HOW TO... LEASE

A guide for current and prospective leaseholders in England

Part of the How to Guides series
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When considering buying any property, you should always seek independent legal and financial advice.

This information is frequently updated. Search on GOV.UK for How to Lease to ensure you have the latest version.

The online version contains links you can click on to get more information.

If you do not have internet access, ask your local library to help.

June 2018
Freehold or Leasehold?

It is important to check whether the property you’re looking at is ‘freehold’ or ‘leasehold’. These are the main tenures in England.

- ‘Freehold’ means you own a property and the land it occupies. It is the system commonly used for houses.
- ‘Leasehold’ means you own the right to occupy a property for a fixed number of years, typically 99 years or more. It is commonly used for flats, including those bought through Shared Ownership or Right to Buy, but sometimes houses are leasehold too.

There are also guides on How to Rent, How to Let and Renting a Safe Home.

Who is this guide for?

This guide is for anyone already living in a leasehold property or anyone thinking of buying one.

If you are thinking of purchasing a leasehold property, reading this guide in full before you buy will help you understand what your rights are, which questions to ask first, what your responsibilities will be and how to get help if things go wrong.

Links

This guide is best viewed online as it contains hyperlinks.

If you are reading this on a computer or tablet, you can click on the links to go to other websites with more detailed information.

They are coloured and underlined like this.

On Android or Windows devices, links work better if you download Acrobat Reader from get.adobe.com/uk/reader.
What is leasehold?

Leasehold is a type of long-term tenancy; it is not the same as outright ownership.

If the property you are interested in is leasehold, this means you, as the buyer (i.e. the ‘leaseholder’) will be signing a contract which grants you the right to occupy a property for a fixed number of years. This length of time (i.e. the ‘term’) should be specified in the contract (i.e. the ‘lease’). The building structure and any common parts will be owned by the freeholder who is likely to be your landlord. This guide only applies where there is a ‘long lease’, i.e. the remaining term is 21 years or over. Where this is not the case, you should seek independent advice.

When a lease term reaches zero, the landlord may take possession of the property. There is some security for leaseholders who wish to remain resident and qualifying leaseholders have the right to rent the property at market rate. It is possible to extend your lease term – be sure to do this before it has only 80 years remaining as lenders may then consider it to be a depreciating asset and it may cost more to extend the lease.

A lease is similar to other types of contracts. It is a private legal agreement between you and your landlord and sets out the rights and responsibilities of both parties.

You must both abide by the conditions set out within the lease you have signed.
## When you’re looking at properties

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<td>The seller, estate agent or developer must tell you if the property is leasehold. They must disclose what this entails, including being upfront about lease length, any costs or fees and how these might change over time.</td>
<td>You should know what your legal responsibilities will be before you legally agree to them by signing a lease. Find out as much as you can about the property’s age (which may provide a guide to the level of upkeep and maintenance which may be required) and any outstanding service charges, for example.</td>
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<td>The structure and any common parts of the building will be owned by the freeholder who is likely to be your landlord. The freeholder / your landlord could be a third party company, a local authority, a housing association or a group of other leaseholders; this is where you own a ‘share of the freehold’.</td>
<td>Leasehold property may be cheaper than alternatives, but you must ensure you can afford potential additional costs like ground rent or service charges. Also consider whether you need a mortgage or are eligible for Government help.</td>
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<td>If your property is leasehold, it will be managed by an agent on the landlord’s behalf or by the landlord directly. You will be legally required to pay a ‘service charge’ to cover the cost of services – as set out in the lease – provided to you by the agent or landlord.</td>
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## Before you start the purchase process

### Find a solicitor

We recommend seeking independent legal advice from a solicitor. A solicitor will act on your behalf to seek expert information about the property and will advise you on any risks or implications of a purchase. Your solicitor should use a standard form called the ‘LPE2’ to summarise this information. You can also prepare a list of questions for your solicitor – [here is a suggested list of solicitors](#).

### Consider the timescale

Leasehold property can take longer to buy than equivalent freehold property. Try to agree a timescale with your solicitor from the outset and bear in mind that your mortgage offer may be time limited.

### Ask to see a copy of the lease

It is essential to read the lease before you sign anything. The lease outlines any conditions attached to the property plus your legal rights and responsibilities. Your solicitor should give you a copy of the lease. You may also be able to get it from the Land Registry for a small charge.

### Ready to sign?

Before you exchange contracts with the seller and set a completion date, make sure you have taken legal advice, that you have read your lease and that you are confident you understand the terms of the contract you are signing.

