubling ground rents or selling on freeholds solely for purposes of investment. We would not be sitting here doing an inquiry if there was not that evidence. You would not be sitting in front of us as witnesses if that was not the case. Each of you today has given us examples of ways in which you are proactively changing your practices, under the pressure of public opinion, in response to those problems. **Those problems taken together have been compared, in some of the evidence we have received, to the mis-selling of PPI.** Would you agree with that analogy and do you think there should be a similar compensation scheme for affected leaseholders?

Jennie Daly: **I would not agree with that characterisation. This is a legal transaction.** As David explained, there are a significant number of touchpoints, with professional advice being sought and rendered on behalf of the customer. As I have indicated before, we accept that the specific lease of concern to Taylor Wimpey did not meet our high standards of customer care. We are working hard to resolve that, on behalf of our customers. We are satisfied that the information available to our customers and the legal advice offered to them was independent. The solicitors, the legal advisers, have a duty of care to their client, not to the developer or the vendor.

Jason Honeyman: I do not believe we have mis-sold. All our leases are perfectly marketable and I do not have the problem Jennie has. **I do not believe there is a compensation issue or a mis-selling position there.** As we speak, I do not have any claims on my desk about the issue. I give credit to Taylor Wimpey. They have had a problem, they have put their hands up, they have put in a provision and they are trying to fix it.

David Jenkinson: My position is the same as Jason's. **We have had about 15 customers write to us reckoning they could not get a mortgage for the house. Whenever we have offered assistance, we have been able**



HOUSE OF COMMONS

to get them a mortgage and the property has been sold on. We do not believe we have an issue, in the same way as Bellway.

Helen Hayes: Lots of your customers, across all three companies, who have been in touch with us would beg to differ on that. There is a job to do, in terms of following up with that evidence. The evidence you are giving us today simply does not reflect what many of your customers are telling us as a Committee.

Q207 **Kevin Hollinrake:** Do you support the Government's proposal to restrict the sale of new-build leasehold houses?

Jennie Daly: Yes, and the Government proposals appear sensible. We welcome the inclusion of an exception for shared-ownership houses, because it is important, given the wider housing debate, that there is access, and a leasehold is required for shared ownership. Another exception is needed, because the definition of a house is not clear, but there are instances where, because of the structural nature of a property, it would be impossible to sell it on a freehold basis. Otherwise, yes, we welcome the Government's proposals around banning sale of leasehold houses.

Q208 **Kevin Hollinrake:** Are there any different views to that?

Jason Honeyman: No. We certainly stopped selling leaseholds in the summer of 2017. We had three developments where we only owned the leasehold and we had to go back to the local authorities to acquire the freehold so we could forward sell it to the purchasers. I have one development left, sir, in the east of London, Barking Riverside, that I still can only sell on a leasehold basis because I acquired the land from the Greater London Authority on a leasehold basis. Sometimes, these urban developments—Jennie alluded to it—get a little bit complicated. We have houses that sit on top of podium decks with parking underneath. Sometimes, the best form of tenure is a leasehold in that instance.

David Jenkinson: I would agree with Jason, 99% of the time, yes.

Q209 **Kevin Hollinrake:** What about the north-west? Is there any reason other than custom and practice that the north-west had a lot of leasehold homes?

Jennie Daly: I am unaware of the reason, albeit it goes back very many decades.

Jason Honeyman: I spoke to a managing director who runs a business for me, who has worked for me for 18 years. He has lived in Liverpool all his adult life and he owns a leasehold house. I asked him the same question and he said, "Jason, I do not know. We have always done it that way. I own a leasehold house myself and I am quite happy with it". It is just endemic in that area.

Q210 **Kevin Hollinrake:** Can I just touch on something called fleecehold? It



seems there is an increasing occurrence of local authorities granting consent for freehold properties on estates where they are probably not willing to adopt the road. There might be water management issues or a SUDS scheme on that site, for example. Effectively, you are getting private management companies that are not subject to any particular rules, which seem to be able to charge residents of those estates whatever they want. In fact, I have a constituent like that myself, with a property that had been sold by Linden Homes, who came to see me only recently. Are there any thoughts on what on earth is happening and what can be done about that?

Jason Honeyman: No, but I understand the problem. Local authorities are less willing to adopt public areas, roads, sewers, street lamps.

Q211 **Kevin Hollinrake:** Why is that?

Jason Honeyman: They do not want the obligation and cost that goes with it. Often they are left with the developers, who then create a residents' management company to manage that issue.

Q212 **Kevin Hollinrake:** They are granting planning permission on the cheap, taking the new homes bonus, maybe, and the council tax, but not necessarily the obligations of looking after those properties. Would that be a fair description?

Jason Honeyman: Some of the developments are becoming more complicated. They may not have the skillset. They do not want the responsibility of managing it and it is easier to push it back to the residents or the developer.

David Jenkinson: I would agree with Jason's comments. Leasehold flats are protected in that way, so you are told all about the management charges. I think you are referring to Helen Goodman's speech the other day. We have tried to put a contract in place, because the problem is that houses do not have quite the same protections. If we are going to do the transfer the right way, there has to be a certificate to make sure any expenditure can be justified. I think you are on to a fair point, though.

Q213 **Kevin Hollinrake:** We need some more regulation in this area, basically.

David Jenkinson: I would not disagree at all.

Q214 **Chair:** Thank you very much for coming to give evidence to the Committee this afternoon. I think we will be following up with you on one or two of the examples we have had where the experience of the customers does not quite relate to the things you have told us this afternoon. Thank you very much indeed.

Examination of witnesses

Witnesses: Richard Silva, Mick Platt, John Dyer and Dr Nigel Glen.



HOUSE OF COMMONS

Q215 **Chair:** Good afternoon. Thank you for coming to give evidence to the Committee. Could I ask you to say who you are and the organisation you are representing today, please?

Dr Glen: My name is Nigel Glen. I am the chief executive of the Association of Residential Managing Agents.

John Dyer: I am John Dyer, chair of the BPF's residential management committee.

Mick Platt: My name is Mick Platt. I am the CEO of the Wallace Partnership Group. We invest in residential leasehold titles. We have approximately 106,000 under management.

Richard Silva: I am Richard Silva. I am an executive director of Long Harbour, an FCA-regulated residential investment firm.

