

BUYING A HOME IN LONDON



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Acknowledgements

Design: CJ Field Design

Cover photograph: Douglas Freer/Shutterstock Inc.

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CHAPTER I

History of Residential London

Contents at a glance, and how to get around the book easily. [Click here.](#)

THE CITY OF LONDON

In 43 AD the Romans founded a new town on the north bank of the Thames near present day Saint Paul's Cathedral. It was called Londinium. It was burnt to the ground by Boadicea, Queen of the Iceni, 10 years later, but was soon reoccupied. For most of its life, 'London' has meant the City of London - the square mile which is now London's financial district. The city became the commercial centre of trade in England. Its importance lay in the fact that it had the only bridge over the Thames and so was the focal point for most roads from towns north of the Thames to the seaports on the south coast. Except for short periods of royal interference, it was fiercely independent and self governing, with guilds and commercial interests controlling its affairs. It has maintained its independence more or less intact to the present day. By the Middle Ages, the City was at least 10 times richer than its nearest commercial rival, Norwich. Anyone wishing to control England, had to control London, or have London on its side. William the Conqueror built the Tower of London to guard against a London rebellion. The City threw in its lot with the Parliamentarians in the Civil war, and that was a significant contributor to the defeat of Charles I.

WESTMINSTER

Meanwhile, an insignificant town two miles upstream, Westminster, was also growing in importance, but for a quite different reason. Edward the Confessor built an abbey there, where he was buried rather than at Winchester the traditional home of English kings from Alfred the Great

onwards. William the Conqueror was crowned in Edward's abbey, and he and his successors chose Westminster rather than the City itself as their London base. Kings moved round the country, and the government moved with them. But gradually more and more functions became established at Westminster. William II built the original Westminster Hall, which was rebuilt by Richard II. Parliaments came to be held there. (The present Houses of Parliament are Victorian.) Henry III built Westminster Abbey as the centre for royal ceremonial occasions and kings and queens (and famous poets) have been buried there ever since.

THE GREAT FIRE AND ITS EFFECTS

In 1666 the Great Fire of London, which started in a bakery, destroyed much of the City of London whose buildings were mainly timber. King Charles II set up a commission for rebuilding, whose members included Christopher Wren. They introduced 'building acts' which established three basic types of houses that could be built, from the grandest to the poorest. Houses were limited to four storeys, they had to be built in brick or stone, and comply with building standards. Such houses would be far more durable than timbered lath and plaster houses of Tudor and Jacobean times. The building acts began the creation of residential London as we know it now. That is why if you look at the residential areas of London, it is as if houses were invented by the Georgians.

A TALE OF TWO CITIES

During the 18th century, the population of London continued to grow and the area between Westminster and the City became filled up with new houses. The River Fleet was covered over to provide Fleet Street. (The river still runs underneath.) The fusion of the City of London, England's commercial centre, and Westminster, the seat of royal power, into one entity made London far and away the most important city in England.

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THE FINANCIAL SYSTEM OF DEVELOPMENT

The typical pattern for development was that aristocratic landowners would parcel out plots of land to builders who had to pay a lump sum to buy a 60 or 90 year lease. The builder then had to build an agreed number of houses. The builder had to pay a yearly ground rent to the landowner for each house. At the end of the lease term, the house reverted to the landowner. So the landowner had the benefit of money at the start, and income, and the chance of recovering an even more valuable investment for future generations of the family. The developer took a huge risk. If everything went to plan, and there was no sudden collapse in the property market, he might sell the houses at a big profit. But if - as often happened - there was a slump in the market, he could end up in debtors' prison. Many did. A builder developer would usually be a tradesman, such as a carpenter, who took the risk of taking on the project and then subcontracted part of the work to other tradesman. There were pattern books which set out standard house types, and builders often just copied the standard layout rather than incur the expense of an architect.

THE WEST END

One of the first areas to be developed in the 17th century, was a 45 acre field just north of St James's Palace, where King Charles II liked to live in London. This was attractive to aristocratic families because of its closeness to the court. This area was converted by Henry Jermyn, the Earl of St Albans, into Piccadilly, the Haymarket and Pall Mall. (Piccadilly actually takes its name from 'picadil', a form of collar, because a successful tailor built one of the first houses here. His more snobbish neighbours called his house Picadil Hall, and the name stuck.)

To the east, the Earl of Leicester converted his mansion into a square (Leicester Square) with houses round it. The fields between Piccadilly and Tyburn, where criminals were hanged (now Marble Arch) was developed in the early 1700s, with the construction of Hanover Square by the Earl of Scarborough, and Savile Row and Burlington Street by the Earl of Burlington. The City of London, a speculator on its own

account, constructed New Bond Street. Berkeley Square became the grandest of the new squares when constructed by the Duke of Devonshire in the 1740s. The largest landowner in the area north of Piccadilly was Sir Richard Grosvenor, whose estate with Grosvenor Square as its main focus, was constructed in the middle 1700s.

NORTH OF OXFORD STREET

Initially, there was no great enthusiasm for building north of what is now Oxford Street, which was regarded as too far from the court. The Duke of Newcastle (Henry Cavendish) and his son-in-law, the Earl of Oxford, (Edward Harley) began building here in the early 1700s, with Cavendish Square as the main focal point.

Tyburn Road was renamed Oxford Street after the Earl of Oxford who had acquired it. Further east than Cavendish Square, the Portland and Berners family estates were being constructed up to Tottenham Court Road. West of that, the Portman family created Portman Square and its surrounding streets.

NORTH OF MARYLEBONE ROAD

In 1756 a new ring road was constructed to bypass these developments. This is now the Marylebone, Euston, Pentonville and City Roads. It was designed to link the villages of Paddington and Islington. Bloomsbury was developed by the Bedford family in the 1770s. (Bedford Square is the only Georgian square surviving undamaged today). The Portman and Portland Estates expanded up to the new road. The Duke of Grafton created Fitzrovia and Euston Square during the Napoleonic war. Lord Camden began the creation of Camden Town at the same time.

BELGRAVIA AND PIMLICO

When George IV decided to renovate Buckingham House as his main palace in London, it stood on the edge of marshland frequented by highwaymen and robbers - one of the local bridges was called Bloody

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Bridge because of the number of people waylaid and murdered there. The rebuilding was organised by John Nash (who was so overworked that he forgot to include washbasins in the rooms). When its first royal occupant, Queen Victoria, moved in, the area suddenly became prime real estate as aristocrats followed the court, which had previously been centred in St James'. From the 1820s to the 1850s, Thomas Cubitt developed Belgravia for the Grosvenor family, and then the less successful Pimlico. Cubitt was the king of Victorian developers; he also constructed much of Camden Town, Islington, Stoke Newington, Bloomsbury, and Clapham Park.

PADDINGTON AND BAYSWATER

In the 1830s, the Bishop of London's estate north of Hyde Park was turned into the terraces of Paddington. In the 1840s and 50s the original West End was extended further west by building the Regency-style streets of Bayswater on the area north of Hyde Park and Kensington Gardens.

REGENTS PARK AND BEYOND

From 1812 John Nash planned and oversaw the building of Regent's Park, with the backing of George IV – then Prince Regent. It was designed to have the canal running through the centre, but the canal was diverted round the edge of the park so that commoners couldn't row along and gawp at the noble residents. Nash also designed Regent's Street to connect the new development to the court in St James'. From the 1820s onwards the Eyre estate west of Regent's Park was turned into St John's Wood. This was followed by the development of Primrose Hill. The land between Primrose Hill and Hampstead belonged to Eton College and this was developed in the 1840s and 1850s. In the 1860s and 1870s development moved northwards onto the Belsize Park estate. (Belsize Park was the first area where houses were built without stables for private carriages. By that time people were using buses and trains.)

West of Belsize and north of St John's Wood, was a 416 acre estate owned by the Lord of the Manor of Hampstead. South Hampstead was built on it in the 1870s. A public campaign prevented him from building over the heath which still remains as a public park. When the great Northern Railway reached the village of Finchley north of the heath in the 1860s this too was converted into a suburban development.

CHELSEA AND KENSINGTON

The village of Chelsea became fashionable for country houses from Tudor times when Sir Thomas More constructed a house there. Kensington was a small village in the countryside surrounded by fields and market gardens until the time of the Napoleonic wars.

Among the earliest developments in the 1780s was the Phillimore Estate near Kensington Church Street. George III hated it so much he had the curtains of his carriage closed whenever he passed it. From the early 19th century, the 60 acres of the Smith's Charity estate were turned into high class residential streets from South Kensington to Knightsbridge. The market gardens surrounding the village of Brompton began to be transformed into South Kensington in about 1852, as part of the development for the Great Exhibition, which also saw the construction of Exhibition Road, the Victoria and Albert Museum and the National History Museum. Further west towards Earl's Court, farmland bought by Robert Gunter, a successful pastry cook, was turned into fashionable housing by his sons and grandsons.

NOTTING HILL AND HOLLAND PARK

The Ladbroke and Norland estates to the north were developed from the 1840s onwards – along with two large farms, Portobello and Notting Barns – to form Notting Hill. Notting Hill also included a terrible slum called the Potteries where the average life expectancy was 12 years. This too was finally developed. Holland Park was developed by the Holland family in Victorian times.

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THE TRAIN AND THE RISE OF SUBURBS

The inner areas of London such as Holborn, Westminster, Strand, Whitechapel and Shoreditch began to lose inhabitants from the 1850s. Suburbs such as Kensington, Islington, Hackney, Lambeth and Wandsworth began to expand quickly, and about half a million people (half of London's population growth) moved there between 1851 and 1881 (when censuses were carried out). From 1861 the outer suburbs increased dramatically in size due to surface and underground trains. By the turn of the century, the only people willingly living in the centre were the very rich, who could live in the West End, and the very poor, who were working long hours and had to live close to their work, such as docks and markets.

By the 1860s, Clapham, Blackheath, Stratford, Hackney, Stoke Newington, Notting Hill and Hammersmith had all been absorbed into London. By 1900 London had expanded to Acton and Brentford in the West, to East Ham and Barking in the east, to Tottenham and Wood Green in the North, and Greenwich Streatham and Croydon in the south.

DOCKLANDS AND THE EAST OF LONDON

The London docks were thriving in the 1960s, and utterly deserted by the end of the 1970s. A huge residential redevelopment took place in the 1980s and again, after a slump, in the last 10 years. It is a residential area east of Tower Bridge so vast that west London from Tower Bridge to Hammersmith would comfortably sit inside it. There are new houses and also attractive flats in converted Victorian warehouses.

RETURN TO THE CENTRE

The 1970s and 80s were the heyday of house conversions. Victorian family houses were converted into flats. In the 90's and 00s, the trend has been to convert old factories, warehouses, schools (in fact, just about any public or commercial building) into flats, as singles and young couples have deserted the suburbs to reoccupy central London. Many

forgotten areas, such as Clerkenwell and Bermondsey, have been re-energised as residential areas.

THE RIVER THAMES

Large blocks of flats have been built in other parts of London, but the banks of the River Thames are where you go to find luxury modern apartments in huge and prestigious new developments. This is also principally a product of the new millennium.

LONDON NOW

There are still poor areas of London. The London Borough of Newham has the highest level of unemployment in England. But the good residential areas of London have expanded as never before. Kensington and Chelsea and Westminster are still pre-eminent as the areas where people with money choose to live. Mid-Town as far as the City, which used to be almost exclusively for business, is now full of residential pockets. South London, which was a prime residential area in Victorian times, is once again a prosperous residential area. North London had always retained more cachet as a residential area, and continues to be popular.

CHAPTER 2

Houses

Contents at a glance, and how to get around the book easily. [Click here.](#)

The London town house

The typical London town house was established during the Georgian period. Architectural styles came and went with superficial impact on the standard Georgian house. The basic layout and construction did not change dramatically until the last quarter of the 19th century. There were several reasons. The design worked. Strict building regulations limited how builders and architects could modify the design. Houses were built to be sold or let and the public as always was a lot more conservative than the architectural purists. Changes which occurred mainly came about as a result of improved manufacturing methods and materials which allowed larger constructions.

The basic town house was classical or Palladian in style. Various architectural movements followed - Neo-Classicism, Greek Revival, Picturesque, Italianate – but these changes in architectural fashion were often not reflected in London house building, or at least not immediately. Houses in the earlier Georgian style continued to be built in the Regency period and many streets of Neo-Classical or Regency houses were in fact built well into the Victorian era. Builders and architects nodded at architectural fashions by adapting the external facades of their buildings but frequently they reproduced terraced houses from pattern books without the aid of architects.

BASIC LAYOUT OF A PERIOD TOWN HOUSE

The main structure was a brick-built rectangular box. The average sized house was about 20 feet wide and 30 feet deep, with three or four storeys above a basement, and two rooms deep on each floor. There would be a semi-basement reached by steps down from street level at the front. Ground floor would be raised above street level with stairs up from street level to a front door with a decorative porch. The main reception and living area in Georgian and Victorian houses was the first floor; the windows are more ornate than on other floors and they are often full length and open onto a metal balcony. Above would be a second and possibly a third floor of bedrooms. Above that there might be an attic floor set slightly back. The top of the façade normally had a parapet with a balustrade. Behind that here would be a pitched or mansard roof of Welsh slates. Originally or by later conversion these would often contain dormer windows and servants' quarters. The main door was usually on one side or other of the frontage and led to a hall and then the stairs. In later houses, there was often a separate set of stairs at the back for servants. A timber frame formed the internal construction of all but the largest houses.

BASEMENT

The streets of London and the gardens of London are often at different levels. Most period terraces of what we now regard as central London were built in countryside and the roads were created at the same time. The road at the front was built up above ground level. So at the front, the lowest floor of a house appears to be semi-basement level. But at the rear, this floor opened directly onto the garden at ground level. At the front, there was an open area to allow light into the basement windows, with railings to prevent people falling into it. In Victorian times an annexe would often be built at the back of the house to provide additional room space.

GROUND FLOOR

In early Georgian times it was normal for the ground floor to be for services and servants' accommodation and the first floor was the main floor or "piano nobile". But in the Regency and Victorian periods the ground floor was also often for family use or for entertaining.

The ground storey contained the dining-room, at the side of a narrow entrance hall, with a smaller parlour or morning-room behind it. The dining-room might be a little deeper than the front rooms on the upper floors and was sometimes finished with a sideboard recess at its inner end. The rear parlour was usually narrower than the dining room in order to accommodate the extra width of the stairs next to the passage way at the end of the hall.

FIRST FLOOR

On the first floor, the principal living-room or drawing-room often occupied the whole front of the house. It often had casement windows which extended down to the floor opening on to a balcony or a series of individual 'balconettes'. It became common to unite this room with the smaller room behind it through wide folding doors which made one large room for entertaining. The stairs might be in wood or stone, sometimes with cast-iron balustrades.

UPPER FLOORS

The main bedroom would usually be on the second floor, with provision for children's rooms and servants' rooms on floors above. Attic floors and rooms created in mansard roofs were for servants. From the outside you can easily work out who was occupying particular parts of a house from the size of the windows and the amount of decorative stucco around them.

Facades

THE CLASSICAL OR PALLADIAN FAÇADE

The façade of the typical London house of the late-18th and early 19th century followed a fairly standard Palladian plan. Houses were designed to echo the appearance of ancient Greek and Roman temples. The Greek columns of the ancient world were transposed to the facades of London town houses. Where the freestanding Greek columns of the Parthenon had held up huge blocks of stone, the London town house rarely had actual columns - more likely decorative half columns or "pilasters" pressed against the wall to make it look as if the brickwork had been constructed between them, or even flattened representations only a few inches wide. Beginning at ground level the columns ran up to above the second floor windows where they seemingly supported a wide and often elaborately decorated cornice (like the frieze on a Greek temple). Doors and windows were crowned with pediments, and decorative mouldings. An elaborate façade was exclusively for the front of the house. The back of the house was usually totally practical and undecorated. But when later Victorian houses were built with large gardens it became the norm to give the back of a house a facade almost as elaborate as on the street side.

CHANGES IN FAÇADE FASHION

Changes in architectural fashion were reflected in changes in facades – although builders usually only got round to modifying their designs on new houses years after the fashion had moved on. Neo-Classicism involved replacing Roman with ancient Greek designs. The Picturesque movement emphasized the natural world. These styles all mingled. Nash's Regent's Park terraces look thoroughly classical but the deliberately irregular roof line is Picturesque.

Victorian houses became progressively more exuberant. The classical model was finally thrown off in favour of a revival of mediaeval Gothic with windows like pointed stone arches from mediaeval cathedrals.

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Queen Anne or Domestic Revival style began as a return to the simplicity of a pre-Georgian design and employed red brick instead of stucco. But gables, which were a feature of the style, soon fell prey to Victorian exuberance and developed into the huge and elaborate gables of the Dutch style. Finally came the Art and Crafts movement which had the dubious distinction of introducing pebble dashing to façades.

BRICK OR STUCCO

Earlier Georgian façades were plain brick. Bricks had to be made and baked on site. In later Georgian houses, ground and basement levels were often faced with stucco. The façade would be exposed brick for upper floors, but the window frames would be surrounded by a stucco rendering. By the time Kensington was being built in the mid-19th century the typical house was becoming fully stuccoed. The stucco rendering was often marked with indentations to suggest blocks of stone.

House types

TERRACES

Town houses were built in terraces. The façade would be flat-faced with plain inset sash windows and doors. Brick houses in terraces were a creation of the Georgian age. The earliest Georgian terraces were very uniform in style and symmetrical in layout. By the end of the 18th century the basic terrace had been developed into new shapes such as crescents and with some houses projecting beyond the line of the terrace. The “palace fronted terrace” was often created. Regent’s Park is the prime example. The whole terrace was treated as one composition, with pilasters at intervals and a central pediment over the houses in the middle as if the terrace was a single palace.

MEWS

For most of the 19th-century, developments of the houses for the rich required a mews at the back for their coaches and horses. By the end of the century, trains and buses had done away with that, and stables are now highly valuable houses. ('Mews' as a name for a particular type of London street got its name in a rather roundabout way. In the Middle Ages, to 'mew' meant to moult or shed feathers and the cage where a hawk might be put in its moulting season was sometimes called a 'mew'. Henry VIII housed his horses at Charing Cross in what had previously been the 'mews' for his hawks, and the name came to be used for the accommodation for horses and carriages.)

INVENTION OF THE SEMI-DETACHED HOUSE

As the Victorian era progressed, and as building moved further out of London to areas where land prices were relatively low, builders also began to build paired villas with gardens – the original semi-detached houses.

SUBURBAN HOUSES

In the early 20th century, suburban railways meant that the population moved to the suburbs (literally "below the city" in Latin). Land was cheaper, so construction was mainly of detached houses, as contrasted with the terraced houses of central London. That trend has carried through to the present day.

Freehold houses

The vast majority of residential properties in England are 'freehold' houses, making up 88% of the total number of homes. To be exact, in 2004/5 the government estimated there were 14,368,000 homes, and of these 12,655,000 (88%) were freehold houses.

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We all understand perfectly well what we mean when we say we own something. And if you own your house in that ordinary sense, you own the freehold. Freehold is the legal word for fundamental straightforward ownership of land and the buildings on it.

Leasehold houses

Some houses are leasehold. (See 'Flats' below for an explanation of leasehold). In 2004/5 the government estimated there were 654,000 leasehold houses. That is 5% of the property market — so there are nearly as many leasehold houses as there are flats (7% of the market) in the country as a whole. The proportion is very much lower in London. In London, if you occupy a house as a family home you almost certainly own the freehold, unless you are in one of the central London estates such as the Grosvenor or Cadogan estates, which may still be leasehold.

Gardens

Over 90% of homeowners have a garden. This rises to 99% for owners of detached and semi-detached houses. It drops to 86% for terraced houses, and 13% of them only have a patio or yard. Understandably, few flat owners have gardens. But there are many communal gardens in central London.

Common problems

There are a number of common problems a property may suffer from — dampness, rot, woodworm and others. Although they are very diverse, most of the problems which typically affect a building come down to one thing - water. The solution is usually one thing too - air. Buildings are constructed to breathe. They naturally get wet; there is water in the earth below the property, and rain pours down on the roof and the walls. But building materials are designed to dry out. Construction materials and building methods have been designed to achieve a balance. Most of the

problems you may encounter in a building may be the result of too much moisture getting in, or the usual drying process failing to work properly. Of course, there are buildings with major problems which you should not buy, or which are going to require massive injections of cash to put right. But in other cases problems may have very straightforward and inexpensive solutions. 'When damp meters don't work' explains how 'damp' readings may turn out to be false alarms.

Boundaries

If you buy a house on a new development, the plans will usually show which boundary walls or fences you own. Ownership of boundaries is indicated by a 'T-mark' on the plan. If the 'T' is on your side, you own the boundary, and if it's on the other side, it belongs to the adjoining owner. (This may also apply to other developments as far back as the First World War.)

In the absence of such a specific designation, it is usually hard to say precisely who owns a boundary between two houses. The Land Registry records and the earlier title deeds usually don't mention it. A rule of thumb is that if the posts of the fence or the supports of the wall are on your side, it should be your fence or wall. The rationale is that the flat face of the wall would have been built on the exact boundary and the builder would have put any projecting bits on his own land. But that is still only an indication. In the absence of anything specific, the normal assumption is that shared walls or fences are 'party walls' and that they are jointly owned. That means that each owner needs the adjoining owner's consent before he can do any work on the wall or fence, such as replacing it or building it up.

