

For those in the market for their first property, Robert Habbitts, of Parfitt Cresswell tackles a specific situation that buyers could potentially encounter:

I'm buying a leasehold property – what does this mean?

I am looking to purchase my first property and have found a house I really love. I have put in an offer but have since found out the house is leasehold. What does this mean, and will it have any implications for my purchase or in the future?

20th of August 2024

Congratulations on finding your first home!

Under English and Welsh property law, there are three types of title: -

- 1) Freehold;
- 2) Leasehold;
- 3) Commonhold;

I see from your question that your property is leasehold. This means that although you will own the property, your interest in it is only for a set period of time as per the Lease term and you usually pay an annual rent to the owner of the land where the property is situated – think of it like a glorified rental agreement – you live at the property but you pay a fee to the campsite owner to stay there for a set period of time. Usually, Leasehold properties are flats and maisonettes, however there are leasehold houses – like the one you have found.

Leasehold properties (regardless of whether they are flats, maisonettes or houses) have been under the spotlight in recent years as there have been some very troublesome instances where the costs associated with leaseholds have been incredibly high. So much so that some Lenders actually refuse to lend on Leasehold houses all together.

In the last few days of the previous government, the Leasehold and Freehold Reform Act 2024 was passed. However, at the time of this response the provisions under the Act have not yet come into force. When it does come into law, there is a ban on the sale of any newly built leasehold houses (although there are some exceptions). In your case, I assume that your property is not a new build and is “second hand”, and the Lease already exists.

As I mentioned earlier, when a property is leasehold there is usually a payment made to the landowner. This is called a Ground Rent. Some Ground Rents are nominal but others can be extremely high – running into the thousands, and it is these higher Ground Rents that the Lenders have problems with. Further, it is quite normal for a Ground Rent to increase over time.

Sometimes this is an increase in line with the Retail Prices Index, and in some cases it can be a fixed amount (say an increase of £50 every 10 years). However, there are also instances where the Ground Rent can actually double. This might not sound so bad to start with, but let me give you an example:-

Let's say that there is a Lease for 100 years and the original Ground Rent is £200.00 per annum with a doubling Ground Rent every 20 years. This would mean as follows:-

Years 1 to 19 - £200.00
Years 20 to 39 - £400.00
Years 40 to 59 - £800.00
Years 60 to 79 - £1,600.00
Years 80 to 99 - £3,200.00

As you will see there are quite substantial increases and although you may not still be living at the Property in a few years' time, the Ground Rent provisions would pass to future owners and could put them off as well as their Mortgage Lenders. Furthermore, unless a Lease is extended it ends on the expiry date and the ownership of the property reverts to the landowner – similar to a rental agreement. This means that upon the end of the Lease, you are not entitled to any money back.

It is possible to either extend the Lease or buy the Freehold so that you own the land the property is situated on (these are different subjects and I will not cover these here). However, these can be expensive to do. Finally, you should note that like any legal document, Leases can contain very strict covenants and any breaches of these could result in the Lease being terminated early – which again means that you would be left out of pocket.

As you will see from my comments, there are a lot of items to consider when it comes to Leasehold properties (not just houses) and it is really down to you to determine whether the benefits associated with owning such a property outweigh the substantial risks. You should also bear in mind that what is a comfortable risk to you, may not be a comfortable risk to a future buyer.

If you do proceed with the purchase, you may find that you may be severely limited to which lender you can use for a mortgage (and in turn for any subsequent remortgage) and also narrowing the pool of future buyers as they too would face similar issues.



Robert Habbitts
Residential Conveyancer



Direct Dial: 01753 306 024

Office: 01753 271 640

Email: robert.habbitts@parfittcresswell.com