Q216 **Mr Dhesi:** With respect to the various round table events and evidence sessions we have had, we had the round table event last month with leaseholders. I can confirm the loudest applause we had was when participants called for an abolition of leasehold. We have had the all-party parliamentary group on leasehold and commonhold reform. They have put in written evidence to the effect that leasehold "is a form of residential tenure that has been abolished in most places around the world and should end in this country". Third, we have the Leasehold Knowledge Partnership. They are arguing that almost nowhere else in the world continues with this archaic and deeply flawed leasehold system, which means that flats are sold as tenancies and leaseholder owners are therefore disadvantaged. Given that background, commonhold is an alternative model in which leaseholders can own and manage the properties. What additional value are freeholders providing within the process?

Mick Platt: First, I should say we support the Government's proposal to ban leasehold houses. If you look at apartment blocks, there is a slightly different structure to apartment blocks. There are lots of different vested interests. You can have owner-occupiers. You can have buy-to-let investors. You can have commercial units. You can have housing associations. For an apartment block, the freeholder provides independent stewardship and governance. The freeholder is the only investor in that building that is there for the long term, there to preserve the long-term value of the building. A flat will change hands roughly every five to seven years, so we preserve the long-term value of the building. We uphold the covenants in the lease, which means that we are independent. We are independent arbiters between the varying different interests in that particular building, and we ensure managing agents work in the interests of leaseholders. We are the ultimate safety net for leaseholders when things go wrong.



HOUSE OF COMMONS

Obviously, there are various different types of ownership. You have mentioned commonhold. That provides an element of choice for consumers, but we believe the presence of a long-term freeholder is of benefit to people who live in apartment blocks.

Richard Silva: I would agree with Mick's comments entirely. For the provision of those services and that long-term oversight and stewardship, a reasonable ground rent is important. For the record, we absolutely agree with the Government's direction of travel in banning leasehold houses going forward. We completely agree with the elimination of onerous ground rents. We also agree that improvement and regulation in the managing agent regime within blocks of apartments is absolutely the right thing to do. In that context, we have produced, and this Committee has received, I think at the end of last week, an industry-led code of practice. That enshrines a lot of these disciplines and principles, and was pulled together by a large cohort of institutional investors.

Dr Glen: As a managing agent, in a sense we do not mind who manages the building, because we are appointed to manage on their behalf, whether it be a freeholder, an RMC or a commonhold. In one sense, at the moment we have something philosophically similar to commonhold, when we have RMCs where leaseholders come together, enfranchise, buy their own block and manage it, so we can learn from that. There are advantages and disadvantages to each.

If I take the RMC one first, you have the obvious advantage that the people you are dealing with as a managing agent are interested in the development personally. They have perhaps a little more of a short-term view than others, because they are only there for five to seven years, but you are dealing with the people who actually live there. That is an advantage because, if you are dealing with a freeholder, you have to deal with leaseholders as well.

There are disadvantages to it. Do not underestimate how much effort there is in actually managing a building. I have been on an RMC board. The amount of work that involves is not funny. Where I live there is an RMC. They meet every month for five to six hours for a board meeting alone. Emails are flying to and fro every single day. There is a lot of work involved there. My concern is that you will have people who have potentially not the right set of skills or knowledge of property law in particular. When I had a company, there were many examples of people who had RMCs instructing me to do things that, frankly, were against the law, but they did not know any better, because they were not familiar with the law.

Advantages of working with commonholds are those. The idea of having a similar document instead of a lease, but a contract, is very attractive for managing agents. As you may be aware, every building has a different lease, so you have to be familiar with the individual aspects of each lease. That is not good.



There are advantages to working with a professional landlord. If they have a portfolio, it is a single point of contact. Again, speaking selfishly as a managing agent, that just makes it operationally more efficient. They are up to speed with legislation, so that is a big advantage. They have the time to invest in the property, unlike an amateur board. As I say, mine can only meet once a month and that, for them, is very onerous. You will have access to somebody. Again, an amateur board tends to have difficulty in recruiting people. We saw that in Australia, where they have strata, which is, effectively, commonhold, and they found, I think, that 37% of the boards said they had difficulty in recruiting. There are balances, one way and the other, in each one.

John Dyer: My view is similar to that. The original question was what the advantage of a freeholder is. A lot of freeholders are there long term. I work for a firm of managing agents. There is a big advantage to freeholders, because quite often in the smaller blocks, if someone does not pay their service charges for whatever reason, there is a shortfall. You cannot pay for services. You cannot pay energy bills. You cannot pay contractor. A lot of freeholders quite regularly lend money to the service charge. There is no interest charged on that. It is just a fund to make sure services can be provided. As you said, you have an RMC structure now, which is quite similar. I think people all round this table would support commonhold in some form. It has been around for a while, but there are proposals to refresh it.

There are not only difficulties in finding people willing to take part. Recently, there has been increased legislation in health and safety and in liability. In the Hackitt report, you now have a duty holder. People live there and run it in their spare time. Literally in the last few months we have had, as a pertinent experience, RMCs folding because no one is prepared to do it, so it reverts to the freeholder. Without that freeholder comfort blanket, who would do that? If there is a shortfall in the service charges because someone is not paying, who do you get the loan from?

There are advantages and there are examples of what freeholders can do positively. I am sure there are negative examples as well, but there is a big advantage to having a good freeholder that can step in and do these roles that, more frequently, residents, whether it be a commonhold company or an RMC, are not prepared to do any more.

Q217 **Mr Dhesi:** You have pointed out some of the positive aspects, in terms of the role freeholders and managing agents undertake. We have had evidence sessions and roundtables where leaseholders are saying, "We cannot even get hold of our freeholder or managing agent. Forget about the remedial works actually getting undertaken; it is just weeks and months on end until somebody replies to us". We have had very negative feedback to that effect. Let us move on to commonhold. Commonhold was first introduced in 2002. In your expert opinion of the market, why do you think that has not taken off?



Dr Glen: It was before my time as CEO, which is no real excuse, but it is not an area I am familiar with. I would ask what sort of incentives were given to developers to sell to commonhold. We saw this in the first group. If you are selling something and there was another asset stream available, why would you forgo the second stream for the sake of the first one if there is no advantage? I do not know what the Government gave to developers. My background was originally in investment banking. The second thing would be whether the banking community was up to speed with it so there were mortgages available to purchase on.

Q218 **Mr Dhesi:** You are very right there. I think the Home Builders Federation said that, in terms of commonhold properties, it was unsatisfactory. Lenders were unwilling to lend. Mr Dyer, what do you think? Why did it not take off?