Rights you need

You need to be able to get to your property. If you are buying a typical house in London, the front gate probably opens straight on to the public pavement. All your solicitor has to do is check that the road is publicly

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maintained, and that the property boundary is right against the public pavement. But if you have to go over private land to get to your property, the situation has to be checked very carefully to make sure you have all the necessary rights to do so. Without such rights, you may be 'landlocked'. Victorian terraces in London were often constructed with a rear passageway running behind the terrace, and either it has long been forgotten who owned it, or else bits are registered as owned by individual house owners. It may not be a deal-breaking issue but it is the means for removing your rubbish and bringing in garden materials. So your solicitor has to check you have the legal right to use the passageway to and from your back garden.

You need to be able to get water, drainage, electricity and other services to and from your home. For the most part, the suppliers of these services have a statutory right to go over anyone else's private land to connect the services to your property

Alterations

Most major building works require planning permission before they can be carried out. If owners carries out work requiring planning permission but doesn't apply for it, the council can make them put everything back as it was — but only if they act within 4 years. After that, there is usually an amnesty.

Quite apart from issues of planning permission, building works at a property may also require 'building regulation consent'. The building regulations specify exactly how particular building works must be carried out. The idea of the rules is to ensure that buildings are safe, and that the occupiers have a healthy environment.

CHAPTER 3

London flats

Contents at a glance, and how to get around the book easily. [Click here.](#)

London flat types

MANSION BLOCKS

In late Victorian times, the use of steel in construction allowed large blocks to be built, but the real explosion of mansion block construction occurred between the world wars. You find them mainly in areas north of Marylebone Road and in many of the inner-suburban areas out from central London.

MODERN BLOCKS

In the last 20 years there has been huge increase in the construction of modern blocks and developments. Some very modernistic glass-fronted blocks now line the banks of the Thames.

Flat conversions

In the latter part of the 20th century, most building in central London was in the form of conversion of houses into flats. Individual Victorian family houses could often be transformed into several self-contained flats, more suitable for the smaller families and single owners of late 20th century living. Central city commercial offices and warehouses have also been converted into flats. Run-down areas like Clerkenwell and

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Docklands have been transformed in the last 20 years into new trendy residential areas.

Since the developers are never going to live in their flat, there is quite a temptation to do the conversion as cheaply as possible – to cover up all the defects behind a clean coat of paint, and then sell and never look back. Conversions generally have to be overseen by the building inspector from the local council, but he can't see everything. So it's always a good idea to have a proper survey when buying a converted flat. It's also important to check that the local council have approved everything and produced a document certifying it. Otherwise you run the risk of the council turning up and demanding changes, or even demanding that you no longer live there. Your surveyor and your solicitor should look into these things and specifically confirm that everything has been properly complied with.

Leasehold

Most London flats are 'leasehold'. Leasehold is different from freehold ownership because it is for a specified period of time, you pay rent, and there are additional obligations. In essence, the landlord gives the tenant the exclusive right to the premises for an agreed period of time in return for a rent. For example, you might rent a flat for 6 months for a rent of £500 a month. When you buy a flat from a landlord the agreed period is much longer – traditionally 99 years – and you pay a purchase price (called a 'premium') which is just like the purchase price on a freehold. You still pay rent – rent is an essential part of it being a lease – but it is something nominal. £100 a year or something in that region is usual, and often it is just a 'peppercorn', a symbolic rent. The lease is an asset and the first flat owner can sell it on to future buyers.

The advantage of leases for flats is that they allow for a detailed set of rules to be put in place which everyone has to obey. As a result of that concept, leases are often 50 pages or more in length. The best arrangement is for the flat owners as a group to have control of the management and repair of their building via a management company or

by owning the freehold. Having a landlord controlling things is only a disadvantage.

What you own

Usually in a purpose-built block your flat will be limited to the internal plasterwork; and the lease wording will specifically exclude from your ownership all main walls and structure. (The structure will usually be part of the 'common parts' maintained by the landlord or management company out of a service charge fund.) If you are buying a flat in a converted house, then your lease will probably say that you own the floorboards and the joists underneath, and that you own the ceiling but not the joists to which it is attached (which will usually belong to the flat above). There would usually be some description of whether dividing walls are split between flats or are part of the common parts. I keep saying 'usually' because there are many variations, and these are just examples. You need to look at the actual provisions to make sure they really do make practical sense. You ought to make sure your surveyor has seen them as well.

Leases

Mutual rights. When you own a flat in the middle of a building, you need various rights over the other flats and over the common parts retained by the landlord. For example, you need the right to cross the front path and the internal halls, landings and stairs to reach your flat. You need a right to have water and other utilities passing to and from your premises through other parts of the building. You need there to be some rights of support from the rest of the building structure. Other flat owners will want similar rights in respect of pipes passing under your floorboards.

Mutual obligations. Most of the pages of the lease will be taken up with a long catalogue of your obligations. Many of them are fairly legalistic, so you should ask your solicitor to point out the obligations of practical

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importance to you. Other flat owners should be subject to similar obligations so that everyone operates under the same set of rules.

Landlords' obligations. Most leases will contain clauses saying that the landlords will carry out the services, including maintenance of the structure and insurance of the building (while of course recovering the cost in the service charge). The lease should also say that the landlord will make sure that all leases in the building are in a similar form, so that everyone knows they are obeying the same rules as everyone else.

Management

The most straightforward scheme for a number of flats involves one landlord. That may be the original owner or developer, or simply someone who has bought the freehold of the building after the leases were granted. He then carries out the services.

In more modern leases, the traditional role of a landlord is split. The landlord continues to receive rent, and negotiates (and gets paid for) any new leases. But management of the building is hived off to a separate management company owned by the flat owners. That way, ongoing maintenance and day-to-day services are controlled by the people who actually have an interest in them – the flat owners.

An even arrangement is that the freehold of the building is owned by the flat owners themselves, so that they have complete control over the management of their own home. Flat owners often have the right to buy the freehold of their building from the landlord, and they can in some circumstances take over management of the building themselves. They would normally set up a company to own the building. The individual flat owners will either be members, rather like members of a club, or they will hold shares which have to be transferred to each new flat owner as a flat changes hands.

Estate management schemes

Getting rid of the landlord is not always ideal. In the great traditional estates of central London – such as the Grosvenor and Cadogan estates – which in many cases are still owned or controlled by the families of the original owners of the land when the area was first developed from farm land – the iron-hand of the landlord has preserved the uniformity and identity of their areas against piecemeal changes. Among other things, they often insist on 'their' colour for all painted facades on their estate. Fortunately, although flat owners can emancipate themselves and buy the freehold of their building, they remain subject to estate management schemes which effectively give the former landlord the same controls as they formerly had as landlords over the way in which buildings are used and developed.

Service charges

If you live in a block of flats, maintenance, repairs and other services can realistically only be handled centrally. Works to repair the roof or the foundations, or to keep the communal gardens looking nice, will all be handled that way. The expense will ultimately be borne by the flat owners. They will all be expected to put up a certain amount of money each year to cover anticipated expenses, and then there will be an accounting at the end of the year to work out how much money is left, or whether they have to put up a little bit more to cover a shortfall.

As explained already, either the landlord has the responsibility for looking after the building as a whole, or there may be a management company involving all the flat owners. Flat owners are protected by law against the most obvious abuses. Landlords can't carry out works without getting quotes and consulting the tenants. They have to act in a reasonable way in many situations, or find themselves unable to recover the money.

The simplest service charge arrangement involves flat owners only contributing to costs each year as they are incurred. But replacing lifts or

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roofs can then be a huge financial burden in the year when the work occurs. The better arrangement is for there to be a 'sinking fund'. This means the flat owners contribute towards future large expenses by putting a proportion of the anticipated costs into a special bank account each year and so spreading the pain.

Alterations

If you want to carry out any alterations in your flat, you will need to check the wording of your lease carefully. The best arrangement is that individual flat owners should not be allowed to do works to the exterior or structure of the building, but that they should be allowed to alter the interior. You may not want to keep your predecessor's avocado bath set. Often a lease will give the flat owner that right, subject to the landlord's consent being obtained. This fine if it also says that the landlord's consent cannot be unreasonably withheld, because then the landlord can only refuse permission if there is a good reason – e.g. your works would damage the ceiling below. Sometimes leases forbid any alterations at all unless you first get the landlord's consent. That would mean you couldn't even change the internal layout without getting consent. Sometimes the landlord is entitled to withhold consent in any circumstances. He might refuse just he doesn't like you, or he might make you pay a lot of money for his permission. That is less of an issue if the flat owners as a group also own the building, because neighbours may be sympathetic to reasonable changes which they might want to make themselves. But you don't want to risk being held to ransom by a landlord looking to profit from all opportunities.

You may think that you could just go ahead and make the alterations and who will ever know or object? But the problem comes when you want to sell. Your buyers' solicitors will insist on seeing the landlord's written consent for any past works which required consent, or else the buyers might find themselves being forced by the landlord to reinstate the flat as it was after they have moved in. The obligations in the lease are on the legal owner whoever that may be, so your buyers step into your shoes as the parties responsible for past breaches of the lease terms.

Insurance

The landlord or the management company will usually maintain buildings insurance on the entire building under one policy. The premium cost is then billed to the individual flat owners in the same proportion as they pay service charge. The alternative — each flat owner insuring their own flat — isn't practical because if someone forgot to insure a flat in the middle there wouldn't be enough money overall to rebuild the building if it burnt down. Flat owners have a legal right to receive copies of the block policy and to receive evidence of policy renewal each year.

Extending the lease

Leases are often granted for 99 years. I have no idea why 99 appeals so much to landlords! If you buy a lease which was created when the house was converted into flats in the 1970s, then there may now only be about 70 years left. Most flat owners (but not all) have a legal right to extend their leases by another 90 years. You have to pay the freeholder something for this. Once the lease term dips under the 80 year mark, the price goes up dramatically.

You can't apply for an extension lease until you have owned the flat for at least two years, so if you are about to buy a flat and you want the lease term extended, you need to arrange for the seller to start the process by serving a notice on the landlord before you buy. The right can then be passed on to you without there being a two year delay.

Buying the freehold

Flat owners can club together to buy the freehold of the building from their landlord. This is technically referred to as 'collective enfranchisement'. Most flat owners in most residential buildings have the right to make the landlord sell the freehold to them. But the conditions which have to be met are quite complicated.

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The procedure is rather more complicated than getting an individual extension lease on a flat. But ultimately it is often worth buying the freehold so that you and your neighbours have control of your building.

Commonhold

The leasehold system of landlords and tenants, fixed lease terms and annual rents is far from ideal. There is no logical reason why you shouldn't own your flat just like house owners can own the freehold of their houses. All you need with a block of flats is a system for agreeing communal issues — repairs to common parts and overall insurance, for example. 'Commonhold' is a new way of owning property which achieves this. It is very similar to how 'condos' operate in the US. You own your flat forever (no 99-year term). All the flat owners mutually own the common parts of the block or estate. There is a set of regulations everyone has to comply with.

So far it has not taken off. In 2004/5 the government estimated there were 4,000 commonhold properties in existence. Developers are a conservative lot and stick to the tried and tested leasehold system when creating new blocks. Once in existence, a block of leasehold flats can only switch to commonhold if every single flat owner agrees, and that is hard to achieve.

CHAPTER 4

Deciding where to buy

If you have a look at our blog www.realpropertyblog.co.uk you will find histories and descriptions for all these areas.

Acton	Fitzrovia	Norbury	Tulse Hill
Acton Green	Forest Hill	Norwood	Twickenham
Balham	Fulham	Notting Hill	Walthamstow
Barnes	Gipsy Hill	Paddington	Wandsworth
Battersea	Golders Green	Palmers Green	Westminster
Bayswater	Greenwich	Peckham	Whetstone
Bedford Park	Hackney	Pimlico	Whitechapel
Belgravia	Hammersmith	Poplar	Willesden
Belsize Park	Hampstead	Primrose Hill	Wimbledon
Bethnal Green	Hampstead	Putney	
Blackheath	Garden Suburb	Queens Park	
Bloomsbury	Hendon	Regent's Park	
Bow	Herne Hill	Richmond	
Brixton	Highgate	Roehampton	
Brompton	Holland Park	Sheen	
Brondebury	Islington	Shepherd's	
Park	Kennington	Bush	
Camberwell	Kensal Green	Shoreditch	
Camden Town	Kensington	Soho	
Catford	Kentish Town	South	
Chalk Farm	Kew	Kensington	
Chelsea	Kilburn	Southfields	
Chingford	King's Cross	Southgate	
Chiswick	Knightsbridge	St James's	
Clapham	Lewisham	St John's Wood	
Clerkenwell	Leyton	Stepney	
Colliers Wood	Leytonstone	Stockwell	
Covent Garden	Little Venice	Stoke	
Cricklewood	Maida Vale	Newington	
Crouch End	Marylebone	Stratford	
Crystal Palace	Mayfair	Streatham	
Deptford	Merton Park	Swiss Cottage	
Dollis Hill	Mill Hill	Teddington	
Dulwich	Mitcham	The City	
Ealing	Morden	The South	
Earl's Court	Mortlake	Bank	
Earlsfield	Muswell Hill	Tooting	
Finchley	Neasden	Tottenham	
Finsbury	New Cross	Totteridge	
Finsbury Park	Newham	Tufnell Park	

CHAPTER 5

Deciding what to buy

Contents at a glance, and how to get around the book easily. [Click here.](#)

House or flat

This may not even be a choice you have to consider! If you are buying in central London, you may only be able to afford a flat; and if you are buying in the suburbs, there may only be houses. So the decision may be made for you. But if you have a choice, there are some factors to take into account.

Locality

You have to decide where you want to live. This is partly a matter of your personal preferences, and partly a cold financial calculation, because you may simply not be able to afford the sort of property you want in one area rather than another. The money available to you is probably the one thing you can't change, so the possible trade-off is usually between localities and the number of rooms you will have.

If you don't know your chosen area well, you need to walk round it in daylight and at night, to check if it's dangerous, noisy, and so on.

Number of rooms

One kitchen, one bathroom, and one living room are usually the assumed basic requirement (unless you have to make do with a studio, or

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you are wealthy enough to have several bathrooms.) The choice on the number of rooms is normally about the number of bedrooms.

On the continent they operate on the sensible system of valuing flats by the square metre, so it doesn't really matter how many rooms there are. Here it is still common to be told prices which are related to the numbers of bedrooms. In the past, that has led to developers and property converters creating ridiculously small bedrooms. You often read about cupboards being sold as bedrooms, usually near Harrods. So if it's really a walk-in cupboard, rather than a bedroom, don't get seduced into paying a two-bedroom price for a one-bedroom flat.

Instead of buying a one-bedroom flat, consider buying a two-bedroom flat and letting one of the rooms. Two-bedroom flats don't cost twice as much as one-bedroom flats, but the rent from letting one bedroom may cover half your mortgage payment, so the end result is that it costs you less and you have a bigger investment.

Age of the property

You will probably have a clear idea in your mind whether you want to buy a converted flat in a period house or a flat in a modern purpose-built block - which may lack character but have larger windows and lower running costs. If you are buying a house, you may prefer a modern layout or a Victorian house in a conservation area. These choices have implications for cost of purchase and ongoing cost of maintenance. The age of a property also has implications for value when you come to sell.

Working from home

If you will need to work full-time from home, there are some important issues you should think about. Normally, premises are designated for planning law purposes as residential, or for some kind of business activity, but not both. So you may need planning permission if you want your home to be your business premises. This might be the case if you

are planning to open a doctor's surgery from home, for example. Generally speaking, converting a room into an office will not require planning permission as long as the overall use of the premises is still residential and the office use can be regarded as incidental to the residential use. But you should always check with an expert about the particular facts of the case. (If a use has existed for 10 years it can become the legal use.)

There are some Capital Gains Tax dangers — Normally you don't pay CGT on your home, making it about the best investment you can have. But if there is a business use, you may have to pay CGT.

There is a type of flat which formally recognizes the need for people to live where they work. These are called 'live-work' units. Part of the flat is designated for living area and part as a studio, for example. These were very popular with planning departments in the 1990s in areas where former warehouses and offices were being converted into studios and flats, but you don't come across new ones very often nowadays. If you own one or buy one, you may be better off making sure you can get permission to convert the whole space to purely residential use.

A London pied-à-terre

If you work in central London, but you have a family, you may live somewhere in the commuter belt and have to commute by train every day - a nightmarish experience. One option is to buy a small flat near work and stay up in town during the week, going back home on Friday. More and more people are doing this. Other couples like to have a small flat in town so they can conveniently come up to the theatre and stay overnight. There is also a considerable market in foreigners who like to have a place to stay in London for a few weeks each year, preferably near Harrods.

This isn't quite the same as buying a holiday home, but many of the same issues arise. Bear in mind that you cannot get capital gains tax relief on the sale of your second property. But the Inland Revenue give

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you considerable latitude in saying which of your properties is in fact your main residence, and which is a second property.

Ex-council properties

In the early 1980s Margaret Thatcher introduced a 'right to buy' scheme, which gave council tenants the right to buy their council flats or houses at a substantial discount. Many council houses have been bought by their tenants over the years and sold again, so there are now many former council properties on the market.

Council flats, particularly in high-rise blocks around the outskirts of central London, were more of a problem. It wasn't such an attractive proposition to buy your flat if water was leaking in through the building's roof, or drug dealers were using the staircases, because these were things outside a flat owner's control.

'Ex-council' is still a label which knocks tens of thousands of pounds off the value of a property. Of course, ex-council may be the only type of property within reach of the first time buyer. Leaving aside pure prejudice, there are reasons to be cautious about buying ex-council property. Many blocks were built badly and with materials which are dangerous or will deteriorate quickly, and if you buy a flat in one of those blocks you may be entering a bottomless pit of repair costs. But there are potential benefits too: if you can find a good block, you may find a flat you couldn't otherwise afford. Just be careful.

New properties

If you are buying a house or flat 'off plan' or which is currently being constructed, you have to be very careful that you will get what you expect to get. Don't assume that the show house will show your house. The developer is bound to make the show house look as attractive as possible. But all the features and furnishings on display may not be included in the standard package to buyers. You may have to negotiate

to have your choice of kitchen equipment and carpets included in the price.

Builders often give themselves some leeway to change items if, for instance, particular materials become hard to get. They often even try to reserve the right to change the plot boundaries. Your solicitors must make sure that this is kept within a very small ambit - just enough to cover genuine practical needs, not so as to spoil what you are buying.

The developer usually has to provide you with a type of insurance cover against any structural defects occurring in the property during its first 10 years of life. If there are any such defects, then you don't have to rely on suing the builder, who might not have any assets by then. If necessary you can make a claim under the policy. This is usually arranged by a body like the National House Builders Registration Council ('NHBC') with its 'Buildmark' scheme, or by an insurance company such as Zurich Insurance.

Build your own home

You can buy land and build your own home on it, or have it designed and built for you. Apparently one in four new detached houses in the country is a 'self-build' house. More than 20,000 houses are self-built each year. It is expected that self-build could very soon account for around 10% of the new house market.

In theory, if you build your own home then, provided you get your figures right, you should end up with a house costing about a third less than a similar house bought ready-built from a developer or from an owner occupier. But what tends to dent that profit level is the cost of buying the plot. The first step obviously is finding a plot of land. It has to have planning permission - permission from the council to build a house on it. This is usually 'outline permission' which is a general confirmation that you can build a house there. As soon as a plot has outline permission, it goes up substantially in value and the cost of buying the plot can eat considerably into the savings from avoiding

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paying the developer's profit. It is a very dangerous game to buy a plot without 'outline permission' for a house. If it has existing planning permissions for some other use such as retail or industrial, then you are taking a big risk as to whether you will be able to persuade the council to let you change the use to residential.

Using you get a plot with outline planning permission, or even with an existing house on it which you can knock down, your next step is to get 'detailed permission'. This is approval of the specific house you want to build, including its layout, size and position. You can either arrange for an architect to design a house for you, or you can buy one of the 'ready-made' products which are available on the market. If you go the ready-made route, the company will usually put up the main structure for you and you then use local builders to complete the detail.

You should get the construction of the property covered by NHBC or a similar scheme. If you have to sell the house again within 10 years, the buyers and their lenders will expect there to be an NHBC or similar guarantee that the structure of the house is sound. Without it, the buyer may not be able to raise a mortgage. (Lenders will sometimes accept a new house without such guarantees if the construction was supervised by an architect.) You should also make sure that your architect lines up proper guarantees from all the parties involved in the project for your benefit.

You need to arrange a special mortgage for this kind of project. The lenders will advance money in stages. The first stage is for the purchase of the land. Then as building work is carried out, further amounts are released in instalments to pay the builders and the other expenses.

CHAPTER 6

The cost of buying

Contents at a glance, and how to get around the book easily. [Click here.](#)

Introduction

Before you start, you need to make sure that you can raise the funds to buy the property and cover the likely costs. You are going to have to pay some of the costs while the transaction is going through, and others at the end. Some you will have to pay even if the transaction falls through. You need to take all these things into account when arranging your finances for a purchase.

Deposit

You have to pay a 'deposit' to the seller at the contract stage — the point when you are committed to buying and the seller is committed to selling, and neither side can change their minds. Traditionally, this deposit has always been 10% of the price. But nowadays it can often be negotiated down to 5% if you don't have the cash available to pay more. But rarely will you get away with paying less than 5%.

Even if you are borrowing 100% of the purchase price, you don't get that money from your lenders until completion of the purchase and you have to fund the deposit in the meantime. So you have three ways of coming up with the deposit. You can have it ready in savings, you can borrow it (a 'bridging loan'), or you may be able to use your own buyer's deposit if you are selling as well as buying.

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If you are saving money for a deposit, put your savings into a mini-cash-ISA. This is tax-free, so you will end up saving more. Putting some into an internet bank account may help. Internet banks usually offer much better interest rates than traditional banks.

Mortgage loans

You have to pay interest on your mortgage loan every month. If your finances will be stretched by having to pay the current interest payments out of your salary, you could be in trouble if there is an interest rise of 2% or even 1% over a relatively short period of time.

