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SCHEDULES

SCHEDULE 4

Section 37(2)

DETERMINING AND SHARING THE MARKET VALUE

PART 1

INTRODUCTION

Determination and sharing of market value for purposes of section 37

- 1 (1) **This Schedule** sets out how to determine, for the purposes of **section 37**, the market value on—
- (a) the transfer of a freehold house under the LRA 1967,
 - (b) the grant of an extended lease of a house under the LRA 1967,
 - (c) the collective enfranchisement of a building under the LRHUDA 1993, or
 - (d) the grant of a new lease of a flat under the LRHUDA 1993.
- (2) This Schedule also sets out how to divide the market value into shares (where loss is suffered by certain landlords in addition to the landlord with responsibility for conducting the claim under the LRA 1967 or the LRHUDA 1993).
- (3) In this Schedule—
- “collective enfranchisement” means the collective enfranchisement of a building under the LRHUDA 1993;
 - “freehold enfranchisement” means—
 - (a) the transfer of a freehold house under the LRA 1967, or
 - (b) a collective enfranchisement;
 - “lease extension” means—
 - (a) the grant of an extended lease of a house under the LRA 1967, or
 - (b) the grant of a new lease of a flat under the LRHUDA 1993.

PART 2

THE MARKET VALUE

Freehold enfranchisements: the basis of the market value

- 2 (1) The paragraph applies to a freehold enfranchisement.
- (2) The market value is the amount which the relevant freehold could have been expected to realise if it had been sold on the open market by a willing seller at the valuation date.

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- (3) In the following provisions of this Schedule, that market value is referred to as the market value of the relevant freehold.
- (4) If the nominee purchaser acquires a leasehold interest in any property under section 21(4) of the LRHUDA 1993, but does not acquire the freehold of that property, a reference in this Schedule to the relevant freehold is a reference to the relevant freehold together with that leasehold interest.

Lease extensions: the basis of the market value

- 3 (1) This paragraph applies to a lease extension.
- (2) It must be assumed that—
 - (a) the current lease will continue on the terms on which it is granted, and therefore will not be substituted by the statutory lease;
 - (b) the current lease will continue (on those terms) until its term date;
 - (c) a notional lease is granted out of the interest of the person granting the statutory lease;
 - (d) the notional lease is subject to, and enjoys the benefit of, the current lease (and therefore enjoys the right to receive the rent payable under the current lease);
 - (e) the term of the notional lease begins on the date for valuation;
 - (f) subject to that, the terms of the notional lease are the same as the terms of the statutory lease that will be granted under the LRA 1967 or the LRHUDA 1993, including the peppercorn rent (and any other rent payable under a shared ownership lease in respect of the landlord's share), the property demised, and the term expiring 990 years after the term date of the current lease.
- (3) But if the tenant is holding over under the Local Government and Housing Act 1989 at the valuation date—
 - (a) in the assumption in sub-paragraph (2)(a), the reference to the terms on which the current lease is granted has effect as a reference to the terms on which the tenant is holding over under that Act;
 - (b) the assumption in sub-paragraph (2)(b) does not apply.
- (4) Paragraph 21 makes provision about whether any right to hold over under the Local Government and Housing Act 1989 is to be taken into consideration in determining the market value of the notional lease (if the tenant is not holding over under that Act at the valuation date).
- (5) The market value is the amount which the notional lease could have been expected to realise if it had been sold on the open market by a willing seller at the valuation date.
- (6) In the following provisions of this Schedule, that market value is referred to as the market value of the notional lease.

How the market value is determined

- 4 (1) The market value of the relevant freehold or notional lease is to be determined in accordance with Part 3.

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- (2) If the market value of different parts of the relevant freehold or notional lease are determined (in accordance with Part 3) in different ways, the market value is the total of the amounts determined in those ways.
- (3) Part 4 sets out—
 - (a) assumptions that must be made in determining the market value of the relevant freehold or notional lease, and
 - (b) certain matters that must, or must not, be taken into consideration in determining the market value.

