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New Leasehold Extension Rights



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Leasehold Ownership

Around 4.5 million people in England currently own their home on a leasehold basis and so rather than owning the property itself, the leaseholder owns an agreement with the actual landowner giving them rights over the property for a set period of time. The leaseholder typically has to pay rent to the landowner on an annual basis (known as 'ground rent') as well as being responsible for outgoings including council tax and utilities used at the property.

Last month, the Government announced that leaseholders in England will soon be given a new right to extend their lease by up to 990 years and will not have to pay any ground rent to the landowner. This is a significant change and one that both leaseholders and landowners need to get to grips with.

How are the leasehold rules changing?

Currently, residential leaseholders of houses can extend their leases once only, for a 50 year period, following which the ground rent will continue. There is a separate right to buy the freehold of a house. Residential leaseholders of flats can extend as often as they wish at a 'peppercorn' (or £zero) ground rent for a 90 year period.

Under the proposed legislative changes, all leaseholders who are permitted to extend their lease (and most leaseholders will have the right to do so), will be able to do so by up to 990 years - and if they do, they will no longer have to pay ground rent to the landowner once they extend.

These changes will mean that leasehold owners of both houses and flats will be able to extend their lease for a new standard period of 990 years - and if, they do so, they will no longer have to pay ground rent. Leaseholders will also have the right to extend their lease as often as they wish.

The Government is also aiming to introduce the following new updates to residential leasehold law:

- A new cap limiting the level of ground rent used in lease extension and freehold purchase calculations. 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. This could be quite a controversial change and could lead to various challenges from larger institutional landlords.
- Abolishing prohibitive costs like '*marriage value*' which is the increase in the value of the property following the completion of a lease extension, reflecting the additional market value of the longer lease. This cost is typically paid to the freeholder on lease extension applications, although on flat lease extensions marriage value is currently only payable when leases have less than 80 years to run and only 50% of the marriage value is paid to the landlord.
- The Government reiterated its promise (first made in 2019) to restrict ground rents to zero on all new house leases. They also confirmed that this will include retirement leasehold properties as well as new leases on flats (although the impact on retirement housing would be deferred for 12 months after Royal Assent).
- The Government is also setting-up a '*Commonhold Council*' - a partnership of leasehold groups, industry and the Government - that will prepare homeowners and the market for the anticipated widespread take-up of commonhold. Commonhold is a form of ownership for flats and other multi-occupancy developments, where each property owner owns the freehold of their home and common parts of the property are owned and managed by a commonhold or residents' association.

These proposed reforms come hot on the heels of the Law Commission's suggested measures to make leases fairer for residential tenants. There is no exact date for when the changes will come into force as yet, but the Government says it hopes to legislate as soon as possible. Until the full details of the proposed legislation is known, it is difficult to know what the true impact will be on existing leasehold properties.

If you have any questions regarding property lease terms, please email our dedicated real estate solicitors at online.enquires@la-law.com or call 01202 702645.