



**Bernie Wales, FloD, FIRPM**

**14<sup>th</sup> June 2021**

# Surrey Property Exchange :: 14<sup>th</sup> June 2021

## Bernie Wales, FIoD, FIRPM

- **40+ years' hands-on experience** with leasehold management and investment
- Started first company in 1984; Crabtree Property Management Ltd ... which was sold in 2002/2003, when managing 10,000+ units
- **First-tier Tribunal / Leasehold Valuation Tribunal** appointed **Manager**
- Consultant to national developers; such as **Barratt Homes, Fairview New Homes**
- Founding Fellow of the **Institute of Residential Property Management**
- Fellow of the **Institute of Directors**
- Speaker on
  - Simon Zutshi's Property Mastermind Programmes
  - Progressive Property Network's Commercial to Residential Conversions courses
  - Joe and Jane Harling's Advanced Property Conversions

**Short Leases**  
**... And What To Do About Them**  
**(with a Leasehold Reform update)**

by

**Bernie Wales**

FloD, FIRPM

# Short Leases ... And What To Do About Them

What is a Short Lease?

# Short Leases ... And What To Do About Them

Short Leases do not really exist.  
They are long leases which have been  
worn away by the effluxion of time.

For example:

A lease with a term of 99 years from 25<sup>th</sup> March 1992  
... will currently have about 70 years unexpired.

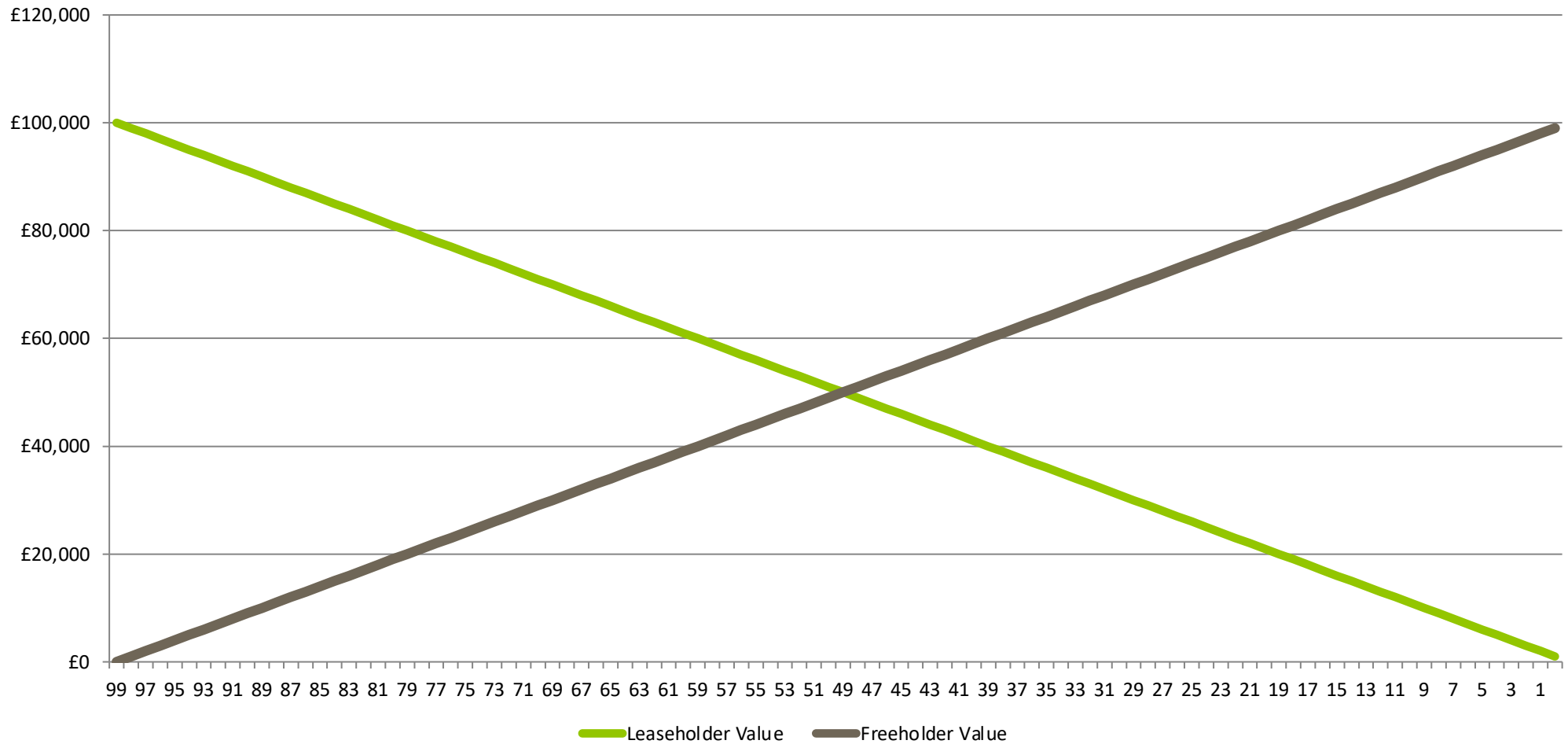
# Short Leases ... And What To Do About Them

