

GOVERNMENT REFORMS MAKE IT EASIER AND CHEAPER FOR LEASEHOLDERS TO BUY THEIR HOMES

- Millions of leaseholders will be given a new right to extend their lease by 990 years
- Changes could save households from thousands to tens of thousands of pounds
- Elderly also protected by reducing ground rents to zero for all new retirement properties.

Millions of leaseholders will be given the right to extend their lease by a maximum term of 990 years at zero ground rent, the Housing Secretary Robert Jenrick has announced today (7 January 2021).

Today's measures come as part of the biggest reforms to English property law for forty years, fundamentally making home ownership fairer and more secure.

Under the current law many people face high ground rents, which combined with a mortgage, can make it feel like they are paying rent on a property they own. Freeholders can increase the amount of ground rent with little or no benefit seen to those faced with extra charges. It can also lengthen and lead to increased costs when buying or selling the property. Today's changes will mean that any leaseholder who chooses to extend their lease on their home will no longer pay any ground rent to the freeholder, enabling those who dream of fully owning their home to do so without cumbersome bureaucracy and additional, unnecessary and unfair expenses

For some leaseholders, these changes could save them thousands, to tens of thousands of pounds.

Housing Secretary Rt Hon Robert Jenrick MP said:

Across the country people are struggling to realise the dream of owning their own home but find the reality of being a leaseholder far too bureaucratic, burdensome and expensive.

We want to reinforce the security that home ownership brings by changing forever the way we own homes and end some of the worst practices faced by homeowners.

These reforms provide fairness for 4.5 million leaseholders and chart a course to a new system altogether.

The government is also now establishing a Commonhold Council – a partnership of leasehold groups, industry and government – that will prepare homeowners and the market for the widespread take-up of commonhold.

The commonhold model is widely used around the world and allows homeowners to own their property on a freehold basis, giving them greater control over the costs of home ownership. Blocks are jointly owned and managed, meaning when someone buys a flat or a house, it is truly theirs and any decisions about its future are theirs too

Professor Nick Hopkins, Commissioner for Property Law at the Law Commission said:

We are pleased to see Government taking its first decisive step towards the implementation of the Law Commission's recommendations to make enfranchisement cheaper and simpler. The creation of the Commonhold Council should help to reinvigorate commonhold, ensuring homeowners will be able to call their homes their own.

Under current rules, leaseholders of houses can only extend their lease once for 50 years with a ground rent. This compares to leaseholders of flats who can extend as often as they wish at a zero 'peppercorn' ground rent for 90 years. Today's changes mean both house and flat leaseholders will now be able to extend their lease to a new standard 990 years with a ground rent at zero.

A cap will also be introduced on ground rent payable when a leaseholder chooses to either extend their lease or become the freeholder. An online calculator will be introduced to make it simpler for leaseholders to find out how much it will cost them to buy their freehold or extend their lease.

The Government is abolishing prohibitive costs like 'marriage value' and set the calculation rates to ensure this is fairer, cheaper and more transparent. An online calculator will be introduced to make it simpler for leaseholders to find out how much it will cost them to buy their freehold or extend their lease.

Further measures will be introduced to protect the elderly. The Government has previously committed to restricting ground rents to zero for new leases to make the process fairer for leaseholders. This will also now apply to retirement leasehold properties (homes built specifically for older people), so purchasers of these homes have the same rights as other homeowners and are protected from uncertain and rip-off practices.

Leaseholders will also be able to voluntarily agree to a restriction on future development of their property to avoid paying 'development value'.

Legislation will be brought forward in the upcoming session of Parliament, to

set future ground rents to zero. This is the first part of seminal two-part reforming legislation in this Parliament. We will bring forward a response to the remaining Law Commission recommendations, including commonhold, in due course.

- The Law Commission published their report on enfranchisement valuation 'Leasehold home ownership: buying your freehold or extending your lease Report on options to reduce the price payable' in January 2020 and their reports on enfranchisement, commonhold and right to manage in July 2020. These reports are available here: <https://www.lawcom.gov.uk/project/leasehold-enfranchisement/>
- A freeholder owns both the property and the land it stands on while leaseholders only own the property.
- Marriage value assumes that the value of one party holding both the leasehold and freehold interest is greater than when those interests are held by separate parties. Today's announcement will remove marriage value from the premium calculation.
- 'Modern ground rent' is the rent (determined under section 15 of the 1967 Act) payable during the additional term of a lease extension of a house (under the current law). It is calculated by valuing the "site", and then decapitalising that value.
- Many long leases specify an annual ground rent of a 'peppercorn.' A peppercorn rent is used in circumstances where it is deemed appropriate for there to be no substantive rent payable. Under the current law, any lease extension of a lease of a flat under the 1993 Act must be granted at a peppercorn rent. Today's announcement means that both house and flat leaseholders will now be able to extend their lease to 990 years with a ground rent at zero.
- The formula used to work out the cost to leaseholders for buying the freehold or extending the lease includes a discount for any improvements the leaseholder has made and a discount where leaseholders have the right to remain in the property on an assured tenancy after the lease expires. These existing discounts will be retained, alongside a separate valuation methodology for low-value properties known as 'section 9(1)'.