

Insights

LEASEHOLD REFORM (GROUND RENT) ACT 2022 – GROUND RENTS BANNED ON NEW RESIDENTIAL LEASES FROM 30 JUNE 2022

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SUMMARY

This blog summarises the Leasehold Reform (Ground Rent) Act 2022, which is the first concrete step in the government's wider residential leasehold reforms.

What?

The Leasehold Reform (Ground Rent) Act 2022 (the “**Act**”) restricts ground rents in certain future residential leases to a token ‘peppercorn’ per year. Landlords will also be prohibited from charging an administration charge in respect of the peppercorn ground rent (to deter them from attempting to gain lost income from ground rent by virtue of another charge). However, insurance premiums, rates, service charges and sums relating to other ‘ancillary matters’, even where reserved as rents under a lease, are not caught by the Act.

When?

The Act received Royal Assent on 8 February 2022 and its provisions will be in force from **30 June 2022** (save in respect of retirement homes which will not be brought within the Act’s scope **until 1 April 2023** at the earliest). Therefore, as at the date of writing, leases to which the Act apply *can* still be exchanged and/or granted containing a ground rent of value, but from 30 June 2022 (or a later date to be confirmed in the case of retirement homes), they will no longer be able to do so.

Who?

The Act applies to long leases or sub-leases (exceeding 21 years) of a single flat or house (being, any building or part of a building intended to be occupied as a separate dwelling) granted, for a premium, on or after the day on which the Act comes into force (a “**Regulated Lease**”). It does not apply to home finance plan leases, community housing leases or statutory lease extensions of houses or flats. It also does not apply to business leases – which are defined as leases which; (a)

expressly allow use for business purposes without landlord's consent; and (b) where the use of the premises as a dwelling *significantly contributes* to such business purposes; and (c) at or before the grant of such lease, the landlord and tenant each give the other written notice to the effect that they intend the premises to be used for such business purposes.

In the case of voluntary lease extensions, even entered into after the Act comes into force, the ground rent restriction will apply for the extension period only. Ground rent can continue at the existing amount (but not any higher sum) for the remainder of the original term.

In addition, the Act will not apply to leases granted pursuant to a contract entered into **prior** to commencement of the Act, but **will** apply to leases granted pursuant to an option or right of first refusal, and to leases where there is a deemed surrender and re-grant due to a fundamental variation (i.e. extension of term or demise) irrespective of whether a premium is charged.

How?

Breach of the Act is a civil offence with penalties of between £500 and £30,000. Trading standards can also order repayment of unlawfully charged ground rent plus interest, and tenants can pursue landlords for the recovery of unlawfully charged ground rent through the First-tier Tribunal. The Act is not retrospective, and does not itself remove ground rents from existing leases. However, landlords and developers should be alert to ongoing investigations by the Competition and Markets Authority into existing ground rents in leases in the context of mis-selling and onerous lease terms, and the potential impact of this, alongside the emergence of a two tier market (of leases containing ground rents and those without), on existing ground rent leases.

Why?

The Act is a much debated and long expected piece of legislation, but only the first step in a series of government reforms intended to deal with perceived unfair practices in the leasehold market. Future legislation in discussion includes simplifying the process of collective enfranchisement and right to manage, and allowing leaseholders to extend their leases to 990 years at zero ground rent (currently statutory extensions are only 50 years for houses and 90 years for flats).

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MEET THE TEAM



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