Sellers often see a 'Short Lease' as a problem.

(Actually, it's normally their estate agent who sees it as a problem.)

- The flat may be **un-mortgage-able**
- Freeholder will charge **£???,000 for a lease extension**
- The lease depreciates faster and faster every year ... so **the cost gets bigger and bigger every year**

# Short Leases ... And What To Do About Them



# Short Leases ... And What To Do About Them

If you are a seller, or a buyer, or just extending:

Gather information, including:

- **The original term and date of the lease;** e.g. 99 years from 25<sup>th</sup> March 1992
- **The original ground rent;** e.g. £50 per annum
- **The ground rent review dates and amounts;** e.g. 25<sup>th</sup> March 2025 £100pa  
and
- **The value of the flat with its current 'short lease';** e.g. £250,000
- **The anticipated value of the flat with an extended lease;** e.g. £300,000



# Short Leases ... And What To Do About Them

But there are some things to bear in mind:

- The Leaseholder's Notice
- Costs
- Valuer & Solicitor
- Do You Qualify?
- Marriage Value

# Short Leases ... And What To Do About Them

What do I do?

For a freeholder

OR

For a leaseholder

# Short Leases ... And What To Do About Them



**Watch out for the friendly Freeholder. She's up to something!**

# Short Leases ... And What To Do About Them

Leasehold Reform Housing & Urban Development Act 1993  
(as amended)

90 years, plus the original term  
Peppercorn ground rent

# Short Leases ... And What To Do About Them

Leasehold Reform Housing & Urban Development Act 1993  
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90 years, plus the original term  
Peppercorn ground rent

**Provided you have owned the lease for two years**

# Short Leases ... And What To Do About Them

## The Leaseholder's Notice

### “Section 42 Notice”

Section 42(3) of the Leasehold Reform Housing & Urban Development Act 1993

- Must be in the prescribed form
- Must contain no inaccuracies or misdescriptions

Serving the Notice fixes the valuation date ...  
and triggers a set of procedures for both parties

# Short Leases ... And What To Do About Them

## Costs

From the date the Landlord receives the Notice,  
the Leaseholder will be responsible for the Landlord's "reasonable costs"

Legal expenses

Valuation expenses

# Short Leases ... And What To Do About Them

## Valuer and Solicitor

Dealing with a Lease Extension is a specialist exercise. Use experts.

ALEP [www.alep.org.uk](http://www.alep.org.uk)

LEASE [www.lease-advice.org.uk](http://www.lease-advice.org.uk)



# Short Leases ... And What To Do About Them

## Do You Qualify?

There are a number of factors affecting whether a Leaseholder qualifies for an extension, including

**You must have owned the lease for two years**

So, if you're a buyer ...

# Short Leases ... And What To Do About Them

## Marriage Value

Marriage value is, in short, the increase in value of the flat created by the extension process – and comprises a combination of the Landlord's interest in the property and the Leaseholder's interest in the property.