PART 3

DETERMINING THE MARKET VALUE

Compulsory use of the standard valuation method

- 5 (1) The standard valuation method (see Part 5 of this Schedule) must be used to determine the market value of the relevant freehold or notional lease for the purposes of this Schedule.
- (2) But this Schedule does not require the standard valuation method to be used to determine the market value of—
 - (a) the relevant freehold or notional lease if all of the property comprised in that freehold or lease is property for which the standard valuation method is not compulsory, or
 - (b) any part or parts of the relevant freehold or notional lease which comprise property for which the standard valuation method is not compulsory.
- (3) Paragraphs 6 to 13 contain provision about the kinds of property for which the standard valuation method is not compulsory.
- (4) Paragraphs 6 to 8 apply in relation to any kind of freehold enfranchisement or lease extension.
- (5) Paragraphs 9 to 13 specify the kinds of freehold enfranchisement or lease extension to which they apply.

Tenant holding over or unexpired term of 5 years or less

- 6 The standard valuation method is not compulsory for the property comprised in a current lease if—
 - (a) the tenant is holding over under the Local Government and Housing Act 1989 at the valuation date, or
 - (b) the term date of the current lease is within the period of five years beginning at the valuation date.

Home finance plan leases

- 7 (1) The standard valuation method is not compulsory for the property comprised in a current lease if it is an excepted home finance plan lease at the valuation date.

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- (2) An “excepted home finance plan lease” is a home finance plan lease within the meaning of section 2(9) of the LR(GR)A 2022 which meets any further specified conditions as mentioned in section 2(8)(b) of that Act.

Market rack rent leases

- 8 (1) The standard valuation method is not compulsory for the property comprised in a current lease if it is a market rack rent lease at the valuation date.
- (2) If section 3(3) of the LRA 1967 applies to the current lease (successive leases treated as a single lease), sub-paragraph (1) is to apply only if the one of those leases which is in effect at the valuation date is a market rack rent lease.
- (3) A “market rack rent lease” is a lease which—
- (a) was granted—
 - (i) for no premium, or
 - (ii) for a premium which was low relative to the value of the freehold of the property with vacant possession at the time of the grant,
 - (b) was granted at a market rack rent, and
 - (c) the parties entered into with the intention that the rent would be a market rack rent.
- (4) In this paragraph “market rack rent” means a rent which was, or was reasonably close to, a market rack rent at the time of the grant.

Property included in the acquisition of a freehold house under section 2(4) of the LRA 1967

- 9 (1) This paragraph applies only to—
- (a) the transfer of a freehold house under the LRA 1967, or
 - (b) the grant of an extended lease of a house under the LRA 1967.
- (2) The standard valuation method is not compulsory for any parts of the property comprised in the newly owned premises that are included by virtue of section 2(4) of the LRA 1967 (separately let property enjoyed with the house).

Leases already extended under the old law in the LRA 1967

- 10 (1) This paragraph applies only to—
- (a) the transfer of a freehold house under the LRA 1967, or
 - (b) the grant of an extended lease of a house under the LRA 1967.
- (2) The standard valuation method is not compulsory for the property comprised in the current lease if that lease is a pre-commencement lease granted under section 14 of the LRA 1967.
- (3) A lease granted under section 14 of the LRA 1967 is a “pre-commencement” lease unless it is granted in accordance with sections 14 and 15 of the LRA 1967 as amended by sections 33(1) and 34 of this Act (under which a lease will be extended by 990 years at a peppercorn rent on payment of a premium).

Business tenancies

- 11 (1) This paragraph applies only to—

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- (a) the transfer of a freehold house under the LRA 1967, or
 - (b) the grant of an extended lease of a house under the LRA 1967.
- (2) The standard valuation method is not compulsory for the property comprised in the current lease if that lease is a tenancy to which Part 2 of the Landlord and Tenant Act 1954 applies (see section 1(1ZC) of the LRA 1967).

