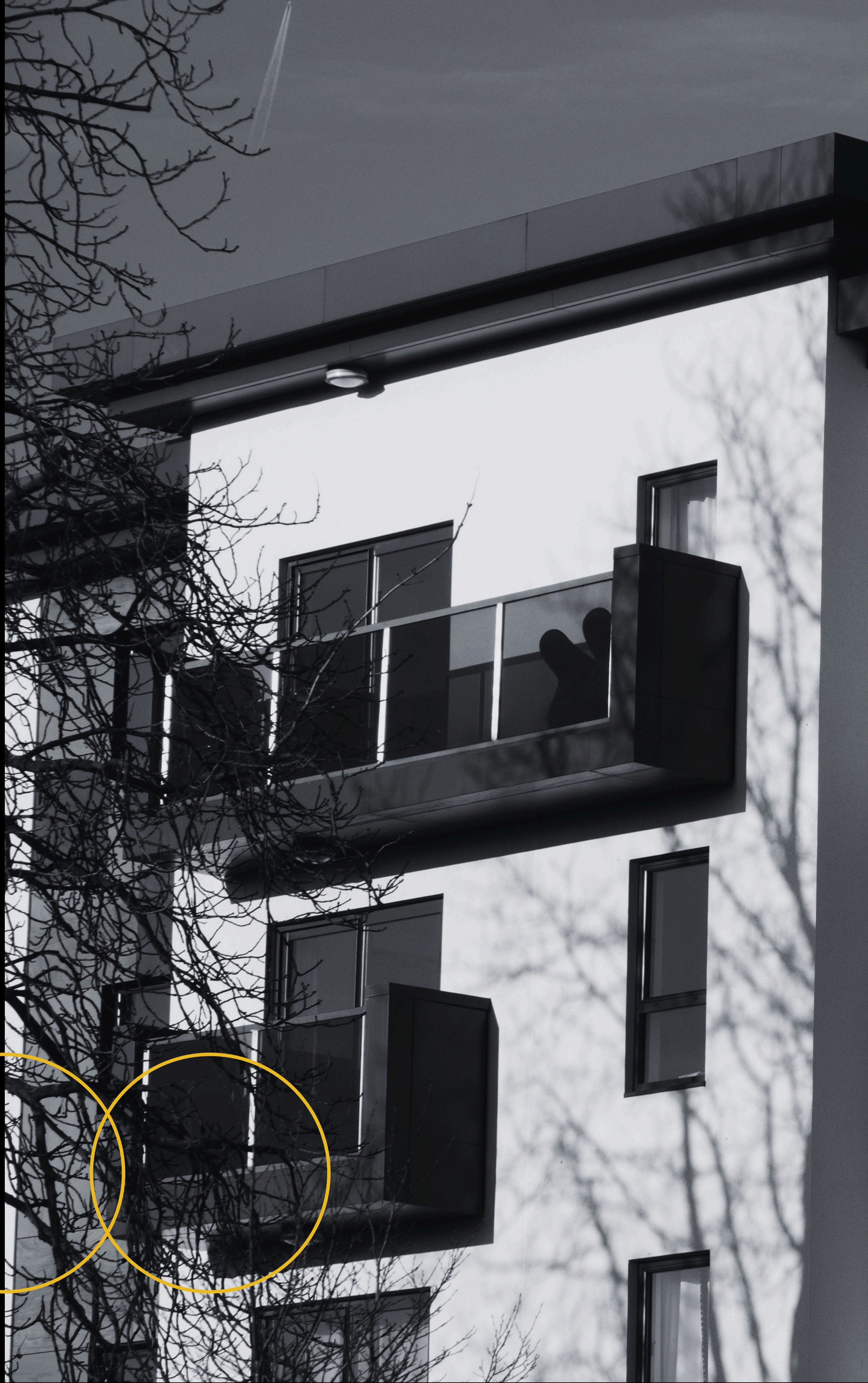
Finanze®
CAPITAL
It's personal.®

# Lease Extension Finance



Alastair Hoyne, CEO - Finanze Capital

# Executive Summary

## Strategies for Maximizing Value

### Purchase Opportunity

Buying properties with short leases allows investors to **capitalize on price discounts** that arise from limited buyer interest, ensuring an immediate financial advantage upon acquisition.

### Lease Extension

Extending the lease transforms assets, improving their **marketability and sale potential**, thus increasing the overall value and appeal to a wider range of buyers and lenders.

