

LONG LEASES (SCOTLAND) ACT 2012

EXPLANATORY NOTES

PART 4: COMPENSATION FOR LOSS OF LANDLORD'S RIGHTS

Calculation of compensatory payment

Section 47: Calculation of the compensatory payment

191. This section sets out how the compensatory payment by tenants to landlords is to be calculated. The method of calculation is based on the compensation scheme under the Abolition of Feudal Tenure etc. (Scotland) Act 2000, which abolished feudal tenure. The compensation is designed to deliver the same economic benefit to the landlord as the ongoing income from rent paid under the ultra-long lease being converted to ownership. Additional payments may also be due – see sections 50 to 55.
192. The compensatory payment is first calculated by working out the Annual Income (AI). As outlined in Step 1, the AI is calculated by determining the annual rent, in accordance with section 48, and then, as outlined in Step 3, by adding any notional annual renewal premium (NARP) calculated under section 49. Under Step 2 and section 49, the NARP is any renewal premium of £100 or less, divided by the renewal period (RP) (see section 49). Renewal premiums of over £100 may give rise to a separate claim for an additional payment – see section 51(1)(d).
193. To give an example, if the annual rent is £2.50 and the renewal premium is £2.50, with a renewal period of 99 years, the AI is £2.50 plus 3p (£2.50 divided by 99, rounded to the nearest penny). Therefore, the AI is £2.53.
194. The next step, as outlined in Step 4, is to calculate the sum of money which would, if invested in 2.5% Consolidated Stock, produce an annual sum equal to AI. This sum is the compensatory payment.
195. The price of Consolidated Stock varies. At 2 November 2012 the price was £58.76 (to buy £100 of nominal stock yielding 2.5% interest). Therefore, the compensatory payment is £58.76 (price of stock yielding £2.50 a year) multiplied by £2.53 (AI) divided by £2.50 (annual sum produced by investing £58.76 in 2.5% consolidated stock). This gives a compensatory payment of £59.47.
196. To give another example, if the annual rent is £20 and there is no NARP, the compensatory payment is £58.76 (price of stock) multiplied by £20 (AI) divided by £2.50 (annual income from the stock). This gives a figure of £470.08
197. Another way of carrying out the calculation is to use a variable multiplier (variable as the price of 2.5% Consolidated Stock varies). Therefore, if the price of 2.5% Consolidated Stock is £58.76, the variable multiplier is 23.5 (£58.76 divided by £2.50). This variable multiplier can then be multiplied by the AI to produce the compensatory payment.