Acquisition of a freehold house under the LRA 1967: shared ownership leases

- 12 (1) This paragraph applies only to the transfer of a freehold house under the LRA 1967.
- (2) The standard valuation method is not compulsory for any property comprised in the newly owned premises if it, or any part of it, is demised by a shared ownership lease.

Collective enfranchisement: property other than relevant flats etc and appurtenant property

- 13 (1) This paragraph applies only to a collective enfranchisement.
- (2) The requirement under paragraph 5(1) to use the standard valuation method applies only in relation to property comprised in the newly owned premises that is—
- (a) a relevant flat, or
 - (b) appurtenant property leased with a relevant flat.
- (3) Accordingly, the standard valuation method is not compulsory for any other property comprised in the newly owned premises.
- (4) A flat is a “relevant flat” for the purposes of this paragraph if the flat is—
- (a) demised to a qualifying tenant, or
 - (b) demised to a person who is not a qualifying tenant, but only because of section 5(5) and (6) of the LRHUDA 1993 (a person who is the tenant of three or more flats in the building).
- (5) But a flat is not a relevant flat if—
- (a) it, or any part of it, is demised by a lease which the nominee purchaser could acquire, but is not acquiring, under paragraph 2(5) of Schedule A1 to the LRHUDA 1993 (acquisition of intermediate leases);
 - (b) it, or any part of it, is demised by a shared ownership lease.
- (6) Appurtenant property is “leased with” a relevant flat for the purposes of this paragraph if—
- (a) the appurtenant property and the relevant flat are leased under the same lease (including where, under section 7(6) of the LRHUDA 1993, two or more leases are treated as a single lease), and
 - (b) by virtue of that lease, the tenant is a qualifying tenant or, but for the impediment referred to in sub-paragraph (4)(b), would be a qualifying tenant.
- (7) By virtue of paragraph 1(1)(c) of Schedule 6, the references in this paragraph to a flat, a qualifying tenant, appurtenant property or a shared ownership lease have the same meanings that they have in Chapter 1 of Part 1 of the LRHUDA 1993 (see, respectively, sections 101(1), 5, 1(7) and 101(1) of that Act).

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Voluntary use of the standard valuation method

- 14 **This Schedule** does not prevent the standard valuation method from being used to determine the market value of property comprised in the relevant freehold or notional lease for which the standard valuation method is not compulsory.

Property that is “subject to the standard valuation method”

- 15 Property comprised in the relevant freehold or notional lease is “subject to the standard valuation method” if—
- (a) this Part of this Schedule requires the standard valuation method to be used in relation to the property, or
 - (b) the standard valuation method is to be used (otherwise than where its use is required by this Part of this Schedule) in relation to the property.

PART 4

ASSUMPTIONS AND OTHER MATTERS AFFECTING DETERMINATION OF MARKET VALUE

Application of this Part of this Schedule

- 16 (1) This Part of this Schedule, except for paragraph 22, applies to the determination of the market value in accordance with this Schedule—
- (a) whether or not the standard valuation method is being used, and
 - (b) whether or not that method is being used because **this Schedule** requires its use.
- (2) Paragraph 22 applies to the determination of the market value in accordance with this Schedule only if the standard valuation method is being used.

Assumptions in all cases: intermediate leases merged and no marriage or hope value

- 17 (1) This paragraph applies when determining the market value of the relevant freehold (on any freehold enfranchisement) or notional lease (on any lease extension).
- (2) *Assumption 1*: it must be assumed that the following occurred immediately before the valuation date—
- (a) in the case of the transfer of a freehold house under the LRA 1967—
 - (i) the merger with the freehold of any lease which the claimant will acquire as part of the statutory transfer;
 - (ii) the surrender of any lease of the currently leased premises that belongs to the qualifying tenant and is superior to the current lease;
 - (b) in the case of the grant of an extended lease of a house under the LRA 1967—
 - (i) the merger with the interest of the person granting the statutory lease of any lease which will be deemed to be surrendered and regranted as part of the statutory grant;
 - (ii) the surrender of any lease that will be surrendered under paragraph 11(1) of Schedule 1 to the LRA 1967 as part of the statutory grant;
 - (c) in the case of the collective enfranchisement of a building under the LRHUDA 1993, the merger with the freehold of any lease which the claimant will acquire as part of the enfranchisement;

