

Leasehold Reform (Ground Rent) Act 2022



Today the first part of what the Government calls “the most significant changes to property law in a generation” comes into force.

The Leasehold Reform (Ground Rent) Act 2022 (“the Act”) received Royal Assent on 8 February 2022 and (mostly) comes into force today. The Act reduces the ground rent on new long leases (meaning leases granted for a term of more than 21 years) of flats and houses to a [peppercorn](#) (subject to certain exceptions). The Act also includes anti-avoidance provisions and a potential fine of £30,000 for breach of the rules.

What does this mean?

The provisions of the Act are fairly simple in that the ground rent on new long leases of flats and houses granted for a premium will be restricted to a peppercorn. The Government has perhaps missed an opportunity to promote plain English in the legal profession by opting for the archaic peppercorn ground rent rather than simply zero. However, whilst the wording is “a peppercorn” the rent is effectively zero. There are then exceptions to this rule (discussed below) and a prohibition on the charging of administrative charges in relation to the restricted peppercorn rents, to ensure unscrupulous landlords do not try to get around the ground rent provisions.

The exceptions

The exceptions to this sweeping change include business leases, statutory lease extensions of houses and flats, community housing leases and home finance plan leases. Special rules also apply to certain other categories of leases. Retirement properties will be caught by the new legislation, but the Act will not apply to them until 1 April



2023 at the earliest. Equally, voluntary lease extensions will be caught, but the restricted ground rent will only 'bite' at the expiry date of the original term. As such, it will still be possible to charge a ground rent in the new lease, although this must not exceed the rent payable under the previous lease, until the date on which the previous lease would have expired.

Landlords should also note that where a lease is varied such that there is a deemed surrender and regrant, the restriction on ground rent will apply. The Act expressly states that this will apply even where there is no premium. As the penalty for breach is potentially a £30,000 fine, it would be unfortunate to accidentally fall foul of the provisions.

Existing leases

The Act does not have retrospective effect, as such ground rent will continue to be payable under existing leases. Whether or not this creates a two tier situation in the market, with new leases granted at a peppercorn ground rent being more attractive, remains to be seen. Whilst the Act is quite short, it does make a fundamental change and removes a potential income stream for developers and investors. This removal of value to a freeholder does raise the potential risk of diligent landlords exiting the sector, resulting in a lack of those willing to take on responsibility for the maintenance and repair of residential buildings. Ultimately this could lead to buildings falling into disrepair, which could affect the value of the flats within those buildings. However, despite this risk, the Act will no doubt be welcomed by leaseholders as they eagerly await the next steps in the Government's proposed reform of leasehold.

How we can help

Our expert team are here to help and advise and if you have any questions on how this may affect you, please get in touch with our [real estate team](#).



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