GENERATING PAPER-PROFITS THROUGH LEASE EXTENSIONS

Interview & words: **Raj Beri**

JASON PATTERSON
SHORT LEASE KING

There are many ways to add value to property projects. Most of these approaches require some form of property development or refurbishment. However, there are a handful of approaches where profits can be realised without the necessity of a refurbishment.

These approaches are often called "paper profits", e.g. securing planning permission, then selling for profit. A less well-known approach is to extend the lease on a leasehold property (usually flats) and then refinance for equity gain or sell for profit without undertaking **ANY** work.

Jason Patterson is a master of the "lease extension" approach and has done dozens of projects over a 20-year period. Some have been refinanced to hold long-term. Others have been sold for profit – a "paper profits" exercise (or what Jason calls the "paper version of the BRR model").

In this article we focus on his paper profit projects but as he explained during the interview, the greatest profits will be generated using what he calls his "triple threat" approach. With this method, one would identify those projects where there are three ways to add value:

(1) **lease extension**;
(2) **refurbishment**, and
(3) **remodelling**,
e.g. converting a one-bedroom property to two bedrooms or two bedrooms to three.

YPN: *What did you do before investing in property and when/why did the property bug bite?*

Jason: I worked in Sainsburys stacking shelves, working on the tills and pushing trollies for 11 years. This overlapped with the tutoring and lecturing jobs I had in college where I taught maths. During my time working, I realised that I wanted more from life than just working long hours to make an income. I decided that investing in property for income would be the route.

Initially, I was doing as many shifts as possible to save for a deposit, and I bought my first flat in London in 2001. New investors often don't want to do the hard graft required to succeed, such as multiple jobs or jobs they consider beneath them, but sometimes that's what it takes. Along the way, you'll pick up life skills such as team-working and discipline.

I knew nothing about the BRR approach so it was just vanilla BTLs that I purchased. Later, I came to appreciate that undertaking refurbishments and reconfigurations could add more value, and I have done multiple projects using a variety of approaches.

The first flat I bought in 2001 had just over 80 years' lease left on it, and someone advised me not to let the lease get below 80 years as the flat would start to diminish in value and a 'marriage value' would have to be paid to the freeholder to extend the lease.

I managed to contact the freeholder and asked them to extend the lease. He actually asked my age and where I worked – and I think he felt a bit sorry for me so allowed me to extend the lease in 2002 for £1,000.

YPN: *When did you realise the power of lease extensions as a method to add value?*

Jason: This happened due to the changing mortgage climate. Just after the credit crunch (2007-2008), I had around eight properties with Birmingham Midshires and they changed the rules, which meant that I could not have more than three mortgages with them. However, they were OK to retain my business but were unable to offer me any refinance options to release equity.

I decided to move four properties from BM Solutions to TMW. The report from the surveyor advised that TMW would accept three of the properties and allow equity release, but not the fourth property as it only had 72 years left on the lease.

The surveyor advised me to contact the freeholder to extend the lease then go back to TMW for the remortgage/equity release. I approached the freeholder directly (voluntary method) and managed to extend the lease to 999 years after purchasing the freehold from the freeholder, once I paid the premium to purchase the freehold.

I then began to realise the power of lease extensions as a way to add value to leasehold flats, so from 2008-2009 I started to purposefully look for flats with short leases and changed my approach/strategy.

YPN: *Could you go through the methods you have deployed to maximise the value you add to flats you have purchased?*

Jason: The first method to add value is to simply extend the lease. With less than 80 years remaining on the lease, flats start to diminish in value. The lower the lease period remaining, the more it will cost to extend the lease. This also means that it's possible to make more profit by extending the lease. Secondly, one could also reconfigure the flat from one-bedroom to two-bedroom, or two-bedroom to three-bedroom and this can add significant value. Finally, you can refurbish a flat that is in poor condition.

If you combine all three value-adding ploys, this will maximise the profit – this is what I call the triple threat.