### Consider a survey

Buyers often commission a survey of the physical condition of the property. The Royal Institute of Chartered Surveyors has a [postcode search tool](#) for finding surveyors online.
Things to consider

How much does it cost?
Leasehold property will involve on-going financial obligations. As with any long term financial agreement, you must ensure you can afford to make your payments in full and on time. If you don’t, your home may be repossessed by your landlord through a process called forfeiture.

**Ground rent**
This is a sum you have to pay to your managing agent/landlord if it is a condition of the lease. This charge varies from one property to another and how much is to be paid, and when, should be written in your lease.

- Ask your solicitor to find out if and when there are likely to be future increases. These costs may impact the future value and saleability of your property.
- Check that your mortgage lender is happy to provide your mortgage based on the proposed level of ground rent.

**Service charge**
This is a sum that you usually have to pay to your managing agent or landlord towards the costs they incur for the services they provide, like repairs, gardening or cleaning of common areas; it can also include building insurance.

This charge varies from one property to another and is set by the managing agent/landlord. The services covered should be listed in the lease.

- When you buy the lease you become responsible for all outstanding service charges. You should ask your solicitor to ensure that the previous owners have paid all service charges in full before you buy their property. This will help you avoid unexpected financial charges that you may be liable for as the new owner.
- Your solicitor should also find out whether the landlord is planning any major building works that you will be expected to contribute towards and how your share of these costs will be calculated.
- You can challenge a service charge by applying to the First-tier Tribunal to determine whether it is reasonable or not.
**Reserve or Sinking fund**

This is a pot of money that is built up by leaseholders over time and should be set aside by a landlord or managing agent. These funds can then be used to pay for any large scale costs or ‘major works’ such as lift or roof repairs, external repainting or replacing window frames. Building up a reserve or sinking fund helps avoid the need for unexpected additional contributions from leaseholders.

You may contribute towards this fund through your monthly service charge. The amount is usually not listed in the lease and is decided by the landlord. However, the charge must be reasonable and, because they are just like any other service charge, leaseholders have the right to challenge the amount being asked for, if they believe it is unreasonable, at the First-tier Tribunal. Leaseholders will usually not receive any repayment from this fund if they sell their premises.

- You should ask your solicitor to find out whether any major works are planned, what exactly you are expected to pay for and how your share is calculated. Doing this before purchasing a property will help you avoid unexpected financial costs.
- You might consider requesting an annual statement from your freeholder or landlord to keep you informed of the presence or use of a reserve or sinking fund.

**Additional costs**

Leaseholders may be asked to pay an administration charge to obtain their landlord’s written permission before making alterations to a property. The landlord might also charge for making certain documents available, for the late or non-payment of ground rent or service charges, or in connection with a breach (or alleged breach) of a covenant or condition in the lease.

You can challenge an administration charge by applying to the First-tier Tribunal to determine whether it is reasonable or not.

There are also likely to be solicitor’s and surveyor’s fees when buying a property, extending a lease, buying the freehold of your property or collectively buying the freehold of an entire block of flats with a group of leaseholders – a legal process called ‘collective enfranchisement’.
What does the lease really say?
You should read the lease and seek independent legal advice on its content before purchasing a property. It’s essential to check the lease to make sure you’re happy to agree to it; if you break the rules of your lease you could be forced to forfeit your property.

Try to find out any terms you are not happy with before falling in love with a property!

Conditions
Many leases won’t allow you to sublet your property and there could be restrictions on noise levels and whether pets are allowed. Some leases permit the landlord/freeholder to charge you fees for making alterations.

Some lease conditions might make it harder to sell down the line. This is why you should ensure you fully understand the conditions in your lease.

Time remaining
Most leases give the right to occupy a property for 125 years from when it was first granted – although some leases can be for 99 or even 999 years. Your lease term will decrease with each year you live in the property. When the lease runs out, full ownership of the property will return to the landlord/freeholder. This means the value of your property reduces as you get closer to the lease running out. However, you may have a statutory right to extend the lease, or buy the freehold.

If there are fewer than 80 years of the original term remaining, it can lead to increased costs when renewing or extending it. This is because a ‘marriage value’ charge has to be paid to the landlord/freeholder. In practical terms, this means that lenders are often unwilling to fund mortgages on properties with fewer than 90 years left.

Buying/Selling
A lease may specify certain restrictions or requirements that need to be met when a leaseholder wants to sell their property.

When buying a leasehold property, you could ask your solicitor to use the Law Society’s template ‘LPE2’ form. This form is not mandatory, but can help to speed up the sale of your property. This is because the freeholder is required to provide information about the lease and the property in a standardised way, which might make it simpler for solicitors to advise you.
How does it work?
As a leaseholder, you have a unique set of rights and responsibilities. For example, a managing agent or landlord could be responsible for running your block or estate – but you have a say in how they do it.

