Taylor Wimpey

**BY EMAIL**

[redacted]

12th December 2018

Dear Mr Betts,

Thank you for your letter dated 21 November 2018. I was pleased to appear before the Select Committee last month and hope that the discussion assisted the Committee with its inquiry.

As one of the largest residential developers in the UK, in 2017 Taylor Wimpey built 14,541 homes (including joint ventures) across England, Scotland and Wales. Customer service across the business continues to be a key priority for the company and all Taylor Wimpey employees. In May this year we launched our new customer-led strategy which will identify and respond to our customer needs and aspirations even better going forward. It will do this through improved products, places, simplification of the buying process and we will provide affordable access to the homes that we build. We continue to see further improvement in our customer satisfaction scores, reporting a score of 90% in August, which is testament to the focus we have put on this important area and increased investments over the last three years.

As discussed in the evidence session, please find enclosed a copy of the Settlement Agreement of our Ground Rent Review Assistance Scheme (GRRAS) – as you will see the nature and scope of this Agreement is, very deliberately, extremely narrow in its scope and application. In addition to this I have provided responses to your further questions below.

**Levels of ground rent historically charged**

In 2007, Taylor Woodrow and George Wimpey merged to form Taylor Wimpey plc. Before the formation of Taylor Wimpey in 2007 the significant mergers and acquisitions that both companies underwent prior to their merger, together with a number of internal re-organisations, makes it difficult to build an accurate picture of historic ground rents charged. Over the last twenty years or so we have developed properties (both apartments and houses) with a range of different lease terms and annual ground rents. These have generally ranged between £125 and £300 per annum.

**'Onerous' leases**

As I mentioned in the evidence session, it would not be appropriate for Taylor Wimpey to define an onerous lease. I would urge you to consult with the Law Commission and others who would be in a better position to assist the Committee with this. We would, however, continue to stress that when establishing the definition of a 'reasonable' ground rent, it is important to recognise the position of the estimated four million existing homeowners with leases on their properties. If the Government were to pursue a radical or rigid approach to new properties in the future this would be likely to become the new benchmark when considering acceptable lease terms, including in older properties. This would have a negative impact on the future value and saleability of millions of properties. This type of negative impact on older property valuations and mortgageability can be seen recently as a result of Nationwide introducing their new guidance for valuers in respect of new build homes in May 2017.

The Committee has requested information regarding the number of leases created by Taylor Wimpey which would now or are likely within the next ten years to have a ground rent of greater than 0.1% of the property value. We are unable to provide such information. However we believe that this is a misunderstanding of the Nationwide policy introduced in May 2017. For the Committee's assistance we attach a copy of the Nationwide policy. It should be noted that this is a forward-looking policy, only intended to be applied for new build homes going forward and not applied retrospectively. The policy also makes no comment on ground rent increases when using reasonable indexation, such as RPI, nor does it suggest in any way that a ground rent which subsequently increases beyond 0.1% through this measure or through changes to the market would be unacceptable or indeed 'onerous' – it is entirely focused on the starting point of the ground rent. Since the introduction of the Nationwide policy all new Taylor Wimpey leases are created having regard to its guidance.

**Taylor Wimpey Ground Rent Review Assistance Scheme (GRRAS)**

Ten-year doubling clause leases were used on some of our new sites between 2007 and 2011. Approximately 10,000 homes were originally sold by Taylor Wimpey with this type of lease. The number of owners who would qualify to participate in the GRRAS should they wish to do so, would be less than this number, although secondary owners may qualify under subsequent similar schemes operated by freeholders. We have agreements in place with freeholders to facilitate the conversion of these leases from a structure based on ten-year doubling to one based on RPI representing approximately 95% of relevant leases. To date we have formally resolved 2,495 leases by way of a Deed of Variation. Approximately 2000 further applications have been validated and will be resolved in due course, although it should be noted that the time taken to resolve these is very much a matter for the customer and other stakeholders, such as lenders and management companies that have to be a party to the Deed of Variation. To date approximately £35m of the provision we announced in April 2017 has been utilised or is pending payment, with applications representing a further £29m registered in the system. As indicated above, the timing of the expenditure of this will be dependent to a great extent upon the customer and other stakeholders.

