

Lease Extensions - A Guide

THE LAW

Under the Leasehold Reform, Housing and Urban Development Act (LRHUDA 1993), Landlord's are obliged to grant Lease extensions of flats, following service of notice from "qualifying tenants".

NB: Some tenants may approach Landlord's to grant a lease extension outside of the Act, by negotiation only.

A "qualifying tenant" is one that:-

- a) Owns a residential Lease;
- b) Owns a long leasehold interest (a Lease granted for more than 21 years); and
- c) Has owned the interest for more than two years.

The law entitles the tenant to a new lease:

- a) For a term of 90 years plus the remainder of the term of the existing lease;
- b) At a peppercorn rent; and
- c) On substantially the same terms, save for minor variations.

Whilst a lease extension applied for under the Act reduces the ground rent to a peppercorn, the Landlord is permitted to charge a premium for granting the extension. The premium is calculated by reference to the following figures and in the following circumstances:-

1. The amount by which the open market value of the landlord's interest in the flat is reduced as a result of the lease extension. The longer the unexpired residue of the existing lease, the lower the reduction in value will be.
2. The "marriage value". The marriage value is established taking the difference between the aggregate of the values of each separate interest (the tenant's leasehold and the landlord's freehold) and the value of the single merged interest. Essentially, it is the difference between the value of the landlord's and tenant's interest in the flat with the existing lease and the value of the landlord's and tenant's interest in the flat with the new lease. **IF** the Tenant's leasehold interest has less than 80 years left to run, the Landlord is entitled to charge **half of the marriage value**. Marriage value is not chargeable on leases which have more than 80 years left to run.
3. Compensation for any reduction in the value of any additional property owned by the Landlord, as a result of the lease extension.

The Landlord can require the tenant to pay a deposit for the premium, at any time during the notice period. The deposit payable will be either;

- £250; or
- 10% of the amount proposed in the tenant's notice as payable on the grant of the lease, whichever is the greater.

The tenant will be liable for the Landlord's reasonable costs incurred in the granting of the lease extension, from the date of service of the initial notice.

CONTACT US

If you would like any further information or have questions about Lease Extensions do not hesitate to contact us on [01202 525333](tel:01202525333) or email property@ellisjones.co.uk.

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