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- (d) in the case of the grant of a new lease of a flat under the LRHUDA 1993—
 - (i) the merger with the interest of the person granting the statutory lease of any lease which will be deemed to be surrendered and regranted as part of the statutory grant;
 - (ii) the surrender of any lease that will be surrendered under paragraph 10(3) of Schedule 11 to the LRHUDA 1993 as part of the statutory grant.
- (3) *Assumption 2*: it must be assumed (having made assumption 1) that—
 - (a) the claimant is not seeking, and will never seek, to acquire the relevant freehold or notional lease;
 - (b) in the case of a collective enfranchisement, the nominee purchaser is not seeking, and will never seek, to acquire the relevant freehold;
 - (c) any persons holding any leasehold interests in the newly owned premises or any part of those premises (including, in the case of a collective enfranchisement, the qualifying tenants) are not seeking, and will never seek—
 - (i) to acquire the relevant freehold or notional lease, or
 - (ii) to dispose of their leasehold interests;
 - (d) in the case of a lease extension, the freeholder is not seeking, and will never seek, to acquire the notional lease or to dispose of their freehold interest; and
 - (e) in the case of a freehold enfranchisement where there are two or more freeholders, none of them is seeking, or will ever seek, to acquire any of the relevant freehold which they do not already own.

Accordingly, no marriage or hope value is payable.

- (4) This paragraph does not prevent other assumptions from being made when determining the market value as long as they are consistent with assumptions 1 and 2 and the other provisions of [this Schedule](#).
- (5) In this paragraph “claimant” means the person or persons making the claim under the LRA 1967 or the LRHUDA 1993 for the freehold enfranchisement or lease extension.

Additional assumption on transfer of freehold house or lease extension: repairing obligations and improvements

- 18 (1) This paragraph applies when determining the market value of—
- (a) the relevant freehold on the transfer of a freehold house under the LRA 1967, or
 - (b) the notional lease on a lease extension.
- (2) *Assumption 3*: it must be assumed—
- (a) that the qualifying tenant has complied with any tenant’s repairing obligations under the current lease at the valuation date, so that the property has not been devalued by any breach of those obligations, and
 - (b) that any improvements to the currently leased premises that have been made by any tenant under the current lease (including the current tenant) at the tenant’s own expense have not been made, unless they were required to be made by any tenant’s repairing obligations under the lease.

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- (3) In the case of the transfer of a freehold house, if section 3(3) of the LRA 1967 applies to the current lease (successive leases treated as single lease), assumption 3 is to apply only to the one of those leases which is in effect at the valuation date.
- (4) This paragraph does not prevent other assumptions from being made when determining the market value as long as they are consistent with assumption 3 and the other provisions of [this Schedule](#).
- (5) In this paragraph “tenant’s repairing obligation”, in relation to a lease, means an obligation under the lease (however expressed or described) for the tenant under the lease to repair, maintain or decorate the currently leased premises.

