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# LEASE EXTENSIONS

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If you are a Leaseholder of a residential flat then it is likely that you will need to consider extending the term of your Lease. The term of your Lease is decreasing all the time which means that your property asset is diminishing in value as the Lease term reduces. The longer you leave it to obtain a Lease extension the more expensive it may be.

There are two ways of acquiring a Lease extension. The first is to approach your Landlord informally to see if he or she is willing to grant a Lease extension without following the statutory procedure. The second route, which should be used if either your Landlord refuses to grant a Lease extension or we are unable to agree terms or if you do not wish to approach your Landlord in that respect is to follow the statutory procedure set down in the Leasehold Reform Housing & Urban Development Act 1993.

To follow the statutory procedure there are certain requirements which must be met:-

1. You must have owned your flat for at least 2 years.
2. The Lease must be what is called a long Lease i.e. originally granted for a term of more than 21 years.

If you fulfil the above conditions and proceed to the statutory route then you will be able to purchase a further 90 year term in addition to the term remaining on your Lease and the ground rent you currently pay can be reduced to a peppercorn.

## 1. Alternatives

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The alternative to obtaining a lease extension is to purchase your Freehold at a premium. You and your co-lessees may be entitled to buy the Freehold of your block if most of you are long leaseholders. There are certain legal requirements that must be fulfilled in order to qualify but buying your Freehold has many advantages including the ability to grant yourselves lease extensions for whatever term you wish and on whatever agreed terms you think necessary and the ability to appoint your own managing agents or manage the property yourselves.

If you and your co lessees cannot afford to purchase the Freehold you may still be able to exercise a Right to Manage. Again certain legal requirements must be fulfilled and those requirements are the same as qualifying to buy your Freehold. This is a no-fault based process. Statutory notices will need to be served upon your Freeholder to enable you to take over the management of your block via a Right to Manage Company. You will not pay a premium in connection with the RTM process but you will have to pay your Landlord's reasonable legal costs. The disadvantage of this process over purchasing your Freehold is that, if you wish, you will still have to obtain a lease extension and pay a premium for that extension to your Freeholder.

## 2. Stages To Extending Your Lease

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1. The first stage of this process is to obtain a formal valuation by a qualified valuer. We can recommend valuers to you and obtain quotes on your behalf. A formal valuation is essential at this stage because the principal dispute in Lease extension matters is usually over purchase price. Obtaining a valuation will allow us to offer the premium which you will have to pay for the Lease extension as part of the statutory notice.

2. The next stage is to serve an initial notice on your Landlord which begins the formal process. The date of the valuation for the premium payable for the Lease extension is the day upon which the initial notice is served on your Landlord. The initial notice must give your Landlord at least 2 months in which to respond.
3. Stage 3 is the receipt of the Landlord's counter notice. In this notice the Landlord will have the opportunity to either dispute your claim, agree to it or make counter proposals which are usually in respect of the premium payable. If a counter notice is not served then you will be able to apply directly to the First Tier Tribunal of the Residential Property Chamber to obtain a Lease extension upon the terms stated in your initial notice. More usually, however, a counter notice is served and if the only issue in dispute is the premium payable then you can instruct your valuer to negotiate with the Landlord's valuer in an attempt to agree a price. If after 2 months the price cannot be agreed you may apply to the Tribunal who will assess the price to be paid by you to your Landlord for the Lease extension. If Tribunal proceedings are necessary then a valuer will normally represent your interests at the Tribunal hearing. Sometimes there can also be issues of law but this is rare.
4. If a premium can be agreed without recourse to the Tribunal then both your solicitor and your Landlord's solicitor will agree the wording of the Lease extension document. There are time limits involved in agreeing the wording of the Lease extension and therefore you will need to be in a position to complete and have available funds to purchase the Lease extension at the outset and usually within 4-5 months of starting the process.

### 3. Costs Of Extending Your Lease

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An initial valuation undertaken by a qualified valuer will cost in the region of £500 to £900 plus VAT.

Legal costs are usually in the region of £1,400 to £1,850 plus VAT if the matter settles without the need to go before a First Tier Tribunal to determine the premium payable. If Tribunal proceedings become necessary then costs can be in the region of £2,500 to £2,750 plus VAT. Thankfully this is rare.

In addition to these fees you will be responsible for the reasonable professional costs of your Landlord which are likely to be in a similar region, but this depends on your Landlord's choice of solicitors and valuer. You will not however have to pay the Landlord's fees in connection with Tribunal proceedings if the matter progresses that far.

In the unlikely event that Stamp Duty Land Tax becomes payable on your transaction you will also be responsible for paying that amount. We can advise you on the amounts payable.

After the matter has completed you will need to register your Lease extension. The fee to register will depend on the premium payable, but is likely to be between £40 and £150.

There will also be Land Registry searches and notices which will cost about £80-£100.

You should also note that at any time the Landlord can ask you to pay a deposit of 10% of the price proposed in the initial notice. You must therefore have these funds available before the process is initiated. It is possible to sell your flat during this process and assign the benefit of the notice to a purchaser.

## 4. Summary

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A Lease extension will usually make your flat more saleable, particularly if the current remaining term is less than 80 years. Borrowers are increasingly finding that mortgage lenders are refusing to lend on Leases with less than 80 years to run. Even if your lease has more than 80 years to run you should extend it as the premium will be substantially lower than when the lease terms hits 80 years or less.

If you have any questions, would like a cost estimate or would like further advice on any aspect of this leaflet, or wish to set up a meeting with us then please contact:

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Both are specialists in this area.

