



Your guide to: **Extending your lease**

Your lease is the document that gives you the right to live in your property for a certain amount of time – usually 99 or 125 years. Once the time remaining on your lease drops under 80 years, the value of your property will begin to decrease and the cost of extending your lease will increase. A shorter lease will make it more difficult to find a buyer for your flat and it may make it difficult to remortgage. For these reasons it's best to extend your lease before it drops under 80 years.

There are two ways to extend your lease (in cases where NHG is the freeholder), both resulting in a 90-year extension with no further groundrent:

1. We have an informal procedure in place, which is carried out by 97% of all our lease extensions. Please see the guide for more information.
2. There's also a formal (or statutory) process outlined. If you own 100% of your property you may choose to use this option, however the fees and charges will be considerably higher. Please see the guide for more information then discuss this option with your solicitor.

If NHG is not the freeholder, there's a third process to follow.

Read through each option to see which situation applies to you.

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Option 1: Informal lease extension process

The informal lease extension process is available to 100% owners and shared owners, where NHG is the freeholder or where NHG has a lease that is substantially longer than you're under lease.

The process of extending your lease usually takes between three and six months.

You can start this process as soon as you complete the purchase of your home. We'll also consider allowing buyers to start the process before the sale completes if this will facilitate the sale.

Below are the steps to follow.

1. Initial payment

We require an upfront payment of the administration and surveyors fees to start the lease extension process.

- If you are a 100% owner this is £760 (£100 administration fee and £660 surveyors fee).
- If you are a shared owner this is £580 (£100 administration fee and £480 surveyors fee).

These costs are inclusive of VAT and are non-refundable.

How to make a payment

To start the process, please email us at resaleandlegal@nhg.org.uk with the subject line 'Lease Extension Payment Request'. We will then send you our bank account details to make a payment. After making a payment we'll need you to email us the receipt and all your contact details in order for us to instruct the surveyor.

2. Surveyor visit

When we receive the payment we will instruct a surveyor to make an appointment to visit your property, carry out a valuation and establish the cost of the lease extension.

The cost is worked out using a formula set by law and is based on a lease extended by a further 90 years with no ground rent.

Can I use my own surveyor or negotiate the price?

We'll only use the valuation by the surveyors nominated by us and we are not able to consider any other valuation. The surveyor is instructed to do the valuation based on a fair price which is the price that he feels would be arrived at after a period of negotiation. We will not enter into any negotiation of the premium.

Will the surveyor take into consideration work that I have done on my property?

Yes. The surveyor will discount the value of any improvements made by you, provided you can show that these were approved by NHG. If these did not achieve prior approval, you might need to contact your property management officer to obtain retrospective consent before we can proceed.

3. Offer

Send proposal letter with valuation

- If you own 100% of your property we will offer you the lease extension at the price set by the surveyor.
- If you are a shared owner we will offer you the lease extension at the percentage of the price equivalent to the percentage you currently own. For

example, if the cost of the extension is £10,000 and you own 50% you will pay £5,000 as this is 50% of £10,000.

4. Final steps

If you decide to go ahead, this is the point at which you'll hire a solicitor and send us their details. We'll instruct our own solicitors to work together with your solicitor to complete the lease extension.

Unless you have a very good knowledge of leases, contracts and registering things at the land registry you'll need a solicitor. Your mortgage company will also need to consent to the lease extension and your solicitor will deal with the mortgage company on this as well

Costs

How is the cost of the lease extension premium worked out?

The law sets out a framework that is used to work out the premium. This is based on the number of years left on your lease and the current market value of your flat. It also takes into account ground rent.

When do I pay the premium and other charges?

You'll pay the lease extension premium plus our solicitors' fees of around £650 plus VAT at the end of the process however your solicitor may collect our solicitor fees earlier. You'll also need to instruct your own solicitor and pay their costs as well. Because the extension needs to be registered at the land registry, it needs to be paid in full on completion and cannot be made in instalments.

Why do I have to pay for the freeholders solicitor?

The law says that the lessee must pay the freeholders professional costs, including

the surveyor and solicitor. A lease extension is for your benefit therefore you will need to meet all the fees.

What if I have arrears on my rent or service charge account?

As with any legal completion, you will need to pay any money owed on your account before the lease extension can complete. If you have large arrears on your account, we may ask you to clear these before you can start the process, even if you have worked out a payment plan with your Property Manager Officer. If you have had made irregular payments over time that have resulted in arrears we will insist on a direct debit being set up with your Property Management Officer before you can complete.

I'm a shared owner. Will I need to repay the remaining part of my premium if I ever staircase?

No. The property will be valued with the longer lease and the price of the extra shares will be based on this price.

FAQs about the lease extension process

Do I need to extend my lease?

You do not need to extend your lease and for many people this may not be financially an option however it is advisable to do so.