The last doubling lease properties were completed in December 2015 however it should be noted that that development commenced in 2011, which falls within the period during which the ten-year doubling lease type was established. We can confirm that there is an agreement in place with the relevant freeholder in respect of this development, in order to facilitate the conversion of the relevant leases from a structure based on ten-year doubling to one based on RPI.

We have reviewed the written evidence submitted to the Committee from individual customers and we note that numerous individual submissions have been made, including a small number of written submissions from Taylor Wimpey customers with ten-year doubling leases. As the Committee is aware the ten-year doubling ground rent provision is a feature of the lease structure that was employed historically by Taylor Wimpey but where we, as a company, have taken ownership of the process for dealing with customer concerns via our GRRAS. To assist the Committee we have reviewed the submitted evidence and note that three of these customers have now completed the Deed of Variation, but note that the substantial majority whilst qualifying for the GRRAS have chosen not to progress their applications at this time. The lack of progress in these instances is a matter for the customer and their solicitors, rather than Taylor Wimpey.

**Sale of freeholds**

Since September 2017, all of our houses have been marketed on a freehold basis, except in exceptional circumstances, such as where Taylor Wimpey does not own the overall development site on a freehold basis or also in rare cases such as where the development is built on shared structures. We continue to sell apartments on a leasehold basis, which is a very long-established and accepted tenure and provides security and clarity for leaseholders and residents with communal facilities. At the point of sale, Taylor Wimpey provides information to customers about purchasing a leasehold property, the length of term of the lease and the initial annual ground rent. We do not provide legal advice on the terms of the lease however, this would be undertaken by the customer's own independent lawyer.

Leaseholders are able to acquire their freehold (or extend their lease in the case of apartments – extending a lease on a house is possible but very rare as it does not extinguish the ground rent unlike apartment lease extensions), under the statutory processes contained in various pieces of landlord and tenant legislation laid down by Parliament. Under the Leasehold Reform Act, leaseholders of houses have a right to acquire the freehold after they have owned the property for two years and this effectively extinguishes the ground rent. The statutory provisions do not include a right to first refusal nor do they require the owners of houses to be provided with prior notice ahead of a sale. The clear letter and principle of the law therefore permits the free dealing in reversionary interests to leasehold housing estates. Taylor Wimpey have at all times complied with the law contained in the relevant legislation and acts which deal with the enfranchisement of leasehold.

For any leasehold sales of houses that took place prior to September 2017, in cases where Taylor Wimpey still retains the freehold, we have committed that we will not sell the freehold in the property for a period of five years from the date of legal completion of the purchase of a property. Customers have this extended period of time in which to buy the freehold if they wish, for a fixed price of £5,900. The information provided to customers confirms that thereafter we will have the right to sell our freehold interest to third parties, but that the terms of the lease entered into will in no way be affected by such a transaction. If customers wish to purchase their freehold, they are advised to contact their local Taylor Wimpey office to discuss this further. Lastly, as we have always done, we always advise customers, both verbally and in writing, to take independent legal advice in relation to the purchase of the property.

Similar to all major housebuilders, on developments where homes are sold on a leasehold basis, Taylor Wimpey has always sold its underlying freehold interests. This is because the administrative structures needed to manage a portfolio of freehold interests are very different to a housebuilder's core business. We therefore look to sell freeholds to companies more suited to holding these types of assets and fulfilling the obligations required to manage them appropriately. After Taylor Wimpey has sold its underlying freehold interest all matters relating to the freehold become a matter for the relevant parties to negotiate.

Ultimately the relationship between the parties is regulated by the terms of the lease and the various legislative provisions enshrined in various Acts of Parliament which govern the relationship between the leaseholder and the freeholder – including enfranchisement. The identity of the company which owns the freehold does not impact on the contractual position under the lease, nor the statutory position under the various Acts of Parliament.

