

WHEN SHOULD YOU EXTEND YOUR LEASE?

By **Graham Kinnear**

Over recent months I have seen an increase in the number of leaseholders contacting us for advice on how to extend their lease.

In many respects this is unsurprising, given the abundance of leaseholds created in the 1980s and 1990s. These leases are now at the stage where renewal is a serious consideration.

Whilst mortgage brokers can often obtain finance for leaseholds with 55–60 years remaining, in an ideal world you should not wait that long before seeking to extend the lease.

In my opinion, you should extend your lease before it drops below 80 years. When it does fall below this level, you are obliged to pay 50% of the marriage value associated with that lease, increasing the costs significantly.

Marriage value is the rise in property value following the completion of the lease extension. It reflects the additional market value of having a longer lease.

Aside from the marriage value, there are other factors which determine how much a lease extension will cost.

One is the value of reversionary interest. Imagine you have 60 years left on your lease and the property is currently worth £200,000. A surveyor then calculates how much someone would pay today for the right to receive £200,000 in 60 years' time. Added to this is a compensatory payment to the landlord for the ground rent that would be lost over the remaining period of the lease.

The collective total of these items will broadly represent the cost of the lease extension. Bear in mind also, it is customary that in addition to these costs, you will pay the freeholder's reasonable legal fees associated with the extension.

If you are decided that a lease extension makes sense, then there are broadly two methods that can be used. I call these the formal and informal route.

INFORMAL ROUTE

The informal method is simple. You contact the freeholder and enquire how much they will charge to grant you a new lease. What normally follows is some horse trading on price. Once price has been agreed, solicitors are appointed to undertake the legal formalities.



The advantage of the informal route is that it can be more cost effective. For example, if your lease was 80 years then you could, in theory, ask for a price to take it back to 99 years. This would be cheaper than the formal route where you would receive an additional 90 years.

Additionally, you could agree to retain a ground rent – or even increase it – in return for a reduced premium on the lease extension itself. Such a plan could be ideal for those who just want to improve the marketability of their leasehold ahead of a sale or remortgage.

FORMAL ROUTE

The formal route is generally used when the leaseholder feels the freeholder may be over ambitious with their demands on price, or where they feel that an informal negotiation will be unsuccessful.

The formal process works by serving a Section 42 notice on the freeholder detailing the terms you require and the price you are willing to pay. The freeholder is then obliged to respond and either agree or present a counter proposal to you.

Your initial submission should be based on a professional valuation, as will the freeholder's counterproposal. Consequently, the negotiation on this route tends to be made by the respective surveyors, rather than the parties themselves.

A formal application will result in your lease being increased by 90 years from its current term, together with the removal of the ground rent. An informal extension on the other hand is entirely down to the parties to negotiate.

Maintaining a sensible lease length should mitigate your exposure to extended costs further down the line, as well as promoting the value and marketability of your asset. In addition, it will make securing money on the property far easier than would be the case with a short lease.

Why not spend an hour or two over the holiday period to remind yourself of your lease lengths and make an assessment whether any should be renewed in the new year?

If you are considering acquiring a property with a short lease, you should be aware that you are not legally entitled to a lease extension until after two years of ownership. In such circumstances, you may wish to ask the seller to serve the required notice on the freeholder before they sell the property to you. That way you will be able to extend the lease as soon as you are ready.

I wish you a peaceful and relaxing holiday and look forward to the challenges which will inevitably face us all in 2019.

As usual I am happy to assist YPN readers with their property issues and can be contacted on **01843 583000** or graham@grahamkinnear.com.



Graham is the author of **"The Property Triangle"**

