


A modern, multi-story building constructed from light-colored stone blocks. The building features several rectangular windows of varying sizes. In the foreground, there is a swimming pool that reflects the building and the surrounding greenery. Lush trees and shrubs are planted around the building, and a small outdoor seating area with a table and chairs is visible near the pool. The sky is clear and blue.

CERT

**Your Ultimate
Guide to Leasehold
Reform (Ground
Rent) Act 2022**



On the 30th June 2022, the government introduced the new Leasehold Reform (Ground Rent) Act which affects new leasehold properties sold in England and Wales.

Throughout this feature, CERT Property highlights key points that existing leaseholders and prospective buyers should be aware of and how the Leasehold Reform (Ground Rent) Act 2022 will affect those considering buy-to-let investments after the enforcement date.



What is the Leasehold Reform (Ground Rent) Act?

The government's Leasehold Reform (Ground Rent) Act 2022 is the first phase of Reform that has been put in place to make leasehold property ownership fairer and more affordable.

Previously, expensive and escalating Ground Rent fees caused a series of issues for investors and owners of leasehold properties, especially in scenarios where costs rapidly increased over a short period.

In some cases, owners with unfair Ground Rent provisions have found selling and mortgaging their property difficult. One of the Act's purposes is to prevent leaseholders from becoming trapped by escalating Ground Rents, making the process more transparent for new leasehold purchases.

The Act abolishes Ground Rent for new and qualifying residential leasehold properties in England and Wales. A 'long lease' refers to a term of 21 years or more. Now the Act has become law, the amount of Ground Rent on new leases agreed and issued after the 30th June can not be a value more than 'an annual rent of one peppercorn', which is the equivalent of zero financial value.

Historically, unfair or exponentially increasing Ground Rent fees have also caused problems for buyers purchasing Leasehold properties with a mortgage;

however, introducing peppercorn rent will simplify the lending process considerably.

[Click here to find out how the Act will affect mortgages.](#)

Essentially, the Reform has been split into two parts.

The first phase deals with new leaseholds, limiting Ground Rents to effectively a zero rate and the second phase of legislation deals with existing leasehold.

There is currently no confirmed date for phase two; however, there are suggestions that it could be addressed before the next General Election (May 2024).

It is thought that the second phase of the Act will include further legislation to improve the position of existing leaseholders and is likely to establish a method to reduce Ground Rents on existing leases to a peppercorn.

Plans also include the introduction of a statutory calculation to determine the cost a Leaseholder should pay to extend an existing lease.

What is the difference between Freehold and Leasehold?

When understanding Leasehold Reform, it is essential to differentiate between Freehold and Leasehold. Generally speaking, Freehold and Leasehold apply to the ownership of apartments or flats.

A freeholder

owns the property and the land it sits on for an unlimited period. Ground Rent is created when a Freeholder grants a long lease of a property or land. The Ground Rent provides income for the landowner (Freeholder).

A leaseholder

owns a property for a predetermined period of time as defined in their lease, but not the land it sits on. Therefore, a Leaseholder is often liable for paying the Freeholder Ground Rent – an annual payment which varies depending on who owns the freehold and the terms outlined in the leasehold.

From 30th June 2022, Ground Rent on qualifying new leaseholds has been abolished. The Act covers the majority of new-build residential property – except in exceptional circumstances – which is excellent news for buy-to-let investors searching for a rental property.

What is ground rent?

Ground Rent is a payment made by leaseholders to the Freeholder (their landlord). The amount paid is set out within the leasehold terms and is typically charged annually.

From 30th June 2022, Ground Rent on the vast majority of new leaseholds in England and Wales will be set at a peppercorn rate.



What are the **benefits** of the Act?

The first phase of the Act was introduced on 30th June 2022; however, the enforcement date for retirement properties is set for 1st April 2023.

The Act is a welcomed safeguard in the industry for investors and homeowners and provides much-needed transparency, preventing leaseholders from becoming trapped by potentially escalating Ground Rent fees.