Managing Agents
A professional managing agent may be appointed by and be accountable to your landlord. They arrange the services, repairs, improvement work, insurance and deal with day-to-day aspects of your building or estate’s management. Your property could instead be managed by a group of fellow leaseholders who have exercised their ‘Right to Manage’.

Ask who the managing agent is and if they are a member of an industry body or association. There are two ‘Codes of Practice’ which set out the law and best practice for managing agents in the leasehold sector. There is the RICS code for the residential leasehold housing sector and the ARHM code for retirement housing. Where relevant, these codes must be taken into account at court or tribunal proceedings.

Repairs and maintenance
The managing agent will likely be responsible for ensuring repairs are carried out and for organising any ‘major works’ on the building like external painting or replacement of all the window frames.

By law, when major works that cost over £250 per leaseholder are proposed, your landlord or managing agent must write to you to inform you of this (called a ‘Notice of Intention’) and offer you the opportunity to make any formal observations or ask questions. You could also nominate a contractor to carry out the work. This is known as the ‘section 20 consultation process’, named after the section of the Landlord and Tenant Act 1985.

Find out whether any major works are planned – you might have to start paying towards them through your service charge as soon as you move in. You should also check if there already is a reserve/sinking fund to help too.

Facilities
Is there an electronic entry system and does it work? Where is rubbish and recycling stored? Is there centrally controlled heating? Some properties are part of a leasehold retirement housing scheme and offer tailored services. You might pay for these things through your service charge so it’s important to make sure you know what you should be getting for your money.
When you are a leaseholder

Your landlord must:

☐ **Provide contact information:** the landlord must provide their name and a contact address within England or Wales which must be written on every demand letter that asks for ground rent and service charges. If they don’t, you may be able to withhold payment until it has been correctly demanded.

☐ **Provide financial information:** the landlord should provide a budget at the start of the year and an annual statement accounting for leaseholders’ service charge money spent at the end of the year.

☐ **Tell you what your rights are:** the landlord must include a summary of your rights and obligations as a leaseholder with every demand letter that asks you for service charge payments.

☐ **Consult on major works:** the landlord cannot carry out work to the building that will cost you, or any one leaseholder, more than £250 without consulting you first. This is called the section 20 consultation process. If the landlord fails to do this, they might only be able to recover £250 from you towards the overall cost of work.

☐ **Consult on long-term (qualifying) agreements:** the landlord cannot agree contracts for any service over 12 months where the cost to any leaseholder is more than £100 per year, without consulting you about it first.

☐ **Further detail on the section 20 consultation process** is also available in an advice note published by the Association of Residential Managing Agents.

A landlord or a ‘Resident’s Management Company’ (RMC) are responsible for using your service charge money to pay for repairs and maintenance – your landlord has a duty to provide you with certain information about this and must consult you before carrying out certain types of work.

The Code of Practice on service charges in residential leasehold outlines best practice that a landlord, RMC or management agent should follow. This Code is Government approved and can be used in tribunal cases.
A leaseholder’s rights

Leasehold legislation has been altered and added to over time to give leaseholders a broader range of legal rights. Leaseholders can challenge the level of service charges at the First-tier Tribunal and even take the management of their block into their own hands. It is important to note that not all of the rights listed below apply to both flats and houses.

**It is recommended that you seek independent legal and financial advice on your legal options before taking action.**

- **Summary of costs (houses and flats)**
  A leaseholder can inspect a summary of the costs for the services and insurance they pay towards. Leaseholders also have the right to inspect invoices and other documents relating to the costs of the services, although you may be charged for obtaining this information.

- **Challenge charges (houses and flats)**
  Leaseholders can ask the First-tier Tribunal to decide on whether their service or administration charges are reasonable and payable.

- **Right to Manage (flats only)**
  You and fellow leaseholders could set up a Right to Manage Company to take charge of organising your own block’s services and can appoint your own property manager. There are certain conditions which have to be met and this right does not exist where the landlord is a local authority.

- **Form a Recognised Tenants’ Association (houses and flats)**
  This is where the leaseholders come together to represent their common interests, and can appoint a surveyor to inspect documents held by the landlord and inspect any common parts of the building.

- **Appointing a manager (flats only)**
  If you are not happy with the landlord’s management agent and there is evidence of significant failings, leaseholders can ask the First-tier Tribunal to appoint a new manager on their behalf. This right does not exist where the landlord is a housing association or local authority.

