

A GUIDE TO SHORT LEASE EXTENSIONS

HOW TO ADD UP TO 25% TO THE VALUE OF YOUR NEXT PROPERTY DEAL

Most people see the word 'leasehold' and run a mile. I think that's partly because not everyone understands what a leasehold is, and partly from fear of what leaseholds sometimes bring, like high ground rent or service charges.

However, if you understand leasehold properties and know how to navigate ones with a short lease, they can go from a source of fear to a source of opportunity — a source of opportunity that can add significant value to your next property deal.

This is the short lease extension strategy, how it works, and how you can use it to add up to 25% to a property's value.

From Stacking Bread to Making Bread

My property career started in 2001 while I worked a full-time job stacking bread at the local supermarket. I became something of a bread expert, and as I worked my way up the ranks, I occasionally got promoted to the freezer aisle (not fun if you didn't bring a jacket).

The problem was, I didn't see a future at my job. My managers weren't getting paid much more than me, and I saw the way that area managers talked down to them. After deciding to take control of my future, I began stacking money alongside the bread and soon had enough to buy a vanilla buy-to-let.

I did this for years, working part-time as a college maths lecturer for extra money, and working every bit of overtime I could. I bought 1-3 properties a year from my savings, soon building a portfolio that allowed me to leave my job.

But it wasn't the day I left the supermarket behind that changed my life. It was in 2003 when I invested in my second property: a leasehold flat.

Marriage Value—The Hidden Gem

In 2001, property was a side thing to me, so I wasn't an expert. That's why, when I bought my first leasehold flat, I wasn't aware of what marriage value was.

Marriage value definition: Marriage value refers to the increase in value of a leasehold property after its lease is extended beyond 80 years.

My property was just about to drop below an 80-year lease, and it was my friend who pointed out to me that, when this happens, the property begins to lose value. I contacted the freeholder and got an extension from an 82-year lease to a 125-year one, and it only cost me £1,000 (I think he felt sorry for me as I was young and naive). For just £1,000, I'd increased the value of my second property substantially. From there, I fell in love with leasehold opportunities.

Short Lease Extensions – A Summary

To make sure we are on the same page, this is a quick summary of how short lease extensions work:

- You find a property with a lease that is close to or less than 80 years. Because it has a short lease, it is typically worth less (so you can buy it for a discount).
- You then negotiate with the freeholder to extend or buy the lease. Either option immediately adds 20-25% to the value of the property. It's like a paper version of the buy, refurbish, refinance (BRR) strategy!

What are Freehold and Leasehold?

Before we dive into the nitty-gritty of this strategy and the things you need to look out for, let's clear up some definitions.

FREEHOLD: Freehold means that you own the land that your property or unit resides on. There are no limits on ownership, and you are free to change the property in any way, providing you have the correct planning permission.

LEASEHOLD: Leasehold is when you own a property or unit, but you don't own the land it's on. You mainly see this with flats and apartments. A leasehold means you're leasing the land for a certain number of years. In these instances, you usually have to pay ground rent to the landowner. Sometimes you will pay a service charge to a block management company. This payment goes towards the upkeep of communal areas, including things like clearing bins and landscaping the gardens.

The Triple Threat

The best opportunities are properties with a short lease that need refurbishment work and can be reconfigured to add an extra bedroom or create more space. I call these opportunities the triple threat because you're adding value in three separate ways.

With lease extensions alone, I was making £30,000-£50,000 per flat. It's a good strategy if you get it right. I don't always extend the lease immediately. Sometimes I'll hold the property for a couple of years, benefit from the rental income, and then extend it. This allows me to save money or invest it in another deal rather than paying for the lease extension straight away.

Sounds Easy. What's the Catch?

You might be wondering why this strategy isn't used by everyone. It almost sounds too good to be true. The reason some people avoid leaseholds is because the ground rent and service charges put them off.

On top of that, the cost of extending a lease isn't always cheap. Sometimes, it can cost in excess of £20,000. But if you think about it, that's the cost of a refurbishment.

