

**DEMOCRATIC REPUBLIC OF TIMOR-LESTE
NATIONAL PARLIAMENT**

LA W No. 12 /2005

“Juridical Regime of Real Estate – Part II: Leasing between Individuals”

This law comes as a follow-up to the regulation of the juridical region of real estate, initiated with Law No. 1/2003, of 10 March.

One of the state’s priorities is to support the national housing market in order to facilitate decent living standards for its citizens, under the terms of section 58 of the Constitution of the Republic.

The state also recognizes that it is socially worth supporting the real estate leasing market in general as a means of developing economic activities.

On the other hand, the economic development of Timor-Leste needs clear-cut rules that will guarantee investment by Timorese and foreign nationals, especially as regards to legal security in the use of land and property.

There is a need to ensure legal security within the scope of contractual relations of leasing of real property between individuals in order to promote social peace and foster investment, both national and foreign.

Thus, pursuant to section 92 and subsection 95.1 of the Constitution of the Republic, the National Parliament enacts the following to have the force of law:

CHAPTER I

Scope of application and definitions

Article 1

Scope of application of the law

The present law regulates lease agreements of real estate between individuals.

Article 2

Definition of lease agreement between individuals

1. A lease agreement between individuals means an agreement whereby either party concedes to the other party the temporary use and enjoyment of real estate, through recompense.
2. Only the proprietor may lease out.
3. “Lessor” means the party who leases out real estate and “lessee” means the party who takes it under the terms of a lease agreement.

CHAPTER II
Lease agreement between individuals and the effects thereof

Article 3
Obligations of the lessor

1. The lessor has the following minimal obligations, whether these have been agreed upon by the parties in the lease agreement or not:
 - (a) to return the real property in good condition, unless otherwise agreed upon, and ensure the use and enjoyment thereof by the lessee for the duration of the agreement;
 - (b) to assume responsibility for any repairs of the real property, which might be required as a result of wear and tear; unless otherwise stipulated;
 - (c) to take responsibility if the use of the real property is interrupted due to lack of legal ownership thereof by the lessor and to compensate the lessee for any losses and damage caused, and to answer before the law for the crime of illegal appropriation;
 - (d) to pay taxes and duties in connection with the real property as required by the state.
2. In the case of lease of land, the lessor has the obligation to deliver the area agreed upon in the agreement, and the rental shall come down proportionally if the land surface is smaller than the one agreed upon, in which case the lessee may terminate the agreement if that difference exceeds 20%.

Article 4
Obligations of the lessee

The lessee has the following minimal obligations, whether these have been agreed upon by the parties in the lease agreement or not:

- (a) to pay the agreed rental, on time and directly to the lessor or his or her legal representative, under the terms of the agreement;
- (b) to use the real property under the terms of the agreement;
- (c) to see to the conservation of the real property and to be responsible for any damage that might have been caused to it as a result of misuse of the real property;
- (d) to inform the lessor of the minimal repair works required to guarantee the good condition of the real property;
- (e) to return the real property, upon the termination of the agreement, in the conditions stipulated therein, and, in the absence of any stipulations, in the same conditions as when it was delivered by the lessor, except for wear and tear.

Article 5
Form of agreements

Lease agreements shall be in writing, in either of the official languages of Timor-Leste, and it shall fall upon the lessor to register the respective real property with the National Directorate of Land and Property.

Article 6
Lack of written agreement

1. Where it is not possible to establish the agreed conditions in a case of litigation due to lack of a written agreement or due to deficiencies in the stipulations set out in the agreement, the relationship is proved through the proofs admitted by the civil law.
2. The competent judge may establish the terms of the rental, the duration of the agreement and all other conditions on the basis of the local custom and the rental that is normally paid for similar real estate assets in the area where the disputed real property is located.

Article 7
Term of lease agreements

1. The term of a lease agreement is freely agreed upon by the parties, except for real estate assets destined for housing, in which case one year is the shortest term.
2. In the event that a shorter term than one year is agreed upon, the lessee may opt to continue occupying the real property, complying with his or her obligations up to one year.

Article 8
Sub-letting

If the lessee sublets the real property without written authorization by the lessor, the latter may opt for an early termination of the agreement.

CHAPTER III
Terminating a lease agreement

Article 9
Revocation of agreements

The following constitute grounds for revoking an agreement:

- (a) failure to fulfill the legal and contractual obligations by either party;
- (b) failure to carry out any repair works in the real property by the lessor, except that the lessee prefers to continue using the property.

Article 10
Improvement works and compensation

1. The lessee needs to obtain authorization from the lessor to carry out any improvement works that might affect the structure of the real property.
2. The parties may freely agree upon a compensation for authorized improvement works.
3. An agreement may be revoked on the grounds of lack of authorization and the lessor may require that the asset be restored to its prior condition.

CHAPTER IV
Final provisions

Article 11
Dispute Mediation

The parties may, in an extrajudicial regime, choose the mediation of the National Directorate of Land and Property, on matters relating to lease disputes, as the entity legally empowered to do so by Law No. 1/2003, of 10 March.

Article 12
Lease agreements in force

With respect to prior lease agreements, which are not in compliance with article 5, the parties shall have five years, counted from the entry into force of the present law, to commit such agreements to writing, and lessors shall have the same length of time to register their respective property with the National Directorate of Land and Property.

Article 13
Revocation

Any legislation that is not consistent with the present law is hereby revoked.

Article 14
Entry into force

The present law shall come into force on the day following the date of its publication

Approved on 24 May 2005.

The Speaker of the National Parliament

[Signed]
(Francisco Guterres “Lu-OLo’)

Promulgated on 16 June 2005.

To be published.

The President of the Republic

[Signed]
(Xanana)