John Dyer: It was operated around the world, but it was a new system to the UK. Both developers and lenders were not used to it and they went with the status quo. They went with the leasehold structure because it was an either/or opportunity. I think that is why it just never took off. I think all parties are probably now much more supportive of new commonhold. It is about making it the route of choice, rather than an option, if that is the way it is seen.

Q219 **Mr Dhesi:** Mr Platt, would you be supportive of commonhold? Why do you think it has not taken off?

Mick Platt: I do not think there is any perfect tenure of ownership. Commonhold has its own advantages and it presents its own set of challenges. The leasehold system does that as well, but the leasehold system works very well for the large majority of leaseholders. I would concur with the other speakers that going with the status quo, which is a practice many people understand, is possibly preferable to going with something that is not widely understood or is new.

Q220 **Mr Dhesi:** It is more a fear of the unknown in that sense.

Mick Platt: It could be, but the important thing is that consumers have choice, and it presents a choice.

Q221 **Mr Dhesi:** Mr Silva, what are your opinions, in terms of why commonhold has not taken off?

Richard Silva: I tend to agree with many of the comments that have gone before. As a general point, commonhold can work. It is most effective where there are small, mainly owner-occupied-led developments. In our portfolio, we directly manage 83,000 leaseholds. Over 40% of our leaseholds are owned by investors. They do not live in the blocks. They are not owner-occupiers. Frankly, they are quite comfortable with an independent freeholder looking after their investment and making sure the block runs harmoniously. However, in many of the smaller blocks, where you have willing participants who are happy to take



HOUSE OF COMMONS

over the stewardship role and make sure everyone is working together in that block going forward, commonhold can work.

On the previous panel, we heard about the fact that we are living differently. Blocks of flats these days are very different to how they were 20 or 30 years ago. They are often several hundred units, with complicated mechanical engineering infrastructure, combined heat and power plants, mixed tenure, commercial units, et cetera. In that instance, it is just too complicated to expect people in their spare time to run their own affairs.

Invigorating commonhold would give the consumer choice. Since commonhold was enacted, in 2002, there have been many moves to make resident-led management structures more amenable. We applaud the work the Law Commission is doing at the moment in the right-to-manage space, for example. That is kind of a bridge between the leasehold/freehold structure and the commonhold. Broader choice is good, but I do not think commonhold is the solution to all the issues the industry faces.

Q222 Kevin Hollinrake: On that point, you pointed out some examples of complications around managing a mixed-use block, for example. Is that not the way it works in other countries? The US has commonhold and lots of other countries round the world seem to manage with commonhold. Why can we not do it? Are there any ideas?

Richard Silva: You are correct. Lots of other jurisdictions have a form of commonhold, and all those jurisdictions, without exception, have problems with those tenures. We are not suggesting for one moment, here, today, that there is no problem with leasehold/freehold tenure. We are suggesting that we, as an institutionally backed freeholder, provide an extra layer. It is a safety net for the longevity and wellbeing of a block of flats.

John Dyer: You ask why we do not do it. I think we can do it. It is not there at the moment, but certainly, as managing agents, we could do it. The point is that you could have other options. The issue that is accepted around the countries, and Australia was referred to, is about people in the commonhold structure, or the equivalent of the RMC structure here, who are not prepared to put their names forward or do not have the time to do it. That is an issue that I do not think there is a solution to. Maybe there is some way of making it easier so people can get more involved. There are obligations, including legal obligations, that go with that. Being a director of an RMC has legal obligations and a lot of people are not prepared to take the legal responsibility of being a director of a company.

Q223 Kevin Hollinrake: What about the mortgage lenders' perspective on this? Does anybody have any kind of insight into what mortgage lenders might think of properties that are bought with the tenure as commonhold?



HOUSE OF COMMONS

Richard Silva: We looked at UK Finance, what was the CML register of the top 20 lenders, and their policies on lending against leasehold properties. The top 20 lenders represent over 90% of all mortgages in the UK. About half of the list will not lend against the commonhold tenure. We heard in the previous session two weeks ago here that part of the reason is probably the fact that there are not many commonhold developments out there. Therefore, the product has not been developed by the lending community. That is a perfectly valid perspective. However, all the lenders will lend against the leasehold structure and it has worked very well.

There is one thing I wanted to point out on this. We hear in the media and some of the engagements we participate in about a number of 100,000 people trapped in unsellable, un-mortgageable homes. It is very interesting. We have done a lot of analysis on our specific portfolio. As I mentioned, we directly manage 83,000 leaseholds. We compared this year and last year with the amount of property transfers that we were required to do or the amount of notices of mortgage that we were required to do, and the volumes are the same.

We have had 157 people write in to us to say, "Please can you vary the terms of my lease, because I am struggling to sell my house or remortgage it?" The significant vast majority of those are where there is a 10-yearly doubling provision in the lease, which we talked a bit about in the last panel. Through the redress schemes that we and others are doing, the leases are getting converted. The flats are selling or they are getting remortgaged. As an industry, I think we have coalesced very well together to say, "Okay, there is a wrong here. We all regret it. Let us fix it and move on". We are not seeing the evidence you have gathered that people are stuck in their homes in the volumes we are talking about.

Dr Glen: On commonhold, if we go down that route, we have to go into it with our eyes wide open. It would be unfair for a new system if we do not take lessons from what we can see currently. For example, I know it would be nice, if we go to self-determination, that everybody lives together in harmony. That is just not the case. You are pushing people together unnaturally into a large block, and they are not related; it is not a family. We have to accept that there will be disputes. We see that in RMCs at the moment. The fact that disputes do not occur is not the case. They do occur. If anything, they are, unfortunately, worse than when you have a faceless landlord. If I hand you over to a debt collection agency and I meet you in the foyer tomorrow, it is personal between you and me all of a sudden, rather than somebody else.

We need to protect commonholders from their own boards as well. There is an education there. I come back to what I said earlier about where you have directors. We need to put in place a structure where we can teach those people what it means to be a director of a UK company, with the liabilities that encounters, and what it means to be a director of a



HOUSE OF COMMONS

commonhold company and, frankly, at the moment, an RMC company, with the relevant legislation behind that.

Q224 **Mary Robinson:** On the previous panel, we discussed what the phrase “onerous ground rent” means. I would be quite interested in exploring what you consider to be onerous ground rent terms. How many of your leaseholders are affected by such terms?