**For leases having more than 80 years unexpired, the law states that marriage value is ignored in the valuation process.**

# Short Leases ... And What To Do About Them

## Leasehold Reform

On 7<sup>th</sup> January 2021 the Housing Minister; Robert Jenrick announced the government's intention to make significant changes to leasehold law, including:

- Statutory lease extensions to change from +90 to +990 years
- Publication of an online database for lease extension premiums
  - Reduced costs for leaseholders
  - Abolition of Marriage Value

Leasehold Reform (Ground Rents) Bill ... second reading in HoL last week.

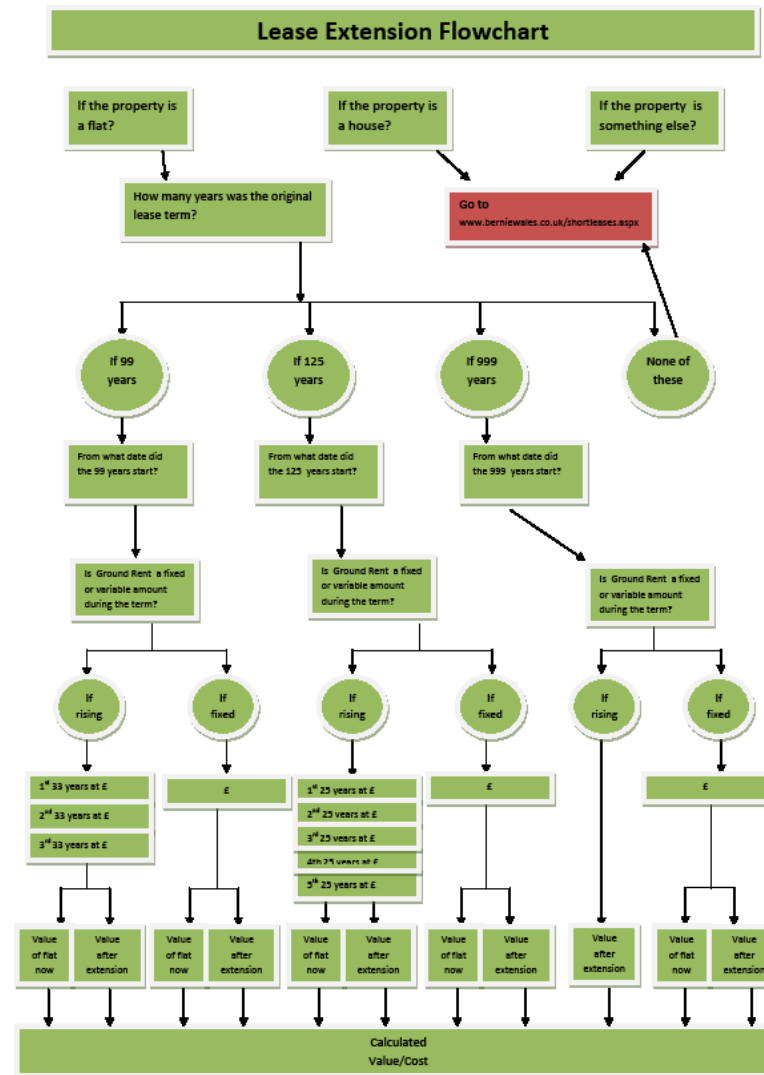
# Short Leases ... And What To Do About Them

Google “Bernie Wales Short Leases”

or go to

[www.BernieWales.co.uk/short-leases](http://www.BernieWales.co.uk/short-leases)

# Lease Extension Flow Chart



# Short Leases



**Freehold to Leasehold  
Title Splitting**  
**(including a Leasehold Reform update)**

by

**Bernie Wales**

FloD, FIRPM

# Freehold to Leasehold Title Splitting





# Freehold to Leasehold Title Splitting

How much?

- Shaving foam multipack    £800,000
- Shaving foam cans        £200,000 x6
- Total profit excluding costs    £400,000                    50%ROI

# Freehold to Leasehold Title Splitting

How much?

- Shaving foam multipack    £800,000
- Shaving foam cans        £200,000 x6
- Total profit excluding costs    £400,000                    50%ROI

**WRONG !**

# Freehold to Leasehold Title Splitting

How much?

