

Equity Release Update

June 2010

Lease Extensions - The Procedure Explained

There is much mystery surrounding lease extensions and the varying costs. This brief summary sets out to explain the procedures and time scales involved, and why some extensions cost more than others.

Formal Procedure:

Tenants are generally eligible for a lease extension of their leasehold property if their lease is for a term of years in excess of 21 years and they have been in occupation for at least two years.

- The formal statutory procedure for a lease extension involves the following:
- Instructing a valuer to advise on a figure for the premium payable by the Tenant to the Landlord for an extension of their lease (the premium payable becomes costly if there are 80 years or under unexpired on the Lease, as a 'marriage value' kicks in (statutory provision);
- Tenant serves notice on the Landlord of their request to extend their lease including their suggested premium;
- The Landlord serves a counter notice within two months (minimum) from the date of the Tenant's notice agreeing / adducing a counter-offer;
- The parties' valuers negotiate to agree a premium and their solicitors negotiate to agree lease terms;
- Once a new lease (on the same terms as the old lease, aside from the term with any agreed amendments) has been agreed, it is signed by both parties, the premium paid and matter is completed; and
- The new lease will need to be registered at the Land Registry (there may also be Stamp Duty payable, depending on the value of the premium).

Informal Procedure:

Provided both parties are happy, a new lease can be signed that simply extends the term of the old lease.

The informal procedure should cost less, although the new lease entered into is slightly different as it does not allude to any of the statutory requirements.

The formal procedure also entitles the leaseholder to a new lease granted at a peppercorn rent for the remainder of their term, plus 90 years. If the Landlord agrees informally, the rent tends to stay the same or is sometimes increased as part of the negotiations (rather than being reduced to a peppercorn rent).

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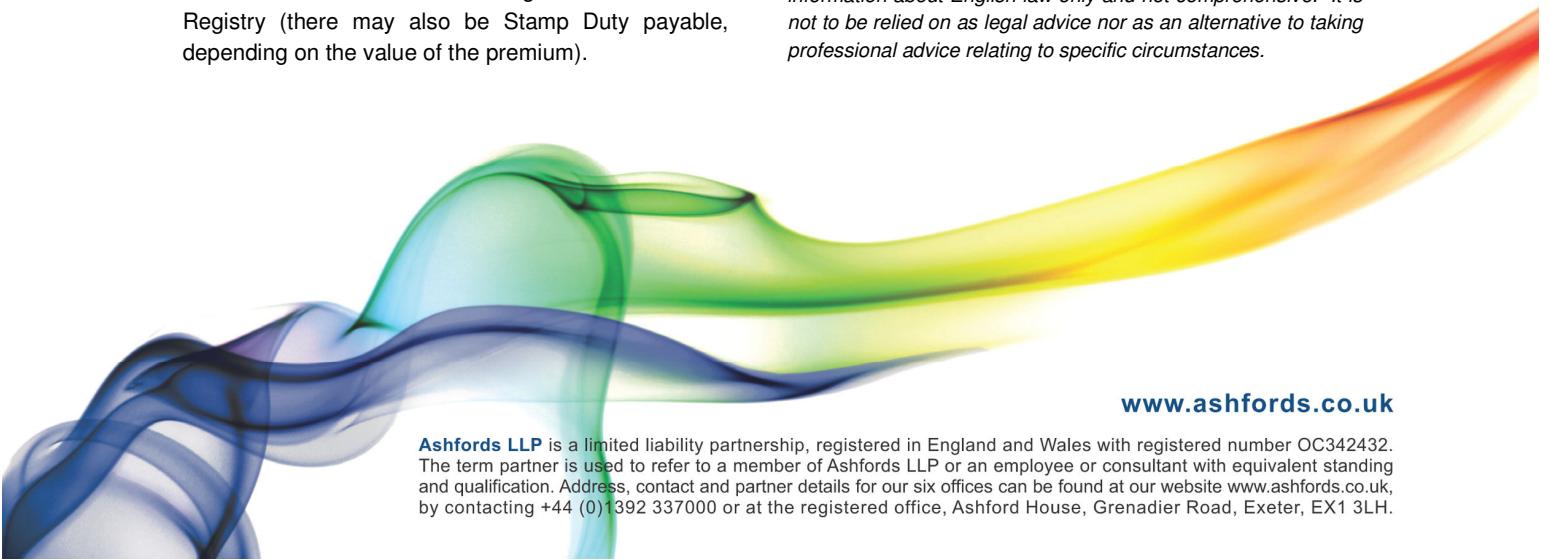
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