Mick Platt: As discussed in the previous panel, we acknowledge that 10-year doublers, and probably 15-year doublers, are wrong. They should be eliminated from the market. In our portfolio, personally, we have fewer than 400 such leases and we are working with the affected leaseholders to offer them suitable alternatives.

Richard Silva: In our portfolio, we have 4,165 of what we define as onerous leases. An onerous lease is a lease that doubles more frequently than 20 years, so 15 years, 10 years and so forth. We have 1,807 Taylor Wimpey 10-yearly doubling leases. As at 31 October, 911 of those leaseholders had converted to an RPI-linked lease, or were in the process of doing so, so had engaged with us. How the Taylor Wimpey scheme works, for example, is that we, as freeholder—and there are others that have these leases—are the point of contact with their customer. They have moved on. They have sold the site out. We engage with the leaseholders on a reasonably frequent basis, pertinent to their lease terms.

We have agreed a process where we have written to a number of the Taylor Wimpey customers—and there is another redress scheme that we are party to as well—to say, “Here is the option for you to convert your lease. This is how the process works”. There is a contribution for them to go off and procure their own legal services, so it is at zero cost to the leaseholder, which is quite right and how it should be. We have been doing this for about a year and we have written to a number of leaseholders three or four times. You cannot force someone to engage with you. As Jennie Daly said in the previous panel, it is an open-ended offer. At some point in the future, when somebody wants to remortgage or sell their house and they find they cannot because of the terms of their lease, they can come to us and we can fix the matter.

Going to the point about onerous leases and what therefore is an onerous lease, it was an interesting comment that you made to the housebuilding community in the previous session about how much ground rent was 10 years ago and how much it was 20 years ago relative to today. We have done some analysis on that, which I am very happy to share with the Committee. Starting ground rent in 2018, as a proportion of average wages, or average house prices, is lower than it was at every point in 1953, 1963, 1973, and so forth. In real terms, starting ground rents have not gone up. We have the evidence and I am very happy to share that with this Committee.

Chair: Please, that would be helpful.



Richard Silva: A payment of £200 per year, which is the average ground rent in our portfolio, is the equivalent of £8.70 in 1953, when average house prices at the time were £1,891 in the UK. Why did we pick 1953? That is the date when the Nationwide started its house price index. That is as far back as we have reliable information. Our view, and it is enshrined in the code of practice I have previously mentioned, is that a fair lease is a lease that is basically 0.1% of the starting value of the property at the point when it is sold, with a minimum of £200, reviewed over the long term to an inflation factor. We use RPI. That is what we have tried to do, to say, "That is an acceptable lease". In terms of wage comparison and house price comparison, it is lower than it has been.

Q225 **Mary Robinson:** Are all your leases therefore compliant with that 0.1%?

Richard Silva: The significant vast majority of them are. I would need to check precise figures. I would rather come back to you on that point.

Q226 **Mary Robinson:** What would you consider to be onerous?

Dr Glen: As a managing agent, we do not get involved in that. The managing agent's involvement might be to collect some ground rent on behalf of the landlord, but, as such, we are independent between the landlord and the lessee.

I have some thoughts on the proposed cap, if you would like to look at those. The £10 is a very strange number, to be quite honest. I would be surprised if it actually costs less than £10 to raise that, if you think of the cost of administration, the stamps and so forth. I do not really see why you are putting in a cap of £10. If the premise is to get rid of the professional landlord, make it a peppercorn. Why would you give them £10 and say, "Take it or leave it"? There is a danger that the professional landlord would say, "£10 is not worth it", and the not-so-professional landlord, who will extract funds from a leaseholder in a different way, would therefore be left to go into it. I do not see that.

The other thing about the ground rent is that, if we go on to our current structure, we have RMCs that have a ground rent. Again, if I may take a personal example, when we enfranchised, we used to pay £100 ground rent. As an incentive for people to take part in enfranchisement, we set it to £10. That was the biggest mistake we made as a company, because the RMC cannot function on the £10 it gets from each leaseholder. We have costs. We have filing costs. They are tiny, but there are administration costs for AGMs. There are DNO costs and something that nobody likes to talk about, the extensive litigation costs. When leaseholders disagree with their own RMC, the RMC has to somehow fund those. So far, they have had to sell their assets. They had a studio and they had to sell that, but that pot will disappear, and we cannot go back, much though we would like to.

John Dyer: Similarly, I work for a managing agent, so we are not the freeholder collecting the ground rents. We collect them on behalf. I



totally agree; if you are going to set a ground rent there is no point in having it at £10. The cost of collecting that is more than the £10. You might as well go to a peppercorn. Again, it is exactly the same. The question, back to the first one, is what the purpose of ground rents is. For certain freeholders there is a purpose, and for certain RMCs there is a purpose, because the money goes back into the stewardship of the building, the estate, or whatever it may be. You either limit it or you do not. I do not see the point in having a £10 cap.

Mick Platt: The point I was going to make comes back to what I said right at the start. When you invest in ground rents as a freeholder, you undertake the obligations that are written in the lease. We are there to preserve the long-term value of the building, but, more importantly, to enforce the covenants and act as a safety net for residents. That is what people get for ground rent. If that ground rent was capped or disappeared, it would be very easy to purchase a freehold. Anybody could do it and they might not necessarily have the resources, access to professional advice or access to funds to be able to fulfil the freeholder side of the bargain. I am not saying that means that freeholds would be acquired by disreputable individuals, but it makes it more possible.

Q227 **Mary Robinson:** From the Wallace and Long Harbour points of view, how much of the income of your companies is generated by residential ground rent every year?

Mick Platt: In Wallace, the annual rent we receive is £11.2 million. All our ground rents are funded by pension funds based in the UK, so all the ground rent we receive is used to service the debt we have with those pension funds.

Richard Silva: We have 160,000 in our wider portfolio of ground rents, with an average range of £200 per unit. The ground rents we collect are £32 million a year. All the investments in the ground rent fund are from UK-based pension schemes and insurance companies. All that ground rent is delivered to those pension schemes so they can then pay their pensioners in their retirement.

Q228 **Mary Robinson:** What percentage of your business would that be, the £32 million and £11.2 million?

Mick Platt: As a percentage of what?

Mary Robinson: Your business, your company.

Mick Platt: The entirety of revenue?

Mary Robinson: Yes.

Mick Platt: In our case, it is probably about 55% to 60%.