If you are a couple, both earning, then having joint incomes will help considerably with affording the first purchase. But even if you are on your own, you might consider joining forces with a friend to buy a property which individually you could not afford.

Mortgage fees

Some mortgage lenders charge an arrangement fee for granting you a mortgage. You may be liable to pay this once the mortgage loan is approved by the lenders even if your purchase falls through at the last moment.

Mortgage brokers' fees

If you use mortgage brokers to find you a mortgage loan you may have to pay them fees, but in many cases brokers are paid commission by the lenders who grant you the loan, and this may avoid the need for you to pay mortgage brokers' fees.

Legal fees and expenses

You will need to appoint solicitors (or licensed conveyancers) to arrange the legal side of the purchase for you. Your lenders will normally use the same firm to arrange the mortgage for them. Solicitors usually quote a fixed fee, which will be related to the amount of the purchase price. If the transaction falls through, you should normally only have to pay a proportion of that to cover the time the solicitor has spent on the deal. You should always ask for a quote at the start. But don't just go for the cheapest quote. Your solicitor's service will be critical to the deal going through or not.

In addition to the solicitor's own fees, there are some costs which the solicitor will be incurring on your behalf. Your solicitor has to check whether there are any problems about the property or the nearby area recorded at the local council. This is called a 'local search'. The council charge a fee for providing the answers. When you complete your purchase, the change of ownership has to be recorded at the Land Registry (the public register of land ownership) who charge a fee of a few hundred pounds. There will be other items like bank charges as well. If you are buying a flat there may be some other expenses to do with registering the change of ownership with the landlord.

When you ask your solicitor for a quote at the start of the transaction he will be able to give you a fairly detailed estimate of all these expenses. The legal fees and expenses also have to be paid to the solicitor before completion.

Stamp duty land tax

Stamp duty land tax ('SDLT') is a tax you have to pay when you buy a property. SDLT is a percentage of the property's purchase price. It can be anything from 0% to 4% of the price. There are things you can do in some circumstances to reduce the amount you have to pay — like apportioning some of the price to 'fixtures and fittings' you are buying, such as kitchen equipment, curtains and carpets. SDLT has to be paid to

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your solicitor before the completion date because he has to pay it on to Revenue & Customs within a month (or else you pay a penalty).

Survey fees

If you are borrowing mortgage money, the lenders will arrange a valuation for their own benefit and charge you a fee of a few hundred pounds. This 'mortgage valuation' is confirmation for the lenders that their loan will be covered by the value of the property — it isn't meant to look in any detail into whether there is anything wrong with the property. So normally you should have a survey as well, otherwise you run the risk of finding all kinds of problems when you move in which may cost you a lot of money to put right. You will have to pay the surveyor once he has done his report, which will be well before exchange of contracts, and you'll have to pay his fees even if the purchase falls through. The amount of the fee depends on the type of survey you are having. There are a range of options from a 'full structural survey' – the most comprehensive - to a 'homebuyer's report' - which is a more limited kind of survey.

Value added tax

There is no VAT on the normal sale of a purely residential property, so you probably won't pay VAT on the purchase price when you buy your home. But you will have to pay VAT on the fees you pay to your solicitors, surveyors etc. You should always make sure they give you VAT-inclusive figures when they give you a quote.

CHAPTER 7

Finding a property

Contents at a glance, and how to get around the book easily. [Click here.](#)

Where to find properties

You can find properties from newspaper adverts or property-selling websites. But really you are most likely to find properties from estate agents — their shop window, mailing list or website. Most people use an estate agent to sell their property, and they generally use a local firm. So the best way to figure out which estate agents might have properties in the area you are interested in is to have a look round the area and note down the details from 'for sale' boards, or take a stroll down the nearest high street where most estate agents are likely to have shop window premises.

Take full advantage of the internet. You can put the postcode and 'estate agents' into Google and see which estate agents come up. Many estate agents have websites with very good photographs of their properties; some even have 360° virtual tours of a property. They also advertise their properties on websites such as PrimeLocation.co.uk. Using the internet is often a lot easier than going round the estate agents' offices in person, or getting wads of sales particulars in the post.

Estate agents

REGISTER WITH LOTS OF AGENTS

Some sellers place their properties with several estate agents, so you may end up getting details of the same property from several of the firms you contact. But many sellers put the property with one estate agent only - they pay less commission that way - so you need to register your interest with all the local agents if you want to make sure you're going to find out about all the properties coming onto the market. You don't have to pay anything to the agents for this. Their fees are paid by the seller. So there is really no downside to registering with all the local agents, apart from having to recycle all the paper you receive.

Estate agents will send you property particulars you clearly won't be interested in. But the fact is that people often end up buying a property which is nothing like the requirements they originally gave to the estate agents. Estate agents know that, so they will deliberately include particulars outside the limits you have set.

THE ROLE OF THE ESTATE AGENT

The estate agent is working for the seller. The way the system works is that estate agents are instructed by the property owner to sell the property and it's the seller who pays the estate agents' fees.

But estate agents' obligations are not all one-sided. They have a legal duty to you to ensure that their sales particulars are accurate. They also have a legal duty to deal with you in an honest and fair way, and not to mislead you.

BE THE FIRST PERSON THE ESTATE AGENT CALLS

The estate agents gets quite a big fee — from 1% up to 3% of the sale price - but they get nothing unless they sell the property. So they have quite a lot riding on achieving a sale, especially if there are other

competing estate agents trying to sell the property who might snatch their commission away. So you as a potential buyer really matter to the estate agents.

If they think you are serious, they may devote a lot of time and trouble to helping you (because helping you ultimately helps them). If you've got a good relationship with an estate agent who treats you as a serious buyer, then he may ring you up with details of a property as soon as — or hopefully just before - it goes on the market. If he doesn't think you are serious, you may quickly find yourself getting a very peremptory service, while he concentrates on people he sees as better prospects. How you handle the estate agents can make a big difference to how successful you are at securing the home you want.

Buying at auction

There are often bargains to be had at auction. Quite a lot of the properties on offer will be in a bad state of repair (ideal for an enterprising buyer), or repossessed properties which lenders want to sell off as quickly and easily as possible. The downside is the risk of wasted time and costs. Also it is often not practical to line up a mortgage on the property in advance in the hope that you will win the bidding war. In a normal deal you are the only person the seller is dealing with and you have time to carry out proper searches and investigations. With an auction you have to decide whether to risk a lot of money on surveys and legal work for a property which someone else might beat you to.

Viewings

ELIMINATE BEFORE YOU VIEW

Viewings can become very tiresome and draining. You have to take time out of your evening or weekend (or even your working day). You probably know the moment you step inside the front door whether you like the property or not, but you then have to go through half an hour of

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pretending to admire the owners' taste in wallpaper. The best thing to do is to eliminate as many unsuitable properties as possible even before the viewing stage.

Obviously it helps considerably if you have narrowed down the type of property you are interested in. You should be able to avoid visiting unsuitable properties by carefully reading the agents' particulars. It is a criminal offence for estate agents to put false or misleading statements in their particulars. So if you particularly want a property with double glazing, you should be able to eliminate viewings of properties which don't have it just by reading the particulars first.

FIRST VIEWINGS

Having eliminated unsuitable properties, you then have to arrange to view the properties you think you may be interested in. Viewings are nearly always arranged through the estate agents. Either a member of staff will show you round the property or else they will arrange for you to meet the sellers who will then show you round themselves. If you are female, always make sure you are accompanied by the estate agent or someone else when you do a viewing. Make sure someone knows where you are going and when. Take your mobile phone with you and have it on when you go into a property and be seen telling someone you are there.

If you think you like a property and want to make an offer on it, it is usually best to get the offer in as soon as possible. You want to cut out other potential buyers. You are not legally committed to buying just by making an offer. You can back out later if you need to, at any time up to exchange of contracts.

SECOND VIEWINGS

Whether before you make an offer or later, you must go back for some further viewings. If you first viewed the property in daylight, you must also visit in the evening. What looks like a nice quiet neighbourhood

when everyone is at work can become nightmarish when the neighbours are home and the local pubs are open. If your first viewing was in the evening or at the weekend, you must go back during a working day, preferably at rush hour or when schools are emptying out, to see what effect they have on the property.

During the first viewing, you probably won't take in too much detail. You may not be able to concentrate with the sellers hovering over you wherever you go. On a second visit you should try to persuade the sellers to leave you alone. Go back with a tape measure and check the room sizes and the cupboard sizes. Turn on taps, look in cupboards, flush loos. Look out for telltale signs of problems being concealed - like recent repainting of walls, or new-looking wallpaper in specific areas. These can hide cracks or damp. Josh sticks or scented candles may be a sign that there is something being concealed - if it smells bad, there is probably something bad like damp or dry rot. You may not be qualified to carry out a proper survey, but have a look at the outside. If the brickwork is irregular or you see a bulge, that should at least alert you to get it checked out. Look out for any sign that the chimney is out of line, or that there are any tiles missing or out of line on the roof. These are all things to bring up with your surveyor.

CHECK COMPARABLE PRICES

Whatever you are buying, try to find out what similar nearby properties have recently gone for. Usually it is easier to get a good idea of the likely purchase price of a purpose-built flat, because there will be similar flats in the block which have changed hands recently. The same applies to terraced houses in a street of similar houses. With flat conversions or one-off houses you may not be able to exactly compare like with like, but the prices of other properties similar in size, condition and location are still a very good guide to the price you should be paying for the property you are interested in.

Dealing with the sellers

ASKING QUESTIONS

There's nothing wrong with knocking on a neighbour's door and asking them what the area is like, or even what they think of the property next door.

You should ask some straight questions of the sellers. It might seem rude to interrogate them, but this is a business transaction and you are going to be committing a lot of money to it, so you have every right to expect answers to some important questions. You've got to talk about something, after all.

Most sellers will simply tell you the truth, although they might squirm or exaggerate a bit. Some sellers might tell you a downright lie, so it's a good idea to make a note of whatever you are told and then pass it on to your solicitors so they can get formal confirmation of it from the seller's solicitors. (This only applies if your offer is accepted, of course!)

THE PSYCHOLOGICAL SIDE

There is a bit of a balancing act here. When viewing, you should avoid being too critical of the property – particularly in matters relating to the current owners' taste (or lack of). You may not admire the three plaster ducks on the wall, but don't laugh out loud at them. Even though the sellers want to sell, they can easily take against anyone who they think has insulted them, and you would be surprised how big a part seemingly miniscule issues of good manners can play.

On the other hand, you mustn't sound too enthusiastic about the property if you are going to try to knock the asking price. In a seller's market, you will probably be glad enough to accept the quoted price. But in a buyer's market, it will do no harm to leave the sellers slightly anxious as to whether you are totally in love with their property.

Don't give too much away. Even if you love the property, don't say you definitely want to buy it. If they know you are really keen, that may stop them considering an offer below the asking price.

YOU LIKE THE PROPERTY BUT WHAT ABOUT THE SELLERS?

The position the sellers are in may be quite important to your decision whether to buy the property. You may have a deadline for buying a new property - perhaps because you are moving jobs, or because you want to get your children into a local school for the new school year. If so, then it probably matters where the sellers have reached in buying a new property. If there's going to be a chain of transactions, that may be an important factor in your decision whether to make an offer on this property. If you like two properties equally, but the sellers of the first one have found a property to buy but the sellers of the second one haven't, you should choose to go with the first property.

If the sellers are getting divorced, you should be particularly concerned about delays, because they probably have to find two houses to buy before they can sell to you, and they probably won't be particularly cooperative with each other!

CHAPTER 8

Agreeing a deal

Contents at a glance, and how to get around the book easily. [Click here.](#)

Your negotiating position

Your negotiating position depends a lot on the market conditions. If there are buyers queuing up for every property, you are in a seller's market. If the sellers treat you like a long-lost friend when you turn up for the viewing, you are probably in a buyer's market. You will probably know what the market situation is from reading the press and from your experience of how quickly properties come onto the market and are put under offer. Here are some tips on negotiating a deal in various market conditions.

A SELLER'S MARKET

Unless the seller is asking an unrealistic price you probably have to simply accept a seller's asking price if you want to be sure of getting your offer accepted and moving on with the deal. The problem may be that other prospective buyers also offer the asking price — or more. Even after your offer has been accepted, the estate agent is under a legal duty to pass on other offers to the seller. The seller is in a comfortable position, faced with multiple offers. When buyers simply keep upping their prices in competition, it is known as a 'bidding war'. One option the seller may adopt is to have a 'Dutch auction' in which competing prospective purchasers outbid each other until someone emerges as the

highest paying one. A seller may even formalise this by having 'sealed bids' or 'best offers' organised by the estate agents.

Another option for the sellers is to opt for a contract race. Papers are sent out to two or more buyers: the first to be ready to exchange contracts gets the property. (That's the theory — but the sellers can still go with someone else.)

WINNING IN A SELLER'S MARKET

A sale is not just about price. Sellers probably have to buy another property and will be worried about losing their new dream house if the buyer of the property they are selling messes them around or the deal falls through. So even if you do not offer the highest price, you may pip other competitors to the post if you have another advantage. For example, having a mortgage lined up in principle may be an advantage — also not having a property to sell, or being prepared to fit in with the seller's needs about the completion date.

WINNING IN A BUYER'S MARKET

If the sellers are not being besieged by prospective buyers, you may be able to chip something off the price. You should be able to get a fair idea of what similar properties have changed hands for by checking on the internet or at the Land Registry, or you may be able to get information from the estate agents in the area. Sellers used to put properties on the market at slightly inflated prices simply because they expected buyers to try and knock the price. That is not so often the case nowadays. But it is quite probable that when the sellers put the property on the market they went to several estate agents who each gave them different possible sale prices. Human nature being what it is, they probably then chose the agent who proposed the highest price. But if you make an offer which is in line with the lower part of the band of suggested prices, there is a good chance that the sellers will be able to reconcile themselves to a sale at the lower price.

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Sometimes, the sellers have to accept a lower price, even though it is below the perceived market value of the property, just so they can move home themselves. This may be the case if they are about to lose their own purchase. So if you do not have a property to sell and if you can move fairly quickly, you may be able to negotiate a price reduction just for that benefit to the sellers.

You may also be able to negotiate something off the asking price on the basis of physical defects or a bad layout. A similar property up the road may have gone for a good price because it has been beautifully restored. So it would be quite reasonable to offer less if you are going to have to carry out work yourself to put this property in the same price bracket.

How to get your offer accepted

DECIDING WHAT TO OFFER

One maxim is: Decide the top price you would go to, then offer 10% less. That gives you some scope for negotiation. Even if the estate agents think your offer is ridiculous, they are under a legal duty to pass it on to the sellers.

If you don't have money for new curtains or furniture, it is a good idea to ask the sellers to include those items at the time you're agreeing the price. If you agree a price and then later ask about them, the sellers will want extra. If it is all part of agreeing the property price at the outset they are more likely to just throw them in.

Estate agents are negotiating for the sellers so it is part of their job to try to persuade applicants that their offers are too low and get them to increase them. But they do know their market, so you should take note if they are telling you that the current market price for a type of property is higher than you think it is. If you stick to unrealistic offers, estate agents will stop offering you viewings. So calls from estate agents drying up is one acid test that you are being generally unrealistic.

MAKING THE OFFER

You are usually better off making the offer to the estate agents, not to the sellers direct. We are not a nation used to bartering, so an attempt to negotiate a price direct with the sellers can result in a confrontation and a lot of emotion. If you make the offer to the agents, then the sellers can let off steam to the agent, without the whole deal collapsing in recriminations and insults. Once the sellers calm down, the agent can then come back with any counter offer. The agent can also attempt to reason with the sellers (and with you) to arrive at a figure you can both accept. That may mean you never become best buddies with the sellers, but do you really care?

Generally it is a bad idea to make an offer while you are viewing the property. Certainly avoid getting into a handshake with the seller, because if you later need to pull out or want to modify your offer at all, you will be treated as if you've broken some mediaeval rule of chivalry.

If you offer a lot less than the asking price, always give reasons to the estate agents to pass on to the sellers. If the sellers just think you are trying to be clever or trying to take advantage of them, they may dig their heels in. If they can see that there is some reason behind your proposal, they may be prepared to take it into account. Even if they don't agree with what you say, at least they are more likely to stay in negotiation with you than pull out abruptly, and this gives you scope to back down if you have to.

Whatever offer you make, always confirm it in writing, so that it is on record. That is another way of ensuring that it is passed on to the sellers. Put 'subject to contract' at the top.

When it comes to making an offer, here are some pointers to bear in mind:

Don't appear to be too keen. Make it clear you are looking at other properties you are interested in as well (even if you aren't).

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Don't keep ringing the estate agents for an answer. Act cool!

Don't get too emotionally invested in the particular property. It's worth what it's worth and you mustn't get into a frame of mind where you must have it at all costs. You have to accept that you may not get the property and then you will have to look for something else. Even if your offer is accepted, the deal may still fall through.

Emphasise the advantages of selling to you. If any of these apply to you, make sure the sellers know: you have a mortgage in principle, you have a buyer for your home, you are a first-time buyer, or you are a cash buyer.

After the offer is accepted

WHAT HAPPENS NEXT?

Once the price is agreed, everyone moves forward to the stage of detailed investigations. You instruct your solicitor and your surveyor. The mortgage process starts. But remember that nothing is certain until contracts are exchanged. The depressing fact is that up to a third of deals fall through after an offer is accepted, for one reason or another. It may have nothing to do with the property. The sellers may lose their own purchase, and have to pull out. So don't get too emotionally invested in the particular property.

Make sure the estate agents take the property off the market. Check whether the agents are the sole agents. If several firms of agents had the property on their books, the other ones will want to find an alternative buyer, so it is particularly important to make sure they are also instructed to take it off the market. Ask the various agents for details of available properties anonymously a few days later to make sure.

CHAINS

Many people who are buying a property also have a property to sell. Since they will generally need the sale proceeds from their sale to help

finance their purchase, both deals have to go through at the same time. The sellers agree to sell their property to buyers, who in turn have to agree to sell their property to buyers, and so on. All these people form a 'chain' because every purchase is dependent on a sale, and they are all linked together — if one seller-buyer link breaks, the chain breaks. At the bottom of the chain is a first-time buyer. At the top of the chain is a developer, or someone selling and moving in with the family, but in any event not buying. There are likely to be several people between them in the chain.

If you exchange contracts to sell your property but don't simultaneously exchange contracts to buy, you run the risk of being homeless at the completion date. In the same way, if you exchange contracts to buy without simultaneously exchanging contracts to sell your existing property, you could be saddled with two properties. The only way to avoid these risks is to exchange contracts to sell and buy at the same time. This applies to everyone in the chain who is selling as well as buying, so the practical result is that no-one can exchange contracts until everyone in the chain is ready.

The existence of chains is what contributes a lot to the delay in property transactions. People usually get their own property under offer before looking for a property to buy. That means that if there are, say, six people in a chain, six people will have gone out and looked for a property one after the other, with all the delays involved in viewings, negotiations, and so on.

In the worst cases, just as you think you are finally about to exchange contracts, someone in the chain pulls out and you have to start all over again. Don't be tempted to carry on with your purchase and take out a bridging loan, unless you are really sure you can afford it. If you take out a bridging loan and then have trouble selling your property, you may be saddled with the cost for a long time. If the market falls, you may not ultimately recoup as much from the sale as you hope (or need).

If a chain works, then everyone exchanges contracts on the same day - this is arranged between the solicitors so that no one can be caught out

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with no property, or with two properties - and they also fix the completion date when everyone will move. On completion, the money has to work up the chain from the first-time buyer's solicitor finally to the solicitors acting for the sellers at the top of the chain. If there are delays in the banking system, you may be delayed moving into your home, because you won't be allowed to have possession until the money has reached your sellers' solicitors. You should take account of this when making removal arrangements.

HOW TO AVOID DELAYS

Most solicitors and estate agents will tell you that it should usually take less than two months to buy a property, but it seems that this rarely happens in practice. According to Government statistics, only 40% of buyers move in less than 3 months and for 49% it can take up to six months.

If you are buying a leasehold property - generally a flat - the process tends to take longer because of the work involved in dealing with a lease and obtaining service charge and insurance information from the landlord or managing agents. But still, it really should not take longer than 2 months to move home if everyone avoids perfectly avoidable causes of delay. There are a number of things you can do to avoid delays in the buying process.

SELL BEFORE YOU BUY

If you are already a property owner you are going to be selling your existing property to buy the new property. You should probably put your property on the market and accept an offer on it before you start seriously looking for a property to buy. There are a number of reasons for adopting this approach.

You won't know how much you can spend on a new property until you know what you are getting for your existing one.

No one will take you seriously as a buyer until you have found a buyer for your own property. If you find a property you want to buy, but then you tell the sellers you will now put your own property on the market, they will probably throw their arms up in despair and look for another buyer. If you tell them you already have your property under offer, then they are likely to take you seriously as someone who will get the transaction moving reasonably fast. Equally the estate agents won't take you seriously as a prospect. They are working for commission and will concentrate their efforts on buyers they consider better buying prospects.

If you have already agreed a purchase before you put your own property on the market, you are then under intense pressure to sell your property as quickly as possible. That may put you under such pressure to secure a buyer that you may find you have to drop your price to make it happen before you lose the property you want to buy. That is not a good psychological place to be in. If you market your existing property first, you can afford to be tough in negotiations with potential buyers.

It is usually quicker to find a property than to find a buyer. You can get 100 property details a single day's post. If it's a seller's market you have to move fast when you see a property you like. If it's a buyer's market, you will be able to agree a deal with a grateful seller fast.