Additional assumptions on collective enfranchisements: repairing obligations, improvements & leasebacks

- 19 (1) This paragraph applies when determining the market value of the relevant freehold on a collective enfranchisement.
- (2) *Assumption 4*: it must be assumed—
- (a) as respects each current lease held by a relevant tenant, that the relevant tenant has complied with any tenant’s repairing obligations under the lease at the valuation date, so that the property has not been devalued by any breach of those obligations, and
 - (b) as respects each current lease held by a participating tenant, any improvements to the currently leased premises that have been made by any tenant under the lease (including the participating tenant) at the tenant’s own expense have not been made, unless they were required to be made by any tenant’s repairing obligations under the lease.
- (3) *Assumption 5*: it must be assumed that the relevant freehold is subject to any leases to be granted in accordance with section 36 of the LRHUDA 1993.
- (4) This paragraph does not prevent other assumptions from being made when determining the market value as long as they are consistent with assumptions 4 and 5 and the other provisions of [this Schedule](#).
- (5) In this paragraph—
- “relevant tenant” means—
 - (a) a qualifying tenant, or
 - (b) a person who is not a qualifying tenant, but only because of section 5(5) and (6) of the LRHUDA 1993 (a person who is the tenant of three or more flats in the building); - “tenant’s repairing obligation”, in relation to a lease, means an obligation under the lease (however expressed or described) for the tenant under the lease to repair, maintain or decorate the currently leased premises.

Any determination of market value: specified matters to be taken into consideration

- 20 (1) This paragraph applies if any specified matters arise in relation to newly owned premises.
- (2) The specified matters that arise must be taken into consideration when determining the market value of those premises.

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- (3) If the standard valuation method is being used to determine the market value (on any freehold enfranchisement or lease extension), the effect of those specified matters on the market value, including during the period between—
- (a) the valuation date, and
 - (b) the term date of the current lease,
- must be taken into consideration.
- (4) In this paragraph “specified matters” means—
- (a) any defects in the title to the relevant freehold or statutory lease;
 - (b) any property rights that burden or benefit the title to the relevant freehold or statutory lease;
 - (c) any burden on, or benefit to, the title to the relevant freehold or statutory lease that arises under or by virtue of legislation (including any permanent or extended rights and burdens that are to be created in order to give effect to section 10 of the LRA 1967 or Schedule 7 to the LRHUDA 1993) or any other law;
 - (d) any physical characteristics of the newly owned premises giving rise to a liability under or by virtue of legislation or any other law;
 - (e) any order of a court or tribunal enforceable against the relevant freehold or statutory lease;
 - (f) any obligation in a contract or other arrangement—
 - (i) which runs with the newly owned premises, or
 - (ii) which will bind the owner for the time being of the relevant freehold or statutory lease (including where the owner for the time being is required to ensure that an immediate successor in title enters into the obligation, in particular by a limitation on transfer of the title to the relevant freehold or statutory lease or on registration of such a transfer).
- (5) But, as this paragraph has effect subject to any assumptions that must be made in accordance with other provisions of this Schedule, the effect of those assumptions must form part of the determination of what, if any, specified matters arise.
- (6) In this paragraph “legislation” means—
- (a) an Act of Parliament or Act of Senedd, or
 - (b) any instrument made under an Act of Parliament or Act of Senedd.

Any determination of market value: current lease gives rise to a right to hold over

- 21 (1) This paragraph applies when determining the market value of the relevant freehold or the notional lease if—
- (a) some or all of the newly owned premises are comprised in a current lease which gives rise to a right to hold over under the Local Government and Housing Act 1989, and
 - (b) the tenant is not holding over under that Act at the valuation date.
- (2) That right to hold over, and the likelihood of that right being exercised, is to be taken into consideration in determining the market value only if—
- (a) the term date of the current lease is within the period of five years beginning at the valuation date, and
 - (b) that right to hold over is likely to be exercised.

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Standard valuation method: other matters

- 22 (1) This paragraph applies if the standard valuation method is used to determine the market value.
- (2) In the case of a lease extension, if the terms of the notional lease differ from the terms of the current lease, the effect of that difference on the market value during the period between—
- (a) the valuation date, and
 - (b) the term date of the current lease,
- must be taken into consideration when determining the market value of the notional lease.
- (3) In the case of a collective enfranchisement, this Schedule applies with the modification in sub-paragraph (4) if any property comprised in the newly owned premises is demised under a lease, or part of a lease, which the nominee purchaser could not acquire under paragraph 2 of Schedule A1 to the LRHUDA 1993 because of paragraph 2(7) (the tenant under that superior lease is also the qualifying tenant).
- (4) In the application of this Schedule to the use of the standard valuation method to value that property, any reference to the current lease has effect as a reference to the lease, or the part of the lease, that could not be acquired under paragraph 2(7) of Schedule A1 to the LRHUDA 1993.