### Specialized Financing

Utilizing tailored finance solutions helps bridge the funding gap needed for **purchase and lease extension costs**, allowing investors to maximize their investment without compromising their financial strategy.

# Property Types Investors Seek

## Key Characteristics of Opportunities

### Residential Leasehold Flats

Investors focus on **residential leasehold flats** where the remaining lease terms are short, significantly affecting mortgageability and overall buyer demand in the market.

### Short Remaining Terms

Properties with leases of **less than 80 years** are typically less desirable, creating opportunities for investors to purchase at discounted prices and add value through extensions.

### Central City Locations

Central city flats are often sought after due to their high demand; however, **probate or motivated-sale stock** can present unique investment chances to capitalize on potential value increases.

# The Value Problem

## Understanding the Impact of Short Leases on Value

### Lease Term Reduction

As lease terms decrease, demand falls, reducing property value and causing pricing inefficiencies in the market for investors.

### The 80-Year Threshold

Properties below this threshold face significant value loss due to marriage value, impacting buyer confidence and lender interest.

### Additional Lease Factors

High ground rents and escalating clauses further diminish saleability, creating additional challenges for investors in short-lease properties.

# Leasehold Reform Insights

Understanding Recent Legislative Changes

### Ground Rent Act

The **Leasehold Reform (Ground Rent) Act 2022** introduces peppercorn ground rents for most new residential leases, promoting greater affordability and creating more attractive investment opportunities for buyers and investors.

### Reform Act 2024

The **Leasehold and Freehold Reform Act 2024** enhances lease extension rights and building management, offering increased transparency and encouraging investors to consider lease extensions as a viable investment strategy.

### Need for Advice

Despite favorable reforms, **professional guidance** remains essential as individual circumstances vary; understanding the nuances of each case is crucial for successful lease extension investments and financing.

# Statutory vs Informal

Comparing Lease Extension Methods for Investors

### Statutory Route

The formal route involves a detailed process, including valuation, serving notice, and possible tribunal, ensuring legal protections are in place.

### Informal Negotiation

This method can expedite the process but lacks the same legal safeguards, potentially exposing investors to greater execution risks.

### Key Considerations

Investors must weigh certainty, timing, costs, and lender confidence when choosing between statutory and informal approaches for lease extensions.

# Lease Term Outcomes

Understanding the Impact of Lease Extensions

## Historic Extensions

The historic statutory flat extension adds **90 years** to the existing term, significantly reducing ground rent to a **peppercorn** amount.

## Reform Direction

Recent reforms indicate a shift towards **990-year extensions** at zero ground rent, enhancing the long-term value and viability of properties.

## Informal Negotiations

Informal 999-year negotiations may offer flexibility but require thorough **review of ground rent** clauses and freeholder terms to ensure viability.

# The Lease Extension Process

### Identify Property

Assess the property and determine the **value gap** between the short lease and its potential extended value.

### Specialist Valuation

Obtain a detailed **valuation** and premium estimate from a qualified surveyor to inform your next steps in the process.

### Statutory Route

Choose the statutory process if formal protections and procedures are necessary to secure your lease extension effectively.

### Structure Finance

Determine how to **structure financing** around the purchase, premium, and any required renovations to optimize your investment.

# Professional Team Overview

## Lease Extension Solicitor

The lease extension solicitor manages the legal processes, ensuring compliance with all statutory requirements and protecting client interests throughout.

## Specialist Valuer

A specialist valuer assesses the property's value, providing essential insights for lease extensions and guiding pricing negotiations during the process.

## Borrower's Conveyancer

The borrower's conveyancer facilitates the transaction, coordinating documents, liaising with all parties, and ensuring a smooth process from start to finish.

## Freeholder's Solicitor

The freeholder's solicitor represents the landlord's interests, handling negotiations and ensuring that any new lease agreements comply with legal standards.

## Lender's Solicitor

The lender's solicitor evaluates the loan security, ensuring all legal aspects are addressed to protect the lender's investment in the transaction.

## Lender Valuer

The lender valuer conducts a thorough assessment of the property's value, validating the loan amount and ensuring compliance with lending criteria.

# Risks and Watchouts

## Ground Rent Issues

High or escalating ground rents can severely impact property values, limiting lender appetite, and creating potential saleability obstacles.

## Service Charge Concerns

Unclear service charges and reserve funds may undermine investor economics, leading to unexpected costs and decreasing overall profitability.

## Defective Leases

Defective leases can introduce onerous covenants or missing rights, complicating transactions and delaying execution, thus increasing risk.

