



This factsheet on unfair practices involving leasehold properties and escalating ground rents is being issued in response to a number of queries from member firms and in particular a recent case from a firm which was declined by the Halifax at the eleventh hour leaving the client in financial detriment.



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## Background

Generally these circumstances affect new build houses set up as leasehold where a client pays ground rent to the builder.

However, in the Halifax case the leasehold was established back in 2008 so this is not a new practice.

The leasehold contract states that the ground rent will double every 5, 10, 15 or more years and effectively could escalate to thousands of pounds and be unaffordable by the end of a 125yr lease agreement. These types of leasehold agreements are compounded when coupled with a Help to Buy equity loan. Some Builders have then sold on these leasehold contracts to investors who are attracted by the recurring and increasing income streams that they provide. This can also put the purchasing of the freehold beyond the financial grasp of the client as the investor can charge a lot more for this. Sajid Javid has condemned the practice by House Builders and new measures to cut out these practices were announced on 21st December 2017. You can read the full article by clicking [here](#).

## What effect has this had on lending?

Most Lenders have asked their valuers to research whether a property is leasehold and if the ground rent is reasonable without any onerous conditions. If an escalating ground rent is identified and the valuer feels it will affect the future market value of the property and re-saleability the likelihood is that the Lender will decline the case. Only Nationwide has a written policy statement on their website regarding how they treat such cases but most other lenders will take a view from their valuer before making any further decision to lend, this however could mean that a lot of time is spent on a case, only for it to be declined after valuation.

Nationwide Lending criteria on New Build Leasehold property is:

- Minimum acceptable lease term - 125 years for flats, 250 years for houses
- Maximum starting ground rent on all new build properties with a leasehold tenure is limited to 0.1% of the property value
- Ground rent must always be reasonable during the lease term. For example, ground rent escalation should be linked to Retail Price Index or similar, and unreasonable multipliers of ground rent will not be permitted, e.g. doubling every 5, 10 or 15 years.

## Next steps

As part of your fact finding process with the client and particularly where they are looking at purchasing a leasehold property you may want to ask questions around the ground rent charges. In my experience so far, most estate agents don't seem to know or have asked the vendor about ground rent or service charges, so I would expect your client to possibly not know the answers to these questions. Some vendors may not even realise themselves that their property is subject to such clauses and that it will cause problems when selling. We would recommend that your client finds out about the ground rent before proceeding further with the purchase.

If a case is declined by the lender due to onerous leasehold issues the likelihood of this being placed with another lender who is more flexible is highly unlikely as nearly all Lenders that I have spoken to will adopt a similar approach. The options for a client who is currently residing in a property which is subject to escalating ground rent charges is to potentially look at purchasing the freehold, however for some there are very few options, so the client will be tied to their existing lender until the Government legislates further on these issues. Unfortunately this is likely to cause another "trapped borrower" situation.

If you need to know more information about ground rent issues you can click on the Leaseholder Association website [here](#).