Overall, it will make leaseholders' ownership more straightforward and fulfils the government's commitment to set future Ground Rents at zero.

Those entering the buy-to-let market will benefit from lower costs over the long term, helping to maximise their return on investment by eliminating one of their ongoing charges.

The Act also simplifies lending for those who wish to fund their purchase with a mortgage. With onerous Ground Rent terms removed on all qualifying new leaseholds, securing funding will likely take less time and will open up a wider pool of mortgage products for borrowers.

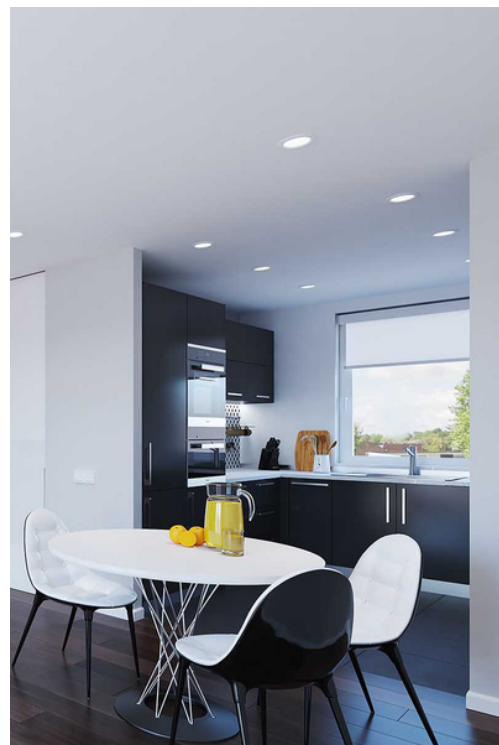
What about Ground Rent reform on **existing** leases?

The Act only applies to long residential leases agreed and issued on or after the **30th June 2022** and will not change the terms of an existing lease.

If an existing lease is surrendered and regranted, it may fall under the Act, and the new regulations surrounding Ground Rent will apply.

Adding additional land to a lease may also result in it falling under the terms of the lease. But, it's best to seek legal advice to see how the Act applies to individual circumstances.

However, certain leases are excluded from the Act, including business leases, statutory lease extensions, community housing, and home finance leases.



What are the risks?

There are still a few risks investors should consider. Based on our experience and market knowledge, we see three main areas that should inform your decision, depending on the type and size of your investment. Here at CERT, one of our values is transparency, so we are always here to answer any specific questions you may have. One thing to note is that there is no one answer that fits all investment scenarios, make sure you read through the points below and seek advice in case you are not experienced with such decisions.

Unfavourable Leasehold terms

Investors entering a new leasehold investment should always purchase from a reputable consultancy or developer to prevent being caught out by unfavourable management provisions in their leasehold terms. After all, rising operational costs imposed by a Freeholder or management company will impact the profitability of your rental property investment and, in some cases, could make selling the asset harder should you wish to sell it.

For example, with the new Leasehold Reform in place, some unscrupulous freeholders may pressure leaseholders to agree to voluntary leasehold extensions to continue existing Ground Rent arrangements.

A two-tier Leasehold market

As the legislation does not apply retrospectively, this could create a two-tier market whereby existing leases become more difficult to sell and new leases become much more attractive. However, it is yet to be seen if this will be the case.

No clarity on the 2nd part of the Leasehold Reform

Currently, there is no timeframe for the second part of the Reform to simplify extending a lease or make extending a lease cheaper. However, this point shouldn't necessarily be a concern for existing owners with a long leasehold already in place.



What impact could the Leasehold Reform Act have on Service Charges?

Technically, the Leasehold Reform Act should have no impact on Service Charges. However, there may be a knock-on effect from the removal of it. As a result, some management companies or freeholders may see it as an opportunity to try to profiteer by charging more for their services in a bid to make up for the loss in Ground Rent revenue.