## Premium Disputes

Disputes over premiums and valuation gaps can lead to tribunal risks and registration delays, complicating the lease extension process.

# Understanding Lease Extension Finance

## Key Concepts Explained

### Specialist Financing

Lease extension finance is a **specialist short-term** solution designed to leverage the value created by extending a lease, addressing unique funding challenges investors face in the property market.

### Value Creation

This financing method supports the **acquisition** of properties, lease extension premiums, and execution of improvements, ultimately enhancing the asset's marketability and refinancing potential for investors.

### Tailored Underwriting

Underwriting for lease extension finance takes into account current and extended value, borrower profile, and specific legal routes, ensuring a comprehensive evaluation aligned with the **unique characteristics** of each deal.

# Finanze's Innovative Approach

Revolutionizing Lease Extension Financing

### Strategic Funding

Finanze developed a **strategy-led approach** that assesses extended lease value upfront, enabling funding for purchase, premium, and works in a single structured facility.

### Holistic Evaluation

Unlike standard bridging, Finanze considers the **completed value-creation plan**, ensuring that funding addresses both immediate purchase needs and future value enhancement through lease extensions.

### Comprehensive Support

Finanze provides investors with **specialist guidance**, helping to filter weak deals early and structure stronger opportunities based on disciplined valuation and legal clarity in lease extension financing.

# Current vs Extended Value

## Understanding Value Dynamics

### Current Value

The **current value** of an asset reflects its worth under existing lease terms, which often limits buyer demand and refinancing options. Short leases can lead to significant price discounts, making properties less attractive in the market. Investors must assess not only the current financial position but also how the lease length impacts overall asset liquidity.

### Extended Value

Extended value represents the asset's potential worth after a lease extension. This value can significantly enhance marketability and financing options, allowing for higher sale prices or improved refinancing opportunities. A successful extension requires comprehensive legal evaluations and comparable market evidence to support the estimated uplift, ensuring the investment is sound and executable.

# Valuation Evidence Insights

Supporting Premium Modelling Strategies

### Strong Evidence

Completed sales of comparable long-lease units provide **crucial insights** into market value. This evidence forms the backbone of effective premium modelling, ensuring reliable assumptions in evaluations.

### Weak Evidence

Weak evidence, such as asking prices or unsupported opinions, can mislead assessments. It's essential to avoid relying on unreliable sources that do not reflect true market conditions.

### Premium Estimation

The premium estimate should be grounded in **specialist input** rather than simplistic percentage assumptions. Accurate modelling involves a thorough analysis of all associated costs and market factors.

# Funding Waterfall

### Valuer-Supported Value

Start with the **valuer-supported** extended lease value as the foundation for assessing funding needs and opportunities.

### Assessing Costs

Evaluate the **purchase price**, extension premium, and associated professional costs to determine the overall funding requirement accurately.

### Lender Parameters

Apply lender **advance parameters** to structure the loan effectively, ensuring all potential costs are accounted for in the funding strategy.

### Allocating Funds

Allocate net funds across acquisition, premium, and professional costs, ensuring the funding approach aligns with the overall investment strategy.

# Funding Breakdown Example 1

## Purchase Plus Lease Extension

### Illustrative Deal Summary

The deal involves a **purchase price of £500,000** and a **lease extension premium** of **£100,000**. This results in an **extended value** of **£1,000,000**.

### Financing Logic

By lending **75% of the extended value**, a capacity of **£750,000** is created, which can fully support the **100% net purchase price** and fully fund the lease extension cost.

| Property Details | 1st Charge |
|---|---|
| Purchase Price | £500,000.00 |
| Lease Extension | £100,000.00 |
| Extended Value | £1,000,000.00 |
| Purpose of Loan | Purchase & Lease Extension |
| Exit | Sale/Refinance |
| **Loan Terms** | |
| Interest Rate (p/m) | 1.10% |
| Default Rate (p/m) | 2.20% |
| Interest Type | Retained |
| LTEV | 70.99% |
| LTPP | 100.00% |
| Term (months) | 12 |
| **Loan Financials** | |
| **Gross Loan:** | **£709,904.44** |
| Less Arrangement Fee | £14,198.00 |
| Less Administration Fee | £1,999.00 |
| Less Interest (Day 1) | £78,500.00 |
| Less Interest (Drawings) | £15,207.30 |
| Less Broker Fee | £0.00 |
| **NET PURCHASE LOAN** | **£500,000.00** |
| **NET LEASE EXTENSION LOAN** | **£100,000.00** |

# Funding Breakdown Example 2

Purchase, Lease Extension, Works

## Illustrative Deal Overview

This example demonstrates a **purchase price of £450,000**, a lease extension premium of **£250,000**, and works costing **£120,000**. The projected extended value before works is **£950,000** and the extended gross development value (GDV) is **£1,200,000**, showcasing the potential for value creation through strategic investment.