Richard Silva: To be clear, the £32 million is not Long Harbour revenue. It is revenue for the pension scheme. We run three funds. One is a residential ground rent fund. The second fund is a private rented sector



build-to-rent fund, so we are one of the leading players in the emergence of building long-term accommodation for the private sector. We also have a strategic land fund to buy land to bring forward. We work with Homes England at the moment in Northamptonshire to bring forward sites for sale. The £32 million that I mentioned, which our sister company, HomeGround, as the freehold servicing company, collects on behalf of the pension funds, is not Long Harbour revenue.

Q229 **Mary Robinson:** What would the Long Harbour revenue be?

Richard Silva: About £4 million a year. I will come back to you on the precise number for that.

Q230 **Mary Robinson:** That is okay. Looking at the proposal for the £10 per annum cap on ground rents, you have objected to it. Long Harbour has objected to it. Why do you have concerns?

Richard Silva: As I mentioned, our starting position is that we think the leasehold system needs to be brought into the modern era. We proposed, through various consultations, whether that is through MHCLG or the Law Commission, our ideas on those issues and how to do that, culminating in a code of practice that forces best practice on the various things that we do into the industry. We have also mentioned we think there is space for a reinvigoration of commonhold for what I would call appropriate-sized developments. That all gives consumer choice.

If you cap a ground rent at £10 going forward, there is no economic incentive for us to invest in the various teams of professionals who work in our business, undertaking the stewardship role. I have an estates management team of very experienced people. Their job is, effectively, to police the managing agents, so Nigel Glen's membership, around all our developments. If they are not working properly on health and safety, fire risk assessment, audit, all the stuff managing agents are supposed to do, we work with the residents to replace them. We act as a long-term policeman, frankly. There is a significant investment for that. We cannot charge that. That is what we give in return for levying a reasonable ground rent.

We have expert landlord and tenant lawyers in the business to give advice to people when they have a dispute or when they want to do something with their lease, in terms of changing their properties or whatever it might be. At a £10 ground rent, we are not going to invest in that as a consequence, because there is no economic return. Therefore, the likes of us, and the others, I am sure, will withdraw from this sector. It will potentially open up an opportunity for less professional individuals and/or organisations to buy up these assets for whatever reason they want to do so.

I will just clarify that in one respect. If you have 100 flats in a block and the ground rent is £200 per flat, that is £20,000 a year of income. We would pay probably, in a normal market, somewhere around about



£600,000 to buy the freehold on that block. That block is worth £10 million by the way, so we are at 5% to 6% of the overall value. If the rent dropped to £10 a flat, you would be able to buy the freehold on that block for £10,000. As a consequence of that, somebody might do that just to have access to those 100 flats to see however else they can make money.

Q231 **Mary Robinson:** It could be a money-earning scheme for somebody else, as opposed to something that would—

Richard Silva: Yes, a less professional organisation that does not have the resource to do all the things. The lease is a contract where we have to do things. We take our obligations under the lease very seriously. We can only do that in return for a reasonable ground rent.

Q232 **Mary Robinson:** We have heard you have been getting in touch with some of your leaseholders about the terms and conditions, if you like. I wondered what other remedial action had been taken, perhaps by your business, Mr Platt, to contact any leaseholders or to try to introduce voluntary remedial schemes.

Mick Platt: As I say, we have very few onerous leases in our portfolio. In fact, all those onerous leases came about because we did a large corporate transaction probably about four or five months ago. We do not have any 10-year doublers granted by Taylor Wimpey, for example. Probably 50% of our queries into our office on a daily basis are from people asking for one aspect or another of the lease to be explained. A lot of people are coming to us and saying, "Would it be possible to vary the terms of our lease?", because they want to make it more attractive to lenders or to sell. In all those cases, we are endeavouring to find solutions for those people on a voluntary basis. It is not in our interest to have dissatisfied leaseholders. We would like to think they can turn to us for advice, which we freely give, and we are trying to help them as much as we can.

Q233 **Mary Robinson:** Just looking at that, we have heard some freeholders are offering leaseholders the opportunity to convert the doubling ground rent clause to one that increases at the rate of RPI. Is it really a better deal for leaseholders to convert?

Richard Silva: Absolutely, 100%.

Mick Platt: Yes.

John Dyer: Otherwise, they would not be doing it.

Dr Glen: Under the current level of RPI, yes. I can remember RPI a little bit higher than 3%, so it depends on the level.

Richard Silva: There is also a technical reason. The Law Commission is doing some very good work on simplifying the legislation. We heard in the previous session of some extortionate amounts of money. Under the



current legislation on enfranchisement, so extending your lease on a flat or buying the freehold on your house, a Taylor Wimpey lease granted, say, nine or 10 years ago, with a £295 starting ground rent on a 250-year lease that doubled every 10 years, for the first five years, would cost about £35,000 to enfranchise. That is for either extending or buying, depending on whether it was a flat or a house. If you convert it to RPI today, that same lease would cost about £6,500. That is the way the current valuation mechanisms work under the various Acts, so it is an immediate benefit to the leaseholder in that context of £28,000 to £29,000.

Q234 **Kevin Hollinrake:** Talking about enfranchisement, as well as fair ground rents, we are also trying to achieve a fair price for people to buy the freehold. I think Long Harbour noted in its submission to us that there are significant inaccuracies in the Law Commission's analysis of the current approach to valuation in its proposal for reform of the leasehold enfranchisement process. Could you expand on that?

Richard Silva: Yes, sure. The Law Commission put out a direction of travel paper—my phrase—in July, ahead of its formal consultation, which we are currently all working on. That was specifically in relation to its thoughts at the time on where it wanted to get to with enfranchising houses. There were three examples in there, house 1, house 2 and house 3, and then there were different lease terms around each particular house. They looked a bit odd to me, colleagues and other investors, because we did not really recognise, in any meaningful way, the terms set out in those examples.

We did some analysis on our own portfolio to ask, "How many of these leases do we have?" I will give you an example. House C is a Taylor Wimpey 10-yearly doubling lease, granted with 241 and a half years left to run, and some examples about how they calculate the enfranchisement value. The way that it read was that that was a market norm and there are lots of them out there. As we have heard in evidence previously, we have estimated the size of the onerous lease market, so 10 or 15-year doublers, at less than 15,000 units, out of 4.2 million, so significantly less than 1% of all the leaseholds.

We were trying to establish this with the Law Commission more precisely, and I wrote to Professor Hopkins about it. What was the benefit of putting what I would call a relatively extreme minor example of a house into that paper, in the context of getting a really good informed debate about the wider market? The majority of leases in the market are not onerous. The majority of leases in the market, or a significant number of them, are inflation linked. The problem is not the calculation so much as the process of how you do the enfranchisement.

