


Leasehold ban

on the new build houses



Recently, the Government proposed changes to the unfair sales of the leasehold new build properties. Instead, the leasehold houses will be sold as a freehold. Developers' contracts for leasehold properties will be banned, and the ground rates will be reduced as per new proposal presented by Communities Secretary Sajid Javid last month. Mr Javid said that the plan would affect all future sales and those who are already on leasehold contracts will have to seek agreements with builders.

The leasehold system has existed for a long time in England and Wales, and it is particularly common for the block of flats. Leaseholders own the property for the agreed period of time on a "lease" to the freeholder. Most properties are freehold, but some are leasehold through the shared ownership

scheme. At the end of the leasehold, the property returns to the freeholder. Leasehold ownership of the property means a long term tenancy when the ground the home is built on remains in the hands of the freeholder. The homeowner (leaseholders) has to pay an annual "ground rent" to the freeholder and

obtains freeholder consent if they want to make any changes to the property.

The trend for the new build houses to be sold as a leasehold has increased in recent years. Usually, leaseholders pay the ground rate to the freeholder, but ground rates tend to double every decade what

makes the property difficult to sell and expensive to live. The Government mentioned there are situations where the annual rent will reach £10,000 a year by the year 2060. Moreover, often there are excessive service charges or additional costs for the leaseholder in the case of any renovation or refurbishments, which also requires the approval of the freeholder.

This situation is called the "PPI of the house-building industry". Approximately 100,000 home buyers are affected by the bad contracts. The launched Government's consultation on the leasehold market seeks to reform the leasehold system. Opinions are welcome on the prohibition of the sale of new leasehold properties, changes to the Help to Buy scheme, applying fair ground rent terms for leasehold properties, updates to the Housing Act 1988 to prevent long householders being treated as Assured Tenants or providing freeholders on

private estates with similar rights to leaseholders. The Government seeks to limit the Help to Buy Equity Loan support on the new build houses if these will be sold on leasehold. The government wants to see more compensation programmes, such as the £130m assistance scheme set up by Taylor Wimpey. Some of Taylor Wimpey new-build leasehold properties became near-worthless due to increasing ground rent contracts.

Ian Fletcher, Director of Real Estate Policy, British Property Federation comments: "We welcome the government's consultation on unfair leasehold practices. It is important to distinguish between houses and flats, where the use of leasehold in flats is very common, but irregular in new build houses. Traditional freehold owners of leasehold flats have been aghast at the use of leasehold in houses, which is in most cases wholly unnecessary and inappropriate. The motivation seems to

have been to raise unreasonable ground rents and, for the sake of home owners, the government is right to clamp down on house builders who have been abusing this form of tenure, and with it their customers.

"The government has also announced improving the process for recognising tenants' associations. It is something we have long-supported. Tenants' associations have rights of scrutiny over the running of their buildings, but with buy-to-let and other types of non-resident owner it is often difficult to make contact with the people who would have a vote in such circumstances. Making that process easier has our support. We would also support changing the threshold of votes needed to form a tenant association, from the 60% in current guidance, to a simple majority."

(Source: HBF)

