Leasehold and Freehold

Nearly all retirement and sheltered housing properties to buy will be available on a leasehold basis. For many older people, this will be the first time they have purchased a leasehold property, with the majority of homeowners in general housing being freeholders, so it is important to know the key differences.

This guide will refer to a lot of terms that you may not have come across before, such as service charges, sinking funds and leases. A description for these can be found in the **glossary** section at the end of the guide.

Understanding Freehold

The freeholder of a property owns it outright, including the land it's built on.

As a freeholder, you are responsible for maintaining your property and its land. Whilst this is one of the main benefits of being a freeholder, you will need to budget accordingly for maintenance costs.

Freehold usually applies to owners of houses or bungalows with some exceptions, such as properties in retirement developments or bought through shared ownership.

Benefits of being a freeholder

- You are free to sell your property on to whomever you wish
- You don't have to pay ground rents or service charges, although you will have to budget for maintenance
- There is no landlord or other owner that you have to deal with
- Subject to planning permission, you can make structural changes to your home without needing further permission or having to pay administrative costs to a landlord

Being a Leaseholder

As a leaseholder you have permission to live in, and use, a property as your home. However you only have temporary ownership of the property and do not own the ground it is on.

Subsequently, you are generally responsible for interior repairs whilst the freeholder is responsible for external maintenance.

To cover the cost of this maintenance, there are likely to be ongoing costs that you will be liable to pay as a condition of your lease, such as ground rent, service charges and sinking funds.

Leasehold usually applies to owners of flats/apartments or retirement properties. Those who purchase a house through shared ownership may also find they are leaseholders.

Benefits of being a leaseholder

- Your landlord/freeholder will be responsible for maintaining the external areas of your property
- As all leaseholders will contribute to any sinking fund, it ensures that large improvements can be made by the freeholder - ensuring the external areas continue to look presentable

Your lease

Your lease sets out your rights, responsibilities and the regular fees you need to pay. It is likely to include details on:

The length of your lease

A lease for a new retirement property is typically set at between 125 and 999 years, however if you purchase a property that has already been lived in before (known as a resale) then your lease may be a different length as it will have decreased each year that it was owned. It is essential to establish the length of the lease before you purchase the property.

If you have been living in your property for more than two years then it is likely that you have the legal right to purchase an extension from the freeholder. It is advisable to extend your lease before it reduces to **less than 80 years**, as under this length an extension may incur additional fees which can increase the cost significantly.

Rights and responsibilities

Your lease will likely contain information on the expectations of both the leaseholder and the freeholder. Some of these rights and responsibilities are set out in law, whilst some of them will be specific to your lease.

Some conditions of a lease are explained in our other guides (complaints, tenants' associations, charges etc), but a few of the most common include:

- The right of the tenant to 'quiet enjoyment' of their property
- A responsibility to keep your property in good order
- A right to expect the landlord to maintain the exterior of the building and common areas
- Instructions in the lease on whether you are able to sublet
- Details on what alterations you can make to your home

Ongoing charges

Your lease should detail ongoing costs that you will be responsible for paying, as well as stating when payment is due.

The most common charges, such as: event fees, service charges and ground rent, are discussed in our other guide on this topic.

As you will still be responsible for many other ongoing costs, such as contents insurance, Council Tax, broadband and your TV licence, it is important to factor in the charges stated in the lease when determining the affordability of a move.

One ongoing charge that freeholders are likely to have paid, but is not necessary as a leaseholder, is buildings insurance (also known as home insurance). It is generally a term of the lease that your landlord (the freeholder) will be responsible for purchasing building's insurance, although they are likely to recover any cost to them for this through the service charge.

More information about the charges you are likely to have to pay and what support may be available for these can be found in our guide on Fees & Charges.

Glossary of terms

Administration charge A charge payable under the terms of a lease by a leaseholder in addition to ground rent, in connection with (a) the landlord giving approval to something such as internal modifications; (b) the landlord providing information to a third party; or (c) some default by the leaseholder such as breaching one of the terms of the lease

Ground rent A regular payment required under a lease made by a leaseholder to the freeholder of the property.

Event fees A fee payable under a term of or relating to a residential lease of a retirement property on certain events such as resale or sub-letting. Event fees may be referred to by a variety of names including exit fees, transfer fees, deferred management fees, contingency fees and selling service fees.

Lease: The legal document you sign as a leaseholder that sets out the rights, responsibilities and financial liabilities for you and your landlord (freeholder).

Service charges (also known as a Management Charge) A payment made by a leaseholder to a landlord or management company towards the cost of providing services such as repairs, insurance or maintenance of communal areas.

Sinking fund (also known as a Reserve fund) A fund held by a landlord or management company to “cover the cost of irregular and expensive works such as external decorations, structural repairs or lift replacement.” (Source: The Leasehold Advisory Service). The fund is paid for out of contributions made by leaseholders.

Shared ownership: An affordable housing option whereby the buyer purchases a percentage (usually between 25% and 75%) of the value of the property and pays rent on the remaining share. Their landlord (the freeholder) is usually a house association, charging an affordable rent.

Sheltered/Retirement housing: Specialist housing for older people that has a minimum age requirement. These housing models broadly fall into two models, those that offer on-site care services and those that do not.