If you do it the other way round, and you make an offer to buy a property before you have sold your existing home, it is a good idea to consider giving your existing property to the same estate agent to sell (but only if it is in the same locality). The prospect of two commissions will encourage them to persuade the sellers to sell to you, and to stick with you if things go slowly or if the sellers get nervous and want to remarket the property.

If you do find the property you want to buy first, and then have trouble selling your existing property, try not to be tempted into taking out a 'bridging loan' and exchanging contracts to buy the new property without simultaneously selling the old one. You run the risk of having to fund loans on two properties for an unknown period of time.

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INITIAL DEPOSITS

When your offer is accepted, the estate agents may ask you to pay a preliminary deposit as evidence that you are serious about proceeding. There's really no reason why you should do this. If you do pay a preliminary deposit you are entitled to interest on it if the deposit is more than £500. You need to get a receipt from the estate agents, and confirmation that they are authorised by the sellers to take the deposit.

The usual basis of paying a deposit is that it is refundable if you pull out for any reason. Look out for any wording which suggests that the deposit is not refundable if you pull out; don't agree to sign that.

The situation in which you usually do have to pay a preliminary deposit is when you buy a new property from a builder or developer. It is a fairly standard practice for them to require a 'holding deposit', on the basis of which they say they will not offer the plot to anyone else or increase the price for a stated period. This agreement on the part of the developer is usually not binding. I have heard that sometimes a developer will give you an option on a plot in return for a preliminary deposit. (I have never come across it myself.) The option is a right to buy the plot at a particular price. If that is the deal, you do not have to exercise the option, but you can't ask for your deposit back if you don't. So you want to make absolutely certain you understand what you're agreeing to with the developers. Show any paperwork to your solicitor before signing it.

If you pay a preliminary deposit, you must make sure your solicitor knows about it, otherwise he won't realise the need to knock it off the ultimate purchase price at completion.

BEING GAZUMPED

The estate agents are under a legal duty to keep passing on to the sellers any offers they receive. So even after you have had your offer accepted, someone else may come in with a higher offer. Any time before exchange of contracts the sellers may pull out of the deal with you and start

dealing with the other party - this is called 'gazumping'. It is perfectly legal. You may have to outbid the other party to stay in the game. But only do that if the property is really worth it. (Less usual than gazumping, but also with its own name, 'gazundering', is when buyers drop their price after their offer has been accepted.

You can take out insurance against being gazumped, which would reimburse you for your legal and surveying fees, but in practice it is usually better just to take the risk. If the deal falls through, you'll have to pay the survey fee, but your solicitor would normally only charge a proportion of the legal fee he quoted for the complete transaction. Solicitors call this 'abortive costs'. It is worth checking that they will do this when you first instruct the solicitors.

LOCK OUT AGREEMENTS

One protection against being gazumped is to have a 'lockout agreement' with the sellers under which the sellers agree not to consider any other offers for a period such as two weeks. It's not really much use because the lockout agreement doesn't place the sellers under any obligation to actually sign contracts with you when you are ready, and they can just wait for the period to come to an end and then accept the higher offer.

CONTRACT RACES

The sellers can make it a contest between competing buyers: first past the post gets the property. The sellers' solicitors send out papers to two or more potential buyers. In theory, the first party ready to sign should get the property. But since it is all 'subject to contract' until a contract is actually signed, the sellers can decide at the last moment to wait for a preferred buyer to be ready, or put the price up, or pull out. So it is a gamble, but one which buyers are often prepared to suffer in a seller's market. The sellers' solicitors are subject to professional rules which say that they can't send out papers to more than one potential buyer without making sure all those involved know what is going on. So the sellers

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can't hedge their bets by secretly sending a set of papers to a second buyer without letting you know.

CHAPTER 9

Mortgage loans

Contents at a glance, and how to get around the book easily. [Click here.](#)

Mortgage basics

WHAT A MORTGAGE IS

A loan to buy a home is called a 'mortgage loan'. You have to pay it back over an agreed period of years, and you pay the lender interest on the money until it is repaid. The lender gets a 'charge' on the property. If you don't pay money to the lender when it's due, the lender can 'exercise' its charge and effectively take over and sell the property from under you. When you buy a property, your ownership is in the form of an electronic record at the Land Registry, which is the public register of properties. The charge for the lender is also recorded there.

Strictly speaking, 'mortgage' is the name for the piece of paper which creates the charge. But it has come to be used to mean the loan itself. If someone says they are 'taking out a mortgage', or a company advertises itself as 'a mortgage lender', they are referring to home loans.

REPAYMENT PERIOD

Traditionally, everyone took mortgages for 25 years. That was the period over which repayments of the capital were spread. You made monthly payments to the lender and each payment included a bit of loan repayment. 25 years was seen as the optimum period for the lender to

get its money back, but in instalments which the borrower could afford out of wages. Nowadays there is much more flexibility, and you can borrow for longer or shorter periods to suit your financial requirements. With a shorter term, you will make higher monthly payments, but you will pay less overall; with a longer term, you pay less per month but more in total. The 'key facts illustration' which your lender or broker must give you with any loan proposal should show you what the difference in cost would be if you borrow a loan for different loan periods.

Generally speaking, the lenders want to see their money repaid before you retire; so as you approach your 50s, it will become more difficult to raise mortgages for a 25 year period. But then you probably also want to get any mortgage loan repaid before you retire and you may welcome a shorter loan period.

INTEREST RATES

The interest homeowners pay each month is closely linked to what the Bank of England is doing. Every month the Bank of England looks at the economy, especially the inflation rate, and decides whether to fine-tune the financial position of the economy by raising or lowering interest rates. If they feel the economy is flagging and needs a boost, they may lower their base rate to make it easier for businesses to afford to borrow money. If they think the economy is overheating and people are spending too much, then they may raise the base rate to persuade people to stop running up debts and start saving. The Bank of England base rate is the figure around which loan interest is calculated. If the base rate goes up, commercial lenders will generally put their rates up as well. It's a bit like the way an increase in the oil price in the financial markets filters through as an increase in the petrol price at the pumps.

The interest rate is the major factor in the amount you pay. But how interest is calculated can have a substantial effect on the overall cost. With many standard mortgage products, the interest is calculated on an annual basis. This means that even if you pay off a lump of your mortgage during the year, the reduction won't take effect for the purpose

of calculating interest until the end of the accounting year. Flexible products, in particular, calculate interest on a daily basis. This means that any repayments you make have an immediate effect on interest. Over the length of the term, this can be an important benefit. 'Using APR to compare mortgage deals' at the end of this section explains how APR can show you graphically how these different deals compare in real terms.

The higher the proportion of the purchase price you borrow, the higher the interest rate you will be charged by many lenders. If you are borrowing appreciably less than the total purchase price, you should be able to negotiate a lower interest rate. If you put up 25% of the purchase price yourself, you will qualify for the lowest interest rates.

THE MAXIMUM YOU CAN BORROW

Taking on the maximum loan you can raise may be justified if you are confident that your job is secure and your income will increase. You can protect against the risk of rates increasing by taking out a fixed rate deal. You might also consider insurance to pay interest while you are redundant or ill (although such insurance doesn't kick in for quite a while).

There are two issues which affect how much you can borrow: the value of the property, and your financial situation. The lender will tell you what proportion of the property value it will lend — known as 'loan to value' or 'LTV'. In recent years, mortgage lenders were willing to lend 100% of the value of a property — even 105% if the borrowers negotiated a cash-back deal. After the 2007 'credit crunch', those days are over. Lenders have now gone in the opposite direction and the most you will probably be able to get is an LTV of 90%. For LTVs above 75% you may be charged a 'mortgage indemnity guarantee' or 'MIG'. (Lenders love initials).

You can't borrow more than the agreed LTV of the property you buy. But within that limit, how much you borrow depends (mainly) on your income. Usually, if you are a single buyer, you can borrow up to three

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and a half times your income before tax. If there are two of you, you can add one times the lower earner's income; or you can borrow two and a half times your joint incomes if that comes out to more. Lenders will treat overtime or commission as part of your annual income but only if it is pretty much guaranteed. They will probably want to hear that from your employer. If it's not guaranteed, they may take perhaps half the estimated amount into account.

While interest rates remain low, the interest on such loans is affordable. But in the late 1980s interest rates were as high as 15% and in those days no one even dreamed of borrowing at interest rates lower than double figures. So you are taking a gamble that the bad old days won't return. If you are likely to have trouble coping with your mortgage payments even at the current interest rates, it may be completely impossible for you to meet payments if interest rates rise. Of course, even if you are absolutely stretched when buying your first property, you may be better off taking that risk just to avoid seeing the cheapest property you can afford being whisked out of range again, but at least be aware of the risk. It would be very sensible to fix your mortgage rate for a number of years.

Some banks will repay you for your loyalty. If you have been a customer with them since you were a student, and you have now graduated, they may lend you more money than you would strictly get on usual multiples of income.

In days gone past, no one gave a second thought to claiming a higher income than they really earned when applying for a mortgage. It's mortgage fraud and it's a crime. So are many other attempts to get a better or different deal.

AFFORDABILITY CRITERIA.

With increasing house prices, a loan based on a multiple of income may not be enough to let you buy your first property. So lenders are beginning to look at the situation from a different angle. They take into account your likely expenses and work out what you can afford to pay

each month at current interest rates. Then they consider making you a loan which would result in that monthly interest payment. To do this, they don't just look at your salary, they look at your overall credit position, including your credit cards.

Affordability criteria can work particularly well if you are a couple. On the traditional basis, lenders lend three times the salary of the highest earning person and the salary of the other partner. But with affordability criteria, you may be able to borrow much more money.

There are only a small number of lenders doing this, so you would probably have to get such a loan through a mortgage broker. You may find these types of loan difficult – or even impossible – to find in the current market conditions.

EARLY REPAYMENT PENALTIES

On some products, if you switch out of them early, you have to compensate the lender by paying an 'early repayment penalty' (also sometimes called an 'early redemption penalty' or an 'early repayment charge') For example, fixed, discounted, and capped interest rate deals are usually for a fixed period of, say, two or three years. If interest rates drop, you will probably want to get out of the fixed rate deal, but if you do you will have to pay the penalty. With some deals, even after the fixed term has ended the lender requires you to spend a further year or two on their standard variable rate, and will charge you the early redemption penalty if you switch mortgages during that period. This is definitely not a good arrangement. If you have entered into a fixed rate deal to avoid being exposed to fluctuations in the market, you don't want to be stuck on the lender's variable rate for any period. Redemption penalties can be anything from 1 to 12 months' interest, depending on the circumstances and the deal you enter into.

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MORTGAGE INDEMNITY GUARANTEES

If you get a mortgage loan of 100% of the purchase price, the lenders' risk is at the top end of your mortgage loan. If you default, and they have to sell the property, they will usually get their money back from the sale, unless there has been a dip in the property market. The mortgage indemnity guarantee is to cover their risk in the event of such a dip. They take out an insurance policy which will pay them any shortfall if they can't get the final 10% or even 25% of the mortgage back out of the sale. You have to pay them the cost of the premium on this policy upfront. It can be a significant sum. The lender will usually roll this cost in with the mortgage, so that you don't have to pay in cash, but instead pay for it over the 25 year period of the loan. So it may not seem too painful. But it is in fact quite an expensive hidden cost to you. It's hidden costs which make an apparently attractive deal actually quite an unattractive one.

UP FRONT FEES AND HIDDEN COSTS

Lenders compete for business by quoting lower and lower 'headline' interest rates for their deals (the mortgage equivalent of the advertised price for a car before you add 'extras'). Some of them seek to recoup the profit they are shaving off their interest rate terms by adding up-front fees for agreeing the deal. You may have to pay, say, 1% of the amount borrowed or even more as the price for getting a particularly low fixed interest rate for 3 years. You may also have to pay a mortgage indemnity premium and survey costs. The real way to check the overall attractiveness of competing packages is to compare their APRs, not the headline interest rate.

How to get a mortgage

MORTGAGE LENDERS

Mortgage loans used to come from building societies. Building societies were set up for the sole purpose of lending money to working people so

they could buy homes. This plan was funded by getting working people with savings to deposit their money with the building society in return for payments of interest. It was a simple business model. The main street banks began to muscle in on the business in the 1980s. There are now about 150 mortgage providers actively offering mortgage products and there are more than 1,500 different packages on offer. The original building societies, such as Halifax Building Society, are still in the market but most have now converted to being normal public companies with shareholders — like Halifax PLC.

MORTGAGE BROKERS

It is a tough job to figure out the relative merits of the more sophisticated loan packages. With so many packages on offer, you need a mortgage broker to find the one most suited to you. If you try to select one without any background in the market you are unlikely to find the best deal.

It really is worth considering using a mortgage broker. Mortgage brokers survive by selling mortgage products to the public. So they will know a lot more about the subject than you can pick up in a short period of time. There are two ways they can get paid: a fee from you — typically 1% of what you borrow — or commission from the lender you borrow from, which costs you nothing.

Mortgage brokers offer varying services. You can have an advice service, in which case you would have a claim against them if they recommend unsuitable products.

COMPARING MORTGAGE DEALS

The lender or mortgage broker must give you a 'key facts illustration' telling you the basic facts about any mortgage product they're offering you. You can compare them to work out which deal suits you best.

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When you come to compare different mortgage deals from different lenders, it is almost impossible to work out how they compare because they all offer something different. This where the APR — the Annual Percentage Rate — can help you. It looks like an interest rate - and the interest rate is the major component - but it also takes into account other 'hidden' factors of a loan which affect how much it really costs you. For example, if you have to pay an up-front fee for the loan or take out mortgage indemnity insurance, this adds substantially to the overall cost of the loan and will push up the APR. Every loan proposal has to show its APR and it is always calculated the same way so it is a good way to compare deals. The lower the APR, the better the deal.

Comparing lenders' standard variable rates can also give you a rough and ready way of telling which lenders are offering the best deals. One good rule of thumb is how close a lender's standard variable rate is to the Bank of England base rate. The standard variable rate is the 'no-frills' basic rate of interest the lender charges. Once you start looking at fixed rate, discount rate, and other loan deals it is hard to see the wood for the trees. But if you can see that a lender is trying to extract a wider margin of profit on its standard variable rate than other lenders, it's a fair indication that they are probably doing the same on their more complicated products where it's less easy to spot. So a lender who keeps its standard variable rate fairly close to the Bank of England base rate is always worth considering.

You may come across references to 'CAT marked' mortgages. 'CAT' stands for cost, access and terms, and it is a kind of government approval of the product. It is not generally regarded as a particularly useful criterion, and not many products yet have it.

GET A MORTGAGE PROMISE

Before you apply for an actual mortgage loan, you can obtain an offer in principle (also called an 'approval in principle (AIP)' or a 'mortgage promise'). This is a lender's promise to lend you a particular amount of money on stated terms. They still have to approve the property you finally decide on; but it does mean that when you find a property you

won't have to worry about how much the lender will lend you based on your financial position. Such mortgage offers are valid for between six weeks and six months, depending on the lender.

FINDING A MORTGAGE ON THE INTERNET

Some of the best and biggest mortgage brokers have comprehensive websites which give you the opportunity to look at the various options without being under pressure. You may still want to consult an individual broker for advice, but it doesn't hurt to be familiar with what's on offer. If you go the whole way and line up the loan over the website, you may get a cheaper deal. It is a bit like taking out insurance - it's usually cheaper online because it cuts out the cost of staff and offices. If you are comfortable with computers and the internet, you will probably find forms easier to complete online as well.

MORTGAGES FOR THE SELF EMPLOYED

Since the amount you can borrow is based on your salary, you have to prove how much you earn. This can create difficulties for people who own their own businesses. The system favours wage earners. Usually lenders want evidence of income consisting of several months' wage slips. Someone who is self-employed won't have wage slips, because he or she is drawing profits, not receiving salary from an employer. The evidence of a self-employed person's income will usually be accounts prepared by the firm's accountant each year. Lenders will often base a loan on those accounts. But many self-employed people may not have been in business long enough to have two sets of annual accounts, which is usually the minimum required. Others may have been using their accountants to employ every (legitimate) trick in the book to reduce their taxable earnings to save tax. Producing two or three years' accounts isn't enough in itself. Some lenders will expect to see turnover increasing each year. Others will lend on the basis of taking an average of the last three years' profits, rather than just relying on the most recent year's figures.

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Some lenders cater for this market by allowing self-employed applicants to 'self certify' how much they earn, and then they base the mortgage on that. Individuals literally state what they earn and then can borrow up to 3½ times that amount. It must be tempting to stretch the truth a bit (although it is mortgage fraud to do so). Possibly reflecting the risk of such borrowers overextending themselves, lenders charge higher rates of interest on such loans. They also usually want the borrower to put down more cash of their own towards the purchase price - 25% rather than the usual 5% or 10%. This is to ensure that if there is a drop in values most of the risk is taken by the borrower, since any loss in value will take the borrower's stake in the property first.

If you are self-employed, you may have to take out a 'non status' mortgage. This means that the mortgage lender is relying exclusively on the value of the property, rather than on your income (or 'status'). In those circumstances, they will probably limit the loan to 75% of the value of the property.

NOT CREDITWORTHY

If you have been bankrupted recently, or you have county court judgments outstanding, this may blight your chances of getting a mainstream mortgage loan. You may still find specialist mortgage lenders who will lend to you, but they will charge you a high rate of interest, because it is higher risk from their point of view. (Most people are discharged from bankruptcy within three years. County court judgments cease to apply after six years). You can check what your credit rating is in advance, and take steps to have errors put right.

Repayment terms

REPAYMENT MORTGAGES

A repayment mortgage is the most basic form of mortgage loan. You pay interest on the loan each month, but you also chip away at the loan capital and repay a little bit of that each month too. If you have a 25

year mortgage, the payments are calculated so that you will have paid back the whole of the loan by the end of the 25 years. As each year passes and you pay back more of the capital, so the amount you pay as interest will drop, because it is based on a diminishing loan balance. That would lead to your monthly payments changing. In fact, lenders take this effect into account and calculate payments so that monthly payments should remain roughly constant – it means that more of a month's payment is interest in the early years, and more of it is capital in later years. In the early days payments are almost exclusively interest, so if you change your mortgage after just a few years, you may find that the principal debt has not gone down particularly.

The benefit of a repayment mortgage is that you definitely know that the loan will be completely repaid by the end of the loan period. The disadvantage is that the monthly payment is higher than you may be quoted for an interest only loan.

INTEREST ONLY LOANS

The way 'interest only' loans work is that you borrow a sum of money and you pay it back in one go at the end of the agreed term. In the meantime - as the name implies - you pay interest only. Interest only loans are structured with an investment - such as an endowment policy, an ISA, or a pension - which is intended to come up with the necessary money to pay back the capital in one lump sum at the end of the term. The linked investment is a two edged sword. It might produce enough money to pay off the mortgage and give you a little nest egg as well. On the other hand, it might not come to enough to pay off the mortgage at the end of the term. (See 'Endowment mortgages' next.)

You can 'mix and match' and have a mortgage which is partly repayment and partly interest only. It is possible to get interest only loans which don't have any linked investment aimed at ultimately paying off the capital. Instead, it is assumed that you will simply sell the property to repay the mortgage within a few years. So this only makes sense if you are planning to buy and sell on a fairly regular basis.

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Your lender must send you an annual statement showing how much interest you been charged and what the balance outstanding on the mortgage is. The statement should show you if the investment scheme is on course, or warn you that it is falling behind, in which case you may have to consider other options for repaying the capital in full.

ENDOWMENT MORTGAGES

Endowment mortgages are a type of interest only mortgage loan. You take out an endowment policy when you start the loan. It is called a policy because it is organised by an insurance company, and the payments you make into it are premiums. But the reality is that you are paying money into an investment fund which the insurance company manages. You hope that, by skilful investment of the money, the insurance company will turn it into a pot large enough to pay back the mortgage loan in 25 years time. The problem is that - certainly in the recent past - insurance companies have been shown to be pretty inept managers of people's money. Thousands of homeowners coming to the end of their mortgage terms have found that they still owe large amounts of capital because the endowment policies they took out when they bought the property just didn't reach the required amount.

The investments in an endowment policy can be quite flexible, allowing you to make a choice between different funds. The disadvantage is that the insurance company takes out a large commission and charges for investments and for switching funds. The earliest payments into such policies are eaten up by commission, and there are financial penalties if you pull out early. So endowment policies usually aren't the most cost effective investment vehicles.

There is usually some life insurance built into the endowment policy scheme which will repay the loan if the mortgage payer dies. (Some policies include cover for critical illness, accident or unemployment).

ISA MORTGAGES

You can take out an 'ISA mortgage'. An ISA mortgage is an interest only loan, so you only pay interest during the loan period. It relies on your ISA — a tax free savings scheme - to provide the capital to pay off the loan in full at the end of the loan period. The problem is that the amount you can put away in an ISA each year is (currently) limited to £7,000 per person per year, so it may not be enough to cover your planned mortgage loan. But there are many advantages.

PENSION MORTGAGES

This is a tax efficient retirement savings plan 'linked' to your mortgage. Instead of paying money into an ISA or an endowment policy, you pay it into your pension fund. Then when you retire, you should be entitled to take 25% of the value of the fund as a tax-free lump sum. You can use that lump sum to pay off your mortgage. The great advantage of a pension mortgage is that your contributions are not limited to £7,000 a year as with ISAs, and the costs are much lower than for endowments. There are limits on how much you can put into your pension fund, but they are quite high, so there is a realistic prospect of putting enough money aside to pay off the mortgage. The other advantage is that paying money into a pension fund is a very tax efficient form of saving. If you earn £100,000 a year, you have to pay tax on £100,000 to the Inland Revenue. If you pay £20,000 into your pension fund, that is tax-free. The Inland Revenue can then only charge tax on the remaining £80,000. So, in a way, if you are a higher rate tax payer, the Revenue is giving you 40p for every 60p you put into the pension pot.

