

# Expert advice on buying ground rents

What are the attractions and downsides of buying ground rents? Lawyers from two legal specialist law firms, who are part of the NLA's Recognised Supplier Scheme, explain the potential of ground rent to generate income and the responsibilities that owning them entail.

*UK Landlord: What makes buying ground rents an attractive investment for some?*



**John Midgley and Nikki Wood, Seddons:** It is a legal obligation for the lessees to pay the ground rent therefore receipt is almost guaranteed and the risk of losing initial capital is low. Although ground rents are usually for a low value, multiple freeholders may benefit from economies of scale.

In addition to receiving the ground rent, it is possible for a freeholder to charge for additional items if the lease provides for this. Common chargeable items may include:

- Licences to assign, payable when a leaseholder transfers their property;
- Notice of subletting or notice of charge, payable when the lessee has transferred, sublet or mortgaged the property;
- Management information packs; or
- Management expenditure incurred in maintaining or repairing the building, the costs of which are recoverable via a service charge.

*UKL: What are the pitfalls to avoid when buying ground rents?*

**Seddons:** In general, avoid purchasing freeholds with significant ground rent arrears. Whilst the landlord may have the ability to forfeit the lease for non-payment of ground rents so that the property may be returned to the landlord, there are relatively new rules restricting a landlord's ability to forfeit and the ability to make a 'windfall gain' occurs much less frequently.

The freeholder must be aware that even if a lease states that ground rent is payable whether demanded or not, there are now statutory rules which state that a prescribed ground rent demand must be served before the rent is legally due. The landlord cannot begin any legal steps for recovery of the rent, including action for forfeiture and possession, unless he has previously served the demand in the correct format, given the correct period of notice, and the leaseholder has failed to respond.

The amount of the ground rent should be verified in the lease to ascertain whether it is escalating. Landlords may also wish to consider whether the lease considers the impact of inflation on the value of the ground rent through the retail pricing index (RPI). This is especially important for a long lease.

The lease should be reviewed to ensure that the potential freeholder is aware of their rights and responsibilities. The financial implications of any responsibilities for repair and management of the property should be carefully considered and a survey may be advisable.



John Midgley, Seddons

**It is possible for a freeholder to charge for additional items.**





*UKL: Where do investors typically buy ground rents and what advice can you give investors thinking of doing so for the first time?*

**Seddon:** Freeholds and therefore the right to receive a ground rent are very commonly bought at auction. Consider whether the freehold is being purchased for the rental income stream only or for the capital gain attributable to potential appreciation of the value of the freehold. If the freehold is being purchased for the rental stream only, then a calculation should be made to ensure that the return will be higher than alternative investments of a similar risk profile.

Endeavour to buy a short lease; therefore fees can be incurred for extending the term. Ascertain whether there is a management company responsible for the freehold, either formed by the tenants, or through an independent company. The existence of a management company may relieve repair and management obligations however it will reduce the amount of additional income which may be charged for these services.

In addition to an income from the ground rents, a freeholder can realise the value of the property at the end of the lease.

#### Member Feedback

Have you encountered problems when buying ground rents? If so please send an email outlining your experiences or advice to [editorial@uklandlord.org.uk](mailto:editorial@uklandlord.org.uk)



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