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Short Lease's

What is a short lease on a flat?

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Short Lease's:

What you need to know

86 - 90 years remaining will make it difficult to sell

Many estate agents will tell you that attempting to sell a flat with a lease of 90 years or less is going to be difficult. This is because many buyers recognise that a lease with this number of years remaining may be something to be concerned about. Even if your buyer is not personally aware that the short lease is an issue; when their residential conveyancing lawyer reviews the lease and reports to them, the lawyer is likely to highlight the risks associated with the shorter lease and that the buyer will need to extend the lease in the near future.

83 - 85 years remaining will cause mortgage problems for buyers

Selling a flat with a short lease becomes even more difficult where the remaining lease term is less than 85 years. This is due to many mortgage lenders not being willing to lend on leasehold properties that have a lease of 85 years remaining or less. This means that many potential buyers would not be able to get a mortgage on the property, leading to there being a significantly smaller pool of potential buyers. You may be limited to cash buyers or investors and these types of buyers may also be more likely to drive a hard bargain in terms of the sale price, using the short lease as a bargaining tool against you.

80 - 82 years remaining: extending the lease is more expensive for the buyer

The closer the remaining lease term gets to 80 years remaining, the harder the flat will become to sell. This is particularly the case where there is only 80 - 82 years remaining, or where there would be less than 82 years remaining at the point your sale would complete. This is because the buyer would not have the statutory right to extend the lease until they had been the registered owner for two years. By this time the lease would have reduced to less than 80 years remaining. Where the remaining term of a lease falls below 80 years, it becomes significantly more expensive to extend the lease. Your buyer will be made aware of this by their conveyancing lawyer.

Therefore, if the lease on your flat has less than 82 years remaining at the point it will be sold, it is likely to be difficult to sell, or any buyer is likely to negotiate hard to reduce the purchase price, knowing that they will need to wait two years before extending, by which time the cost of extending the lease will be significantly higher.

79 years or less remaining: the lease extension will be materially more costly

Where the short lease on your apartment has 79 years remaining or less, this will be of material concern to buyers. Or a potential buyer will use this fact to negotiate down the purchase price. This is because it becomes significantly more expensive to extend a lease once the remaining term falls below 80 years and your buyer will be made aware of this by their conveyancing lawyer, if they are not aware already. It is strongly recommended that leaseholders extend their lease before the remaining lease term decreases to less than 80 years, whether they are intending to sell the flat or not.

A leasehold property with a decent length lease (100+ years) should sell relatively easily. Generally though, the shorter the lease (particularly under 90 years), the lower the asking price will be. Where a lease is considered short it can knock off tens of £1,000s.

If a lease is under 80 years it's considered dangerous territory and can make a property difficult to sell or remortgage if you already own it, while for buyers, lenders may be unwilling to give you a mortgage on it. This is why it can become necessary to extend your lease.

It's in the interest of a freeholder to you let your lease drop below 80 years (even by just one day). This is because at that point the freeholder will rake in the cash, as after that you will pay 50% of the property's 'marriage value', on top of the usual lease extension price. Marriage value applies when a lease drops to less than 80 years in length, and is a cost the leaseholder must pay to the freeholder.

In rough terms, marriage value is equal to the increase in the value of a property once its lease has been extended – and the freeholder is entitled to a 50% share of this increase. So for example if your property was worth £500,000 with a healthy lease and you allowed it to drop below 80 years, and it becomes mortgageable, the freeholder could claim its only worth around £400,000 to a cash buyer or an investor. So if he as to renew the lease, the increase in the property would be £100,000 after a lease extension – and provided your lease was less than 80 years in length – then your freeholder would be due around £50,000.





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