The way the current law is structured, under the regulations, it immediately creates a conflict between the leaseholder and the freeholder, especially if one pursues the statutory route. The leaseholder is incentivised to go and find a valuer to value their lease as cheaply as



HOUSE OF COMMONS

possible. A freeholder, arguably, could be incentivised, although we do not follow this practice, to put as high a price in as possible. Then you spend a whole load of time with lawyers and getting evidence. That is very expensive.

Q235 Kevin Hollinrake: One of our previous witnesses suggested a simple formula. Mr Silva, you gave the example before of a block of 100 units and you applied a 30 times multiple to the ground rent. If I am a long leaseholder of a flat in one of your blocks and pay 200 quid ground rent a month, what would I expect to pay for the freehold?

Richard Silva: It really depends on the pertinent terms.

Q236 Kevin Hollinrake: Why does it depend? You bought it on a multiple as an investment, so why would it depend?

Richard Silva: I am investing pension fund capital. That pension fund effectively has the opportunity to invest in ground rents or in other assets, and it is therefore a comparable rate of investment. That is the first thing. That is dependent upon long-term interest rates and long-term inflation rates. They are the only two variables. In a high inflationary environment where interest rates are high, it is significantly cheaper to buy out your freehold, because that is the valuation system.

Q237 Kevin Hollinrake: We are trying to get to some fair position here. I know there are two sides on the scales here. If the Government are trying to make it cheaper for long leaseholders to enfranchise, it is going to disadvantage freeholders, of course. It is two sides of the same coin, is it not? You said before you applied 30 times. That is roughly the value of these things when you look for investment. That is 200 quid; 30 times the 200 quid is 6,000 quid. Why can I not just buy that freehold from you?

Richard Silva: That was just a simplified example.

Q238 Kevin Hollinrake: Yes, but it is pretty much what you would expect.

Richard Silva: We have proposed this to the Law Commission and they have suggested it as an option. For long leases, so leases longer than 100 years, which is our main business, we advocate that there should be some form of online calculator that everyone has access to that is free or for a nominal fee. You input your pertinent lease details and that gives a very transparent valuation. The reason we want to do that is that, typically, on the long lease market where people want to look for a lease extension, the legal fees and valuation fees can cost the leaseholder £2,000. The lease extension itself might only be £3,000. If you can eradicate all that extra cost by having a transparent, fair point of reference to calculate these things, that is the way forward. We have absolutely advocated that to the Law Commission.

Q239 Kevin Hollinrake: There is going to be a multiple, at some point, of the ground rent. Mr Platt, could you answer that question? What is a fair



amount?

Mick Platt: It is important to remember a couple of things. First, when we invest in ground rents, we are investing pension fund money. The reason that money gets invested with us is because of the long-term nature of the lease. We are all in favour of making the enfranchisement process simpler and more transparent.

Q240 **Kevin Hollinrake:** And fairer and cheaper.

Mick Platt: And fairer.

Kevin Hollinrake: But not cheaper.

Mick Platt: The point I would make is that you cannot take complex things and make them simple. The point is that freeholders do not have a choice about whether to grant a lease extension or to enfranchise. It is something we are obliged to do by law. All we ask in return for that is that we receive fair compensation, such that the pension funds that have invested in the ground rents do not lose out. I am all in favour of making it as transparent as possible, and that is what we try to do with all our leaseholders who call our office and say, "Can I buy my freehold?"

Q241 **Kevin Hollinrake:** We took some evidence of somebody who has a £100,000 flat with, I think, 67 years left remaining on that lease, but they have been quoted £14,000 to buy the freehold, which sounds really unfair. That is 14% of the value of that property, for example. There does not seem to be any logic to the level of the cost of that freehold compared to the cost of the ground rent. When you purchased those freeholds on behalf of your investors, that is the calculation you made, a simple calculation in terms of a multiple of the revenue.

John Dyer: In the example you just gave, it was a 67-year lease. There is value in a 67-year lease, so that person who bought it at 67 years would not have paid the same purchase price as someone who bought a 200-year lease, because it is a lot shorter.

Mick Platt: They would not have bought it on a simple multiple of the ground rent either.

John Dyer: When people are buying those shorter leases, it is not valued on—

Q242 **Kevin Hollinrake:** I realise it is not valued like that, but why is it not? You are buying them like that. You are buying them on a simple multiple.

Mick Platt: No, not for the 67-year leases.

Q243 **Kevin Hollinrake:** You could be talking about much longer leases. That was an example of how unfair it is. The reality is that you are buying these leases. I get your point about charging a fair ground rent, because that gives you incentive in the economic model. I get all that. Some of these things are complex. I get all that, but you have to be fair to the people who have paid the ground rent, who are living in these properties



with a ground rent and want to get out, and yet are being screwed at the point in time they want to buy that freehold. That just cannot be right.

One of our witnesses, for example, one of the Members of Parliament from the commonhold and leasehold APPG, was saying it should be five times your ground rent. Let us make it so easy and cheap for them, which I am sure you think is very unfair. Unless we get to something that is really simple, easy and fair, you are going to lose this argument in a way that is really going to hit the sector very badly.

Richard Silva: It is a good point you make. Let us look at the way that properties are bought and sold. We heard a lot in the previous session about new build, but the second-hand market also has some systemic issues in it. We welcomed the MHCLG consultation last year on simplifying the buying and selling process, and we look forward to what the Government are going to bring forward in that context at some point.

Here is the thing. Somebody decides they want to go and buy a flat somewhere. First, they will be sitting on their sofa at home, looking on their iPhone at a local estate agent and thinking, "Oh, I can afford a flat in that particular area", because the headline price seems to be within their price bracket. They will then look at the pictures. They will look at the EPC. They will look at the floorplan. They will go to visit the flat and think, "Great, I will take it".

It is not until several weeks later that they realise they cannot really afford to buy it, not because of the headline price but the running costs of living there, because they have never been told, until they are committing, emotionally at least, that the service charge is £1,500 a year, the ground rent is £250 a year, it is council tax G for whatever reason and the council tax is 500 quid a year, and there is no money in the sinking fund so next year they are going to have to top that up. We see many problems, in terms of our customer service team dealing with distressed leaseholders, where they had not really understood what they were buying. One of the things we are keen to ensure this overall leasehold reform agenda does—because, as I have mentioned, we support the ban for houses and the eradication of onerous leases—

Q244 **Kevin Hollinrake:** We will talk about the cost of the service charges later. Here we are talking about the cost of the freehold. It seemed you were determined to maintain the position where this process is obscure, one sided, expensive and complicated. We have to try to get away from that. Unless the sector comes up with something that is simpler, fairer and cheaper, you might not have a sector. That is the point.

