

RALA-FPSC

QUESTIONS AND ANSWERS RELATING TO PROPOSED PURCHASE OF FREEHOLD OF NGH

NO	QUESTION	ANSWER
1	Why do I have to pay £1000 now when the freehold purchase won't be completed for at least a couple more months?	We can only serve legal notice under S5P of our intention to purchase if we have sufficient guaranteed support. We believe an initial payment of £1000 is evidence of your serious intention to participate. This £1000 goes towards your total payment.
2	What is the maximum I will have to pay under S5P?	£6000, but could be less depending on how many participate and your lease – 1974 or 2002.
3	How will my share of the cost of the freehold purchase be calculated?	This will depend on: (a) how many leaseholders participate (b) the split between 1974 and 2002 leaseholders (c) whether you have a 1974 or 2002 lease (d) if you have a 2002 lease, the size of your flat and level of ground rent We will be able to provide you with more accurate information at the next stage.
4	Why do the 2002 Leaseholders have to pay more than the 1974 Leaseholders to share in the freehold?	The 2002 Leases charge a substantially higher ground rent and this is the main factor in establishing freehold values.
5	How will my share of the fee costs and Loan Notes be calculated?	This will be split equally between all the Participants.
6	Wouldn't it be cheaper to extend my existing lease by 90 years?	You would have to go through a legal/valuation process. The total cost of this will be substantially greater than participating in the freehold purchase. [no, under the Act the rent is a peppercorn]
7	Why do I have to sign a Participation Agreement?	To protect you and all of the participants. It sets out your rights and obligations vis-à-vis your participation in the process. It is standard practice to require all participants to enter into such an agreement at the beginning of the process.

8	Who will decide whether to use the Section 5 Purchase (S5P) or the Collective Enfranchisement (CE) option for buying the freehold?	The directors of Nell Gwynn House Freehold Limited (NGHF) who are the current members of the RALA Committee.
9	On what basis will this S5P/CE decision be taken?	This will depend on legal and valuation advice. If we consider that CE is likely to be significantly cheaper and/or less risky than S5P, then we will drop S5P and continue with CE.
1	What liabilities will be inherited by NGHF in respect of the leases recently sold by FB of the basement and letting office areas, and what provision is made in these leases for the lessees to pay annual service charges?	We will know the answers to these questions when we get sight of the new leases. These answers will be crucial in deciding whether S5P or CE is the better option.
1	Why is NGHF being incorporated as a company limited by guarantee and not a conventional "limited by capital" vehicle?	Because this will make future sales of the new 999 year leases simpler and cheaper. This is a standard solution for this type of company.
1	Why can't NGHFL finance the acquisition cost by bank borrowing secured by the part of the value of the Freehold represented by the flats of non-participating Leaseholders?	The ground rent income from the non-participating flats would not be sufficient to pay the company's administration costs and fund this borrowing.
1	Will interest or other 'profit' be paid on the Loan Notes being used to fund the non-participants' share of the freehold?	The directors of NGHF hope that in due course it will become possible to pay interest, or a premium, when the Loan Notes are redeemed. However it is not possible at this stage to make specific commitments in this regard.
1	Doesn't this mean that the non-Participants are getting a cheap deal, being financed by Loans from the Participants?	NO! The non-participants will continue to have to pay ground rent and when in due course (e.g. when they want to sell their flat) they decide to convert to a 999 year lease, they will have to pay a substantial premium to NGHF, which will be used to fund the redemption of the original Loan Notes.
1	Are there any Leaseholders for whom non-participation would make sense?	Yes, if you are elderly and certain you will never want to sell your flat, then you should think carefully what is best for you. However, if you can afford to participate then this could still be the right option.

1	Since Participants are committing to S5P and to CE what are the estimated higher costs for participants for completing Freehold acquisition by CE?	We estimate that the extra fee costs relating to CE could be about £150,000, but this very much depends on whether FB force the process as far a hearing at the LVT. On the other hand, we may be able to obtain a lower freehold valuation via CE and the LVT – this is judgement still to be made.
1	If an insufficient number of Leaseholders participate, and the project fails, what will happen?	If we fail to gain sufficient support for the S5P option by the deadline, we will still continue with CE, for which we have much more time. Based on support to date, we fully expect the either option to succeed. If S5P/CE were both to fail, there remains the possibility that FB will anyway want to sell the freehold to leaseholders. In the very unlikely event that all attempts finally fail, we will have to pay our fee costs and any balance of monies will then be paid back to those who have contributed.