J PATTERSON PROPERTIES

The Enfield Project:
1 bed flat at the top of North London with a 64 year lease *A simultaneous purchase and lease extension*

In bold please

Purchase Costs	
Purchase Price	£155,000
25% Deposit	£38,750
75% LTV	£116,250
Survey Fee	£0
Stamp Duty (at the time)	£5,250
Solicitors Fee	£1,500
Broker Fee	£250
Costs to purchase the flat	£45,750

Lease Extension Costs	
Lease Extension Premium	£15,466
Freeholders Solicitors Fee	£1,320
My Solicitors Fee	£780
Cost of the lease extension	£17,566

Total funds required	**£63,316**

Refinanced after 6 months using the additional borrowing facility	
Surveyor Value	£225,000
75% LTV New mortgage	£168,750.00
Equity generated through lease extension	£52,500.00
Arrangement fees *added to the loan*	£999.00

Money left in the deal (£63,316-£52,500)	**£10,816.00**

Rental Income (at purchase)	
Monthly Rental Income	£1,100
Mortgage Original	£314.51
Service Charge	£93.00
Agency Fee 6%+VAT	£79.20
Profit per month before remortgage	£613.29

Rental Income (after lease extnesion & remortgage)	
Monthly Rental Income	£1,100
Mortgage New	£547.03
Service Charge	£93.00
Profit per month	**£459.97**

How many months before all your money is out?	
£10,8196/£459.97	**24 months**

(So approximately 24 months to achieve Infinite ROI)

The Enfield Project

YPN: *In terms of leasehold length, is there a sweet spot to maximise profit?*

Jason: With my approach, the ideal remaining lease length is anywhere between 55-80 years. The main reason this is my sweet spot is because I can still secure mortgages on these types of flats, the rate is the same as a normal BTL mortgage, but with a shorter term.

I appreciate that agents might advertise a property as "cash-buyers only" due to a lease being less than 80 years, but the reality is you can still get a mortgage. Some lenders may require you to purchase and extend the lease simultaneously; some may allow you to purchase the flat and then extend it within the first two-three years.

If the lease is less than 55 years, it's then a case of using cash or bridging finance. With the latter, the bridger may require that you extend the lease before the end of the bridge term. Another bridging lender may insist that you serve a section 42 notice between exchange and completion. There are also hybrid products. This is where the lender will agree to lend on the purchase of the flat and the cost of extending the lease but will require a 25-35% deposit.

YPN: *Will your methodology to add paper profits via lease extension work everywhere?*

Jason: Although my own focus on short-lease extensions is in London, I do have students who have made this approach work elsewhere in the country. One client is based in Rugby and he has a flat in a block of six flats. Two flats in the same block came up for sale and both had short leases. We went through the figures and it was clear that the deals would stack up for the lease extension strategy. The figures we calculated indicated that he could create around £20,000 uplift based on the current values of £75,000-£80,000.

Once he has completed the process, he then has the choice of selling them for profit or refinancing to release equity and repeat the process. I have examples of success stories in Birmingham, Kent and other locations. It should be possible to implement this process with houses, as some cities like Leeds and Liverpool have leasehold houses. I believe this approach will work anywhere in the country. But, as with all property investment approaches, one has to first gain the necessary knowledge and then undertake due diligence.

YPN: *There are big changes on the horizon for leasehold properties through the Leasehold and Freehold Reform Act – what are your thoughts on that?*

Jason: The act is now law and received Royal Assent on the 24th May 2024. However, amendments and the timetable of changes under the new government are yet to be announced and it's very likely that full implementation will take years. (***https://www.gov.uk/government/news/leasehold-reforms-become-law***)

We'll have to wait and see which parts of the act are amended, but one area is likely to be the ground rent legislation. A lot of pension funds and insurance companies own freehold properties so it might be a case of capping the ground rents or perhaps compensating these companies for loss of revenue.