If you're a shared owner and own a house, your lease will usually entitle you to obtain the freehold on final staircasing. This means that provided final staircasing takes place before the lease expires, a lease extension should not be necessary. Please check your lease to ensure that you will acquire the freehold on final staircasing.

I'm a shared owner, will my rent increase when I extend my lease?

If your lease started before 1986, it is likely that you either pay community leasehold rent (that was set when you bought the property and hasn't increased since) or fair rent (which is re assessed by the fair rent officer every 2 years). If you pay either of these types of rent, we will need to change it to a Leasehold Assure Rent (which is the type of rent that has been paid by all shared owners since 1986) during the extension. These are very old style rents which need to be modernised. We will not be able to proceed with a lease extension unless these are updated

It is likely however that if your lease was granted before 1986, that you will also have the right to a new 99 year lease if you ever staircase to 100% ownership. This means that you may choose not to extend your lease if you ever plan to staircase. The only exception is if your lease has been varied in the past to add 'staircasing provisions' or a 'mortgage protection clause'. You could check your documents or check with the solicitor who assisted you with the purchase of the property to find out if

the lease has ever been varied. The land registry will also have a record of variations to your lease.

If you think that you have one of these leases, you might want to contact us to have a chat about your options to ensure that you make the right decision.

Do I pay ground rent after the lease extension has completed?

No. Ground rent will not usually be charged after the lease extension. Not all lessee pay ground rent. If you are not sure if you pay ground rent, please check your lease or ask your property manager. If you currently pay ground rent, you will pay a proportion of this upfront as part of your premium and then you will pay no more ground rent.

How long do I have to complete the lease extension?

The surveyors valuation is valid for 3 months however we give you an extra 3 months in which to complete.

If you've not completed within 6 months from the date on the valuation we cannot extend the deadline and we'll require an updated valuation from the surveyor. This will cost £200 +VAT and it will give you a further 6 months in which to complete. Please note that the premium will have increase a bit since the last valuation however if the lease drops under 80 years in this time, the premium will increase considerably.

Why is it important to consider a lease extension before the lease drops under 80 years?

The framework that the law sets for establishing the cost of the premium calculates this differently after the lease drops under 80 years and the premium will be much higher. It will also increase at a steeper rate each year. The lower the amount of years on your lease, the higher the premium will be.

Banks are hesitant to lend money to buy properties if the lease is under 80 years so they become more difficult to sell, and the sales price will also be reduced.

Why haven't Notting Hill Genesis told me that my lease was getting short?

It is not the freeholders responsibility to monitor your lease length. It is the responsibility of each leaseholder to carry out lease maintenance. We will always try to make the process as transparent and accessible for you as possible in order to facilitate this process

Can I extend the lease by more than 90 years?

The formula that the law sets out for establishing the cost of the lease extension assumes that the lease will be extended by a further 90 years so this is the only length that we grant extensions for.

Can I extend my lease by less than 90 years?

No. If your lease is under 80 years, the largest part of the premium is the part that brings your lease back to 80 years. A smaller extension would cost almost the same as a 90 year extension and mean that you would need to do another extension in a short amount of time. This would cost you more money in the long run.

I'm a shared owner. Is a lease extension considered as a home improvement?

A lease extension is lease maintenance which maintains the value of your asset. It is not a home improvement and cannot be used as one for the purposes of staircasing or resales. When you sell as a shared owner, you will benefit from the lease extension with the increase in value of your property.

Option 2: Formal lease extension process

This option is only available to you if you're a 100% owner and NHG is the freeholder.

This process usually takes between six and 12 months, however it can also be considerably longer. We ask that you seek legal advice in advance and that your solicitor guide you through the process. Please note that you will be responsible for the freeholder's reasonable fees and charges and these will be considerably higher than with the informal process.

Background

We willingly extend leases using the informal process outlined above, however the Leasehold Reform, Housing and Urban Development Act 1993 ('the 1993 Act') was established to protect lessees from unscrupulous landlords who refused to extend lease or provided unfair terms such as the addition of ground rent. This law allows a lessee to formally extend his/her lease by 90 years, in addition to the unexpired term of their lease at a peppercorn ground rent, and provides a framework for how this will happen. Some 100% owners will prefer this route, and we're happy to proceed in either manner.

What this process involves

1. You'll need to instruct a solicitor and obtain a lease extension valuation. It's advisable to choose a RICS or FRIC certified surveyor in case the matter needs to be referred to a tribunal to determine a premium.
2. Your solicitor will serve a section 42 notice on NHG which establishes your right to a lease extension and provides a time frame. We'll then have two months to serve a counter notice. In this time we

will need to have a surveyor's valuation carried out and you will be responsible for these fees.

