

WALLACE PARTNERSHIP GROUP LIMITED

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Mr Clive Betts MP
Chair of Housing, Communities and Local Government Select Committee
House of Commons
London
SW1 0AA

30 November 2018

Dear Mr Betts,

Re: Leasehold reform inquiry

After providing oral evidence for your Committee on 19 November 2018, I wanted to formally thank you for the invitation and follow up on some of the key points raised during the session.

The Committee's inquiry, as well as the Government's reform agenda, is welcome and I hope that I conveyed the point that Wallace Group, together with our peers, supports reform. The broader industry has rightly come under scrutiny over the past few years for the miss-selling and marketing of onerous leases, many of which have had an adverse impact on leaseholders. Likewise, the steps the Ministry for Housing, Communities and Local Government (MHCLG) have already taken to drive up standards of managing agents will complement the reforms to the leasehold sector.

A consensus has been reached around the issue of leasehold houses. Apart from the exemptions the Government are exploring like specialist retirement housing, no leases will be granted on houses in the future. Where a consensus has not been reached is the function of a freeholder in apartment buildings and how this is different to that of a managing agent. Understanding the role and value of a professional freeholder is central to the points raised by the panel in relation to why a £10 cap on ground rents would be detrimental to the consumer.

Role of a freeholder

For larger apartment buildings and complex properties, freeholders and therefore ground rents play an essential role. A responsible freeholder ensures properties are maintained in the long-term interest of residents and managed in a professional manner. The entrance into the market of institutional players, i.e. FCA regulated investors, has driven up standards in the past decade. Further to my comments in front of the Committee, I wanted to share in more detail my understanding and experience of the duties which freeholders, and their freehold managers, carry out. Freeholders:

1. are stewards of the long-term and objective interests of homeowners, including successor tenants and the estate, ensuring sufficient reserves are accumulated over time to deal with major capital works – this is particularly pertinent because leaseholders of flats will typically own their property for 3-5 years whereas freeholders (who invest on behalf of pension funds) have an investment horizon of often over 100 years;

2. ensure managing agents are fulfilling their obligations to homeowners, assisting homeowners and providing advice as to the management of their developments;
3. act as independent arbiters and help resolve conflicts between managing agents and leaseholders or enforce covenants to settle neighbourly disputes between two or more leaseholds; and
4. provide the ultimate safety net for leaseholders, and the building, when critical or unexpected issues arise, i.e. the collapse of a resident-led management company.

Also enclosed is an infographic that illustrates the relationship between freeholders, leaseholders and managing agents.

The Government's proposed £10 cap would deter large professional organisations from investing and they would disappear from the market. This means that residents would lose the safety net of an experienced freeholder who is able to manage and oversee all concerns relating to insurance, maintenance, health & safety, fire risks, planning permissions, building regulations and anti-social behaviour.

Instead, if the Government legislated that all future ground rents for leaseholds in apartment buildings be set at 0.1%, with a floor of £200, rising periodically in line with RPI, this would ensure freeholders can fulfil their role as long term stewards.

Code of Practice

In tandem with a legislative fix on ground rents, you will be aware of our work to introduce regulation. The Code will support the broader elements of the Government's proposals to reform the residential property sector and protect consumers. Specifically, the Code should be recognised in conjunction with the existing work by the MHCLG to regulate managing agents and the call for evidence undertaken by the Ministry in October 2017 – "*Improving the home buying and selling process*".

The Code is informed by two principal objectives:

1. The establishment of clear parameters for investment into the residential freehold market, which by default will regulate the terms and conditions outlined in new leaseholds offered for sale by the development community; and
2. The management and maintenance of the property interest after acquisition, enshrining in law the role of a freeholder as a long term steward of a property.

The Code has been presented to the Secretary of State for Communities and Local Government and hopefully it will be incorporated into legislation under S.87 of the Leasehold Reform Housing and Urban Development Act 1993.

If you are yet to receive a copy of this, please let my office know and we will share it with you immediately.

Finally, at the end of the session we briefly touched on Wallace Group's income and you requested further information. We earn £11.2m per annum from ground rents and this revenue is used to service the debt provided by pension funds. Any other ancillary income, such as consent fees and insurance commission, covers our operating costs.