- Shaving foam multipack £800,000
- Shaving foam cans £200,000 x6
- **Cardboard container** **£ ??,000**
- Total profit excluding costs £ ???,000

# Freehold to Leasehold Title Splitting

What are you selling  
at the end of your project?

# Freehold to Leasehold Title Splitting

What are you selling  
at the end of your project?

**The flats**

# Freehold to Leasehold Title Splitting

**You are not selling the flats.**

**You are selling leases ...**

... which entitle the buyers to rent the flats  
for an awfully long time; e.g. 125 years.

# Freehold to Leasehold Title Splitting

Correct lease wording creates extra Freehold Value

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# Freehold to Leasehold Title Splitting

Correct lease wording creates extra Freehold Value

- Ground rent (Note: see Leasehold Reform update later)
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# Freehold to Leasehold Title Splitting

Correct lease wording creates extra Freehold Value

- Ground rent rental income
- Buildings insurance
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# Freehold to Leasehold Title Splitting

Correct lease wording creates extra Freehold Value

- Ground rent                      rental income
- Buildings insurance      commission on annual premium
- Management
- 
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# Freehold to Leasehold Title Splitting

Correct lease wording creates extra Freehold Value

- **Ground rent**                      rental income
- **Buildings insurance**      commission on annual premium
- **Management**                      fees for managing the property
- **Hope value**
-

# Freehold to Leasehold Title Splitting

Correct lease wording creates extra Freehold Value

- **Ground rent**                      rental income
- **Buildings insurance**      commission on annual premium
- **Management**                      fees for managing the property
- **Hope value**                      future development/income potential
- **Possession**

# Freehold to Leasehold Title Splitting

Correct lease wording creates extra Freehold Value

- Ground rent                      rental income
- Buildings insurance      commission on annual premium
- Management                      fees for managing the property
- Hope value                      future development/income potential
- Possession                      at the end of the lease term

**So you need to get the lease wording optimised.**

# FREEHOLD TITLE SPLITTING and FREEHOLD SALES

## Leasehold Information Checklist

1. HM Land Registry freehold title search and title plan.
2. Full contact details for your solicitor.
3. Floor plans (and elevations) of the completed/final layout.
4. Site plan to include parking spaces, bin areas, gardens, etc.
5. Outline description of the project.
6. Approximate build timetable and sales/marketing date.
7. When were the sloped roofs last renewed? And what is the construction; e.g. concrete tiles / welsh slate.
8. Are there any flats roofs? And when were they last renewed?
9. Is there a loft space above the upper flat(s) – even if minute?
10. Are all the floors concrete? If not, please supply details.
11. Please supply a copy of the buildings insurance policy.
12. When was the exterior last redecorated? And what finish?
13. Please provide a plan/sketch showing the dustbin area.
14. Are dustbins and recycling bins being provided?
15. Please provide a plan/sketch showing the cycle store.
16. Supply details of the Landlord's electricity supply.
17. Is there any exterior lighting? If yes, please specify.
18. Is there a communal video entryphone system?
19. Is there a communal TV aerial system?
20. Is there internet cabling to/within each flat? Please detail.
21. Are there any lifts? If yes, please supply copy agreement.
22. Is there broadband wired into each flat?
23. Are there any unusual services; e.g. broadband for CCTV?
24. Are there any other mechanical services?
25. Are there any other maintenance agreements?
26. Is the common parts stairway carpeted?
27. Are there any wood laminate floor coverings?
28. Do you own any neighbouring property?
29. Please supply floor areas for each flat.
30. Is parking allocated/sold to specific flats?
31. Are there any peculiarities about the property and/or the surrounding land?
32. Is there any history of asbestos at the building?
33. Has a H&S Risk Assessment been carried out?
34. Are there any mobile masts at the property?
35. Is there any possibility of further development?
36. Full contact details for your estate agent.
37. What is your marketing and sales timetable?
38. Is there anything else you think I (or your solicitor) should know – however trivial or insignificant?