YPN: *You have a lot of case studies but perhaps we could go through a few that illustrate the "paper profits" concept?*

Jason: This case study was a one-bedroom flat in Enfield, London. The flat had a 64-year lease remaining and required no works. The flat was immaculate so may have been owned by a builder. He may have shied away from the leasehold extension process and just decided to sell.

This property was brought to my attention by an agent who I have been buying from for 17-18 years, and they advised me three to four weeks before it came on the market. I viewed the flat and bought it for £155,000 using a standard BTL mortgage. In this instance, the vendor had already contacted the freeholder and obtained a lease extension quote. I therefore had an accurate budget figure of around £20,000 in costs for the lease extension process including the lease extension premium.

For this project, the process I followed was the voluntary lease extension by making direct contact with the freeholder, and no section 42 notice was served. With this method, the lease can be extended by anything from 99 years to 999 years (with section 42, it can only be extended by 90 years with peppercorn ground rent).

My professional team include: a lease extension solicitor, a lease extension surveyor and a mortgage broker.

On another paper profits deal, I also bought the freehold. The property was a flat with 72 years remaining on the lease. Once again, the flat required no work and I negotiated directly with the freeholder using the voluntary route of lease extension. The main reason I follow this approach is to negotiate a 999 years' lease extension and if possible, try and buy the freehold.

The flat was purchased with a mortgage. I then wrote to the freeholder and managed to get a quote for the lease extension and for the freehold purchase. I managed to buy the freehold but before doing so, I had to advise the owner of the other flat in case they were interested in buying the freehold jointly with me.

Their flat also had 72 years left on the lease but they didn't want to buy a share of the freehold, so now they will have to contact me if they want to extend the lease as I am the freeholder. Any investor should always explore the possibility of buying the freehold when they are extending any lease as this will generate further income if any of the other flat owners want to extend the lease in the future.

Another deal is worth mentioning because readers can then appreciate the full scope of this strategy. This flat had a short lease and also needed a refurbishment. I purchased it with a mortgage and also managed to buy the freehold. The flat came with an unused parking space. The other flat also had a parking space, which I bought after the owner split the title to create one for their flat, and one for the parking space.

Both parking spaces are now on one title and have effectively become a plot of land large enough to build a three/four-bedroom house (someone has already done this across the road).

***YPN:** In all the years you have been deploying this approach, where have your deals come from?*

Jason: Sourcing deals has been through a variety of methods, but quite a few have come from agents I have known for many years, who often let me know of potential deals before they are advertised for sale. A second method which has worked for me is using portals like Rightmove, Zoopla, Property Filter, Nimbus maps, perhaps focusing on properties that have been on the market for some time (cash-purchase only). Other leads come from my property contacts, neighbours, social media, auctions (pre or post auction), and direct contact with councils and housing associations where I have some properties on social housing contracts with them.

***YPN:** What are your plans for the future?*

Jason: I have worked tirelessly over the last 20 years and managed to hit all my financial goals: significant monthly cashflow, dream house, dream car and holidays every few months. However, I have set myself a challenge of doing one big deal in central London (Zone 1) and pitting my knowledge and skills against The Crown or Grosvenor Estate lawyers who own many of these properties.

I also love mentoring others so I may expand that side of my business. I still do some private maths tuition to keep busy and to retain the skillsets I have developed. Very few entrepreneurs stop working when they have reached their goals and I have the same mindset. The rest of my time is spent with family and on my daily workout routine in the gym.

***YPN:** What would your top tips be for anyone looking to implement this approach?*

Jason: To make a profit, it's important to ensure that your end value is correct. That combined with an accurate lease extension figure will ensure that the property is purchased at the right price. I always try to achieve a minimum uplift in value of 20-25%. In calculating the lease extension premium, online calculators should be combined with using a lease extension surveyor to get an accurate price.

Contact

If readers want further details about Jason's expertise, please contact him directly via