



Leasehold **Extension**

Introduction

This guidance is not meant to describe or give a full interpretation of the law, this is the responsibility of the courts. It is highly recommended that you seek independent legal advice before starting the process to extend your lease.

The law gives Leaseholders the statutory right to extend their lease by 90 years. You can do this as soon as you become the registered owner of the leasehold property.

The leaseholder who is seeking to extend the lease has to pay a premium (ie. a one off payment) for the extension. The premium is calculated by a qualified valuer. The valuer should be a member of the Royal Institution of Chartered Surveyors with experience in carrying out these types of valuation. Valuation is not an exact science and so the valuer may provide a "range" of valuations. We can either jointly appoint a valuer or we can appoint one each to negotiate and agree a figure.

As well as the premium, the leaseholder is responsible for paying the landlord's legal and valuation costs.

There is no specific time when a lease extension should be requested. Although, if one is not requested during the existing term of a lease, it cannot be done after the term has expired. However, it may be important not to leave it anywhere near that long. This is because mortgage lenders can be reluctant to lend money secured against a lease if the term of a lease falls below 80 years. This may create difficulties if you wish to sell or re-mortgage and the costs of extending may be considerably higher.

There is a formal notice to serve if you wish to extend the lease. However, we are happy to negotiate with you and if we agree terms, we can grant the extended lease without needing to go through the formal process which may save costs. Both processes are set out on the following pages.

Informal Process

By legal agreement between the leaseholders and MHA.

Things to consider if using the informal process:

- It may be cheaper than the formal process in respect of legal costs (and valuation costs if a single valuer is used).
- The process could be quicker than the formal statutory route.
- The lease extension term, ground rent and costs can be whatever is agreed between you and MHA, though MHA would broadly follow the same principles set out in the formal process. (90 year extension, no ground rent and the basis of valuation for the premium would be exactly the same as if a notice had been served)
- We recommend jointly instructing an RICS surveyor to value the premium you must pay, in this case, only one valuation would be required. You may decide to appoint your own valuer in which case the valuers would discuss and try and agree the premium. You would still be liable for the cost of MHA's appointed valuer as well as your own.
- All estimated costs are payable before the process is started.



Formal Statutory Process

Laid down in the Leasehold Reform, Housing and Urban Development Act 1993.

Things to consider if using the formal process:

- The process is commenced by you serving notice on us. You will need to instruct a solicitor and valuer to do this.
- Following the lease extension, you would be subject to a 'peppercorn rent' instead of ground rent, meaning you would no longer pay ground rent.
- A fixed extension of 90 years would be granted (in addition to the remaining term on your lease).
- Two valuations are required; yours and MHA's. (You will be liable to pay for both valuations).
- You would pay a deposit of £250 or 10% of the premium proposed to MHA on the start of the process.



Costs and Charges

The cost of every lease extension is likely to be different, so the legal and valuation fees listed below are estimates only. In each case you will be advised of the actual fees.

Informal Lease Extension

Valuation fee

£400 plus VAT (We will use an RICS qualified surveyor). If you instruct your own valuer, you are also responsible for their fee in addition.

MHA's legal fees

£750 plus VAT (assuming a single valuer is appointed. If you instruct your own, costs may be higher).

MHA's administration fee

£75 plus VAT.

Your legal fees

This is for you to agree with your solicitor.

All estimated costs are payable before the process is started.

Formal Lease Extension

All fees as set out in the informal process plus:

- Legal fees will be higher than with the informal process because, as well as dealing with the renewal lease, MHA's solicitor has to consider the notice and your proposal and prepare and serve a counter notice. Costs will also be higher if the terms and premium cannot be agreed.
- You will be liable to pay both your and MHA's valuation and legal costs in addition to MHA's administration fee.
- A deposit of £250 or 10% of the premium proposed to MHA on the start of the process.

Information about the premium, which is payable in addition to the fees and costs is set out on the next page.

If you want to use the informal process, we may require payment of any debt on your account with MHA first.

How much will the premium be?

The premium will be assessed by the valuer(s) and if more than one, they will try and agree.

They will look at:

(a) The reduction in value of our interest in the property once your lease is extended (including the loss of rent if any was payable).

(b) What is known as "marriage value" – ie the increase in the value of your lease (which is likely to be more than the reduction in value of our interest). The shorter the existing lease, the greater this figure is likely to be. If your lease still has 80 years to run, nothing is payable for marriage value.

(c) Compensation for loss in value of any interest we may have in other property (which is unusual).

Leasehold and Freehold Reform Act 2024

The Leasehold and Freehold Reform Act 2024 will be making significant changes to the Lease Extension Process. These changes are not yet in force. MHA will be monitoring these changes and will update our procedures accordingly

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