# Freehold to Leasehold Title Splitting

## Case Study #1



£350,000

Purchase

£500,000

Flat Sales 4x £125k

£150,000

42.8% ROI

excluding legal costs etc



# Freehold to Leasehold Title Splitting

## Case Study #1



£350,000	Purchase
<u>£500,000</u>	Flat Sales <small>4x £125k</small>
£150,000	42.8% ROI
<u>£ 24,000</u>	Freehold
£174,000	49.7% ROI
excluding legal costs etc	

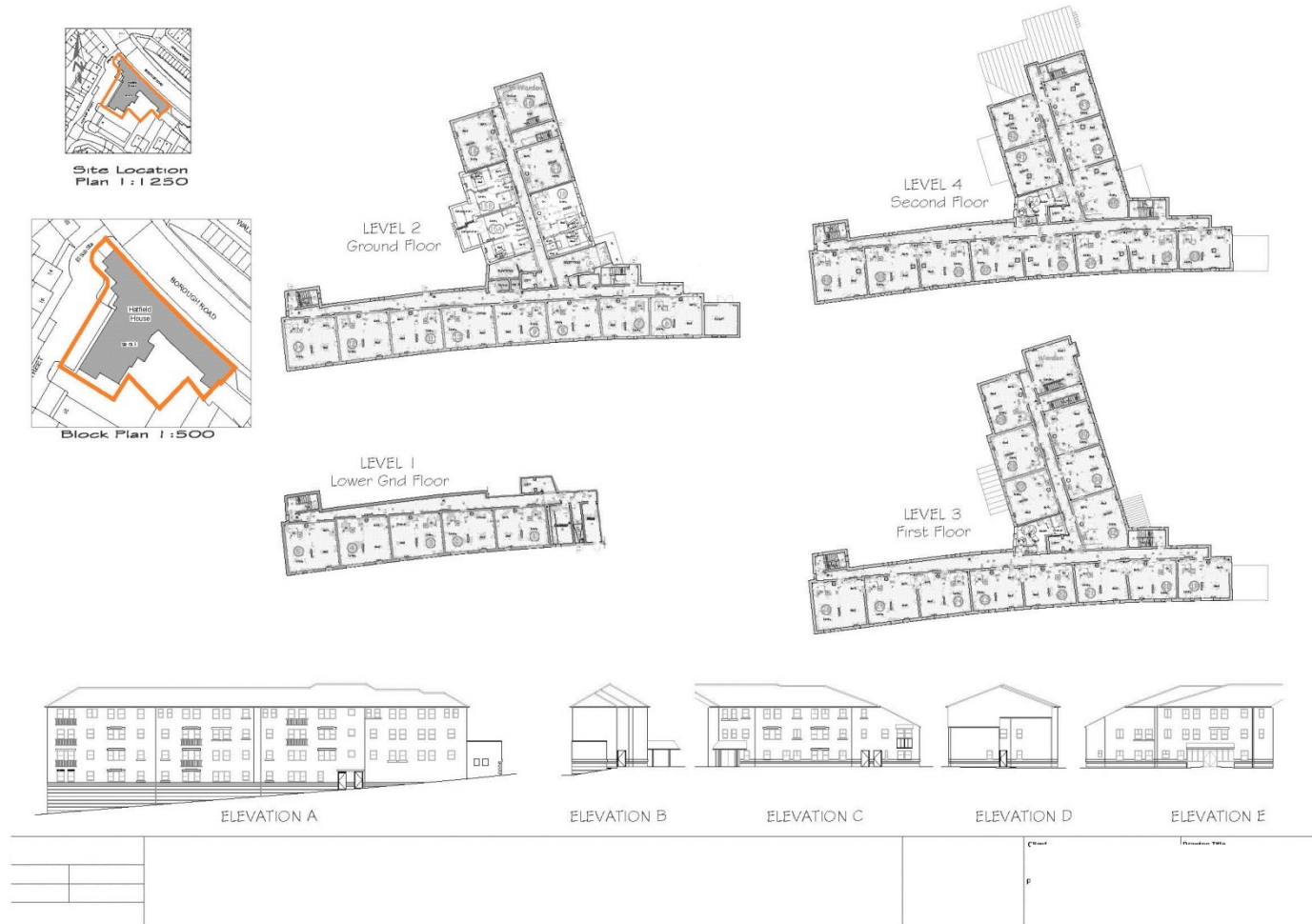


# Freehold to Leasehold Title Splitting

## Case Study #2



# Freehold to Leasehold Title Splitting



# Freehold to Leasehold Title Splitting



## Case Study #2

£ 850,000	Purchase
£ 250,000	Refurb + Costs
<u>£1,840,000</u>	Flat Sales
£ 740,000	67.3% ROI
<u>£</u>	Freehold
£	
excluding legal costs etc	