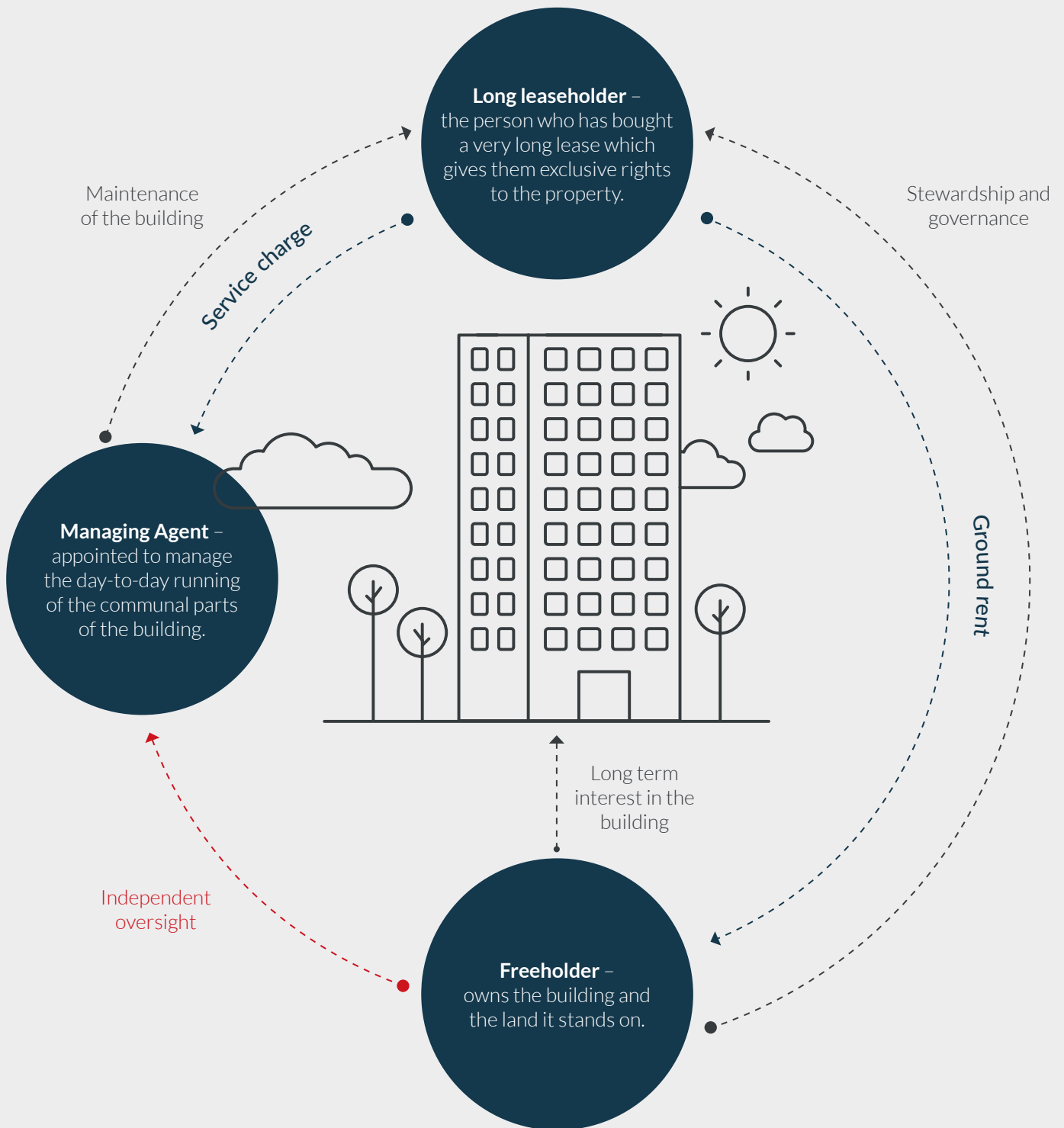
Again, thank you for the opportunity to contribute to your inquiry. I would be more than happy to provide you with any additional evidence you require and meet with yourself, or any of your colleagues, to discuss these issues in more detail.

Yours sincerely

A handwritten signature in black ink, appearing to read "Mick Platt". The signature is written in a cursive style with a large initial "M" and a long horizontal stroke at the end.

Mick Platt
Director

How does the leasehold structure work?



Management vs. Stewardship

Managing agent	Freeholder
Maintenance of the building funded by the service charge.	Stewardship and governance in exchange for an annual ground rent.
On average £1,800 – £2,000 per year*	On average £200 per year*
<p>Managing agent responsibilities:</p> <ul style="list-style-type: none"> • Drawing up and agreeing a budget with the freeholder and leaseholders • Maintenance of the building including repairs to shared areas and the outside of the building, such as the roof, external pipes, drains and building insurance • Coordination of property inspections and necessary checks • Collection of service charge and management of finances • First point of contact for leaseholders 	<p>Freeholder responsibilities:</p> <ul style="list-style-type: none"> • Long term stewardship of land and property in perpetuity • Enforcement of covenants in the lease for the benefit of all leaseholders • Holding the managing agent to account • Independent resolution of resident disputes (e.g. short-term letting, noise, anti-social behaviour) • Governance of resident community, protecting varied interests • Oversight of critical safety measures and safety net for residents
*Estimated by the Association of Residential Managing Agents (ARMA)	*Combined average from industry figures

Timeline of various parties interests in a building



The freeholder is the only party with such a long term view, preserving the long term value of the building for all parties.