

Ground rents abolished



The government has confirmed the abolition of ground rents in residential leases in England and Wales from 30 June 2022 under the new Leasehold Reform (Ground Rent) Act 2022.

What is Ground Rent?

In most cases a homeowner will assume that having purchased a property they only need to be concerned about repaying the mortgage. There is no additional payment in the form of rent for occupying it. However, in cases where the property has been purchased under a long lease the homeowner may also be required to pay a ground rent. Typically, the amount of the ground rent is small and should be set out in the lease.

What are the rules?

From the 30 June 2022, a new 'regulated lease' in England and Wales cannot charge a ground rent of more than "one peppercorn" per year (in other words, effectively nothing). The Act also prohibits leases from charging administration fees for administering the peppercorn rents.

A 'regulated lease' is a residential lease granted (i) on or after 30th June 2022 (ii) for a term of at least 21 years (iii) in respect of a single dwelling (so of a flat or a house) (iv) in return for a premium.

The Act only applies to new leases. It does not have retrospective effect and does not, therefore, abolish ground rents payable under existing leases.



What are the exceptions to the new rules?

There are a number of exceptions to the rules and these include:

- business leases
- statutory lease extensions
- community housing leases
- shared ownership leases (where landlords will not be able to charge more than a peppercorn for the tenant's share of the property)
- regulation of ground rents in retirement accommodation will not be affected until 2023
- any leases granted after the Act has come into force but pursuant to a contract (for example, an agreement for lease) entered into prior to 30 June 2022

Are lease renewals and extensions affected?

Yes and no! Statutory lease extensions for flats are already required to be at a peppercorn rent under existing legislation. Although statutory lease extensions for houses may continue to be at an uncapped ground rent, in January 2021, the government announced that it intended to change this so that ground rent on statutory leasehold extensions of houses will be reduced to zero, too.

For existing leaseholders who choose to extend the term of their leases through the non-statutory ('voluntary') route, the effect of the Act is that the ground rent will now be restricted to zero on the newly extended term.

Are there any penalties for breach of the act?

Yes, if a landlord (or an agent acting for a landlord) receives a ground rent which is prohibited under the Act and fails to refund it within 28 days, this is a breach of the Act. Under the Act, a duty is placed on local trading standards authorities to enforce the Act and offenders can be fined up to £30,000 as well as having to repay unlawfully collected ground rents. There are special rules dealing with multiple breaches.

If you only remember 5 things, remember these 5 things

1. From the 30 June 2022, a new 'regulated lease' (a residential lease, granted for a term of at least 21 years in return for a premium) in England and Wales cannot charge a ground rent of more than one peppercorn per year.
2. The new ground rent restrictions do not have retrospective effect and do not abolish ground rents payable under existing leases.
3. Statutory lease extensions for flats are already required to be at a peppercorn rent under existing legislation. Statutory lease extensions for houses may continue to be at an uncapped ground rent, however there are plans to reduce this to zero shortly.
4. Voluntary lease extensions, the effect of the Act, is that the ground rent will now be restricted to zero on the newly extended term.
5. Breach of the Act is a civil offence with penalties of between £500 and £30,000.

How we can help

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Partner