- **Extending a lease (houses and flats)**
  Leaseholders who satisfy certain conditions have a right to buy a lease extension from the landlord, adding 90 years to their existing lease if in a flat and 50 years if in a house. The price for doing this is greater when a lease has 80 years or less remaining. The price is agreed between the leaseholder and landlord, or, if necessary, set by the Tribunal.

- **Buying the freehold (houses and flats)**
  A group of leaseholders in flats can force the sale of the building’s freehold from the landlord to them; this process is called collective enfranchisement. A leaseholder of a house can buy its freehold too, by negotiation or use of the law.

- **Leaseholders can also purchase a share of the freehold (flats only)**
  The price for this should be agreed between the relevant parties. If this is not possible, it can be set by the First-tier Tribunal. The leaseholders could then set up a Resident’s Management Company.

- **Right of first refusal (flats only)**
  In some cases, where the landlord proposes to sell the freehold or part of their interest in the building, they must offer it for sale to the leaseholders first. It is a criminal offence for the landlord not to do this. There are some exceptions to this requirement, including housing associations and local authority landlords.

- **Right to vary the terms of a lease (houses and flats)**
  A lease can be varied at any time, with the agreement of all the interested parties. Otherwise, an application can be made to a Tribunal on the grounds that the lease is flawed in some way.

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**The Leasehold Advisory Service (LEASE)**

is a Government funded body that provides independent advice on residential leasehold law and leaseholder rights. Initial advice to leaseholders is free.

Advice can be provided through the website, via a telephone appointment with one of LEASE’s advisers (020 7832 2500), or by email.
If things go wrong

What to do if:

☐ You are having financial problems, or are falling into ground rent or service charge arrears. Speak to your landlord or managing agent as they may be able to help and are likely to be more sympathetic if you talk to them about any difficulties early on. Should you need further help contact Citizens Advice or The Money Advice Service as soon as possible.

☐ You are unhappy with the quality of management and an informal complaint has not been resolved, you should complain through the landlord’s or managing agent’s formal complaints procedure.

☐ You are a private sector leaseholder and have already complained formally: consider lodging an official complaint with a redress scheme. Since October 2014 anyone involved in property management work, subject to some exceptions, is required to belong to one of three government-approved redress schemes.

☐ You are a leaseholder in the social housing sector (this includes Housing Association and ex-local authority homes) and have already complained formally: you could contact a local councillor or MP to refer a complaint to The Housing Ombudsman. Alternatively, you can contact The Housing Ombudsman direct if at least 8 weeks have passed from the end of the landlord’s complaint process.

☐ The building is in an unsafe condition and your landlord won’t repair it. Contact your local authority. They have powers to make landlords deal with serious health and safety hazards.

☐ You are concerned that the seller, estate agent or developer did not disclose material information that was relevant at the time of sale. You may be covered by the Consumer Protection from Unfair Trading Regulations 2008. It is recommended that you seek independent advice on your circumstances before taking any legal action.

Going to a court or tribunal can involve a great deal of time and money; it should be regarded as a last resort. Try to resolve matters directly with the landlord or the managing agent first.
## Further sources of information

### Helpful links

#### Leasehold law and leaseholder rights
- The Leasehold Advisory Service
- Government webpages
- Sector-led mini guides on a range of leasehold issues
- Association of Leasehold Enfranchisement Practitioners

#### Codes of Practice
- Royal Institute of Chartered Surveyors’ Service Charge Residential Management Code of Practice
- Association of Retirement Housing Managers Code of Practice
- Association of Residential Managing Agents’ Consumer Charter

#### Redress Schemes
- The Property Ombudsman
- Property Redress Scheme
- Ombudsman Services: Property
- The Housing Ombudsman

#### Organisations that offer advice
- Citizens Advice
- Federation of Private Residents’ Associations
- Leasehold Knowledge Partnership
- Money Advice Service
- Shelter

#### To take a case to the Tribunal
- First-tier Tribunal (Property Chamber)

#### Obtain lease records
- HM Land Registry

#### Retirement Housing
- Association of Retirement Housing Managers
- Associated Retirement Community Operators

#### Buying and selling
- Law Society’s Solicitor Search tool
- The Conveyancing Association
- Council for Licensed Conveyancers
- National Association of Estate Agents
- Affordable home ownership schemes

#### Managing Agents
- Association of Residential Managing Agents
- Institute of Residential Property Management

#### Surveyors
- Royal Institution of Chartered Surveyors

#### Also in this series…
- How to Rent
- How to Let
- How to Rent a Safe Home