Enfranchisement of house or lease extension: tenant with superior lease

- 23 (1) This paragraph applies when determining—
- (a) the market value of the relevant freehold on the transfer of a freehold house under the LRA 1967, or
 - (b) the market value of the notional lease on a lease extension,
- if the qualifying tenant is also the tenant of a relevant superior lease.
- (2) A “relevant superior lease” is a lease that—
- (a) is superior to the current lease, and
 - (b) in accordance with paragraph 17(2)(a)(ii), (b)(ii) or (d)(ii) must be assumed to have been surrendered.
- (3) After the application of the other provisions of this Schedule for the purposes of calculating the market value, including the assumptions in paragraph 17(2)—
- (a) the amount produced by the application of those other provisions must be reduced to take account of the value of the relevant superior lease, and
 - (b) the amount produced after that reduction is the market value.

PART 5

THE STANDARD VALUATION METHOD

Introduction

- 24 (1) [This Part](#) of this Schedule sets out the standard valuation method.

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- (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.

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.
 - (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).

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.

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- (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 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.

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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.

- (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.

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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:

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

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.

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

- 29 (1) *Step 3*: add together—

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- (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)).
- (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.

PART 6

ENTITLEMENT OF ELIGIBLE PERSONS TO SHARES OF THE MARKET VALUE

Entitlement and calculation of share

- 30 (1) This Part of this Schedule applies if there are two or more eligible persons.
- (2) Each eligible person is entitled to be paid a share of the market value of the relevant freehold or notional lease that is determined in accordance with this Schedule.
- (3) An eligible person’s share of the market value is to be determined using this formula—
- $$\text{market value} \times \frac{\text{loss suffered by the eligible person}}{\text{total losses suffered by all eligible persons}}$$

Freehold enfranchisements: the “eligible persons” and “qualifying transactions”

- 31 (1) A person is an “eligible person” if the whole or a part of a relevant interest of the person is acquired on a freehold enfranchisement.
- (2) The eligible person’s “qualifying transaction” is the acquisition of the whole or the part of the person’s relevant interest.
- (3) But if—
- (a) an eligible person’s relevant interest is a freehold, and
 - (b) that person is granted a lease in accordance with section 36 of the LRHUDA 1993,
- that person’s qualifying transaction is the acquisition of the freehold together with the grant of that lease.

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Lease extensions: the “eligible persons” and “qualifying transactions”

- 32 (1) In the case of a lease extension, a person is an “eligible person” if—
- (a) the statutory lease is granted in whole or in part out of a relevant interest of the person, or
 - (b) the whole or a part of a relevant interest of the person is deemed to be surrendered and regranted under the LRA 1967 or the LRHUDA 1993 as a result of the claim for the lease extension, or
 - (c) the person is the landlord under a lease which is varied under paragraph 12A of Schedule 1 to the LRA 1967 or paragraph 12 of Schedule 11 to the LRHUDA 1993 as a result of the lease extension.
- (2) The eligible person’s “qualifying transaction” is—
- (a) where sub-paragraph (1)(a) or (b) applies, the grant of the statutory lease, or
 - (b) where sub-paragraph (1)(c) applies, the variation of the lease.