You can only have a pension mortgage if you are arranging a private pension. If your pension is part of your company's pension scheme, then you can't use that to support your mortgage repayment. So if you have a pension mortgage now, but later take a job with a company pension scheme, you will have to find another way to finance your mortgage.

A pension mortgage is only worth considering if you genuinely want a private pension. Since the lump sum you can take to repay the mortgage

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is limited to 25% of the value of the pension fund, you have to be paying a lot more money into the fund than you strictly need to fund the repayment of the mortgage. You are also funding the other 75% for your pension. But assuming a private pension scheme is what you want anyway for your retirement, then linking it to repaying the mortgage as well gives you two good results — a home free of mortgage and a pension income.

Interest rate deals

STANDARD VARIABLE RATE MORTGAGES

The basic mortgage deal offered by a lender is a standard variable rate ('SVR') mortgage. The interest rate is loosely related to the Bank of England base rate. If base rate goes up or down, so will a lender's standard variable rate. In the 1980s, nearly all property owners took mortgages on this basis. So when interest rates went up to 15%, their monthly payments went up as well. Many people couldn't afford the payments and had their houses repossessed.

You may be happy to accept the standard variable rate if you can afford increases in your monthly payments comfortably. If you expect rates to go down, an SVR mortgage has the advantage that you will benefit from rate cuts, although lenders do not always pass on the full benefit of rate cuts to borrowers. (An index tracker, a discounted rate mortgage or a capped rate mortgage would also give you that plus other advantages.) If you know you need to change your mortgage or sell your property soon, that would be a reason to have an SVR mortgage because there are usually no early repayment charges if you switch out of an SVR deal (although there may be if you take a cash-back). The attraction of an SVR is that the interest rate at the time you take out the loan is often lower than that for more complicated deals.

Even if you take out another form of loan - a fixed rate mortgage, or some of the other packages — for a limited period like two years, the loan reverts to the lender's SVR when the period ends. In fact on some

discounted deals you may be obliged to remain on the SVR for a further agreed period. You may then have to pay an early repayment penalty if you switch mortgages during that period.

FIXED RATE MORTGAGES

Fixed rate mortgages make up about 70% of new loans. The deal is that you pay a fixed rate of interest for an agreed period. The monthly interest payments can't go up. So - at least for the agreed period - your monthly salary won't get eaten up by increased mortgage payments if interest rates go up. But equally if interest rates drop, your rate doesn't change and you could end up paying more than other people. (You can deal with that potential problem by having a capped rate deal, but then the specified interest rate may be higher than for a simple fixed rate deal.)

The period for which you fix the rate can be any period right up to the full 25 year period of the loan if you want. People usually do it for 2 to 5 year periods. The longer the period for which you fix the rate, the higher the specified interest rate will be. The lender wants to cover itself against the risk of interest rate rises, so it will quote you a higher fixed rate for a five-year period than for a two-year period. A fixed rate deal may be more expensive than the standard variable rate at the time you take it out. It may work out cheaper if interest rates go up, or more expensive if rates go down.

Once the agreed period comes to an end, you will find yourself automatically put on your lender's standard variable rate, unless you take steps to re-fix at that time. Remember that if interest rates have gone up in the meantime, you will only be able to fix your rate for a further period at the new market rate, not at the old rate.

The advantages of a fixed-rate mortgage are that you can budget precisely how much your mortgage payments will be each month, and you are protected if interest rates go up dramatically. The disadvantages are that there are early redemption penalties if you wish to switch mortgages or pay off a lump sum during the period of the fix (or for a

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period afterwards in some cases); you don't benefit if interest rates go down; and you will normally have to pay an up-front arrangement fee. The big advantage of a fixed rate deal when you buy is that it gives you protection from interest rises during the first few years of the loan when you are at your most stretched. After a few years your income will have gone up but the loan amount will stay the same, so by that time you will be better placed to face interest rises.

CAPPED RATE MORTGAGES

If you are not attracted by fixed rate mortgages because of the risk that interest rates will fall rather than rise, leaving you paying more than other people, then perhaps the capped rate mortgage is for you. With this deal, the maximum rate of interest you can be asked to pay is fixed - that's the 'cap'. But there is no minimum rate, so if interest rates generally start to fall, then you are not marooned at a higher rate as you would be with a fixed rate loan; your rate falls with the market generally. The downside is that the initial rate quoted by the lender will probably be higher than a fixed rate and it will correspondingly remain higher than other deals also pegged to the standard variable mortgage rate as the SVR moves up and down. You may have to pay the lender an early repayment penalty to get out of it early. You normally have to pay an arrangement fee up front.

A capped mortgage deal sounds good in principle. But it only works if the cap is close to the current mortgage rate. If the cap is set at a level way above the current interest rate, then you haven't protected yourself against rises, only against extreme rises. So the crucial issue when considering a capped deal is where the cap is to be placed.

COLLARED RATE MORTGAGES

A capped rate deal means that the interest on your loan cannot increase above the ceiling or 'cap'. A collared rate deal is the same in reverse - your interest rate can fall but it cannot fall below the floor or 'collar' you negotiate. A collar benefits the lender because it reduces the lender's risk

of losing out on your mortgage deal. The only reason to agree to a collar is if it improves other elements of the loan deal on offer to you. You can have a mortgage deal which has a cap and a collar. Clearly, it is in your interests that the collar should be as far below the current interest rate as possible, so that you can pick up the benefit of drops in interest rates to some extent.

DISCOUNT RATE MORTGAGES

A discounted rate loan is a loan at an interest rate a specified number of percentage points below the lender's standard variable rate. (The standard variable rate is what the lender charges without any special features or deals.) The number of percentage points by which the interest rate is below the standard variable rate is the 'discount'.

The discount rate is often around 2% below the Bank of England base rate. There will be a trade-off between the amount and the period of the discount. The shorter the period you agree, the bigger the discount you will get. For longer discount periods, the discount will be smaller.

At the end of the deal, you may have to go onto the lender's standard variable rate for an agreed period, which will obviously increase monthly payments at that time. This requirement is more likely to be the case if you have had a particularly discounted rate at the start. You may have to pay an early repayment charge if you re-mortgage during the discount period or during the subsequent standard variable rate period. The penalties for moving your mortgage during the discount period may be quite painful — e.g. several months' interest payments .

The advantage of a discount rate mortgage is the obvious one — it's cheaper. The downside of a discount rate mortgage as compared with a fixed rate mortgage is that if the standard variable rate goes up as interest rates increase generally, then the discount rate will rise with it (although obviously continuing to remain below it). So if you can only just about afford your mortgage by getting the current discount rate, you do run a risk if rates rise.

INDEX TRACKER MORTGAGES

When you first borrow from a lender, it may offer very competitive rates. Lenders' rates are related to the Bank of England base rate. The closer a lender's rates are to the base rate, the more competitive they are. A lender can increase its profit margin by increasing rates more than the Bank of England increases its base rate, or reducing them less than any falls in the base rate — in other words, they can increase their margin. If you're concerned about the risk of a lender who looks competitive now increasing the differential between the base rate and its own rates in the future, you can take out an index tracker mortgage which is guaranteed to always be a stated percentage above or below the Bank of England base rate. That way the lender cannot widen its profit margin — if your deal is competitive now it will remain competitive.

The interest rate will typically be set between 0.75% and 1% above the Bank of England base rate. Interest rates on index tracker mortgages are usually lower than standard variable rates. Tracker mortgages are available for the full length of a mortgage term, but they are usually fixed for a shorter period, such as five years. They might be combined with a discount.

If you can afford the risk of increased interest payments if interest rates go up, then a tracker mortgage has the same attraction as a standard variable rate deal — that you can benefit from falling interest rates. But it has the added attraction that you are guaranteed that your lender must pass on the benefits to you rather than increasing its profit margin by reducing its rate less than the Bank of England does. There can be early repayment charges if you pull out of the deal early or, in some cases, for an agreed period after the end of a tracker deal.

The advantages are that the interest rate is usually lower than the standard variable rate, and you will benefit from all drops in the Bank of England base rate, whereas these are not automatically passed on with standard variable rate mortgages. The disadvantages are that there are early redemption penalties if you change your mortgage during the

tracker period, and there is the possibility of sudden increases in your monthly payments if the Bank of England increases its base rate.

Flexible deals

FLEXIBLE MORTGAGES

A flexible mortgage gives you the ability to change your mortgage payments to suit yourself to some degree, or even to take back money you have already paid in. (You may find flexible terms in mortgage deals which don't have 'flexible' in the name.) All flexible features come at a cost. Straightforward fixed or discount deals will normally be cheaper. But if you think you may need flexible features, then they may work for you.

If you are self-employed or you are paid commission, so that your monthly income fluctuates quite a bit, then a flexible mortgage may have some attractions for you. With this type of mortgage, if you have the money you can make larger repayments than your deal requires, and then, if you have a work shortage, you can reduce your payments. (Usually you have to overpay first and then use up the overpayment. Lenders are not allowing you to simply go into arrears on the basic payment plan.)

You pay higher rates of interest on flexible mortgages than on more traditional products. This is fine if you're going to take advantage of the benefits the product provides. But if you are unlikely to make lump sum overpayments, or need to borrow back money or take mortgage holidays, there may be no point considering this option.

You can compare different mortgage options by comparing their APRs.

OVERPAYMENTS

On standard mortgage deals you make the prescribed monthly payments, so that the loan will last over the agreed period. You are usually allowed

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to make some additional payments. But if you repay above a certain proportion (such as 10%) of your mortgage debt, you usually have to pay your lender an early repayment charge. Also, once you make repayments of capital, the lender simply creates a new schedule of payments which you then have to meet.

With the flexible mortgage, you can either increase your monthly payments or make one-off lump payments whenever you wish. Doing this obviously allows you to pay the mortgage off more quickly if you want to, but it also has the benefit that it reduces future monthly interest payments (because your loan has gone down). On deals like this, the interest is usually calculated daily, since the amount you owe can fluctuate according to the payments you choose to make.

UNDER-PAYMENTS AND PAYMENT HOLIDAYS

With many flexible deals, if you have made overpayments in the past, you can reduce your future payments or even take a complete payment holiday up to the extra amount you have paid in - in other words, you can pay nothing until you have got back to the original position of no overpayment and no underpayment.

This would obviously be useful if you had a sudden catastrophe and you couldn't work or if you had some new expense to take care of. Normally you can only do this once you have built up some overpayments. While the payment holiday or the underpayments continue, you are still incurring interest to the lender at the agreed rate - it is just being accumulated and added to the debt. So you are going to face higher payments later to get back on track. You will pay more in the long run, but it solves your immediate cash-flow problem..

LOAN DRAWDOWN

Some flexible loans allow you to borrow additional money. With normal loans, if you want more money in the future, you have to make a new application for a top-up loan, which the lenders can refuse. But with the

drawdown deal, they are obliged to lend you the agreed amount of extra money.

OFFSET MORTGAGES

With an offset mortgage, your mortgage, your savings accounts, your current account, and even your credit cards are all with one bank. The debit and credit balances are 'offset' to arrive at a single net balance, which is the amount on which you pay interest each month.

If you have savings and you also have a mortgage, but they are treated separately – which is how most of us arrange our affairs - then overall you have a bad deal. You always receive a lot less interest on your savings account than you have to pay out on your mortgage account. With an offset mortgage, you put your savings with the same company that lends you your mortgage money. Each month they only charge you interest on the difference. As an example, imagine you have a mortgage of £200,000 but you also have £20,000 in a savings account. With an offset mortgage you will only be charged interest on £180,000. You will receive no interest on your £20,000. But the interest on a £20,000 loan is more than the interest on a £20,000 deposit account. So you are making a saving of the differential between the savings rate and the mortgage rate. It's as if your lenders were paying you the same rate of interest on a savings account as they charge you on the mortgage account. So in theory this has got to be a good arrangement for anyone with savings, who is paying higher rate tax, and also has a mortgage loan.

If your monthly salary is also paid into the account, that also gives you some benefit. Interest on these kinds of mortgages is calculated daily, so the longer your salary money lingers in your account before you spend it on household expenses, the less - admittedly only very slightly less - you pay on your mortgage.

To set against the obvious benefits, there is a hidden cost: offset mortgages charge a higher rate of interest than you could get on a more conventional deal. This can cancel out the theoretical benefits to a

greater or lesser extent, depending on how well you choose the deal you enter into.

FAMILY OFFSET MORTGAGES

With a family offset mortgage, the pool of offset investments and loans is extended to include other members of your family. They can offset their savings accounts against your mortgage debt. This is a great way for parents or other relatives to help you get a mortgage and fund it. If they kept their savings account separate and paid money to you to assist you with your monthly payments, that would be very inefficient from a tax planning point of view, because they would be paying full tax on savings, but any payments they made to you would have to come out of their after-tax income. A family offset mortgage is much more tax efficient, especially if they are 40% tax payers.

CURRENT ACCOUNT MORTGAGES

Current account mortgages take offset mortgages one step further, and literally aggregate all your loans and savings in one account. So instead of having a mortgage account, a savings account and a current account, you just have one current account with a huge overdraft. Even credit card debts can be lumped into the overall figure. As with an offset mortgage, the scheme is tax efficient if you are a higher rate taxpayer with fairly high savings on which you are paying 40% tax. With a current account mortgage, you have an account with a cheque book and a debit card, so you can withdraw money as you would from any current account. You pay a higher rate of interest on current account mortgages, and that may negate some of the apparent benefits of this type of mortgage.

Psychologically, a current account mortgage is more difficult to deal with than an offset mortgage. With an offset arrangement you see a bank account showing your salary going in and then your monthly payments going out, and it's easy to budget. If you have savings, you see a deposit account with a credit balance in it too. With a current account mortgage,

all you see is one gigantic debit balance, and you can easily lose sight of how much money you have available to spend each month. But the benefit is that interest on your mortgage is calculated on your balance daily, so even the effect of your salary going in before monthly payments go out will save you worthwhile interest over the term of the loan.

CASH BACK MORTGAGES

When you borrow money from a mortgage lender the point is that it is going towards the purchase of your property. So you never see any of the money - it goes to your solicitors for completion of the purchase. But some lenders will also advance you additional cash which you personally receive. This can be anything from a few hundred pounds to a few thousand pounds, depending on the lender and on your financial circumstances. It can be up to 10% of the loan. This might be good if you need some money to buy curtains and carpets. You can have cash-backs linked to discounted or fixed rate mortgages, but the interest rate will be higher if you also have a cash-back.

This is worth considering if your finances are so tight that you need to be able to spread the cost of these purchases. It's an easy sale for the lender, because it is particularly appealing at a time when you need extra cash, and you can put off the problem of repayment for many years. You should bear in mind though that these deals usually tie you in to the mortgage with that lender for a few years too. If you decide you want to switch mortgages, you may have to pay the lender a penalty to get out of the deal. You may even have to repay the cash-back element, because a future lender may not re-lend it. The cash back is really a bit of bait to tie you into a mortgage deal.

If you don't really need to borrow the cash on the mortgage but could take out a personal loan or use a credit card, that may be a better arrangement. While you have to find the money to pay it back in a shorter period, at least it does not tie you down.

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CHAPTER 10

Insurance

Contents at a glance, and how to get around the book easily. [Click here.](#)

Insuring buildings

HOUSES

When you buy a house, you have to take out buildings insurance in case it burns down. It's commonly called fire insurance, because that is the greatest risk. But buildings insurance in fact covers a whole host of possible disaster scenarios.

If you buy a £300,000 house, you may think you should take out insurance cover for £300,000, so that if the house burns down you receive all the money back from the insurance company. But that is not, in fact, how it works. First of all, if your house burns down, you have not actually lost £300,000 of value. The land itself has considerable value. Also the insurance is actually for the cost of rebuilding the house, which may be very different from what the property is worth for sale. So if the cost of rebuilding is £150,000, that strictly speaking is the amount for which you should have insurance cover. If you insure for £300,000, a lot of the premium is wasted money because the insurance company will only pay out £150,000 even if the house burns to the ground. Despite this, it is probably always worth insuring for more than the rebuilding cost, partly because the figure is only a 'guesstimate' anyway, and partly because there are bound to be invisible costs like removing the rubble

and paying architects' and surveyors' fees which will need to be covered too.

Being a bit over-insured may be a waste of money, but at least you are protected. But what you definitely want to avoid is being underinsured. Assume, as before, that the full rebuilding cost, if your property were to burn to the ground, is £1,500,000. But in this case you have only insured for £1,000,000. Then there is a fire. Fortunately (you think) the house is not a complete write-off and the rebuilding cost is put at £1,000,000, comfortably less than the insured sum of £1,500,000. However, in that situation the insurance company will not pay you £1,000,000; they will only pay you £670,000. The way they will look at it is that you skimmed on premium by only insuring 2/3rds of the total rebuilding cost, so they will only pay out 2/3rds of whatever rebuilding costs you have. So you need to insure for the full potential cost. Remember to increase your sum insured at regular intervals to cover increasing rebuilding costs.

If you go through brokers, make sure they tell you which companies they have gone to for a quote. You don't want to find that they have just gone to one company. You could have done that yourself. They should also offer you a variety of terms, not just the cheapest.

FLATS

If you buy a flat in a building, you don't usually take out your own buildings insurance. It would become impractical for everyone in the building to individually insure their particular flats. There would always be the risk of one flat owner in the middle not insuring his flat, so that there would be no money to rebuild it and you would theoretically end up with a new building a bit like a Swiss cheese. In any block of flats there are also going to be areas which are not owned by flat owners, such as halls and landings, and they would also be uninsured if insurance was left only to individual flat owners. So almost universally the practice is that the landlord or the management company maintains buildings insurance on the entire building under one 'block' policy. The premium cost is then divided and billed to the individual flat owners in the same proportion as they pay service charge - this is usually based either on the

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floor area or the rateable value of the respective flats. Individual flat owners have a legal right to receive copies of such policies and to receive evidence of policy renewal each year. You should make sure the sum insured is reassessed each year so that the total rebuilding cost of the building remains covered. You should check that all the right risks are covered.

ARRANGE INSURANCE BEFORE YOU EXCHANGE

Properties which have suffered from subsidence or flooding in the past (or are in a risk area) may be hard to insure. The insurance may come at a very high cost, or may exclude the particular risk which is the problem, such as subsidence or flooding. Normally nowadays you don't have to arrange buildings insurance at exchange of contracts, but only when you complete the purchase. But if known risks exist, you mustn't leave it until after exchange to sort out. If you only find out just before completion that you can't get insurance, or you can only get it at a very high price, you are still committed to the purchase. So always get insurance lined up before exchange of contracts, in principle at least.

Where there are past problems, such as subsidence, it may be possible for you to take over the seller's existing policy. But you need to negotiate that direct with the insurance company before exchange of contracts, and not just rely on assurances from the seller.

CUTTING THE COST OF INSURANCE

Your lender will usually offer to effect buildings insurance for you, and even put you under some pressure to accept its insurance products. You are under no obligation to do so. You do have the right to shop around and to take out your own cover, as long as you provide details to your lender. In fact, you'll probably be able to find much cheaper insurance cover yourself.

Generally speaking, premiums are highest on flats, and lowest on detached houses. Premiums vary from area to area.

Insuring your contents

Your buildings insurance covers you against damage to the structure of the property. It does not cover you against damage to your possessions, or losses through burglary. You need separate 'contents insurance' for your furniture and possessions. Insurers usually offer to cover normal furniture, clothes and possessions within a single insured amount. If you have particularly valuable jewellery or other items, such as a Rolex watch, or a valuable painting, these will usually be treated separately and you will have to pay additional premium to cover them.

Depending on the choice you make when you take out the policy, the insurer will either give you cash to cover your losses or it will replace the items.

There will probably be an 'excess'. This is the amount of loss you have to bear before the insurance kicks in on any claim. For instance, if the excess is £200 and your stolen CDs are worth £1,000, the insurance company will only pay you £800. The higher the excess, the lower the premium you pay.

Premiums vary from area to area. This difference may be particularly marked for contents insurance if there is a known high risk from burglary in your area. Your insurance company may insist that you add proper security to your home, such as special locks and bolts. The amount of premium you pay may well be affected by the amount of security you have.

Life insurance

To pay your mortgage over a 25 year period, you need to stay alive and in work. There are insurance policies you can take out to cover the risk of a personal calamity preventing you from making your mortgage payments. The various types of cover are explained below.

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The salesperson should give you a document listing 'key facts' and a policy summary. For critical illness cover, many insurers now provide a plain English guide to the illnesses. You should ask for one to make sure the insurance is worth having (and that they haven't excluded common illnesses).

Also check whether the salesperson is giving you advice or just information about his product. You may need advice to make sure you are taking the best deal. Anyone giving you advice has to give you good advice or you can make a claim against them later. You generally have the right to cancel a policy within a short period after taking it out (14 or 30 days is normal). If you do that, you get a refund, but you pay for the short period you were on cover.

TERM INSURANCE

It may matter to you what happens to your home after you die. If you've got a family, you will want them to have a roof over their heads. You can take out life insurance (called 'term insurance' because it is for a specific period or 'term') designed to repay your mortgage in full if you die before you have paid it off. There are two basic types of term insurance policy. 'Level term assurance' is a policy which simply pays out a particular sum of money if you die during the mortgage term. This would be ideal if you have an interest-only mortgage, where the capital always stays the same. If you have a repayment mortgage, where the capital outstanding will decrease during the mortgage term - to zero by the end of the 25 year period - then you are better off having 'decreasing term assurance'. This means that the sum to be paid out if you die reduces as the years pass, in line with your reducing mortgage debt. The result is that the premiums will be less than for level term assurance, because the payout is less (although always enough to pay off the mortgage).

