

The Money – Service Charges and Ground Rent in Leasehold Homes



Ground Rent

When you purchase a leasehold flat, you purchase the right to live there for a given number of years (“the term”). Ground Rent is charged by the freeholder as rent for the land on which the block is built.

The amount of Ground Rent payable, will be set out in the lease. It may only be a nominal amount sometimes referred to as ‘peppercorn’ or it may be something reasonably substantial.

The lease will also set out how the Ground Rent is to be increased over the period of the term. These increases are called rent reviews. The rent reviews may set an exact amount for the increased rent or may set out some mechanism for agreeing the level of increase.

How often Ground Rent is charged will again be set out in the lease. It may be annually, half yearly or quarterly and will be demanded by the Freeholder using a prescribed form of words.

Service Charges

Service charges are monies collected to maintain the structure of the building and common parts and cover the cost of any services provided. These include; repairs, cleaning, lift servicing, gardening, on-site staff, utilities, buildings insurance, managing agent’s fees, in fact any service that is provided under the lease.

The lease will dictate what service charges cover, when they are requested and how they are accounted for. Under legislation, the money is held in trust by the Managing Agent or Landlord for the benefit of the building. Except for the management fee, the money does not belong to the managing agent or landlord and must be accounted for separately.

Most leases state that a budget should be produced at the start of the service charge year. This is an estimate of what is likely to be spent during the course of the year and is prepared by the Managing Agent, Residents’ Management Company or landlord; depending on the lease. The amounts you pay will be a proportion of the total. The lease will set out what percentage you are responsible for and the frequency of payments. At the end of the service charge year, accounts should be produced to show how the money has been spent and whether it is higher or lower than the budget estimate. The lease will say how any underspend/overspend is to be dealt with.

If you are unhappy with the amount of service charges you are being asked to pay or the level of service that is being delivered, a leaseholder has a legal right to challenge the Service Charges in the First Tier Tribunal (Property).

Reserve Funds/Sinking Funds

This is money collected regularly towards major works which will be due over the years, for example, external redecoration or lift replacement. It is collected over several years so that there is not a huge spike in the amount needed in the year when the works are carried out. All reserve / sinking fund money must be kept in a trust account. The lease will set out whether the landlord can set up a reserve / sinking fund and what the money can be spent on. It is best practice for the landlord to have a five or ten year major works plan (for larger developments this may cover a much longer period) against which contributions are collected.

Read your lease, it sets out all of the rights and obligations of each party in detail.

Other Guides in the Series

- Your Guide to Leasehold
- Who is Who in a Block of Leasehold Flats?
- What is a Lease?
- Your Leasehold Home – Making a Complaint
- Common Misconceptions About Leasehold

Glossary



Common parts – those parts of the building enjoyed by everyone and not forming an exclusive part of anybody's flat.

First Tier Tribunal (Property) – part of the formal courts and tribunals system where judgements are made about service charge disputes.

Freeholder – owns the land on which the building(s) is built. May also be the Landlord.

Freehold Company – a company that owns the freehold, the shares in which are usually owned by the leaseholders. Often described as 'having a share of the freehold'.

Ground Rent – the annual charge payable to the freeholder for the continuing right to occupy the property. The amount payable will be set out in the lease. It may only be a nominal amount ("a peppercorn") or it may be reasonably substantial.

Head Lessor – the landlord may grant a lease of the whole building to a party (company or individual) who then grants 'under leases' to the leaseholders of individual flats. In this scenario, the Head Lessor becomes the landlord of the individual flats.

Landlord – either owns the building (as freeholder), has a long lease on it or is a 3rd party within the lease with rights to recover Service Charges towards the costs of maintaining the building and common parts and providing services.

Lease – a private contract between you and your landlord which sets out the rights and duties of both parties. Your lease will allow you to occupy the property for a fixed number of years: typically for 99 or 125 years when first granted.

Leaseholder – the person who has bought a lease which gives them the right to occupy the flat for a fixed number of years ("the term"). Can also be called 'lessee', 'flat owner', but usually referred to as 'tenant' in legislation.

Management Fees – The fees paid to managing agents or the costs directly incurred by the landlord, in managing the building and arranging the services. This is usually only a very small element of the total service charge.

Manager – may be managing agent or may be the landlord managing the property directly with their own staff.

Managing Agent – is a company appointed by the landlord to run and manage the building and any services. The cost of their services is covered by a management fee which is usually only a very small element of the total service charge.

Property Manager – the person who actually manages the building, usually an employee of the Managing Agent.

Reserve Funds/Sinking Funds – money collected towards future major works and replacements. Held in trust, on behalf of the building, to ensure money is available when the works are required.

Residents' Management Company (RMC) – a company set up to deliver the services on behalf of the landlord under the terms of the lease. The company is a party to the lease (as landlord) and all leaseholders are usually shareholders.

Service Charges – Service Charges are monies collected to maintain the structure of the building and common parts and cover the cost of any services provided. These include; repairs, cleaning, lift servicing, gardening, on-site staff, utilities, managing agent's fees, in fact any service that is provided under the lease.

Service charge year – the lease will state when the service charge year starts and ends. It will also state what accounting information the landlord should provide at the end of the service charge year.

Term – Your lease will allow you to occupy the property for a fixed number of years: typically for 99 or 125 years when first granted. This is known as the term. The remaining right of occupancy reduces year by year from the date when it was originally granted.