The biggest barrier to entry is that many lenders don't like lending on properties that have a short lease. This means that you often have to buy the property with cash or bridging finance. I'll cover this in more detail further down the article. »



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Is There a Risk That You Won't Get Your Lease Extended?

Under Section 42, so long as you have owned the leasehold property for at least two years, the freeholder is legally obliged to extend your lease. Michael Gove changed this law from 24 May 2024. Now, you can extend your lease from day one rather than waiting for two years of ownership. I'm not sure how this will change now Labour are in power. This law should be implemented within two years.



Mortgages are available depending on the length of the lease

finance mainly. Although mortgages are available depending on the length of the lease and the type of property.

There are two types of bridges that you can get. With the first option, the lender will grant you the finance on the contingency that the lease extension must be completed before the bridge ends. The second option is when they lend you the money, but a Section 42 notice has to be served between exchange and completion. There is also a 'hybrid' finance product, which pays for the property and the lease extension, and you have to put down a 25-35% deposit.

There is the informal route, which is to approach the freeholder on your own and negotiate an extension. I prefer this route, as it doesn't create any animosity. It also gives me the option to buy the freehold, providing the owner is open to it, and then extend my own lease.

I do this because, if you want to reconfigure a property (by moving the kitchen or adding a bedroom, for example), you need the freeholder's permission. This is known as a Consent to Alter.

Where Can You Find Short Lease Deals?

The easiest places to look are online property portals. Look for any listings that say 'cash buyers only' or 'low lease'.

I have also found a few deals at auction. I do pre or post-auction because you can find unsold opportunities this way. It's like rooting through a rubbish tip for gold! You tend to find unsold leaseholds here because people don't understand what they are or know what they're doing when it comes to extending them.

How to Fund Leasehold Property Purchases

As soon as the lease drops below 70 years, lenders start to drop off. At this point, you're looking at buying with either cash or bridging

I would advise speaking to lenders and finance brokers before you invest in this strategy to find the ones who will fund your deals.

Go and Make Some Bread

Property has allowed me to leave a job I disliked and live a life I once dreamed of. It's a strange feeling parking at the supermarket I used to work in, seeing people doing the job I used to do, and realising how much my life has changed.

All I have ever wanted is a holiday every 90 days and the freedom to spend my time doing what I want, with who I want, when I want. What's important to me is good health and the ability to look after my family. Both these things I am able to do, plus I'm currently on holiday roughly every 60 days, so I've exceeded my goals!

I hope that this article helps you to 'make that bread' and live the life you have always dreamed of.

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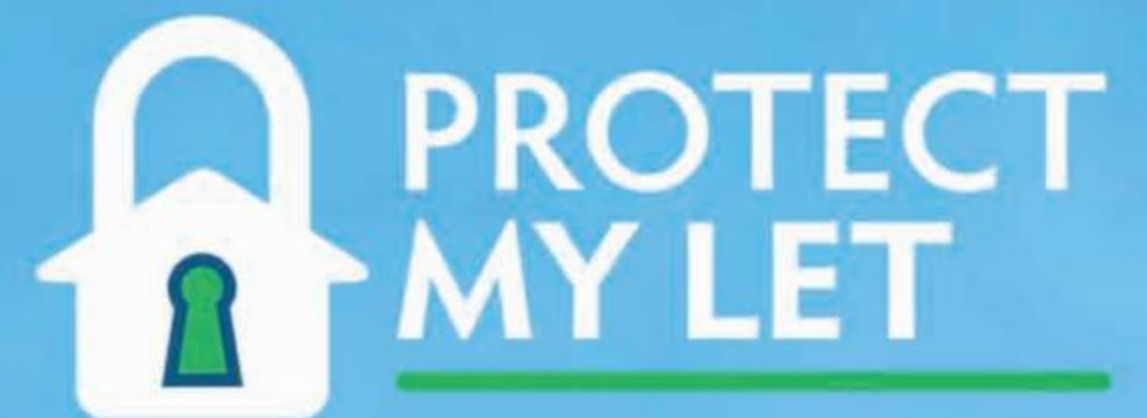


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