You don't have to take out a policy limited to the mortgage debt. You can use term insurance to provide extra money for your dependents. Some policies give you the ability to increase the amount covered, or the right to renew for a further term at the end of the existing one. Policies

can come up with a variety of different terms and benefits. For example, the beneficiary can have an income rather than a lump sum.

Lifestyle affects cost. Smokers pay more premium than non-smokers, and so do people who take part in risky activities, or whose lifestyle puts them at added risk of catching life-threatening conditions (in the insurer's opinion).

The policy should be set up as a trust. This means that you avoid 40% of the money going to the Inland Revenue in inheritance tax. Instead it goes directly to your family or chosen beneficiaries without inheritance tax being deducted.

WHOLE LIFE INSURANCE

Whole life insurance is more investment than insurance. The deal is that if you carry on paying the premiums, the insurance company will pay out an agreed lump sum when you die. It's not if, but when. So the insurance company is gambling that you will live to a certain age based on your medical history and lifestyle and that the premiums you pay will be greater than the lump sum they have to pay out eventually. You — more depressingly — are calculating that you may die well before they think you will and that the lump sum for your family will be more than the total premiums. The money forms part of your estate unless you set up a trust. It can save 40% of the pay-out going as tax to the Government.

Most of these policies are issued on a 'with profits' basis so you share in profits made by the insurance company, which are added to your policy sum as bonuses, usually annually. Since the policy is accruing value all the time, you can 'surrender' it (cash it in) but there are penalties for doing so. You are usually much better off selling the policy to an investor if you want to stop paying for it. There is an active market in second-hand insurance policies.

Mortgage payment protection insurance

Another potential problem which might prevent you paying your mortgage is if you lose your job or simply can't work due to ill-health. You won't be getting much help from the State. If you lose your job you don't get anything to help with mortgage payments for nine months, and then the State only pays your interest on the first £100,000 of any loan. If you have a mortgage for a higher amount, you won't get any help for the additional interest. So if you lose your job there is a risk of your home being repossessed. There are a number of insurance solutions available (covered in this and following sections).

You can take out 'mortgage payment protection insurance' to cover these risks to some extent. The usual policy terms are that your mortgage payments will be paid for a year if you can't work because you are ill or have an accident or you are put out of work. Usual exclusions — illnesses for which you can't claim - include stress, back problems and pregnancy. You are not covered if you're sacked for misconduct or if you give up your job yourself. It can be quite an expensive type of policy, but it is cheaper if you cover, say, just being sacked, as opposed to taking the full range of cover. You can agree to a period, such as the first three months, when you won't get any payment, and that kind of 'excess' — initial amount you pay for yourself - will reduce the premiums you have to pay. Policies don't apply if you work part-time. Some policies only apply if you have been working for your employer for a minimum number of years.

Normally you should not be required to take out payment protection insurance as a condition of the loan. If you are, you should look for another lender.

Health insurance

PERMANENT HEALTH INSURANCE

A more comprehensive insurance - less focused on immediate mortgage payments - is 'permanent health insurance'. This type of policy guarantees to pay you an income for life or for a particular number of years if you can't work because you fall ill. The amount might be half your current salary, for example. This would also work as a way of covering your mortgage payments as well as guaranteeing you income generally. As with mortgage payment protection insurance, you can agree an 'excess' so that you do not get paid for an initial number of months, and that will reduce the premium cost. (The insurer calculates that many people will get better and return to work during this period.) You can't get cover against pregnancy, illnesses due to alcohol or drug abuse, or HIV/AIDS.

The amount you can cover is usually limited to about 60% of your salary. You may find that your employer, if it is a big company, already offers you some cover of this sort.

CRITICAL ILLNESS COVER

Instead of giving you an income, this kind of cover pays you a lump sum if you are found to have one of the insured conditions, such as some cancers or a heart attack. (Again, HIV/AIDS is not covered.) It is not linked to ability to work. If you have the condition, you are entitled to the payment.

Who should you buy insurance from?

Your mortgage lender will probably offer you some of these policy options as part of their range of products. You should not automatically take insurance from them. A specialist insurance broker is likely to find you a better product at a much cheaper price than you will be offered by a mortgage lender. Some mortgage deals require you to take out

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insurance arranged by the lender as part of the package. This is a 'tied' deal (because the loan is tied to you taking out one of the lender's insurance products). If you want to switch policies when you are in a tied deal, then you probably have to re-mortgage as well, which is a hassle. It is usually best not to get into a tied deal in the first place.

CHAPTER 11

The buying process

Contents at a glance, and how to get around the book easily. [Click here.](#)

What you should do at the start

BEFORE YOU EVEN START LOOKING FOR A PROPERTY

There are a couple of steps which it is worth taking even before you start asking for estate agents’ property details.

You need to get your mortgage loan agreed in principle. The first thing to research is how much money you can borrow. This will usually be a multiple of your annual salary. The best terms may not just be about the amount of the loan, but about getting the lowest interest rate, or avoiding penalties for early redemption of a fixed or discount mortgage loan.

The lenders you choose will be able to give you an offer in principle. This means confirmation of the amount they will lend you, and the terms of the loan, subject to them approving the property you finally choose. Having this preliminary offer is valuable, partly because it helps you decide how much you can afford to pay for a property, and partly because it is a good way to convince sellers that you are a serious buyer and that your offer should be accepted over competing offers.

INSTRUCT SOLICITORS

The legal side of buying or selling a property is called ‘conveyancing’. It is mainly done by solicitors (regulated by the Solicitors Regulation

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Authority), but the market has been widened to include 'licensed conveyancers' (regulated by the Council for Licensed Conveyancers). I'm using 'solicitors' in this book to cover both.

The solicitors' job is to organise the purchase of the property for you. At its most basic, they check that the seller owns the property and they make sure ownership is transferred to you. They also have to check for a variety of practical and legal issues which commonly affect properties. If you are borrowing a mortgage loan to buy the property, the lenders will usually instruct your solicitors to act for them as well in taking a charge on the property as security for their mortgage loan.

When your offer on a property is accepted, the estate agents will send your solicitors confirmation of the transaction - the price, the property address - and details of the seller's solicitors, so they can make contact and start work. It doesn't reassure prospective sellers that you are a serious buyer if you have to say that you're going to go off and ring round some firms and get back to the estate agent in a few days. You should appoint your solicitors before you make an offer on a property, so that when the offer is accepted you can immediately give the selling agents your solicitor's details.

Having the right solicitor is important. I mean the individual dealing with your case, not the firm. You need someone good to look out for your interests and spot problems, but you also need someone who will respond quickly, return calls, and won't be over pedantic. Any solicitor has to do a competent job in general terms. But there is a world of difference between a solicitor who acts fast and is helpful, and a solicitor who holds the deal up and then won't answer phone calls to explain why. Paying more money doesn't necessarily guarantee you a better service, but if you go for a very cheap quote you definitely won't get the best available service because they won't be able to afford to give it. Of course, if finances are tight you may be prepared to accept a limited service in return for a low fee.

ARRANGE YOUR MORTGAGE

Hopefully you have already arranged a mortgage in principle. You now need to action the second half of the mortgage process and get your lenders to value the property. (Although they have confirmed how much they will lend you based on your income, they will still only lend you an agreed percentage of the value of the property if that turns out to be less.) They will choose a surveyor to do their valuation. If you have a surveyor you plan to use for your structural survey, the lenders may agree to use your surveyor. You need to get the lenders to organise their valuation as soon as possible, because delays in this can hold up the mortgage offer. Also the sellers will understandably get edgy if there is a long delay before a surveyor arrives. That is often taken as evidence that a buyer is not serious.

ARRANGE YOUR SURVEY

You need to arrange for a surveyor to carry out a 'home buyers' report' or a 'full structural survey' of the property. There is a chapter on surveys and physical problems later in this book.

Surveyors can often get quite booked up, so it may be several days after you instruct a surveyor before he can actually do the inspection. It may take several more days for him to prepare his report and have it typed up. His report may throw up some further problems which have to be looked into. If he finds evidence of dampness in walls, then you may need to get a specialist damp-proofing contractor to carry out tests. If the surveyor tells you that the roof is about to collapse then you may need to start negotiations on a price reduction with the seller. Each stage takes time — added together, it can take a lot of time, so you should always get the process started early. Check how long it will take the surveyor to do the report. If he is overworked, you may want to look elsewhere. A local surveyor will know the area already, which may speed things up, and if there are any particular problems about the locality he is more likely to know about them.

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Bear in mind that a survey is not a valuation. The surveyor does not have to say what the property is worth, unless you arrange that with him – which you obviously should. Make sure that is included in the price. If you use the same surveyor to do your survey as does the lenders' mortgage valuation, you may be able to negotiate a price reduction for combining the two things.

What your solicitor is doing

YOUR SOLICITORS' FIRST STEPS

The seller's solicitors have to send some documents to your solicitors for them to start work on. If the seller has been efficient, then this has all been prepared well in advance and a nice pack of papers will land on your solicitor's desk a couple of days after your offer is accepted. If the seller is less well organised, it may take days or weeks to get the proper paperwork through. Stay in touch with your solicitors to find out whether they are getting the paperwork they need and, if not, you should chase the selling agents about it, so they can put pressure on the seller.

The papers in question are title documents, the lease (if you're buying a flat or a leasehold house), a contract, and property information forms. The 'title documents' are usually a print-out of the Land Registry record of the seller's ownership of the property. The 'contract' is the document you sign at exchange of contracts to make the deal binding. (The seller's solicitors prepare a draft contract for your solicitors to approve. Your solicitors will amend it if they need to protect you in some way.) 'Property information forms' are standard enquiry forms the sellers have to complete which provide information about the property and their experience of it.

This process is more streamlined since the introduction of HIPs in 2007. A HIP - short for 'home information pack' - is a pack of relevant documents about the property which the seller is meant to prepare when the property is put on the market. This would include the searches which previously have been done by buyers after they've agreed to buy

the property - so there's a time-saving there - as well as copies of the title documents and some of the other papers just mentioned. This should all mean that it's easier for your solicitor to get hold of the necessary paperwork immediately after you agree a deal, which should speed up the process.

ANTI MONEY LAUNDERING

Your solicitors also have to carry out 'anti-money laundering' checks on you. Usually this consists of taking copies of your passport and some recent utility bills or credit card statements so that the file contains written evidence of your identity. They have to do this even if they know you.

They have to report you to the police if they come to suspect you of money laundering during the course of the transaction. What is more they are forbidden on pain of imprisonment from warning you they are doing it. You may never know!

Money laundering is not just about drugs, or concealing the proceeds of bank robberies. Even not paying tax is a crime. Paying any part of the purchase price in cash in some circumstances may trigger a secret report to the police. There is more about money laundering below.

YOUR SOLICITORS' NEXT STEPS

Once your solicitors receives the pack of papers described above, they have to go through them to see if everything is okay. If they find any problems with the paperwork, or if there are things missing, then they have to take that up with the other solicitors. This can take a while, especially if things are missing which have to be tracked down. To give an example, if there has been an alteration to the property which required building regulation consent from the local council, and the seller never obtained it, then it may be necessary to get someone from the council to come and approve the works now and provide a written approval. Or in the case of a block of flats, it may be necessary to find

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out from a management company when they plan to replace the roof. Management companies are notoriously slow in responding to requests for information.

LOCAL AUTHORITY SEARCHES

The local authority search — or the 'local search' as it is usually called — is a questionnaire sent to the local council which they complete and send back with information about the property and the area.

The local search is important because it can provide crucial information which would affect your decision whether to buy or not. It can tell you if the property is in breach of any public regulations or if a major road is about to be put through your back garden. But it is also frustratingly unhelpful. It doesn't tell you if someone has just applied to turn the building next door into a half-way house for drug addicts.

Councils used to take forever to do these searches, which held up transactions considerably. So buyers started to rely on 'personal searches' where specialist search agents obtained the information from the council's records themselves. This is less necessary now for two reasons. Most councils are a lot quicker, and search results generally come back in days rather than weeks. Also, the introduction of HIPs (home information packs) in 2007 put the duty on the sellers, rather than buyers, to carry out the searches. They do this when they put the property on the market, so searches are now organised earlier in the transaction which makes the time involved less of a problem. The searches are then provided to the buyers' solicitors when the deal is agreed. Personal searches may still be necessary and useful in some cases, but the answers are not guaranteed by the council, so you need to be sure that the search agents are properly insured for any errors they make. You also need to be sure that your lenders are prepared to rely on a personal search and not insist on an official one. Your solicitors will advise you on this.

What you should do before exchange of contracts

SIGN THE CONTRACT

You are ready for exchange of contracts when you have your mortgage offer and your solicitors have approved the contract and sent it to you to sign. If there is a hurry or you are abroad your solicitors may be prepared to sign it for you if you give them written authority. The contract is the most important document in the transaction.

PAY THE DEPOSIT

You must provide the deposit money to your solicitor. (The nature of the deposit is explained in the 'Exchange of contracts' section below.) When exchange of contracts takes place, your solicitors have to pay the deposit to the sellers' solicitors. Your solicitors must have the money in cleared funds in their clients' account in advance. You can usually send the money by bank transfer a day before and be sure that it will be there on time. If you need to provide a cheque, remember that it takes up to five days to clear a cheque and your solicitors will have to wait for clearance to be confirmed by their bank before they can exchange contracts for you. You can't pay cash. Solicitors generally will not accept large amounts of cash because of the anti-money laundering risks.

MORTGAGE OFFER

You need to make sure you have your mortgage offer. This is a formal document from your lender's head office, confirming the terms of the loan, and setting out any special conditions, such as a requirement that you repay a hire purchase debt, or that you have life insurance. It is important that you do not exchange contracts until you have this offer, because you need to make sure you can comply with the conditions and requirements in it. (All too often the people you're dealing with at the lender's branch office assure you that the loan is fine; then when you get the offer you find that there is some condition you had not heard off before and may not be able to meet.)

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If life insurance is required as a term of your mortgage, you must make sure this is set up before exchange of contracts. You can't leave it until after exchange of contracts. If something bad is flagged by your medical examination and you then can't get insurance, your mortgage offer will be withdrawn, and you are then on the hook to buy the property with no way to do it.

BUILDINGS INSURANCE

You should check with your solicitors whether you need buildings insurance to be in force at exchange of contracts. The issue is who takes the 'risk' on the property between exchange of contracts and completion. In the past, if the property burnt down before completion, the buyers still had to buy it – they took the risk – and they had to have a buildings insurance policy in force before exchange of contracts to protect them from that date. Nowadays it is more usual for the contract to say that the sellers must hand over the property at completion in more or less its state on the date contracts were exchanged. If it burns down, the buyers can cancel the contract. So the sellers retain the risk, and there is no need for the buyers to insure the property until completion. You need to make sure which of those two scenarios actually applies in your case. If you do have to take on the risk at exchange of contracts, then you must have insurance in force before exchange of contracts.

Even if you don't have to take on the risk at exchange, you must still make sure you have an insurance offer before you exchange, although you will put the policy in force at the completion date. You can't risk finding you can't insure the property after you have agreed to buy it – e.g. because the insurance company know there is a subsidence problem in the street.

Remember that if you are buying in a block of flats, then it is probable that buildings insurance is maintained by the landlord or management company on the whole building, in which case you don't have to be arrange buildings insurance at all. You will still need your own contents insurance policy.

DECIDE WHOSE NAMES TO BUY IN

If you buy a property with someone else, it's up to the two of you to decide whether the property goes in both your names, or just one name. It used to be the case that husbands bought and owned the family home. Nowadays it is almost universally the practice that both husband and wife will be joint owners of their home. The same should apply to people entering into a civil partnership.

You can buy a property as 'joint tenants' or as 'tenants in common'. Joint tenants have equal rights. (If there are two owners, they own half each. If there are three owners, they own a third each.) Another feature of a joint tenancy arrangement is that if one of the owners dies, the other owner automatically receives the dead owner's share. (If more than one, they share the deceased's share equally.) The deceased cannot leave his or her share by will. So if you want to leave your share in a property to your children or to a person other than your co-owner, then a joint tenancy is not for you.

The other way for two or more people to hold property is as 'tenants in common'. It differs from joint tenancy in two ways. First, the shares don't have to be equal. Secondly, if one partner dies the surviving owner doesn't automatically inherit the deceased's share. Instead, the deceased's share passes by will, or if there is no will, it forms part of the deceased's intestate estate. This can produce unpleasant results for unmarried partners, with the deceased's share in the property possibly passing to a distant relative he or she never meant to benefit. So if you opt for a tenancy in common, have a will.

Exchange of contracts

WHAT IS 'EXCHANGE OF CONTRACTS'?

You often hear the contractual stage referred to as 'exchange of contracts' or just 'exchange'. This is a reference to the way the contract is created. A contract can be on one bit of paper, signed by all the

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contracting parties. But in property transactions, the contract is in two identical parts, one signed by the sellers and the other by the buyers. The buyers' solicitors and the sellers' solicitors agree the wording. The sellers' solicitors then get their clients to sign one part, and your solicitors get you to sign the other part. Signing doesn't commit you in any way. At 'exchange', the two solicitors speak on the telephone. They agree the completion date (which you will have approved in advance) and this is written into the contract. Then they each agree to post their part to the other - that is the 'exchange' referred to. At that point, you become contractually bound to buy and the sellers to sell. Now no one can back out.

DEPOSIT

You have to pay a deposit at exchange of contracts. This is traditionally 10% of the purchase price. Nowadays, it is often 5%, but you have to remember to negotiate that. (If you say nothing, the assumption is that 10% will be provided.) The point of the deposit is that it is security for the seller, because the seller can keep it if you default on the contract and don't complete the purchase.

A deposit can be held by the sellers' solicitors as 'stakeholders' or as 'agents for the sellers'. If the contract says they hold the deposit as agents for the sellers, then they can simply pay it to the sellers as an advance payment on the purchase price. This would be most unusual in a private sale, but it is often found in sales by developers of new homes — they expect to get deposits as early as possible to reduce their loans. In deals between private individuals the deposit is usually specified to be held as 'stakeholders'. This means that the sellers' solicitors must hold the money as a middlemen between the two sides. They can only release the money to the sellers after completion of the sale has taken place. If the sellers fail to complete, then the deposit should be returned to you.

There is one practical exception to the rule that the money is held by the solicitors. If the sellers are themselves buying a property, then the normal rules allow them to use your deposit as part of their deposit on their

purchase. (Similarly, if you are selling as well as buying, you may be able to use your buyers' deposit towards the deposit on your new home.)

If you are getting a 100% mortgage, you need to remember that the lenders will only provide this at completion. Meanwhile, you need to come up with the deposit at exchange. So you need to fund the deposit from savings, or by a loan from your family, or with a bridging loan from your bank.

Completion

Completion means turning the contract into reality. Exchange of contracts merely imposes an obligation on the parties to buy and sell the property at a date in the future. It states the date on which the obligation has to be fulfilled – the completion date. Traditionally, that used to be one month after exchange of contracts to allow time for the legal work to be done. Now that we no longer rely on the post for everything, that time can be cut back to two weeks relatively comfortably, or even to a matter of days if necessary.

LEGAL STEPS FOR COMPLETION

Your solicitor needs to arrange for your lender to provide the mortgage finance for completion. He has to make sure that all the paperwork is in place to comply with the lender's requirements. You will have to sign a mortgage document and provide any life insurance cover which is required. You also have to comply with any conditions or requirements set out in the mortgage offer.

Your solicitor will prepare the 'transfer' and submit it for approval to the seller's solicitor. The transfer is the document which actually effects the transfer of ownership to you. It is sent to the Land Registry after completion, who then record the change of ownership. (The Land Registry is the public register of property ownership.)

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Your solicitors also have to carry out some final legal checks. They need to make sure that any existing mortgages on the property for loans taken out by the current owners will be removed at completion (or that undertakings to have them removed will be given by the sellers' solicitors.) They will also carry out a check at the Land Registry to make sure that no one else has put in a claim on the property which would get in the way of you taking over ownership.

If you are buying a flat, it is possible that a consent is needed from the landlord or the management company, or that there has to be a transfer of the sellers' share in any management company. These will also be arranged between the two firms of solicitors.

SERVICE CHARGE APPORTIONMENTS

If you are buying a freehold house, then the purchase price is all you pay the seller. If you buy a flat, where there are rent and service charges, then these have to be split or 'apportioned' between you and the seller as at the day of completion. For example, rent and service charge are usually demanded by the management company in instalments every half-year, or perhaps every three months, depending on the wording of the lease.

If your completion date falls in the middle of one of these periods, then the sellers only have to pay for the part of the period up to the completion date, and you are responsible after that. If the sellers have already paid for the whole period, they will want a refund for the period after completion, and this must be taken into account in the completion figures.

As a buyer, you may be worried that when the management company does its full accounts for the year, it may find some further amount due from the flat owner. Since some of that responsibility will relate to the sellers' period of ownership, you may want some assurance that the sellers will meet their bit of the debt. So sometimes it is agreed that one of the firms of solicitors will hold back a retention of a few hundred pounds as security for the potential liability. If there is a liability, then the

sellers' share comes out of that retention, and any balance is then released to them.

MONEY NEEDED FOR COMPLETION

Your solicitors will ask your lenders to send the mortgage loan to them by bank transfer on the completion date. They will ask you to send them any balance you are providing. Even if you are borrowing 100% of the purchase price from the lender, you will still have to supply additional funds because stamp duty land tax, Land Registry fees and legal fees have to be paid. You normally have to give your solicitors the funds for those items before completion.

WHAT HAPPENS ON THE COMPLETION DATE

Your solicitors send the necessary funds to the sellers' solicitors by bank transfer. Once they get the money, the sellers' solicitors 'complete' the transaction and instruct the seller's agents to release the keys to you, so you can move in. The sellers' solicitors send the title documents to your solicitors so that your ownership is documented. They will use part of the purchase funds to pay off the sellers' mortgage loans on the property. The sellers only receive the balance.