3. Once the counter notice is served on your solicitor, a period of negotiation will take place. You may incur additional fees for this if the surveyors need to negotiate. If a premium cannot be agreed, the matter will be referred to a tribunal to establish the costs. There will be extra solicitors and surveyors fees at this stage and these can be very high. Please speak to your solicitor about these. Referral to a tribunal will increase the timeframe of the lease extension

4. Once a premium is determined, the solicitors will draw up the documents in the same manner as the informal lease extension.

Associated costs

- You'll need to pay our administration fee of £360, however this will be paid at the end of the process.
- You'll need to pay for your own surveyor's fees plus our surveyor's fee of £660 (inc VAT). There may be additional fees for negotiations.
- Our solicitor's fees will start at £1000 (+VAT and disbursements) for simple extensions but will usually be higher as a formal lease extension often has complications. We are not able to anticipate these in advance. Your solicitor's fees will usually start at around double the fees for an informal lease extension. Please obtain information about fees from your solicitor.

Lease extensions where NHG is not your freeholder

If your property was purchased under the “Do It Yourself Shared Ownership” (DIYSO) scheme, or if there is a Section 106 agreement, then we may not be your freeholder.

As each situation is different, please call us on 0203 815 0060 to discuss the options available and the best way forward with your lease extension. You can also email Resale and Legal resaleandlegal@nhg.org.uk. A legal administration officer will give you advice and support before and during the process, and where required they will contact the freeholder of your building on your behalf.

If NHHO have a head lease on your flat, we may be able to extend your lease if our head lease is more than 90 years longer than yours. This may be the case with Section 106 properties.

If you have a good relationship with your freeholder or managing agent, you might like to ask them if they have a preferred process for extending your lease. You could also talk to your neighbours to see if any of them have extended their leases.

Please note that this type of lease extension may take six to 18 months or more to complete. This is because negotiations are likely to be more complicated with the involvement of a third party and it may be necessary to serve a legal notice (Section 42 notice) on the freeholder to claim our legal right to a lease extension. If you are thinking of selling your flat, please contact us as early as possible (preferably a year in advance) as problems with short leases often result in the inability to find a buyer or in sales falling through. If we can start dealing with this in time, the process of selling your home will be much smoother.

Associated costs

If you're a shared owner with a community leasehold or fair rent style lease then carrying out a lease extension will increase the amount of rent you pay.

You'll need to pay all the expenses associated with the lease extension. These include:

- The full premium required by your freeholder plus any legal, admin and valuation fees
- One or two surveyor's fees depending on the type of extension. Our surveyor's fees are £480 - £660 depending on requirements
- Your solicitor's fees
- Your freeholder's solicitor's fees
- NHG's solicitors' fees which are around £1000 - £1500 + VAT
- NHG's administration fee of £360.

How our share of the premium is repaid

We'll repay our share of the lease extension premium when you staircase to 100% ownership or sell your home. If you have carried out this type of lease extension you will automatically be given consent to staircase to 100% ownership and simultaneously sell on the open market.

When the valuation for final staircasing is carried out the property will be valued with the longer lease. The price of our share of the premium paid for the lease extension (not including any fees and charges) will be deducted from the price of the remaining shares that you are purchasing.

Example:

Where the homeowner owns a 40% share of a DIYSO flat valued at £400,000 (with the extended lease) and where £20,000 has been paid for the lease extension premium the price of buying the remaining 60% is £240,000. We will subtract £12,000 (60% of the £20,000 paid for the premium) from the staircasing money. The lessee will pay £228,000 for the final staircasing.

You cannot claim the amount that you spent on the surveyor, administration fee or solicitors as these are costs that you would incur with any lease extension.

Please note that our policy on DIYSO lease extension changed in 2013 so you may have been provided with different information before this time.

Lease extension for houses

If you are a shared owner of a house, your lease will usually entitle you to obtain the freehold on final staircasing. This means that provided final staircasing takes place before the lease expires, a lease extension should not be necessary. Please check your lease to ensure that you will acquire the freehold on final staircasing.

When valuing a house for a staircasing or a resale, the surveyor will do this as if it has the freehold. They should not value it with the short lease length. Please ensure that you make the surveyor aware of this when you instruct them if you are selling or staircasing.

When selling, occasionally banks express concerns about a short lease length on a house when it is under 60 years however in the past NHG have usually been able to write to the bank and explain the situation. If a situation arose where you were not able to find a buyer for your share because of a short lease or any other reason, your lease gives you the right to simultaneously staircasing and sell your property on the open market. This means that you will be selling a freehold property and the lease will cease to exist.

Although it is not something that we view as necessary, it is possible to extend your lease on a house if you want. If you buy extra years on a lease however, these will cease to exist when you or a future lessee staircases to 100% ownership.

Got questions?

Please get in touch with our legal administration team on **0203 815 0060** or email resaleandlegal@nhg.org.uk.