## Financing Logic

We lend **75% of the extended value before works** and overall **70% of GDV with works**. Within this allocation we would first fund works, followed by the lease extension and balance goes towards purchase.

| | |
|---|---|
| **Property Details** | |
| Extended Value | £950,000.00 |
| Purchase Price | £450,000.00 |
| Lease Extension | £250,000.00 |
| Works | £120,000.00 |
| GDV | £1,200,000.00 |
| Purpose of Loan | Purchase, Lease Extension & Light Refurb |
| Exit | Refinance |
| **Loan Terms** | |
| Interest Rate (p/m) | 1.10% |
| Default Rate (p/m) | 2.10% |
| Interest Type | Retained |
| GROSS LTEV | 45.82% |
| GROSS LTGDV | 71.80% |
| NET LTPP | 77.78% |
| Term (months) | 12 |
| **Loan Financials** | |
| **Gross Loan:** | **£861,573.39** |
| Less Arrangement Fee | £17,231.48 |
| Less Administration Fee | £1,999.00 |
| Less Interest (Purchase Day 1) | £57,460.49 |
| Less Interest (LE/Works Loan) | £56,267.28 |
| Less Broker Fee | £8,615.74 |
| **NET PURCHASE LOAN** | **£350,000.00** |
| **NET LEASE EXTENSION LOAN** | **£250,000.00** |
| **NET WORKS LOAN** | **£120,000.00** |

# Fees and Cashflow

Understanding costs and planning for successful investments

### External Costs

External costs include SDLT, valuation fees, legal fees, and freeholder costs that must be accounted for in your financial planning.

### Finance Costs

Key finance costs consist of arrangement fees, admin fees, interest rates, and potential exit fees that can affect overall investment returns.

### Lifecycle Modelling

Modelling the entire lifecycle of the investment ensures accurate forecasting and financial management throughout the lease extension process.

# Due Diligence Checklist

## Lease Review

Evaluate the lease length, ground rent, restrictions, and clauses to understand its impact on financing and value.

## Building Management

Assess the quality of building management, condition, and any ongoing disputes to ensure a sound investment.

## Extension Route

Confirm whether the statutory or informal extension route is viable and commercially suitable for the specific property.

## Notice and Permissions

Review any notices, permissions, assignments, and title defects to avoid unexpected legal challenges during the process.

## Financial Details

Examine ground rent, service charges, and freeholder costs to understand overall financial obligations and implications.

## Alignment of Parties

Ensure that the lender, borrower solicitor, and leasehold specialist are coordinated before proceeding with any transactions.

# Common Watchouts

### Premium Overestimation

Premium estimates that are **materially higher** than expected can significantly impact funding viability and investor confidence in the deal.

### Delay Issues

Freeholder delay or negotiation friction can lead to **unforeseen costs** and extended timelines, complicating the lease extension process.

### Lease Terms

Lease terms that fail to enhance value after extension can adversely affect marketability, making the property less attractive to buyers and lenders.

### Service Charge Implications

Issues related to service charge, ground rent, or building safety can deter potential buyers and lenders, **complicating** further negotiations or funding opportunities.

# Exit Strategies Overview

Understanding Financial Pathways

### Sale After Extension

Selling the asset after the lease extension can **maximize value** by attracting a wider range of buyers, ultimately leading to improved sale prices and enhanced profitability.

### Refinance Options

Post-extension refinancing allows for **capital retention**, enabling investors to recycle funds for further investments while benefiting from the increased asset value, thus enhancing financial flexibility.

### Cashflow Management

Effective cashflow modeling is crucial for understanding the **financial impact** of costs associated with purchase, premium payment, and improvements, ensuring net profits are realized after all expenses.

# Why Choose Finanze?

**01**

Finanze understands **valuation intricacies** that maximize lending opportunities and **pioneered this strategy** and funding solution.

**02**

We offer tailored solutions that enhance **investor confidence** and outcomes.

**03**

Our expertise streamlines the **finance process**, ensuring smoother transactions.

# Ready to Discuss Your Investment?

Connect with us for tailored financing solutions

**Email**
info@finanzecapital.com

**Website**
www.finanzecapital.com

**Phone**
0208 058 5389