# Freehold to Leasehold Title Splitting



## Case Study #2

£ 850,000	Purchase
£ 250,000	Refurb + Costs
<u>£1,840,000</u>	Flat Sales
£ 740,000	67.3% ROI
<u>£ 294,000</u>	Freehold
£1,034,000	94% ROI
excluding legal costs etc	

# Freehold to Leasehold Title Splitting

## Plan Ahead – Do These Early

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# Freehold to Leasehold Title Splitting

## Plan Ahead – Do These Early

- Consult with your solicitor and Bernie early
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# Freehold to Leasehold Title Splitting

## Plan Ahead – Do These Early

- Consult with your solicitor and Bernie early
- Clarify legal costs and provide instructions early
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# Freehold to Leasehold Title Splitting

## Plan Ahead – Do These Early

- Consult with your solicitor and Bernie early
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- Clarify if build program needs tweaks to aid sales/mgt
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# Freehold to Leasehold Title Splitting

## Plan Ahead – Do These Early

- Consult with your solicitor and Bernie early
- Clarify legal costs and provide instructions early
- Clarify if build program needs tweaks to aid sales/mgt
- Clarify freehold value and sales timetable
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# Freehold to Leasehold Title Splitting

## Plan Ahead – Do These Early

- Consult with your solicitor and Bernie early
- Clarify legal costs and provide instructions early
- Clarify if build program needs tweaks to aid sales/mgt
- Clarify freehold value and sales timetable
- Ensure your solicitor has flat sales info; e.g. LPE1
-

# Freehold to Leasehold Title Splitting

## Plan Ahead – Do These Early

- Consult with your solicitor and Bernie early
- Clarify legal costs and provide instructions early
- Clarify if build program needs tweaks to aid sales/mgt
- Clarify freehold value and sales timetable
- Ensure your solicitor has flat sales info; e.g. LPE1
- Ensure estate agent has flat sales info; e.g. lease term, ground rent and service charge info

# Freehold to Leasehold Title Splitting

**Beware!**

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# Freehold to Leasehold Title Splitting

**Beware!**

- Double-check flat sale prices
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# Freehold to Leasehold Title Splitting

**Beware!**

- Double-check flat sale prices
- Tell your mortgage broker and solicitor the whole story
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# Freehold to Leasehold Title Splitting

**Beware!**

- Double-check flat sale prices
- Tell your mortgage broker and solicitor the whole story
- Double-check your alternative exits
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# Freehold to Leasehold Title Splitting

**Beware!**

- Double-check flat sale prices
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- Double-check your alternative exits
- Tell your mortgage broker and solicitor the alternatives
-



# Freehold to Leasehold Title Splitting

## Beware!

- Double-check flat sale prices
- Tell your mortgage broker and solicitor the whole story
- Double-check your alternative exits
- Tell your mortgage broker and solicitor the alternatives
- Double-check the suggested mortgage product/provider is right for title splitting

# Freehold to Leasehold Title Splitting

## Beware!

- Double-check flat sale prices
- Tell your mortgage broker and solicitor the whole story
- Double-check your alternative exits
- Tell your mortgage broker and solicitor the alternatives
- Double-check the suggested mortgage product/provider is right for title splitting
- **Have a written JV Agreement; covering the good points and bad! What happens if it all goes wrong?**

# Freehold to Leasehold Title Splitting

## Case Study #3

£ 435,000	Purchase
£ 624,500	Development
<u>£1,223,000</u>	Flat Sales
£ 163,500	15.4% ROI
<u>£</u>	Freehold
£	



# Freehold to Leasehold Title Splitting

## Case Study #3

£ 435,000	Purchase
£ 624,500	Development
<u>£1,223,000</u>	Flat Sales
£ 163,500	15.4% ROI
<u>£ 72,900</u>	Freehold
£ 236,400	22.3% ROI



