

Status: This version of this part contains provisions that are prospective.
Changes to legislation: There are currently no known outstanding effects for the Leasehold and Freehold Reform Act 2024, Part 5. (See end of Document for details)

PROSPECTIVE

SCHEDULES

SCHEDULE 4

DETERMINING AND SHARING THE MARKET VALUE

PART 5

THE STANDARD VALUATION METHOD

Introduction

- 24 (1) [This Part](#) of this Schedule sets out the standard valuation method.
- (2) The standard valuation method consists of steps 1 to 3 (see paragraph [25](#), paragraph [27](#) or [28](#), and paragraph [29](#)).
- (3) There are two versions of step 2—
- (a) the version in paragraph [27](#) applies to freehold enfranchisements;
 - (b) the version in paragraph [28](#) applies to lease extensions.

Commencement Information

- II** Sch. 4 para. 24 not in force at Royal Assent, see [s. 124\(3\)](#)

Step 1: determine the value of right to receive rent (the “term value”)

- 25 (1) *Step 1*: determine the value of the right to receive rent over the remainder of the term of the current lease.
- (2) The “right to receive rent” is—
- (a) in the case of a freehold acquisition, the landlord’s right to receive the rent under the current lease;
 - (b) in the case of a lease extension, the right of the tenant under the notional lease to receive the rent under the current lease.

Paragraph [26](#) contains provision about the rent that is to be used in step 1, including if and when a capped notional rent is to be used.

- (3) In the case of a collective enfranchisement, step 1 is to be followed separately in relation to each current lease.
- (4) In [this Schedule](#) the value determined under step 1 in relation to a lease is referred to as the “term value” of the lease.

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- (5) Part 7 of this Schedule contains provision about the determination of the term value under this paragraph.
- (6) But, if there is no rent under a lease, or the rent under a lease is only a peppercorn rent, the term value of the lease is nil (and so sub-paragraph (5) does not apply).
- (7) If a current lease is a deemed single lease, step 1 is to be followed separately in relation to each constituent lease (as if the constituent lease were itself a current lease).
- (8) In [this paragraph](#) “rent” has the same meaning as in the LR(GR)A 2022 (see section 22(2) and (3) of that Act).

Commencement Information

I2 Sch. 4 para. 25 not in force at Royal Assent, see [s. 124\(3\)](#)

Rent (including a notional capped rent) that is to be used for determining the term value

- 26 (1) The rent under the current lease must be used in step 1 to determine the lease’s term value.
- (2) If only some of the property demised by the current lease is subject to the standard valuation method, the rent under the lease that is attributable to that property must be used in step 1.
- (3) But, as respects any period when the notional annual rent for the current lease is lower than the actual annual rent, the notional annual rent must be used instead (and accordingly sub-paragraphs (1) and (2) are not to apply in relation to that period).
- (4) The “notional annual rent” for the current lease is an amount equivalent to 0.1% of the market value of the premises being valued.
- (5) The “premises being valued” are the premises that—
- (a) are demised by the current lease, and
 - (b) are subject to the standard valuation method.
- (6) The “market value” of the premises being valued is—
- (a) in the case of a freehold enfranchisement, or lease extension, under the LRA 1967, the amount which the freehold of the premises being valued could have been expected to realise if it had been sold on the open market with vacant possession by a willing seller at the valuation date;
 - (b) in the case of a collective enfranchisement or lease extension under the LRHUDA 1993, the share of the relevant freehold market value which is attributable to the premises being valued.
- (7) The “relevant freehold market value” is —
- (a) in the case of a collective enfranchisement, the amount which the freehold to be acquired on the collective enfranchisement could have been expected to realise if it had been sold on the open market with vacant possession by a willing seller at the valuation date;
 - (b) in the case of a lease extension under the LRHUDA 1993, the amount which the freehold of the building and any other land which contain the premises

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being valued could have been expected to realise if it had been sold on the open market with vacant possession by a willing seller at the valuation date.

- (8) The “actual annual rent” is the rent referred to in sub-paragraph (1) or (2).
- (9) The notional annual rent must not be used in step 1 if—
- (a) no premium was payable on the grant of the current lease, or
 - (b) the current lease was granted on the basis that—
 - (i) the premium was lower, and the rent was higher, than each would otherwise have been, and
 - (ii) the value of paying the lower premium was (at the time of the grant) broadly equivalent to, or greater than, the capitalised value of the extra rent.
- (10) It must be assumed that sub-paragraph (9)(b) is not applicable unless it is shown to be applicable.
- (11) If section 3(3) of the LRA 1967 applies to the current lease (successive leases treated as a single lease), sub-paragraph (9) is to apply only if the one of those leases which is in effect at the valuation date meets the condition in sub-paragraph (9)(a) or (b).
- (12) If the current lease is a shared ownership lease—
- (a) the rent that is to be used for the purposes of sub-paragraph (1) and (2) is the rent that is payable under the lease in respect of the tenant’s share in the property demised by the lease;
 - (b) where the lease does not reserve separate rents in respect of the tenant’s share in the demised premises and the landlord’s share in the property demised by the lease, any rent reserved is to be treated as reserved in respect of the landlord’s share.