You can move your furniture into the property on the completion day, but not until legal completion has actually taken place. So you may find yourself having to sit in the removal van until your solicitors can confirm that the money has been received by the sellers' solicitors. This can be a frustrating process. Many mortgage lenders do not provide the mortgage funds until the morning of completion, and there can be delays in the bank transfer system. If you are in the middle of a chain of transactions, your purchase depends on money moving up the chain between solicitors for other buyers and sellers. You must vacate your existing property, if you are selling as well, because your buyer cannot be required to hand the money owed over to your solicitors until you have given 'vacant possession'.

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FIXTURES AND FITTINGS

Check that everything has been left which was in the 'Contents fixtures and fittings' list supplied by the sellers before exchange of contracts. If something has been taken, you usually cannot refuse to complete because of it. You should talk to your solicitors about whether money can be retained

POST COMPLETION ARRANGEMENTS

Your solicitors receive the title documents. They have to arrange payment of the stamp duty land tax to the Inland Revenue. They then apply to the Land Registry to record the change of ownership, and also to record your lenders' charge on the property. After a few weeks, that will be completed and you will be shown on the Land Registry's electronic register as owner of the property.

If you are buying a flat, there are some additional steps. Your solicitors have to register the transfer document with the landlord or management company, so that they know to send rent demands and service charge demands to you rather than to the previous owners. If the sellers had a share in the freehold or management company, that has to be transferred into your name and your solicitors will be arranging that too.

CHAPTER 12

Moving

Contents at a glance, and how to get around the book easily. [Click here.](#)

Arrange the physical move

Removal companies offer very little in the way of compensation for damage they do, and they don't carry much insurance either. For instance, many companies try to impose conditions under which you can only make a claim for anything lost or damaged if you notify the loss within an extremely short period. When insurance is provided, it is often limited to a relatively small amount, which is hardly worth having if an antique vase or your plasma TV is damaged. They only need a van and a Yellow Pages entry to be in business. There are many sharks who may let you down and then fall back on terms of business which get them out of responsibility. So only use an established reputable company. There is a British Association of Removers whose telephone number is 0208 861 3331 who can recommend removers in your area.

You should book your removals well in advance. If you are completing on a Friday - which is the traditional day for property completions - you may find that all the available slots have already been taken. So check with your intended removal company just before you exchange contracts that they have availability on the proposed completion date, then immediately book the date when exchange takes place.

If you want to handle the move yourself, some companies will rent you the van, the equipment, and the boxes. They will want to check your

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driver's license. The largest van you can hire without an HGV licence is a 7.5 tonne van. So you need to work out whether you can get everything into it in one go, or in an acceptable number of trips.

Pets

Cats and dogs are territorial animals and your old home is their territory. So it will be traumatic for them to move to a new property. There will be a tendency for them to go out and look for their old territory. So have them wear collars with name tags with your contact details (at least for the first few weeks).

Arrange utilities and services

You want to make sure that the supply companies will know that you are the new owner of the property and to send future bills to you. So sign up in advance with the companies you choose. You need to make sure that the sellers arrange for the meters to be 'read' for the completion date, so that the sellers gets the bill up to that date, and you get bills only from the completion date. (If you're selling you need to do the same on your own property.)

There is an easy way to notify utility companies, the council and others about your change of address. You can do it on www.iammoving.com. You can start building your list of people to notify before completion. It will save you a lot of time and trouble.

You should have gas and electrical systems checked regularly, and you should have the first check carried out shortly after you move in. The gas boiler and any gas heaters should be a particular priority (with checks carried out by British Gas or a CORGI approved engineer).

You may want to get your telephone number transferred to the new property. You would need to line that up between exchange of contracts

and completion. You should also make sure that the necessary telephone connection exists at the new property, especially for broadband.

Make sure your insurances are all in place

Make sure you have buildings insurance policy in force. Remember though that if you are buying a flat, the landlord or management company probably does the buildings insurance for the whole building.

You should arrange contents insurance to come into force when you move in. It may be cheaper and easier to combine it with the buildings insurance policy.

If you have to set up life insurance to comply with the mortgage offer, you should make sure you do it as early as possible before completion and supply the relevant evidence to your solicitors, who may have to pass it on to the lenders for their approval before they will send out the money.

What you must do before the moving date

Keys. Usually sellers leave the keys with their estate agents and these are then released to you once the solicitors have confirmed the money has been paid over. It is worthwhile checking in advance exactly what keys will be there. It is a nuisance discovering that there are some doors you don't have keys to, or that you are only getting one set of keys.

Instruction booklets. If you need instruction booklets to work the oven, the central heating or anything else, check with the sellers that they are keeping them out of the packing and leaving them on the kitchen table.

Alarm systems. Some alarm systems need a password to be keyed in to reset them when they go off. You should get the password from the sellers and be talked through how the system works, and make notes.

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Arrangements for living at a new address

Mail forwarding. You can fill in a form at the Post Office which will cause your post to be transferred from your old address to your new one. You want to make sure the sellers do the same, so that you are not endlessly forwarding letters to them.

TV licence. You should make sure that you have a television licence for your TV at your new property.

Car details. You need to make sure that your driving licence, car tax and ownership details are updated.

Parking. If there are any parking restrictions or you need a residents' parking permit, you should sort that out with the local council office and make sure that any paperwork is completed.

Council tax. You need to register with the local council for payment of council tax which will start from the date you take up occupation.

Electoral roll. You should ensure that your details have been added to the electoral roll so that you can vote in local and general elections.

CHAPTER 13

Physical problems

Contents at a glance, and how to get around the book easily. [Click here.](#)

Surveys

Your lenders will arrange for a 'mortgage valuation' of the property to be carried out by a surveyor, but it is not a survey — it's an estimate of value to reassure the lenders that they can get their money back if you default and they have to sell the property. You want to know more than that. You want to know if there is anything seriously wrong with the property which might put you off it altogether if you knew about it, or which would at least cause you to lower the price. You want to know about any essential building works which are going to cost you a lot of money, time and disruption to put right.

Apparently three in four buyers rely on the mortgage valuation, and don't have a proper survey. They save themselves a few hundred pounds in fees, but it is not much of an economy when they expose themselves to the risk of buying something with expensive hidden problems. If there are physical defects at the property, it is up to you to find them, and there is generally no obligation on the sellers to tell you about defects — even ones they know about. (What they mustn't do however is cover up defects.) You need a 'full structural survey' or a 'home buyers' report' to give you protection. Make sure the surveyor will give you a valuation as well — it's not strictly part of the survey.

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SURVEYORS

You need to use a surveyor who is a member of the Royal Institution of Chartered Surveyors (RICS). They will have MRICS or FRICS after their name. You can check them out by ringing the RICS on phone number 0870 333 1600.

It's always worth talking to the surveyor on the telephone. However much doom and gloom they put into a survey report - partly to cover themselves against future litigation - they may give you a more realistic version on the telephone. It could be along the lines of: 'I have to mention it, because the problem is there, but in practice you can probably get away with doing nothing about it for the next 10 years.'

Surveyors sometimes recommend getting other reports, such as for suspected damp or woodworm. This will all take time to arrange. So it is worth ringing the surveyor immediately after the survey to check if he is recommending any additional reports. Also, of course, check if he is down-valuing the property and, if so, why.

FULL STRUCTURAL SURVEY

The traditional structural survey is the most detailed form of survey for the job. 'Full structural survey' and 'building survey' mean much the same thing, although sometimes 'full structural survey' is reserved for the most comprehensive type of investigation possible, when services are tested as well. The surveyor will carry out a physical inspection of the property and produce a report which will be fairly comprehensive (but not totally comprehensive - the surveyor will not normally investigate services such as water, drainage and electrical systems). It will also be limited by the amount of access the surveyor has. If the sellers won't let him pull up fitted carpet and poke under floor boards he may not be able to discover damp problems underneath. You should check in advance whether the sellers intend to impose any restrictions on access and discuss the issue with the surveyor.

The survey report will tell you if the surveyor has found anything bad about the condition of the property, and he will probably recommend action you should take, and warn you about work which will be needed in the future. For example, the report might tell you that the roof has to be replaced within the next 10 years. It will also state if there are any problems which need to be dealt with immediately, or which should lead you to reduce your purchase price. For example, it might reveal subsidence, or that the chimney stack is in a dangerous condition. (These problems are discussed in more detail below.)

A survey report should always contain a summary paragraph detailing the most important problems the surveyor has identified. You should obviously read that carefully. If you can't find one, you should ask your surveyor to provide one. But really you should read the whole report carefully and ask questions about any problems which are outlined. That way you avoid problems before you get into them. You should also note any things which are excluded and ask why. Your survey is crucial to your purchase.

If your surveyor discovers a potential problem which requires further specialist investigation, he may recommend that you get a damp or dry rot specialist to carry out a further inspection. The surveyor will probably test walls for damp with a damp testing meter, but may need a specialist to ascertain the cause of any dampness revealed.

HOME BUYERS' REPORT

The home buyers' report is a limited type of survey and is, in a way, a compromise between relying on the mortgage valuation alone (surely never a good idea) and having a full structural survey. A homebuyer's report is a printed form — to make it easier for the surveyor to fill it in, and so to keep costs down — as opposed to a full structural survey report which will be drafted by the surveyor from scratch.

Your lenders may agree to the surveyor who is doing their mortgage valuation also doing the extra survey work at the same time, which may save you money overall.

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The home buyers' report is not strictly a report on the condition of the building. It only deals with that in a general way, and then focuses on particular issues which might affect the present value of the property or its future resale value. It is not an absolute guarantee of the state or condition of the property. Although it is of much more use than a mere mortgage valuation, this type of survey is still relatively superficial in scope. It can be adequate for certain sorts of property, but definitely not all.

DOWN-VALUED PROPERTIES

If the surveyor concludes that you are paying too much for the property, and gives a lower figure for his valuation, the mortgage lenders will use the lower figure as the basis of their mortgage offer. So if they are willing to lend you 100% of the purchase price, and the purchase price is £200,000, but the surveyor values the property at £180,000, you will only get a £180,000 loan. That doesn't necessarily kill off the deal. If the surveyor has given good reasons for the reduced valuation – the roof needs replacing, for example - then you can use that as leverage to get the price reduced. The sellers may not budge, in which case you lose the property (unless you want to pay cash for the difference), but if the sellers see that any potential buyer is likely to come up with the same problems, there's a fair chance that they will agree to the price reduction.

Sometimes a surveyor will down-value a property for very good reasons - if he finds some structural problem, for example. But sometimes the wrong surveyor just doesn't know the property market in the area properly. So make sure you instruct a surveyor with local knowledge. Talk to the estate agents and make sure you are not using one renowned for being overcautious. Give the surveyor any comparable values you have for other local properties. If you're borrowing a high proportion of the purchase price, make sure the surveyor is aware that a valuation of at least a particular figure is critical.

RETENTIONS

Your mortgage lenders will probably require you to arrange any further investigations recommended by their valuer. If serious problems are uncovered which will need building works, they may well insist on a 'retention'. The way this works is that they deduct the anticipated cost of the building works from the mortgage loan they give you when you buy. You then have to carry out the works at your own expense, prove to the lenders you've done them, and then they will give you the extra money they have retained. To do this you must have the cash to carry out the works first. Again, this is ammunition for you to negotiate a price reduction with the sellers. Alternatively you might take out a short term loan to fund the works — see 'Get a bridging loan' below.

Even if they don't insist on a retention, your lenders may require you to give an undertaking to carry out works to put a defect right within six months of buying the property.

[Get a bridging loan](#)

Damp problems

Sometimes dampness is a very evident problem. You can smell it, you can see stains on the internal plaster or external brickwork, or there is condensation on windows and walls. But the most damaging kinds of dampness can be where you can't see them at all - under the floorboards or the bath, in the roof space, or inside the cavity walls. If damp is only detected by instruments, and there is no obvious problem, the best solution may simply be to ignore it. All walls have a certain level of moisture and it is only a problem if it gets out of hand. You would need to discuss this with your surveyor, of course.

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SUSPECT DETECTION AND TREATMENT

Your surveyor will use a damp meter to check moisture in walls. (But damp meters don't necessarily work — they can give false readings. For example, a dry breeze block can give the same reading as a wet brick.) If he finds a high moisture reading, he may recommend you get an 'expert' to carry a proper survey. He has to recommend that because he has to cover his own back against a negligence action. See 'When damp meters don't work' to learn more about why you shouldn't rely simply on a meter reading.

Faced with a meter reading showing damp, your surveyor may recommend calling in a commercial damp treatment company. The inspector may well 'discover' rising damp. But then the company survives by carrying out damp treatments. If rising damp is diagnosed as a possible problem, we recommend you get an independent expert surveyor to look at the issue, not a commercial contractor.

One typical treatment offered by commercial companies is that they inject all the external brickwork with a waterproof liquid and then re-plaster the inside walls with water resistant plaster. The result may be a dry internal wall, but quite possibly only because there is now a waterproof cover on top of a continuing problem. However, you do get a guarantee (for 20 years usually) although it is dependent on you not carrying out any building work yourself which affects the treatment company's work.

Often the cause of damp will be some specific building problem which could be put right in a few hours by a decent builder.

USUAL CAUSES OF DAMPNESS

Rising damp. Despite what we have just said, if your surveyor and an expert insist you have rising damp, obviously you need to take the advice of experts looking at the actual problem.

Neglected gutters and pipes. A very common source of dampness is blocked gutters and leaking pipes which allow water to flow down the wall and soak it. Bricks are designed to live with the usual cycle of getting wet and drying out, but if they become too wet for too long or the wall surface is in bad repair, water can get through the wall. The solution is usually straightforward repair work - re-pointing the brickwork, replacing mortar, clearing or mending gutters and pipes, and replacing ineffective window sills.

Hidden leaks. There may be leaking pipes inside walls. Drips or leaks under a bath or behind a bath panel can go unnoticed for years. Even a small drip will lead to a moisture problem over a period of time — a continuous drip is an awful lot of water over a year! The result will often look like rising damp. There is one way of testing for leaks you might try. You turn off the water main, then put a glass of water under a cold water tap (so the tap is right in the water), then you see if the water level in the glass goes down. If it does, this indicates that water is being sucked out of the system to feed a leak into the ground. (If it doesn't go down, it doesn't mean there is no leak!)

Breaching the damp proof course. Since the 19th century, houses have been built with a damp proof course in the wall about 6 inches above ground level. (This is usually a bitumen layer or a layer of slates.) In new buildings, particularly those with concrete floors, a plastic sheet is laid under the concrete and tucked over the damp proof course to give a waterproof base to the building. A damp proof course won't provide protection if external ground levels are raised above it — as sometimes happens when people build concrete forecourts or standing for cars, or when earth from flower beds is heaped up against a wall. The solution is simply to cut or dig away whatever is built up above the damp course.

Condensation. Moisture may be created by cooking, baths, clothes drying etc. It becomes condensation when it comes into contact with a surface which is at or below the 'dew point' - the temperature at which moisture turns into water. Condensation isn't just something on window panes and bathroom tiles. It can also form in the gaps between the inner and outer walls of a house or under the floor. There are so-called

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'condensation moulds' which form on surfaces subject to condensation, and they are a good clue that condensation is the source of the dampness problem.

Practical solutions might include: opening windows after showers and keeping the bathroom door shut, making sure that any air bricks in the external walls are not blocked or installing new ones, getting rid of the fish tank, reducing the number of house plants, buying room heaters with flues, and only drying clothes in a bathroom or kitchen where there is an extraction fan.

Structural problems

If the surveyor finds a structural defect which he thinks is particularly bad, he may recommend that you commission a report from a structural engineer who will then work out how serious the defect is and what can be done about it. You would want to be very careful about buying a property with a structural defect, unless it is a considerable bargain, or you've got a lot of money off the price and you can afford to have the remedial work done after you complete the purchase but before you move in.

Repairing foundations is usually known as underpinning. Blocks of concrete, possibly also incorporating reinforced concrete beams and concrete encased steel sections, are inserted under the existing foundations. To avoid further collapse of foundations, this is usually done one block (or 'pin') at a time. Another solution is piled foundations: steel columns are forced into the ground and filled with concrete. Reinforced concrete or concrete encased steel beams will then be laid on top of these.

SUBSIDENCE AND OTHER PROBLEMS

Subsidence. If the subsoil dries out and shrinks — or 'subsides' — the building's walls and foundations may crack. Common causes are: dry summers, geological faults, the effect of trees sucking up water, old

mines, or in-filling of land. It can also be caused by chemicals attacking the foundation concrete (especially if it is wet), the wrong materials being used for the hardcore, or poor workmanship in the original construction.

Trees are a common cause of subsidence. Trees do not usually affect the foundations of buildings directly. But trees suck up a lot of water and this can cause the nearby subsoil to subside — 'nearby' can be quite a distance from the tree.

Heave. Heave is the opposite of subsidence and is caused by an increase in the moisture level of the subsoil, usually clay, which then pushes the structure upwards. Heave can also be caused by the removal of heavy structures previously on the land, or by frost (which causes the water in the soil to freeze and expand). Just as trees can cause subsidence, the removal of trees can cause the subsoil to expand, leading to heave. So large trees are always a potential problem to be handled carefully.

Settlement. One part of the building moves on its own, or at a different rate from the rest.

Landslip. Landslip may occur when buildings are constructed on a slope.

Wood rot

Wood-rotting fungus is the chief cause of wood decay. The fungus grows on wood and eats sugars in the cellulose and that causes the wood to disintegrate. The two main types of wood rot are called 'dry rot' and 'wet rot'. Dry rot can be spotted by the fungus, which looks like a flat white pancake, and gives off a musty smell. Dry rot is expensive to treat and if any of it is missed, it can come back again. You should probably give a property with dry rot a miss.

If he finds evidence of wood rot, your surveyor will usually turn to a commercial timber treatment company to do a report. They may provide a report free of charge in the hope of getting the business once you buy

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or, more likely, they will charge you but discount it against the cost of remedial work if you commission it later.

Woodworm

The effects of woodworm are usually easy to see. The affected wood has lots of tiny holes in it. Any internal or external wood can be affected. It is important that your surveyor can gain access to all parts of a property, especially the attic and roof void, and be able to lift up the carpets and look at the floorboards or even at the timbers underneath to check for this when he does your survey. The problem is that you cannot necessarily tell the difference at first sight between woodworm which was treated in the past and is long dead, and woodworm which is at work now. If it is old woodworm which has been treated, the sellers should be able to provide a guarantee from the treatment company.

Other infestations

Climbing plants. A house may look very attractive, covered in ivy or wisteria. Unfortunately, they can cause a great deal of damage if not looked after properly. Climbing plants can block gutters and down pipes and, because they retain water, they will cause the wall to be damp longer than it would normally be and that may cause dampness to reach the interior. Ivy has roots which can force their way into cracks and make them worse. Creepers are less invasive, with suckers which are fixed to the wall surface, but they secrete small amounts of acid which can also cause damage to the wall surface.

Birds. Birds can nest in the gutters or inside the roof space itself if there are holes in the roof they can get through. Nests and droppings can block drains gutters and flues.

Rats. Rodents' teeth grow constantly, so they have to gnaw on hard materials to keep them in check. Materials of choice for this purpose are

electrical cables, copper pipes, and plastic pipes. Quite apart from the damage to services in your house, there is the health risk.

Bats. If there are bats nesting in your property, the main problem is that you are simply not allowed to disturb them. You may end up having to share the property with them. But unlike rodents, they are not regarded as a health threat.

Walls

It is walls which are most likely to be affected by dampness. Bricks are a good building material because they cope with a certain amount of dampness. They get wet and they dry out naturally. Problems usually only arise when they get continuously wet — e.g. leaking pipes or damp earth heaped up against them. Cavity wall filling and textured wall coatings are treatments regularly sold as protective measures, but they can damp cause problems.

Windows

Windows in old or period houses were traditionally timber. With proper treatment they should survive quite well. Some parts are more susceptible to damp — and rotting — than others. Wooden windows manufactured between the end of World War II and 1970 were often of very poor quality and may decay quite badly. Windows in houses built since 1970 are generally made of waterproof components. Condensation can be a problem particularly with metal framed windows.

Double glazing has a maximum lifespan of up to 20 years before units mist up. Replacement windows made from DPC may lead to structural problems because a DPC frame may not provide the same level of support to the wall above as the original wood or metal frame did.

Doors

You want to be sure you are safe and sound. Front doors need to be secure, but doors which are not as visible from the street are potentially more important because they are more likely to be a target from burglars than a door visible from the street.

Roofs

TYPES OF ROOF

The main roof of most houses is a 'pitched roof', which is a tent-like structure with the sides made of rafters, which are then covered by tiles or slates. Flat roofs are often used on rear additions or garages, or above bay windows and on balconies. Flat roof coverings are usually not as long lasting as pitched roofs — water tends to pool on the surface, and they are often covered by felt and bitumen which cracks over time.

PROBLEMS WITH ROOFS

There are a number of potential problem with roofs. The roof structure can start to collapse, leading to 'roof spread'. Roof timbers can be attacked by wet rot (but usually not by dry rot which does not thrive in the variable conditions found in roofs). Tiles and slates can slip, or the nails break, so that water gets in. You may find that someone has tried to carry out a temporary fix with felt and bitumen — a traditional short-term solution — which is breaking down or soon will do. Chimneys can be a particular problem if decaying mortar means they are becoming unstable or leaning. You may need to carry out work when you move in and, if so, it may be appropriate to require the seller to pay for it by a price reduction in the contract. You may need to get official approval from the local council for any works to re-cover the roof.

