



GUIDE TO LEASE EXTENSION

How can a lease be extended?

There are 2 ways:

1. Pursuant to the **Leasehold Reform Housing & Urban Development Act 1993** (“the Act”).

1.1 The Act gives tenants who have owned a leasehold property for 2 years the right to demand that their landlord extends their lease by 90 years and reduce the rent to nothing. This is called a statutory lease extension.

2. Private negotiation.

2.1 There are no rules/obligations and you can simply negotiate with the landlord.

How much does it cost to extend a lease?

1. The purchase price (“premium”) of a statutory lease extension is calculated using a complex formula linked to value, rent and the existing lease term. Specialist valuers can do the calculations. The leaseholder will have to pay for the Landlords legal and valuation fees as well as his own.

2. The premium for a Lease extension by private negotiation is down to market forces. Some landlords will demand an excessive premium others may demand a reasonable premium but a higher ground rent/shorter Lease term.

Marriage value

Leases with more than 80 years unexpired are much cheaper to extend because if less than 80 years the Landlord is entitled to a 50% share of what is called “marriage value”. That is the amount of the increase in the combined value of the freehold and leasehold interests.

Procedure under Act

The procedure required to be followed to obtain a statutory Lease extension is **complex** and must be **strictly** followed. The procedure is started by the Leaseholder serving notice under Section 42 of the Act. The benefit of the Section 42 Notice can be passed to a buyer and a contract for sale can provide for this to happen. The advantage of this is that the sale can proceed and the Lease extension can be completed by the Buyer at a later date after completion of the sale. The drawback is that the buyer will

have to take on responsibility for payment of the premium and all costs, none of which may be fixed at the time of exchange of contracts.

Procedure by private negotiation

The alternative to the statutory procedure is to simply ask the landlord if he would agree to extend the lease and upon what terms. Both parties can then negotiate. This arrangement however cannot be passed to a buyer if dealing with a sale. The problem with this is that the seller will have to rely upon the Landlord completing the extension Lease at the same time as completion with the buyer. If the seller has contracted to complete on a certain date and the Landlord defaults; the seller will not be able to complete the sale and could face a substantial claim for damages which may not be recoverable from the Landlord. This is particularly true if there are a chain of transactions. For this reason our advice is to make the contract for sale conditional upon completion of the Lease extension without liability on the part of the seller if the Landlord defaults. Alternatively, clients should aim to exchange contracts and complete on the same day. This may not be acceptable to a buyer or the other buyers in a chain of transactions and thus if finance can be made available, the best option is to extend the Lease prior to offering the flat for sale.

Talk to us!

Please ask us to explain anything in this guide or discuss any unusual circumstances. We can then advise on what is best for you.

This is a general guide only, and each situation may be different and may need specific advice.

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