Commencement Information

I3 Sch. 4 para. 26 not in force at Royal Assent, see [s. 124\(3\)](#)

Step 2 (freehold enfranchisement): determine the value of the freehold reversion (the “reversion value”)

- 27 (1) This version of step 2 applies to freehold enfranchisements.
- (2) *Step 2*: for the newly owned premises which are subject to the standard valuation method (the “premises being valued”)—
- (a) determine the market value of those premises, and
 - (b) then reduce that market value by using this formula:

$$\frac{v}{(1 + d)^n}$$

where—

d is the applicable deferment rate;

n is the period (in years) that begins with the valuation date and ends at the end of the term of the current lease;

v is the market value.

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- (3) The “market value” of the premises being valued is—
 - (a) in the case of the transfer of a freehold house under the LRA 1967, the amount which the freehold of the premises being valued could have been expected to realise if it had been sold on the open market with vacant possession by a willing seller at the valuation date;
 - (b) in the case of a collective enfranchisement, the share of the relevant freehold market value which is attributable to the premises being valued.
- (4) The “relevant freehold market value” is the amount which the freehold to be acquired on the collective enfranchisement could have been expected to realise if it had been sold on the open market with vacant possession by a willing seller at the valuation date.
- (5) In the case of a collective enfranchisement, step 2 is to be followed separately in relation to each part of the premises being valued that is subject to a different current lease.
- (6) In this Schedule the amount determined under step 2 in relation to the premises being valued, or a part of those premises, is referred to as the “reversion value” of the premises or part.
- (7) If a current lease is a deemed single lease, step 2 is to be followed separately in relation to each constituent lease (as if the constituent lease were itself a current lease).
- (8) In [this paragraph](#) “applicable deferment rate”, in relation to the determination of the reversion value of premises, means the deferment rate prescribed in regulations made by the Secretary of State that is applicable to that determination — and for this purpose a “deferment rate” is a rate applied to an anticipated future receipt to ascertain its value at an earlier date.
- (9) A statutory instrument containing regulations under this paragraph is subject to the negative procedure.
- (10) The Secretary of State must review the deferment rate or rates every ten years.

Commencement Information

I4 Sch. 4 para. 27 not in force at Royal Assent, see [s. 124\(3\)](#)

Step 2 (lease extensions): determine the value of a 990 year lease (the “reversion value”)

- 28 (1) This version of step 2 applies to lease extensions.
- (2) *Step 2*: for the newly owned premises which are subject to the standard valuation method (the “premises being valued”)—
- (a) determine the market value of a lease of the premises being valued that is granted—
 - (i) for a term of 990 years beginning with the date for valuation, and
 - (ii) otherwise on the same terms as the statutory lease that will be granted under the LRA 1967 or the LRHUDA 1993, including the peppercorn rent and the property demised, and
 - (b) then reduce that market value by using this formula:

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$$\frac{v}{(1 + d)^n}$$

where—

d is the applicable deferment rate;

n is the period (in years) that begins with the valuation date and ends at the end of the term of the current lease;

v is the market value.

- (3) The “market value” of the lease of the premises being valued is the amount which that lease could have been expected to realise if it had been sold on the open market with vacant possession by a willing seller at the valuation date.
- (4) If a current lease is a deemed single lease, step 2 is to be followed separately in relation to each constituent lease (as if the constituent lease were itself a current lease).
- (5) In this Schedule the amount determined under step 2 in relation to the premises being valued is referred to as the “reversion value” of those premises.
- (6) But if the current lease is a shared ownership lease—
 - (a) the amount determined under step 2 must be multiplied by the tenant’s share in the premises being valued, and
 - (b) the amount so calculated is the “reversion value” of the premises being valued.
- (7) In this paragraph “applicable deferment rate”, in relation to the determination of the reversion value of premises, means the deferment rate prescribed in regulations made by the Secretary of State that is applicable to that determination by virtue of the regulations — and for this purpose a “deferment rate” is a rate applied to an anticipated future receipt to ascertain its value at an earlier date.
- (8) A statutory instrument containing regulations under this section is subject to the negative procedure.
- (9) The Secretary of State must review the deferment rate or rates every ten years.

Commencement Information

I5 Sch. 4 para. 28 not in force at Royal Assent, see [s. 124\(3\)](#)

Step 3: calculate the market value of the newly owned premises subject to the standard valuation method

- 29 (1) *Step 3*: add together—
- (a) the term value amount, and
 - (b) the reversion value amount.
- (2) The “term value amount” is—
- (a) the term value determined under step 1 (if there is only one term value), or
 - (b) the total of all the term values determined under step 1 (if there are two or more of them by virtue of paragraph [25\(3\)](#) or [\(7\)](#)).

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- (3) The “reversion value amount” is—
- (a) the reversion value determined under step 2 (if there is only one reversion value), or
 - (b) the total of all the reversion values determined under step 2 (if there are two or more of them by virtue of paragraph 27(5) or (7) or 28(4)).
- (4) The amount calculated under step 3 (with any adjustment resulting from paragraph 20 or 22) is the market value of that property comprised in the relevant freehold or notional lease which is subject to the standard valuation method.
- (5) See paragraph 4(2) for provision about the market value where only some of the property comprised in the relevant freehold or notional lease is subject to the standard valuation method.

Commencement Information

I6 Sch. 4 para. 29 not in force at Royal Assent, see [s. 124\(3\)](#)

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