As we have indicated in evidence to the Committee, we believe there is more that can be done to provide leaseholders with clearer information on which avenues are open for them in the event of a dispute, and to ensure that their rights are equally recognised and represented. In order to improve the route to enfranchisement, we have – as part of our submission to the Government's consultation – recommended that the right of first refusal to a freehold should be extended to leaseholders of houses (where appropriate). This would bring an end to the existing inequitable position between leaseholders of apartments and houses, and enable leaseholders of houses to have first right of refusal to their freehold before it is sold on to a third party.

Lastly, I can confirm that no Board members or senior management at Taylor Wimpey own or control shares in companies which have purchased freeholds from us, nor has anyone personally directly financially benefited from the sale of freeholds to a third-party investor. Our relationship with third parties has been and will remain purely transactional in nature.

Yours sincerely,

Jennie Daly
Group Operations Director, Taylor Wimpey

**Appendix 1: Settlement Agreement of Taylor Wimpey Ground Rent Review Assistance Scheme (GRRAS)**

**DEED DATED**

And made between

A) **Taylor Wimpey UK Limited** (Company Number 01392762) whose registered office is at Gate House, Turnpike Road, High Wycombe, HP12 3NR (referred to in the rest of this deed as TWUK); and

B) [INSERT CUSTOMER NAME] and [INSERT CUSTOMER NAME] of [INSERT CUSTOMER **ADDRESS]** (referred to in the rest of this deed as the Owners).

1. On [INSERT DATE] [INSERT NAME OF TAYLOR WIMPEY COMPANY] and the Owners entered into a lease (referred to in the rest of this deed as the Lease) of the property known as [INSERT PROPERTY DESCRIPTION] (referred to in the rest of this deed as the Property).

2. The Lease provides for the payment by the Owners of an annual ground rent, which is to be doubled every ten years for either

   2.1 the duration of the term of the Lease; or

   2.2 a fixed number of review periods (referred to in the rest of this deed as the Doubling Provision).

3. TWUK has agreed with the owner of the reversionary interest of the Property that the owner of the reversionary interest will enter into a Deed of Variation of the Lease whereby the Doubling Provision is varied.

4. The Owners acknowledge that by TWUK:

   4.1 entering into the agreement with the owner of the reversionary interest of the Property referred to in paragraph 3 above; and

   4.2 entering into this deed,

   TWUK makes no admission of any legal liability to the Owners.

5. By entering into this deed the Owners:

   5.1 acknowledge that the terms of this deed are in full and final settlement of all claims (if any, which is not admitted) which they may have against TWUK or a subsidiary or any member company of TWUK and/or the Taylor Wimpey PLC group of companies [**(including without limitation INSERT NAME OF ORIGINAL TW COMPANY WHO WAS PARTY TO THE LEASE}]** which in anyway relate to the Doubling Provision ('Claims'); and

   5.2 agree that they will not make or pursue any Claims.

Signed as a deed:

**Appendix 2 - Nationwide Policy**

From 11 May 2017, we'll be making changes to the way we value new build properties with a leasehold tenure. The changes look to address the practice of using leasehold tenure where it is unnecessary, and ensure that onerous leasehold terms, including ground rents, are considered and controlled to protect our members.

**For new mortgage applications received from 11 May 2017, the following valuation policy will apply on new build leasehold properties:**

- The minimum acceptable lease term on new build properties (including office conversions) will be 125 years for flats and 250 years for houses
- The maximum starting ground rent on new build properties with a leasehold tenure will be limited to 0.1% of the property value
- Ground rent and other event fees must be reasonable during the lease term. For example, ground rent escalation should be linked to RPI (Retail Price Index) or a similar index, and unreasonable multipliers or ground rent won't be permitted, for example doubling every 5, 10 or 15 years.
- The policy only applies to new build properties

**Properties falling outside of the above policy**

- Where the property falls outside of the policy in bullet points 1 and 2, it will be declined
- Where the property falls outside of the policy in bullet point 3: Where the Valuer believes, marketability will be severely adversely affected by the lease terms, they may decline the property

- In all other instances, we'd expect the Valuer to reflect any onerous lease terms in the mortgage valuation figure they provide.

**Pipeline cases**

The new valuation policy will apply to new mortgage applications received from 11 May 2017. Where the mortgage application was received before 11 May, new build leasehold properties will be valued under current policy.