

# Leasehold



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In the **city of Bocholt**, plots of land are also allocated as part of a heritable building right.

"Normally" the land also includes the building on it. With heritable building rights, a distinction is made between ownership of the land and ownership of the building.

A leasehold is the **right to erect a building on a plot of land** and to use it for a certain period of time. The leaseholder remains the owner of the land and the leaseholder becomes the owner of the building/residential building.

Legally, the leasehold is treated like a plot of land. The leasehold is therefore a so-called **right equivalent to real property**. A separate land register sheet is created for each heritable building right. This results in two land registers (land and heritable building right). **A heritable building right can be sold and bequeathed**. The leasehold is established by a notarised contract between the leaseholder and the leaseholder.

In principle, any landowner can grant a leasehold. However, the largest providers of leaseholds include local authorities, churches and foundations. Just like a plot of land, the leasehold can be used as **collateral to finance a property loan**.

## Important contents of a leasehold contract:

- **Designation of the property**
- **Term/ground rent:** As a rule, a leasehold contract for residential property runs for between 65 and 99 years. Other terms are possible. The ground rent is based on the value of the property. Calculation example: Land value: €220.00/m<sup>2</sup>, ground rent: 3%, size of the property: 400 m<sup>2</sup> = 400 m<sup>2</sup> x €220.00/m<sup>2</sup> = €88,000.00 x 3% = €2,640.00 ground rent per year or €220.00 per month.
- **Value protection:** The ground rent is value-protected due to its long term.
- **Costs:** As a rule, the leaseholder bears all public and private costs (e.g. property tax, rubbish charges, development costs, building insurance)
- **Intended use:** e.g. residential
- **Consent requirements:** e.g. for sale or mortgaging
- **Reversion:** regulations for the forced return of the building
- **End of contract/compensation:** The contract is usually extended after expiry, otherwise compensation must be agreed
- **Other:** e.g. right of first refusal on the land or building, building obligations, maintenance obligations, insurance obligation

## Frequently asked questions

### – What is ground rent?

A fee must be paid for the use of the property for the duration of the leasehold contract: the ground rent. For owner-occupied residential properties, this is usually between 2% and 3% of the property value per year. (Example property value: € 90,000.00, 3% ground rent = € 2,700.00 per year or € 225.00 per month)

As a leasehold usually runs for a long time, the ground rent is secured in value and adjusted during the term of the contract. The ground rent can increase or decrease. As a rule, however, an increase is to be expected.

### – What is the advantage for me compared to buying a plot of land?

The leaseholder has lower financing requirements, as the price of the land is not included in the building project. Leaseholds therefore make it easier for many people to become homeowners.

### – What else do I have to pay when I create a heritable building right?

The leaseholder bears the ongoing costs of the property, such as insurance, levies, property taxes, etc..

When the leasehold is created, a land transfer tax is also payable, as well as costs for the notary and the land register.

The costs of developing the property must also be paid. This is either paid in one lump sum or as ground rent on the gross land value during the term of the leasehold.

Information on this can also be found in the exposés on leasehold properties.

## – What am I allowed to build on a leasehold property?

You may build on the leasehold property in accordance with the applicable development plan. In this respect, there is no difference to the building possibilities with a purchased property.

## – Can I also sell or bequeath a heritable building right?

Yes, a heritable building right can be resold and inherited during its term. This is what is known as a leasehold right. The leaseholder must give his consent, but can only refuse consent for very specific reasons.

## – What happens if I can no longer pay the ground rent?

If you fail to pay the annual ground rent twice or if you breach other contractual obligations, the leaseholder can declare what is known as a "claim". The leasehold contract then ends. The structure of the reversion is regulated in the leasehold contract. The same applies to the compensation for the buildings at the end of the leasehold contract.

## – What happens at the end of the term?

At the end of the term, the leasehold contract can either be extended or it ends. If the leasehold contract is not extended, the leasehold ends and the leaseholder becomes the owner of the building. In return, the leaseholder receives a corresponding compensation, which was previously agreed in the leasehold contract. As a rule, this is 90% of the market value of the building.

## – Can I mortgage the heritable building right?

You can mortgage a leasehold in the same way as a plot of land. It is always advisable to contact your bank or other financial institution before making an application. It may be helpful to submit an exposé for advice.

## – Where can I get more information about heritable building rights?

The German Ground Lease Association provides comprehensive information about ground leases on its website. [Click here for the explanatory film.](#) ↗



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## Any questions?



**Isabell Klaue**

**Bodenwirtschaft und Liegenschaften**

**Grundstücks- und Bodenwirtschaft**



[Send e-mail](#)



[+49 2871 953-3052](tel:+4928719533052)