Mick Platt: We would encourage the Law Commission to come up with something that is simpler, fairer and more transparent. The current method for working out the premium payable on a lease extension is very detailed. It has clearly been thought about by minds that are far greater than mine in huge amounts of detail and is very clearly written into legislation. The Law Commission is looking at ways of making that



simpler and fairer, but I come back the point I made earlier: it is complex. Property transactions are the biggest transactions that individuals enter into in their lives. We seek to make it as simple as we possibly can, but if you make it too simple there is a risk that you get into mis-selling areas.

Q245 Kevin Hollinrake: I think we are in those areas already, to be honest.

Mick Platt: You cannot take something that is, of its nature, complex, and make it simpler just for the sake of making it simple.

Kevin Hollinrake: No, it is to make it fair, simple and fair.

Chair: We are short of time. We have a couple of final points we need to get on to.

Q246 Teresa Pearce: Good afternoon. We have had a lot of evidence from leaseholders about service charges. They get concerned about lack of transparency. They say they are sometimes excessive and poor value for money, which is an issue when major works take place as well. What do you do to make sure that, when you charge service charges and for major works, they are value for money and people are not overcharged?

Dr Glen: Shall I go, because that is more a managing agent area? People have recourse to challenge those. You have section 19. You can go through the First-tier Tribunal. There is a separate question of whether people actually know about that, because if I talk to friends in a social aspect they have no idea that there is an ombudsman should they wish to challenge it, that there is a First-tier Tribunal and so forth. Whether those are well enough known by people is a very interesting question. There are efforts being made to do that. MHCLG is currently producing a leaflet on how to lease. Our association, with quite a number of organisations, has produced about 12 documents for leaseholders, trying to help them on various aspects like what a lease is, following the money, common misconceptions and so forth. There is some recourse there.

Whether people know about it is one question. Are they accessible and easy? My own personal experience of going to the FTTP was a non-contested case. The first question the panel asked was where our solicitor was. We were going, "We do not need it. We are not contesting it". The inference there was that we had to lawyer up beforehand, which puts it a little beyond the initial £100 fee because you are suddenly talking thousands of pounds.

Something else you can look at is the regulation of managing agents. I know that is being looked at, at the moment. We, as ARMA, have roughly half the managing agents in the country. We expect them to conform to our code of practice, which has transparency in there. We follow the RICS code. We send in RICS to audit them every three years. We demand to see copies of accounts they have prepared for service charges for their clients and so forth. There are things that can be done, but that requires



HOUSE OF COMMONS

everybody to do that. Like I said, I can only speak for the half that ARMA have who have self-regulated.

John Dyer: I would make exactly the same point. One of the two things that come out from leaseholders questioning their bills is transparency. Like ARMA, I have an organisation where people are members. You have to have regulation of managing agents because we hold, through independent banks, large amounts of customers' money, so having a regulatory body has to be right. I know the Government are looking at that.

Where there is anyone disputing it, at the moment the FTTP is a good body there to adjudicate that, but it is quite daunting to go into a panel if you are an individual leaseholder. There is a housing ombudsman. Maybe make more use of that for small claims or small disputes. It is not always about the money. It is about "What you told me" or the timing. There are lots of other issues around leasehold that are not necessarily confrontational, but you maybe cannot get an answer. You cannot resolve it, and the Housing Ombudsman Service, some form of that, could be a good answer to it.

On visibility, from the budgeting process, there has to be a standard format for what a budget looks like, so it is clearly readable. This is what we do day in, day out, but it is one that people may see twice a year. You can have a budget that is simple, with every single heading in plain English, what it costs, what it is for. You have an audit account at the end of the year, so it is independently audited, which is what happens now. Again, those accounts go out that are clear and visible. You can see they say it is going to cost £100 at the start of the year. If it costs £150 at the end of the year on the audit, you can have reasoning why there is a difference, because it is obviously not a science. It is an estimate a year before the time. It is making it much clearer, with standardisation.

Q247 **Teresa Pearce:** Do you charge percentage management fees on top?

John Dyer: No.

Dr Glen: No.

John Dyer: It is a fixed fee. That is from the outset. That is absolutely clear. It is a fixed fee for 10 flats, or whatever it is, and it is per unit.

Mick Platt: Where we have management responsibility on blocks, we appoint a managing agent. We do that from a panel of agents that we use, all of whom we have met. They sign up to our management agreement. They are required to report to us on a quarterly basis. We see their service charge budget. We see the actual spend against that. It enables us to restrict the amount by which they increase their own fees year on year. We work on the simple premise that they all understand, which is that, if leaseholders are not happy with the standard of



management they get and they come to us, as freeholder, to say, "We are not happy", we replace them.

Q248 **Teresa Pearce:** Have you done that?

Mick Platt: Yes.

Richard Silva: We have a very similar way of operating to Mick. When we acquire a block from a developer, we are the last piece in the jigsaw. The developer will get planning, build the blocks, appoint a managing agent, sell the flats, and then the freehold will be sold on to us or somebody else. At the point where we become the freeholder of a block, all the flats have been sold out and the managing agent is incumbent. Our view is that we are not here to interfere with the peace and harmony of that block, so long as it is peaceful and harmonious.

We have a very broad range of managing agent relationships. We have over 100 and we have an estates management team that will, effectively, provide the rigour and oversight, the reporting, the health and safety, the fire risk assessment, reporting to us, so that when the building safety team at MHCLG ask us how many cladding problems we have had of late, we are able to tell them pretty quickly.

In exactly the same way as Mick mentioned, if our residents, even on a no fault basis, contact us and say, "We are dissatisfied with the service", depending on where their block is, we will run a tender for three different managing agents to come in and pitch to the residents to run that block, collaborate with the residents, give advice on what we think they should do, but then let the residents, effectively, be part of the decision making process to replace the managing agent.

Q249 **Teresa Pearce:** We have heard that high commission charges for insurance products are sometimes hidden within service charges. Do you think that should be prohibited?

Richard Silva: Yes.