LOFT CONVERSIONS

Although loft conversions are internal, they involve works to the roof and, therefore, require building regulation consent from the local council, and possibly also planning and listed building consent. (See 'See Chapter 15 - Public regulations'.) You ought to make sure that the seller provides evidence that all necessary permissions were obtained and, crucially, that a final completion certificate was signed by the council to confirm that the works were all done properly. That way you'll know that you would have a properly constructed loft which you can use as living space.

Services

ELECTRICAL

The Institute of Electrical Engineers recommends that the electrical services should be checked every five years. The engineer would be checking for safety, wear and tear, excessive loading, damage, age, and external influences like building alterations. Electrical services should also be checked after any fire or flood.

GAS

A gas check should be carried out when the system is connected and if it is altered in any way — and, of course, if you smell or suspect a gas leak. The pipes are tested by increasing the pressure to double the normal. If the pressure then drops as recorded on a monitor that suggests there is a leak somewhere, and then it has to be tracked down and dealt with.

WATER SUPPLY

There should be a stop cock in your property. The pipe is usually regarded as yours as far as the road, where there is normally a second stop cock. From that point the pipe work belongs to the supply company. (In your land you may have lead pipes!) There is a rising main

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from which water is then distributed throughout the building. There are two systems: the direct system where every toilet and basin is connected to branches off the main riser; and the indirect system where the kitchen sink has the only direct connection to the rising mains, and everything else is served by a water tank in the roof fed by the mains. (In the indirect system only the kitchen tap has drinkable water. You should never drink water from a water tank.)

HEATING SYSTEMS

Gas heating appliances must be connected to a flue to remove burnt gases. There are precise rules about the size and positioning of the flue needed to take the gas outside the building.

DRAINAGE AND SEWERAGE SYSTEMS

The reason you smell nothing is the wonderful invention of the 'U' bend in the toilet, filled with water, which stops smells from the sewerage system feeding back.

There will be a length of private sewer in your property and you will own that. In a normal city street there is a public sewer in the road to which your pipe-work connects. In some properties, such as terraced houses, the waste from a number of houses may drain into a common shared drain at the back of the terrace and from there by a single pipe to the main public sewer in the road. In some systems, 'foul water' (waste from toilets as well as water from baths, showers, sinks, washing machines and dishwashers) and 'surface water' (rainwater) are kept separate, but in 'combined drainage' the rainwater helps wash everything else through the one pipe.

Green issues

We are all a lot more alive nowadays to 'green' issues. When you buy a property, the seller has to provide you with an energy efficiency report, which is a report prepared by a professional energy assessor to tell you

how good the property is at preventing heat and CO₂ from leaking into the environment. The report will also give you advice on steps you can take to improve the energy efficiency of the property. For example, you might lag the attic more efficiently, install a new combination boiler, and switch to energy saving light bulbs.

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CHAPTER 14

Legal issues

Contents at a glance, and how to get around the book easily. [Click here.](#)

Proof of ownership

Your 'title' to a property means the proof of your ownership of it. Most properties and their titles are registered at the Land Registry, the central database of property ownership.

Each property has its own 'register'. This consists of three parts. 'The property register' contains a description of the property. For houses this is usually a postal address plus a plan showing the outline of the house from a bird's eye view. For flats the plan is coloured to show how much is on which floor. 'The proprietorship register' says who owns the property. 'The charges register' records who has any mortgage on the property, and whether there are any restrictions affecting the property. So if you have a mortgage loan from Barclays bank, for example, this would appear in the charges register.

This register is now fully electronic and you can access any property's register by going to the Land Registry online website www.landregisteronline.gov.uk. The Land Registry hold the world's largest property database, guaranteeing ownership of £1,300 billion worth of property, and more than £1 million worth of property is processed every minute in England and Wales.

Freeholds are registered; so are most leaseholds. (Any new lease granted for seven years or more has to be registered.) There are still some properties which are not registered — usually because they have not changed hands in a generation or because they are in remote parts of the country not yet fully registered — and then one has to check old deeds to prove that the seller owns the property. But usually when you buy your home your 'title' will be registered at the Land Registry.

Restrictive covenants

If you buy a Victorian house, it is quite likely that there are a series of historically interesting (but harmless) restrictions imposed at the time it was built saying you mustn't burn bricks - apparently a common problem in Dickens' day! - or that you mustn't sell a house for less than £500. On the other hand, on some properties there can be more recent restrictions which could cause you problems - such as a restriction against putting up a fence in the front garden, or against carrying out any alterations without the consent of the original developer. Any such restrictions would show up in the charges register (see above). You should read them to judge if any could cause you a problem and get your solicitor to advise you how bad they are. In many cases you can cover any risk with a 'restrictive covenant indemnity policy'.

Searches

LOCAL AUTHORITY SEARCHES

Solicitors often just call these 'local searches'. They are printed forms or questionnaires containing a list of questions which solicitors send to the local council for the area where the property you want to buy is located. The point of the questions is to find out about certain public or regulatory problems with the property, and some relevant information about the surrounding area. This is an important part of the buying process. You can't get a mortgage loan without satisfactory answers to a

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local search, and you would be ill-advised to buy for cash without one either.

On the other hand, it should be recognized that there are a lot of things local searches don't tell you about the local area, but which you would probably think were a lot more important than some of the questions that are asked. Finding that someone is about to build a supermarket or a lunatic asylum on your doorstep may well affect your decision to buy. The search will not be guaranteed to reveal any of these things and if you want to be absolutely sure of what is going on in the area, you ought to go to the council office yourself and asked to see what proposals there are in neighbouring streets. (Of course, you can buy your property and then a proposal is put in the following week and you can't protect against that.)

DRAINAGE AND WATER SEARCHES.

Your solicitor will send a standard form to the local water service company, who should then send back a report with a plan showing the location of the public sewer, foul water and surface water drainage, and public water mains.

OTHER OFFICIAL SEARCHES

Commons registration search. If you are buying in a country area, your solicitors will make a 'commons registration search' which is designed to show whether any part of the land is common land. In mediaeval times, much of the land in village areas was owned communally and there were rights to graze cattle and sheep on it and walk over it. You need to know if anyone has such rights over land you are buying. It's also important to know if adjoining land which you need to use to reach your property is common land, since that can affect whether you have any rights over it for access.

Mining searches. If you live in an old mining area, searches can be carried out to see if there are any abandoned workings under your

property, or which might affect your property. Coal mining searches are the most common, but it may be appropriate, depending on where the property is, to deal with tin or clay mining or other such industries.

Waterways. The Environment Agency can provide information about the ownership of river banks and who has to maintain them, along with fishing rights, and information on flooding risk. If your property is near a canal, you can get similar information from the British Waterways Board.

What the seller must tell you

The old rule applicable to property transactions was 'caveat emptor' — Latin for: 'Let the buyer beware'. This meant that it was up to you to carry out investigations into the property you were buying, and if there was some terrible defect you didn't spot, then that was your problem.

The seller is still not under any obligation to draw your attention to any physical defects. If tiles are falling off the roof, it is up to you to spot it, or have a survey. You can't complain later that you weren't aware the roof had to be replaced. But the sellers cannot actively conceal a problem. Legal defects are another matter. If there is some problem with the sellers' ownership (or 'title') of the property, they are under a positive duty to disclose that. For example, if someone has a right of way through the back garden, that has to be disclosed. For more on this, see 'The seller's duty of disclosure' below.

Rights of way

You need to be able to get to your property. If you are buying a typical house, the front gate probably opens straight onto the public pavement. All your solicitor has to do is check that the local search confirms that the road abutting the property is publicly maintained, and that the Land Registry plan shows the property boundary right against the public pavement.

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But if you have to go over private land to get to your property, the situation has to be checked out carefully to make sure you have all the necessary rights to do so. If you are in town, the issue may be a rear passageway running behind a terrace of properties, or a strip of land between your property and the road. With flats you need a right over the path from the road to the main door (and then over the entrance hall, lifts, internal stairs and landings.)

Water, drainage, electricity and other services

You need to be able to get all these services and others to and from the property. For the most part, the suppliers of these services have statutory rights to go over anyone else's private land to connect the services to your property. But in more rural areas, you may have to provide your own private connections over intervening land to the public supply in a road some distance away. In that case, you need to have the agreement of the owner of the intervening land. That may already have been set up in the past by earlier owners of the properties, but that needs to be checked by your solicitor.

Flats

PROBLEMS WITH LEASES

If you are buying a flat, then at some point before exchange of contracts your solicitor will send you a copy of the lease. A lease for a flat ought to be reasonably straightforward. But solicitors have managed to make leases thoroughly complicated and among the least user-friendly documents imaginable. They are usually anywhere from 30 to 70 pages long, and they are divided up into a confusing array of definitions, clauses, and schedules. You often have to read pages from at least three parts of the document together to make any sense of a particular right or obligation. Your solicitor should send you a letter explaining it or indicate on a copy what the most important provisions are.

DEFECTIVE LEASES

Leases are often badly drafted. They can contain problems which either have to be sorted out before you buy, or which might even put you off buying altogether. For example, the lease might have failed to specify who is responsible for maintaining important parts of the structure. Or it may not give you necessary rights over other parts of the building. In such cases, there has to be a deed of variation - a formal document which makes the necessary change. This then has to be registered at the Land Registry. It involves the seller, the landlord, and possibly any management company. It can take a while to arrange. There are a very limited set of circumstances in which the court can decide that a lease needs changing and order it to be done, even though the landlord is refusing to co-operate. But you can't rely on that without clear advice from your solicitor.

CHECKING WHAT YOU ARE BUYING

Your flat will be described as something like: 'Flat number 3 on the first floor, as shown edged red on the attached plan'. You need to look yourself at that plan very carefully to make sure that everything is shown as it should be. If your flat includes a staircase up from the ground floor, make sure it's shown on the plan. If you have a balcony or a terrace, make sure the red edging includes it. If you are buying a car parking space or an area of garden, make sure they are specifically described as included. (Often your garden will be shown by a different colour to differentiate it from the building part of your property.)

CHECKING FOR ALTERATIONS

You should check that any layout of rooms shown on the plan is how the flat is now. If it has been altered since the date of the lease, your solicitor needs to check that the proper permissions were given. He may not realise there is an issue unless you point it out.

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CHECKING YOUR RIGHTS

When you own a flat in a building, you need various rights over the other flats and over the common parts. For example, you need the right to cross the front path and the internal halls landings and stairs to reach your flat. You need a right to have water and other utilities passing to and from your premises over the rest of the building. You need rights of protection from other parts of the building and an ability to have access to other premises to carry out works you may need in your flat. Other flat owners will want similar rights over your flat.

CHECKING RENT AND SERVICE CHARGES

Your solicitors will check that rent and service charge payments are up to date. In particular, they will require the sellers to provide a rent receipt for the last payment of rent due before completion. This is a receipt signed by the landlords or their agents confirming that the money was paid. The importance of this is not to make sure that the rent - usually an insignificant sum - is up to date, but because the landlords are meant to note down any breaches of the lease of which they are aware on the rent receipt. So if they sign a receipt for the money without mentioning anything wrong, they have issued a 'clear rent receipt' and that is, to some extent, a legal confirmation that there are no known breaches of the existing owners' obligations in the lease. Obviously, you would be concerned if anything was mentioned and you would want to make sure that any breaches of the lease were put right by the sellers before you complete.

DEALING WITH SHARE CERTIFICATES

In many modern flat developments, the flat owners have a management company which owns the freehold (so they are their own landlords) or which carries out the services. If so, there is usually a share in the company which goes with each flat and this has to be transferred from the seller to the buyer and recorded in the company's books after completion. Alternatively the flat owners may be members rather than shareholders and then the change of membership has to be registered.

Mortgage lenders' requirements

Most lenders instruct your solicitors to act for them too in setting up the mortgage loan. There is a voluminous rule book called the Commercial Mortgage Lenders Handbook which sets out mortgage lenders' requirements in almost any situation. In addition your individual mortgage offer may contain specific requirements relating to you or the property. Your solicitors have to certify that you have met any conditions set down and that the property complies with all necessary requirements before they can draw the loan for completion.

CHAPTER 15

Public regulations

Contents at a glance, and how to get around the book easily. [Click here.](#)

Planning permission

'Planning' is short for 'town and country planning'. This is the system for regulating what a property can be used for, and how buildings can be constructed or altered. This system is run by the local council in each area. Each council has its local plan designating different areas for particular purposes — residential or shops, for instance. You can't build or (in general terms) alter a property, or change the use to which it is put, without first getting the council's permission. The council has to operate within the general legal framework, so there's a right of appeal to the secretary of state, who may appoint an inspector to report on the particular dispute and make a ruling. There are two sides to planning control: 'use' and 'building works'.

CHANGE OF USE

'Use' means what the premises can be used for. If you live in a property, it's a residential 'use'. There are 'use classes' which are groups of related uses. For example a sandwich shop, a hairdressing salon, and a travel agency are all uses which come within the retail use class A1. Houses and flats are in the residential use class C3.

Any change of use within the same class is permitted without the council's permission being needed. So a travel agency can become a sandwich bar. (One crucial exception! — A house cannot be converted to flats without specific prior approval by the council, even though houses

and flats are in the same residential use class.) A change from one use class to another is generally not allowed unless the council gives its consent. A travel agency cannot be turned into a house without permission, because that would mean switching from class A1 to class C3.

If you are buying a flat in a converted building and your solicitor discovers there was no planning permission for the change of use from a house to flats, that may not be fatal. In some circumstances, the council must accept the new use if it has been in place for 10 years.

BUILDING WORKS

Most major building works require planning permission before they can be carried out. This is a separate issue from change of use. Planning permission for change of use says you can have a house, but planning permission for building works is required for you to build it. If you're going to carry out any building works, you always need to consider whether you need planning permission from the local council. If in doubt, talk to the planning department. However, there are a list of specific exemptions — works you can do without needing planning permission.

If the work required planning permission but the owners didn't apply for it, the council can make them put everything back as it was — but only if they act within 4 years (unless it is a listed building). After that, there is usually an amnesty. Read the next sections on additional requirements for listed building consent and building regulation consent.

Building regulation consent

Quite apart from issues of planning permission, any building works at a property may require 'building regulation consent'. The Building Regulations specify in great detail how particular building works must be carried out. The idea of these rules is to ensure that buildings are safe, and that the occupiers have a healthy environment. So there are detailed

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rules, for example, on how toilets can be installed, and what supports must be put in when you take out internal walls or fireplaces. Basically, if you want to carry out any building works at all, above the level of minor repairs and maintenance, you must approach the building regulation department of the council. You will have to pay them a fee and fill in some forms and then they will send a surveyor round to inspect the works while you are doing them. It's important you do this because the council's inspector needs to see what's happening before it's all plastered up again. At the end, you need a certificate from the council confirming that the works were done in conformity with these regulations. You will need this when you sell the property — the buyers' solicitors will insist on seeing it. If you don't have this, they may well insist that you approach the council and get them to come and inspect and give a retrospective permission. Of course, if the council think you did not do the works correctly, they may refuse to do that, leaving you with a selling problem.

Listed building consent

The secretary of state keeps a list of buildings of special architectural or historic interest — hence the name, 'listed buildings'. Listed buildings are classified (using Roman numerals) as grade I, grade II* (grade two star), or grade II. (I have no idea why they couldn't have Grades 1, 2 and 3.)

Grade I buildings are buildings like Westminster Abbey and Durham Cathedral. Grade II buildings are the general run-of-the-mill Georgian and Victorian buildings in Chelsea and Kensington. A Grade II* buildings are buildings which are regarded as a bit more important than the general run of Grade II buildings.

The main effect of your home being a listed building is that you cannot carry out any alterations beyond minor works and maintenance without getting specific permission from the council. The council may consult English Heritage, who advise on listed buildings. This means that you are subject to much more stringent requirements than those that apply to ordinary properties under the basic planning laws. It is a criminal offence

to do works which require listed building consent without getting the consent first. There is no amnesty after four years, as there is for works without planning permission. With a listed building, you can be made to restore the building as it was even after many years - even if it was a former owner who did the work.

So if you want to carry out any works at all to a listed building, you should first check with the council. Some buildings are listed only because the exterior is important, in which case the council will probably tell you they don't need to give you consent for internal work. But in some cases internal features are intended to be protected, and then they may refuse consent. You certainly want to find out what the situation is before risking a criminal penalty. (Technically, if the building is listed, everything in it is listed, even modern features.)

A listed building consent is not also planning consent. If the works would usually require planning permission, you must apply for that as well.

There are about 370,000 listed buildings in England. The Society for the Protection of Ancient Buildings publishes details every three months of listed buildings for sale which need repair. You have to join the society to receive the list.

Tree preservation orders

When you buy a house with a garden, you may find that one or more of the trees is subject to a 'tree preservation order'. This is a system administered by the local council to protect trees from their owners.

A tree preservation order may apply to a single tree or to a group of trees. It may prohibit the felling, pruning, uprooting, wilful damage or wilful destruction of the tree. Anyone who breaches the order is liable to be fined and there is no limit on the fine if you are convicted at the Crown Court. It is no defence not to know the tree is subject to a tree preservation order. It's your duty to check. There is additional protection

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for trees in a conservation area — see below. Hedgerows are a separate subject with their own rules.

Conservation areas

Some residential areas have been designated as conservation areas. This means that properties in the area are subject to more detailed controls than the planning controls which apply across the country generally. The point of a conservation area is that it is an area which deserves to be preserved. The idea is not to prevent development, or to keep the area preserved like a museum exhibit, but to ensure that any developments are carried out in a sensitive manner bearing in mind the character of the area. The way this can work in practice is that the council will set down quite detailed rules about the colour you can paint the front doors, or designs that new porches must comply with, for example.

Trees in a conservation area are protected. In other areas, the only trees which are protected are those individually designated with a tree preservation order. But in a conservation area, you must notify the local council if you want to do any work to a tree, or cut the tree down, and the council then has a six-week period to decide whether to impose a tree preservation order. (During the period you can't touch the tree, of course.)

CHAPTER 16

Neighbours

Contents at a glance, and how to get around the book easily. [Click here.](#)

Disputes with neighbours

Television programmes are constantly highlighting the horrors of having a neighbour from hell. If the sellers have had any disputes with neighbours, you should consider the circumstances very carefully before being prepared to go ahead with the purchase at all.

Flats

Buying a flat involves agreements with your neighbours. Most flat developments are organised on the basis that each flat owner must comply with an identical set of rules and obligations. In the best organised flat developments, the flat owners control the freehold or a management company and decide policy on service charges and other important matters on a communal basis.

Party walls

If you want to carry out any works to a wall which you share with a neighbouring property, you have to get agreement from your neighbour. This may apply if you want to build the wall up, or create an extension which would be supported on the existing wall, for example. You may need consent even if you are building a few feet on your side of the wall,

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if the foundations for what you are building might affect the wall. If you can't reach agreement with the neighbour, there is a procedure for a surveyor to be appointed who then makes a 'party wall award', setting out the basis on which you can do the works. This also works in reverse, so if your neighbour is planning any works which might affect the party wall, he also has to get your consent or go through this same process.

Extensions

If you want to build an extension to your house, you may need consent from the local council. This is normally the case if the extension will be more than 10% of the cubic capacity of the existing house or if it will be very close to a neighbouring property. Your neighbours can present their objections to the local planning authority and their objections will be taken into account. It is usually best to discuss extensions with your neighbours first to get them onside before you apply for planning permission.

Rights of light and air

A property owner can, in some circumstances, prevent a development on a nearby property if the result would be the loss of light or air to his own windows. This does not apply to all properties by any means, or to all windows. It may apply to an old or original window in an old property. You would need to check with your solicitor if it applies to yours because often such rights have been excluded by agreement with neighbours in the past. If it does apply, then you have the legal right to object to a proposed developments on nearby land which would interfere with those rights. This is not a right to maintain a clear view over empty countryside. It is only a right to stop something being built so close or so high that your window and the room behind is quite seriously affected. A very rough rule of thumb is that you take a 45° angle upwards from the bottom of the window and if the new structure interferes with that line then it may be something you can stop.

Shared drains

You may buy a house which has its own access onto the street and with sewers also running directly to the public mains. But in many developments from Victorian times onwards, several properties may share facilities. For example, a terrace of houses may have shared drainage. Instead of each house having sewers individually connecting to the mains, they connect to a sewer running behind the whole terrace which then has a single connection to the mains in the road. This may involve practical co-operation between owners.

Shared drives

Modern developments often provide for two houses to share a drive. Usually each property owns its particular half of the drive but has a right of way over the other half, and there are obligations to contribute to the overall maintenance cost, and not to block access.

Access for repairs

If you have a building constructed right on the boundary with the next-door neighbour's property, it may be impossible for you to repair or maintain it without putting a ladder - or even scaffolding - up on your neighbour's land. If your neighbour is not cooperative, and you seriously need access to carry out work, you may be able to get an order from the County Court to let you do it under the Access to Neighbouring Land Act 1992. Similarly, they may be able to gain access to your property on the same basis.

Noise and nuisance

If your neighbours are particularly noisy, or do things which are clearly anti-social, you have two courses of action. You can complain to the council, who may take action to prevent the problem. Councils have

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noise measuring equipment, for example, and there are laws preventing excessive noise. Or you could take your own legal action for 'nuisance' against the neighbour.

Trees

Fast-growing trees on one property can cut out all the sunlight on another. If this happens to you, you are entitled to take court action to require your neighbours to reduce the hedge to a reasonable level.

Trees are a common cause of subsidence. Trees do not usually directly affect the foundations of buildings. But trees suck up a lot of water and this can cause the nearby subsoil to subside — 'nearby' can be quite a distance from the tree. (On the other hand, the removal of trees can cause the subsoil to expand, leading to heave, so it is always a problem to be handled carefully.) See 'Subsidence and other problems' above.

Good luck!

We hope this book has been useful. Please check our website for the latest version of this book. Good luck in finding and buying the right property!

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