The loss suffered

- 33 (1) The loss suffered by an eligible person is the loss which the person suffers as a result of the person’s qualifying transaction (taking into account, where paragraph 32(1)(c) applies, any reduction under paragraph 12A of Schedule 1 to the LRA 1967 or paragraph 12 of Schedule 11 to the LRHUDA 1993 in the rent of a lease of which the eligible person is a tenant).
- (2) In determining the loss suffered by an eligible person, assumption 2 (in [paragraph 17\(3\)](#)) must be made in relation to the person’s qualifying transaction and, accordingly, no marriage or hope value is taken into account in determining the loss.
- (3) In determining the loss suffered by an eligible person, the value of the eligible person’s relevant interest must not be increased by reason of—
- (a) any transaction which—
 - (i) is entered into on or after the relevant date (otherwise than in pursuance of a contract entered into before the relevant date), and
 - (ii) involves the creation or transfer of an interest superior to (whether or not preceding) any interest held by a relevant tenant, or
 - (b) any alteration on or after the relevant date of the terms on which any such superior interest is held.
- (4) In this paragraph—
- “eligible person’s relevant interest” means the relevant interest to which the eligible person’s qualifying transaction relates;
- “relevant date” means—
- (a) 15 February 1979, in relation to the transfer of a freehold house under the LRA 1967;
 - (b) 20 July 1993, in relation to—
 - (i) the collective enfranchisement of a building under the LRHUDA 1993, or
 - (ii) the grant of a new lease of a flat under the LRHUDA 1993;
 - (c) 27 November 2023, in relation to the grant of an extended lease of a house under the LRA 1967;
- “relevant tenant” means—
- (a) a qualifying tenant, or

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- (b) a person who is not a qualifying tenant, but only because of section 5(5) and (6) of the LRHUDA 1993 (a person who is the tenant of three or more flats in the building).

Interpretation

- 34 In this Part of this Schedule—
- “eligible person” has the meaning given in [paragraph 31](#) or [32](#);
 - “qualifying transaction” has the meaning given in [paragraph 31](#) or [32](#);
 - “relevant interest” means an interest in property that forms the whole or a part of—
 - (a) the currently leased premises, or
 - (b) the newly owned premises.

PART 7

DETERMINING THE TERM VALUE

Introduction

- 35 (1) This Part of this Schedule contains provision for determining the term value in accordance with step 1 in [paragraph 25](#).
- (2) For the purposes of this Part of this Schedule, the rent under a lease is subject to a rent review if the lease or any other arrangement provides for the rent to change.

Lease not subject to a rent review

- 36 (1) This paragraph applies to a lease if the rent under the lease is not subject to a rent review at any time during the unexpired term of the lease.
- (2) That includes a case where—
 - (a) the rent under the lease is subject to a rent review, but
 - (b) the terms of the rent review are such that there will be no further rent reviews during the unexpired term of the lease.
- (3) The term value is determined using this formula—

$$r \times \left(\frac{1 - \frac{1}{(1+c)^n}}{c} \right)$$

where—

- c is the applicable capitalisation rate;
- r is the rent (but see sub-paragraph (4));
- n is the length (in years) of the unexpired term of the lease.

- (4) If [paragraph 26\(3\)](#) requires the notional annual rent to be used instead of the rent to determine the term value of the lease, r is the notional annual rent.

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Lease subject to a rent review with fixed changes

- 37 (1) This paragraph applies to a lease if the rent under the lease is subject to a rent review which provides that, over the unexpired term of the lease—
- (a) the rent will change each time one or more periods (a “review tranche”) begins,
 - (b) the length of the review tranche, or each of them, is known at the valuation date (and, in a case where there are two or more review tranches, it does not matter if they are the same or different lengths), and
 - (c) the amount by which the rent will change at the beginning of the review tranche, or each of them, is known or can be calculated at the valuation date (and, in a case where there are two or more review tranches, it does not matter if the amount of each change is the same or different).

(2) The term value is the sum of—

- (a) the term value for the period (the “current tranche”) that begins with the valuation date and ends immediately before the start of the first (or only) review tranche after the valuation date, and
- (b) the term value or values for each (or the) subsequent review tranche.

