



## Introduction

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## ***Escalating ground rent scandals in flats***

Generally, under the 1993 Leasehold Reform Act leaseholders of flats are permitted to extend their lease for an additional 90 years in addition to the remaining lease without having to pay any ground rent provided that they owned the flat for two years.

Recently, numerous flat owners are being held to ransom due to the escalating ground rents set out in some leases. As flats form part of a block built on land owned by a freeholder, the freeholders pay an annual “ground rent” as compensation to the freeholder for use of the land. The amount, review date, method of review and period are set out in the lease, along with both parties overall rights and obligations.

Whilst properties became increasingly difficult to sell, conscious of recouping the lost profit by escalating ground rents, some very well known developers are selling leasehold flats with lease clauses allowing for ground rents to rise dramatically in later years.

For example, there are developments being sold with 250 years leases where ground rents start at £450 but double every 10 years. Whilst this may seem reasonable for someone buying at the start of the lease, in practice the ground rents would be:

- £900 by yr10;
- £1,800 by yr20;
- £3.7billion by the end of the lease term

So for instance if the development contained 23 flats on the same lease terms, the freeholder would be entitled to collect over £85billion in ground rents alone! This would be in addition to service charges payable under the lease making the properties virtually unmarketable and unsaleable.

This practice must be highlighted and resolved. The ground rent scandal is a ticking time bomb which, if left to continue, could cause further destruction to the UK housing market. This scandal demonstrates how fearless lenders have become about this threatening ground rent game, and how buyers should certainly exercise caution.

Please contact Yashmin Mistry to discuss all such matters:

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