# Leasehold flat with rising ground rent sparks affordability concerns amid market slowdown



A couple currently house hunting has encountered concerns over a leasehold flat they are interested in purchasing. The flat is located in a block of 18 units and carries an annual service charge of £2,400, which covers bike storage, lift access, a communal roof terrace, and buildings insurance. While this service charge aligns closely with the average for flats in England and Wales, their primary concern centres on the ground rent, which is currently £500 per year but set to increase every 10 years in line with the Retail Price Index (RPI). The flat has 119 years remaining on its lease and does not include any private outdoor space. Notably, the asking price is £50,000 less than what the previous owners paid in 2019, when the flat was new.

Ed Magnus of This is Money commented on the current market situation regarding leasehold properties. He noted that leasehold concerns have contributed to a slowdown in price growth for flats compared to houses over the past five years; flats' values have risen by only 7% while houses have increased by 24%, partly influenced by changing preferences during the pandemic and apprehensions around leasehold terms.

The costs associated with leasehold flats typically include service charges to cover communal maintenance, insurance, cleaning, gardening, and other facilities. According to estate agents Hamptons, the average annual service charge for flats hit £2,300 in 2024, marking an 11% rise from the previous year, placing this flat’s charge slightly above average. Ground rent is another charge paid to freeholders as leaseholders do not own the land their home sits on. Legislation introduced after 30 June 2022 bans ground rent charges on new leases, but older leases are unaffected and still require payment, often ranging between £200 and £500 annually.

A key issue raised is the potential for rising ground rents, either by doubling every decade or increasing in line with RPI, which could cause costs to escalate to thousands of pounds over the long term and make properties challenging to sell or remortgage. While the RPI linkage is thought to be less risky, the recent spikes in inflation heighten concerns.

Experts consulted for guidance include Gareth Belsham, Director of Bloom Building Consultancy, Nigel Bishop, founder of Recoco Property Search, Linz Darlington, managing director of Homehold, and Alero Orimoloye, advisor at the Leasehold Advisory Service.

Gareth Belsham observed that while a £2,400 annual service charge may seem reasonable given the amenities, it is important to clarify whether it includes a "sinking fund" or reserve for future maintenance such as redecoration or major repairs like roofing. Without such a fund, leaseholders could face substantial unexpected bills if the building requires significant repair.

Nigel Bishop added that service charges are more likely to increase over time due to factors like inflation and ageing buildings, which heighten maintenance needs. There is no legal cap on service charge increases, making it critical for buyers to research the building’s maintenance history.

Linz Darlington echoed that although £2,400 is not unreasonable for maintaining a modern block, the buyer typically has little control over decisions concerning upkeep and contractors, raising the possibility of future hikes.

Regarding lease length, Alero Orimoloye stated that with 119 years remaining, there is no immediate need to consider a lease extension, though extending the lease would reduce ground rent to zero while adding 90 years. However, extensions involve a premium to the landlord plus legal fees, though upcoming legal reforms aim to make this process cheaper. Nigel Bishop noted lenders often prefer leases with at least 125 years left, and extending the lease can cost £6,000 or more plus professional fees.

On ground rent, Alero Orimoloye cautioned that a ground rent of £500 increasing every decade with inflation could lower the property’s value and limit sale prospects unless legislation provides a way to buy it out. Linz Darlington pointed out that such ground rent could complicate mortgage approval and expected the rent to rise to around £700 on the next review, potentially increasing further in subsequent reviews. While lease extension removes ground rent, the cost will be high due to the current level of ground rent.

The Daily Mail is reporting these insights highlight the complexities and financial implications of buying a leasehold flat, particularly around service charges, ground rent increases, and lease length, factors that may influence future marketability and ownership costs.

Source: [Noah Wire Services](https://www.noahwire.com)

## Bibliography

1. <https://www.hamptons.co.uk/articles/service-charge-index-2024> - This article reports that the average annual service charge for flats in England and Wales rose by 11% in 2024, reaching £2,300 per year, aligning with the service charge mentioned in the user's scenario.
2. <https://www.hamptons.co.uk/articles/sub-1000-service-charges-approach-extinction> - This source highlights that only 19% of flats had a service charge below £1,000 per year as of Q1 2024, indicating that the £2,400 service charge in the user's scenario is above average.
3. <https://www.hamptons.co.uk/articles/service-charge-index-2024> - The article notes that the average service charge for a one-bedroom flat in England and Wales surpassed £2,000 for the first time in 2024, which is relevant to the user's concern about the service charge.
4. <https://www.hamptons.co.uk/articles/service-charge-index-2024> - This source mentions that service charges have been rising faster than inflation, with a 33.9% increase from 2019 to 2024, which may be a concern for the couple considering future costs.
5. <https://www.hamptons.co.uk/articles/service-charge-index-2024> - The article discusses how larger, amenity-rich developments have seen service charges rise much faster than smaller developments, which could be relevant to the flat's amenities.
6. <https://www.hamptons.co.uk/articles/service-charge-index-2024> - This source notes that the average annual service charge in London is £2,581, higher than the national average, which may be pertinent if the flat is located in London.
7. <https://www.dailymail.co.uk/money/mortgageshome/article-14612687/Weve-leasehold-flat-buy-inflation-linked-500-ground-rent-off.html?ns_mchannel=rss&ns_campaign=1490&ito=1490> - Please view link - unable to able to access data