

Leasehold and Freehold Reform Bill



The Government last night laid down radical new legislation in the form of the draft [Leasehold and Freehold Reform Bill](#) presented in the House of Commons by the Department for Levelling Up, Housing and Communities. In line with the Government's consistent messaging the Bill will introduce swingeing changes to the leasehold system with the intent to make it "easier and cheaper" for leaseholders to extend their lease. This is in line with the Government's consistent messaging on the nature and extent of the reforms it perceives are required in the context of leasehold.

Key provisions include:

Procedural

- A new right for leaseholders to extend their leases to a maximum term of **990** years at a peppercorn ground rent.
- The removal of the need for a leaseholder to wait two years before serving a notice seeking a lease extension.
- A removal of the current restriction on leaseholders making repeated collective enfranchisement claims and the lifting of the moratorium on making a lease extension claim for a period of 12 months following the withdrawal of a s.42 Notice.
- Increasing the non-residential threshold for mixed use premises from **25% to 50%** with the effect that a wider number of properties will be bought within the collective enfranchisement and right to manage rights.
- A new right for the nominee purchaser in a collective enfranchisement claim to require the freeholder to take leasebacks of non-participating units or any unit not let to a participating tenant.

- A new right for leaseholders to vary a long lease to replace the existing rent with a peppercorn upon payment of a premium without extending the lease term. This will apply to leases with an unexpired term of at least 150 years.

Valuation

- The abolition of marriage value and hope value by altering the statutory assumptions. This has the effect of reducing the valuation methodology to a simple “term” and “reversion” calculation.
- The Bill provides for the ‘notional rent’ applied when determining the term value to be capped at 0.1% of the market value of the freehold property (as defined under the Bill). It appears this change is intended to address the issue of the so called onerous ground rent arising with escalating ground rents or those subject to a review by reference to the freehold vacant possession value.
- The Bill references prescribed rates for the capitalisation rate and deferment rate but is currently silent on what these rates will be. These will be set in regulations in due course.
- The value of the reversion in each case is determined by reference to a statutory formulas set out in the Bill.

Provisions

- At first blush the Bill contains no reference to the Government’s long promised abolition on the grant of new leases of houses. However, the Bill specifically reserves a right for the Government to make such further amendments as it considers necessary and which we anticipate will include a provision to this effect.
- Other provisions include greater transparency over leaseholders’ service charges and making buying or selling a leasehold property quicker and easier by setting a maximum time and fee for the provision of freeholders’ information to a leaseholder.

Consultation on capping ground rents

In conjunction with the above there is an ongoing [consultation](#) which looks at five options to reduce the ground rent payable under leases the most radical of which is to cap all ground rents, retrospectively, to a peppercorn. The deadline for consultation responses is **21 December 2023** and depending on the outcome of the consultation, the Government intends to introduce relevant provisions into this draft Bill.

For further information on this matter please contact our expert [leasehold enfranchisement team](#).



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