(3) The term value for the current tranche is determined using this formula—

$$r \times \left(\frac{1 - \frac{1}{(1+c)^n}}{c} \right)$$

where—

- c is the applicable capitalisation rate;
- r is the rent at the valuation date (but see sub-paragraph (4));
- n is the length (in years) of the current tranche.

(4) If paragraph 26(3) requires the notional annual rent to be used instead of the rent at the valuation date to determine the term value of the lease, r is the notional annual rent.

(5) The term value for a review tranche (the “relevant review tranche”) is determined using this formula—

$$\left(\frac{r}{(1+c)^n} \right) \times \left(\frac{1 - \frac{1}{(1+c)^t}}{c} \right)$$

where—

- c is the applicable capitalisation rate;
- r is the rent during the relevant review tranche (but see sub-paragraph (6));
- n is the length (in years) of the period that begins with the valuation date and ends with the day before the first day of the relevant review tranche.
- t is the length (in years) of the relevant review tranche.

(6) If paragraph 26(3) requires the notional annual rent to be used instead of the rent during the relevant review tranche to determine the term value of the lease, r is the notional annual rent.

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Lease subject to any other rent review

- 38 (1) This paragraph applies to a lease if—
- the rent under the lease is subject to a rent review, and
 - paragraph 36 does not apply to the lease.

- (2) The term value is determined using this formula—

$$\left(r_1 \times \frac{1 - \frac{1}{(1+c)^{n_1}}}{c} \right) + \left(\frac{r_2}{(1+c)^{n_1}} \times \frac{1 - \frac{1}{(1+c)^{n_2}}}{c} \right)$$

where—

c is the applicable capitalisation rate;

r_1 is the rent at the valuation date (but see sub-paragraph (6));

r_2 is the rent after the first rent review following the valuation date (but see sub-paragraph (6));

n_1 is the length (in years) of the period during which the rent at the valuation date will be payable;

n_2 is the length (in years) of the period that begins with the first day of the first rent review following the valuation date and ends with the term date of the current lease.

- (3) If the rent review provides for the rent under the lease to change by the same proportion as an index of price inflation or the capital or rental value of property, r_2 is determined using this formula—

$$r_1 \times \frac{a_1}{a_2}$$

where—

a_1 is the index of price inflation, or the capital or rental value, at the valuation date;

a_2 is the index of price inflation, or the capital or rental value, at the time when the previous rent review took effect or (if none has taken effect) when the term of the lease began;

r_1 is the rent at the valuation date;

- (4) If the rent review provides for the rent under the lease to be a percentage or other proportion of the capital value of property, r_2 is determined using this formula—

$$v \times p$$

where—

p is the percentage or other proportion;

v is the capital value of the property at the valuation date.

- (5) If neither sub-paragraph (3) nor (4) applies to the rent review, r_2 is to be determined in line with the terms of the rent review provision.

- (6) If paragraph 26(3) requires the notional annual rent to be used—

- instead of the rent at the valuation date to determine the term value of the lease, r_1 is the notional annual rent;

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- (b) instead of the rent after the first rent review following the valuation date, r_2 is the notional annual rent.

Interpretation

39 (1) In this Part of this Schedule—

“applicable capitalisation rate”, in relation to any aspect of the determination of a term value, means the capitalisation rate prescribed in regulations made by the Secretary of State that is applicable to that aspect by virtue of the regulations — and for this purpose a “capitalisation rate” is a rate at which the entitlement to receive rent over the remainder of the term of a lease is capitalised;

“rent” has the same meaning as in the LR(GR)A 2022 (see section 22(2) and (3) of that Act);

“unexpired term”, in relation to a lease, means the period that—

- (a) begins with the valuation date, and
(b) ends with the term date of the lease.

- (2) A statutory instrument containing regulations under this paragraph is subject to the negative procedure.
- (3) The Secretary of State must review the capitalisation rate or rates every ten years.