Dr Glen: I will agree with you. There is a basis for commission on insurance, because the other question there is about who would otherwise deal with the claims. Generally, the management fee is independent of the insurance, so if the managing agent places it they get a commission and that compensates them for looking at the claims.

Q250 **Teresa Pearce:** Should that not be shown separately, rather than hidden within the service charges?

Dr Glen: It should be. According to RICS you have to disclose that you are receiving commission. You have to say this with a letter adjoining the accounts.

John Dyer: The point is that a lot of managing agents do not take commission. I know it is the perception that residents think they do, but they certainly do not. As a firm, we do not. You get lots of insurance



placed through brokers, and the brokers deal with the claims-handling process. We do not charge at the point of claim. If someone makes a claim, you have to generally get three quotes, three tenders, which the managing agent does. There is a cost implication to that. We do not charge the individual lessee, the individual customer, for that, and we do not charge a management fee for that because the broker deals with that. That is potentially where that alleged commission is. Certainly, there is not insurance commission for most managing agents.

Q251 **Teresa Pearce:** Another piece of evidence we had from people was their dissatisfaction with being charged permission fees. We had one witness who said that she was charged over £2,500 for permission to put a conservatory on the back of her house. That does not seem right, does it?

Mick Platt: No, it is not right.

Q252 **Teresa Pearce:** Is there a justification for permission fees?

Mick Platt: There is a justification for charging a fair fee where we provide a service. The lease is a legal document at the end of the day, and, to the extent that we have to do work to provide a service, we would charge a reasonable fee to cover our costs.

Q253 **Teresa Pearce:** But it is just to cover the costs.

Mick Platt: The level of fees you are talking about is not something I recognise.

John Dyer: The example I give in blocks of flats is where someone in the flat above you does works.

Teresa Pearce: You cannot have a conservatory on a block of flats.

John Dyer: You could not, but, for instance, quite a common one is changes to the kitchen design. As managing agent, you have to go in, acting for the freeholder, to look at where that kitchen is, because you cannot put kitchens above bedrooms and that type of thing. You have to check that is correct. Wood flooring is another one, when someone puts in wood flooring, because the lease quite often says carpeting. You have to check there is adequate sound insulation. Someone has to check that. You have to have an approved specification. You have to sign it off with covenants in any consent that, if it causes a nuisance, you can still lay carpet on top. That is a cost. That is not so much a fee, as you say, but there is a reasonable cost that managing agents, on behalf of freeholders, have to charge to be able to grant that consent in the first place.

Mick Platt: I would make the point that we turn a lot of requests like that down. If somebody comes to us and says, "I want to put wooden flooring in my apartment", as I alluded to earlier, we are there to enforce the covenants on the lease. We are quite happy to say, "No, that is not permissible under the terms of the lease".



HOUSE OF COMMONS

Q254 **Teresa Pearce:** There is a difference, is there not, between recovering a cost and charging a fee. What we are talking about here are permission fees, separate fees just for doing something, so you do not see a role for those.

Dr Glen: That is usually put in the lease. Sometimes the landlord gets the charge. Again, alluding back to my personal circumstances, that is pretty much the only other stream of income my RMC has, which is permission to sublet. That is always a very hot topic, particularly with Airbnb. It is very difficult to enforce because you do not really know that somebody is subletting. Then, as John says, there is permission to do something to the flat. Are you going to remove a structural wall? Are you going to put a toilet above somebody's bathroom and so forth? That requires the managing agent to go in, look, perhaps bring a surveyor in and so forth. The lease would usually say that a reasonable fee is required for that, for compensation. Again, you can contest that reasonable fee.

Q255 **Chair:** Moving on to contesting issues, there is a lot of evidence that occasionally leaseholders contest. They find it very difficult because the freeholder or the managing agent comes along with QCs and barristers, and they are trying to represent themselves, so it is a bit unequally weighted. Would you favour setting up a housing court, as the Government are now consulting on, to try to simplify the process? Give a very quick response, because of the time.

Dr Glen: I would. The proposal the Government have put forward is actually not to do with leasehold in a sense. It is 43 pages about tenants and their residential landlords.

Q256 **Chair:** You would like to extend it into this area as well.

Dr Glen: I would do, yes.

Q257 **Chair:** That is great. If a leaseholder wins a case at tribunal now and gets the costs awarded for the freeholder to have to pay, is it fair that the leaseholders get charged those costs back in their service charge, which appears to be happening?

Dr Glen: Under certain circumstances, no, it would not be.

Q258 **Chair:** It happens.

Dr Glen: It does. You can apply for a section 20C. Certainly, if I took my landlord to court and won, and then found that I was paying his costs, I would not be very happy.

Q259 **Chair:** You would like it to be banned then, that those can be charged back.

Dr Glen: As long as it is fair, yes. On the other side of the coin, if the leaseholder has been vexatious the freeholder should have every right to say, "This has to stop".



HOUSE OF COMMONS

Q260 **Chair:** Finally, Mr Silva, you said your company made in the end, after payments back to the pension fund, £4 million from ground rents. How much of that money actually goes back to maintaining and improving the property, and providing a service to the leaseholders, or is that your profit?

Richard Silva: No, the profit from our ground rent management activities is £340,000 a year.

Q261 **Chair:** That is all you make a year out of this.

Richard Silva: That is profit. The cost of running the freehold management business, so the estates management team, accounting, lawyers, customer service team, is £3.6 million.

Q262 **Chair:** You do not charge that in the service charge, then.

Richard Silva: No. We charge permission fees and consent fees for various things. Airbnb is a big problem at the moment. There is the wooden floor syndrome again. We can charge reasonable fees. Reasonable, by the way, in this context is governing by the law and they are challengeable.

Q263 **Chair:** Those fees come to you on top of your ground rents.

Richard Silva: Those fees are, effectively, levied under the lease to the landlord, and then landlord companies pay us fees for managing their properties.

Q264 **Chair:** It might be interesting if you could provide those figures to us.

Richard Silva: I would be happy to do that.

Q265 **Chair:** Mr Platt, how much of your £11 million do you actually make on the ground rents?

Mick Platt: As I said, our £11 million goes to pay the pension funds.

Q266 **Chair:** How much do you make then, as a company?

Mick Platt: Our entire operation is covered, as Richard just alluded to, by consent fees and permission fees.

Q267 **Chair:** Perhaps you could give us those figures as well.

Mick Platt: I can give you those figures as well, yes.

Chair: Thank you very much, all of you, for coming to give evidence to the Committee this afternoon.