# Freehold to Leasehold Title Splitting

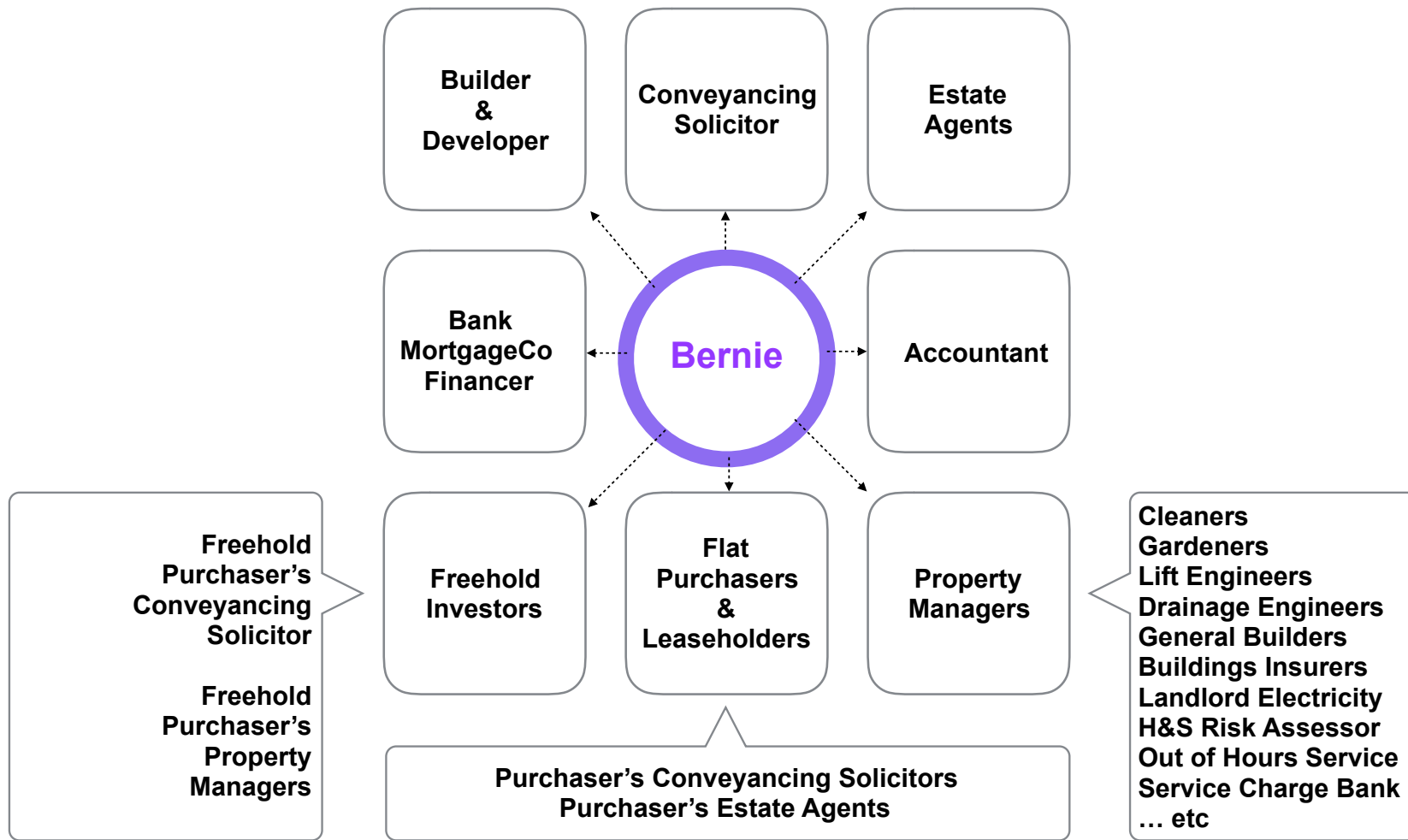




# Freehold to Leasehold Title Splitting



**£5,000 fine for charging ground rent in excess of a peppercorn !**

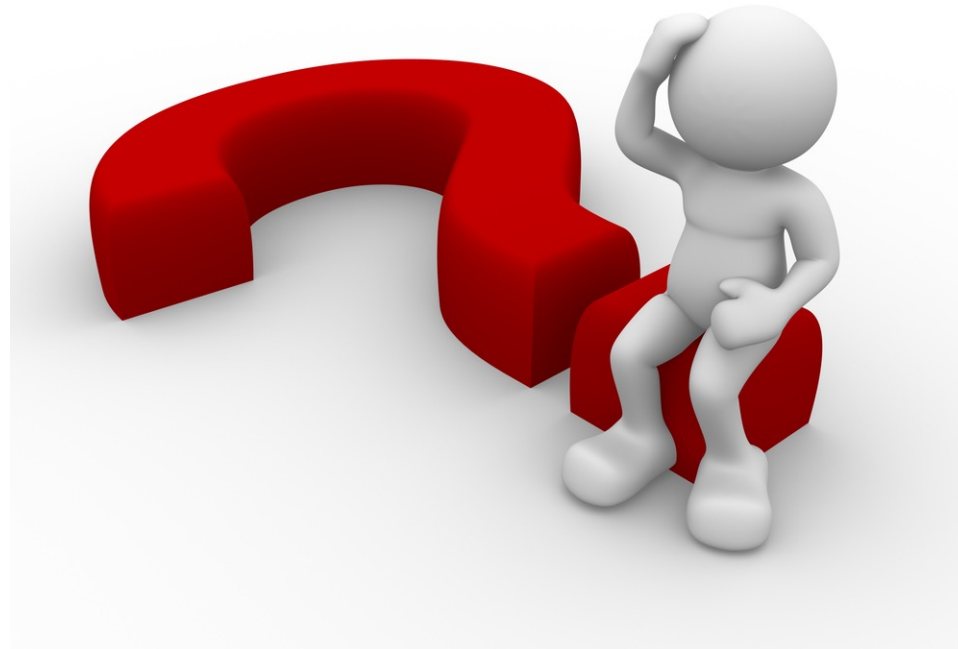


# What can Bernie do for you?

1. Drafting and supplying the new lease OR amending your solicitor's favorite lease, as required for the specifics of your project/building.
2. Ensuring the lease is drafted to maximize the residual freehold value – whilst also ensuring the lease clauses meet the purchasers' solicitor's expectations and thus do not prejudice the individual flat sales.
3. Preparation of individual lease plans for each flat/unit – in line with the wording of the lease and to meet HM Land Registry requirements.
4. Advice on building works to carry out during construction / conversion / refurbishment which will aid later management and thus flat sales (if needed).
5. Preparation of a detailed 5 Year Service Charge Budget, for pre-sales enquiries and/or estate agent information.
6. Completion of form LPE1 for flat pre-sale enquiries.
7. Completion of form LPE1 for freehold pre-sale enquiries.
8. One-to-one advice for you and your solicitor on property management matters and flat pre-sale enquiries (if requested).
9. Marketing the residual freehold to suitable ground rent investors and institutions, to obtain favourable offers and any associated terms.
10. Providing advice for you on the offers obtained and the suitability of potential freehold purchasers.
11. Drafting and circulating Heads of Terms for the freehold sale, to both parties solicitors and answering associated questions and queries.
12. Monitoring and managing the freehold sale process, pushing both solicitors as required.
13. Specific information for you and your solicitor on freehold sale matters – including the avoidance of Section 5 Notices.
14. Handling interim property management matters, and ensuring appropriate compliance issues, between first flat sale and final freehold sale.
15. Handling interim service charges and providing client banking facilities, compliant with Landlord & Tenant legal requirements.
16. Ensuring a smooth handover of property management practicalities and paperwork to the new freeholder's managing agent.
17. Handling new leaseholder enquiries and practicalities throughout.
18. Ensuring best value for you, the developer freeholder, throughout.



# Freehold to Leasehold Title Splitting



**[www.BernieWales.co.uk](http://www.BernieWales.co.uk)**

**[www.BernieWales.co.uk/consultation-appointment](http://www.BernieWales.co.uk/consultation-appointment)**

# Anything Leasehold Related



**[www.BernieWales.co.uk](http://www.BernieWales.co.uk)**

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