

Lease Extension — A Complete Guide for Leaseholders

When to extend, how to extend, and what it will cost

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WHY LEASE EXTENSION MATTERS

Your lease is a diminishing asset. Every year that passes without a lease extension reduces the value of your property, increases the cost of extending, and eventually makes your flat difficult or impossible to sell or remortgage. Understanding when and how to extend your lease — and at what cost — is one of the most important financial decisions you will make as a leaseholder.

THE CRITICAL 80-YEAR THRESHOLD

When a lease falls below 80 years unexpired, the cost of extending increases significantly. This is because below 80 years, 'marriage value' becomes payable — a share of the increase in combined freehold and leasehold value resulting from the extension. Marriage value can add tens of thousands of pounds to the extension premium.

The Leasehold and Freehold Reform Act 2024 will abolish marriage value once the relevant provisions are commenced — reducing extension costs for leaseholders with shorter leases. Until that happens, acting before the lease falls below 80 years remains very important.

Your Options for Extending

Option	What it involves	Pros	Cons
Statutory lease extension	Formal legal process under the 1993 Act — 90-year extension (990 years under 2024 Act once commenced) at peppercorn ground rent	Guaranteed right — freeholder cannot refuse; ground rent eliminated	Takes 6-12 months; professional fees required; can be contested on price
Voluntary (informal) extension	Negotiate directly with freeholder outside the statutory process	Can be quicker; more flexible terms possible	No guaranteed right; freeholder can refuse or demand unreasonable terms; ground rent may continue

In most cases, the statutory route provides better protection and should be the default approach. A voluntary extension is only advisable where the freeholder is cooperative and terms can be independently verified as fair.

The Statutory Lease Extension Process

Step	Action	Timescale
1	Instruct a specialist solicitor and valuation surveyor	Before serving notice
2	Obtain a valuation of the extension premium	Before serving notice
3	Serve the Tenant's Notice (Section 42 Notice) on the freeholder	Start of formal process
4	Freeholder serves Counter-Notice	Within 2 months of Tenant's Notice
5	Negotiate the premium	Usually 2-6 months
6	Apply to First-tier Tribunal if no agreement	Must apply within 6 months of Counter-Notice
7	Complete the new lease	Within 3 months of agreement or Tribunal determination

How the Premium is Calculated

THE MAIN COMPONENTS

- Ground rent capitalisation — the value of the ground rent the freeholder will lose
- Reversion value — the value of the freehold interest in the remaining lease term
- Marriage value — 50% of the increase in combined values (only applies where lease is below 80 years; to be abolished by 2024 Act)
- Relativity — a discount reflecting the reduced value of a short leasehold compared to freehold

Always instruct an independent RICS-qualified surveyor to advise on the premium before agreeing or serving notice. The difference between a well-negotiated and a poorly negotiated premium can be substantial.

IMPACT OF THE 2024 ACT

Change	Detail
Extension term	990 years (up from 90 years) once provisions commenced
Marriage value	Abolished once provisions commenced — reduces cost for leases under 80 years
Prescribed rates	Prescribed deferment and capitalisation rates — greater certainty
Two-year rule	Removed — can extend from the day you buy
Ground rent	Peppercorn on all statutory extensions

Costs Involved

WHAT YOU WILL NEED TO PAY

- The extension premium — paid to the freeholder; the main cost, typically thousands to tens of thousands of pounds
- Your own solicitor's fees — typically £1,500 to £3,000 plus VAT for a straightforward case
- Your own surveyor's fees — typically £500 to £1,500 plus VAT for valuation and negotiation
- Freeholder's reasonable legal and surveyor fees — you are required to pay these under the 1993 Act
- Land Registry fee — for registering the new lease
- SDLT (Stamp Duty Land Tax) — may be payable depending on the premium paid

TIMING — WHEN TO ACT

- Act before the lease falls below 80 years to avoid marriage value (until 2024 Act commenced)
- If you are planning to sell, extend before marketing — a short lease will reduce your buyer pool and value
- If you have just bought, you can now act immediately — the two-year rule has been removed
- If the lease is already below 80 years, act urgently — costs increase every year

HOW BERGASON CAN HELP

Bergason Property Services Limited can advise on the lease extension process and refer you to specialist solicitors and surveyors from our professional network. Contact us to discuss your situation.

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