Investors and homeowners should therefore pay closer attention to who the management company and freeholders are when buying property.

Buyers must purchase a property with a reputable management company in place to ensure they aren't going to try and profiteer from the service charge costs.

On future purchases, buyers should also ask more questions about the Freeholder. If the Freeholder is not interested in how the development is operated, the service provider may be poor – even if there are no plans to increase costs.

Now more than ever, it is vital that leaseholders understand how their leases are drafted and whether they allow them to control who is appointed to manage the building. For example, do leaseholders have the right to obtain and become freeholders? Is the lease drafted to protect leaseholders? Are leaseholders collectively permitted to become members of a management company or choose who provides services?

Leaseholders should also determine whether they have the right to terminate the appointment of the management company if their service provision is poor or they are profiteering.

To provide our clients with the tools they need to determine the right property investment for them, we have put together a [checklist](#) of must-ask questions about the Freeholder and management company.

How has the Leasehold Reform Act affected the mortgage market?

According to feedback from our mortgage brokers, the Act has been positively received by those working within the mortgage industry and will likely give investors access to a broader selection of products.

Lenders have not yet stipulated that older properties need Ground Rent to be varied to a peppercorn rent and are prepared to lend on higher Ground Rent rates, but most are only lending on properties with up to 0.1% of the property's value.

In some cases, Ground Rent has previously been a sticking point for lenders, especially if the rate is set at a high percentage of the property's value, has unfavourable review periods, or is not RPI-linked.

Removing Ground Rent on new leasehold properties will help mortgage brokers and lenders speed up the lending process and is widely seen as a positive move by the industry.

Need help securing a mortgage on your next rental property investment? Contact us today to learn more about our recommended brokers.





Considerations for your next property investment

To help our clients enter a suitable property investment to meet their long-term goals, we have created a helpful [checklist](#) for our clients to refer to when considering their next buy-to-let investment.

The checklist contains must-ask questions, which will help you navigate how the Reform applies to your next purchase and help you obtain the answers from the Freeholder and management company to ensure you benefit from the legislation now in place in England and Wales.

Contact us today for more information about CERT property and how our transparent approach provides safeguards for our clients.

Your Essential **Leasehold Reform Act 2022** Checklist

Brought to you by **CERT**

Must-ask questions before investing:

- ☐ Is the property Freehold or Leasehold?
- ☐ If Leasehold, how long is the length of the leasehold?
- ☐ Will you need to extend the length of the lease?

Proposed/future costs:

- ☐ Ground Rent p.a. (if existing)
- ☐ How often is the Ground Rent reviewed (if existing)?
- ☐ Review Leasehold extension clauses (if existing)

Freeholder

- ☐ Who is the Freeholder?
- ☐ What is their track record like? Check reviews, existing projects, website, company profile etc.
- ☐ Who is the main point of contact?
- ☐ What is the Freeholder's long-term objective/goal? How long will they own the freehold, for example?
- ☐ What procedures and protections are in place should the Freeholder wish to sell?

Management Company

- ☐ Who will manage the development/your unit?
- ☐ What is their experience?
- ☐ How much do they charge?
- ☐ What is their track record like? Check reviews, existing projects, website, company profile etc.
- ☐ What is included in the Management Fee?
- ☐ Are there additional costs?

Terms of the lease

- ☐ What safeguards are in place to ensure the Freeholder and management company deliver on their services?
- ☐ What procedures are in place to protect investors/owners?
- ☐ Does it allow leaseholders to become members of the management company?
- ☐ What rights do the leaseholders have in terms of appointing or terminating the management company?
- ☐ What can be charged for under the Service Charge Agreement?
- ☐ Are the costs that can be charged restricted to being reasonable?

This checklist created by CERT Property will help ensure that you are asking the right questions before entering your next investment. If you have any follow-up questions or would like to see how one of our income-generating properties compares to your current options, please contact us today.

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CERT property
4th Floor, Hilton House,
26-28 Hilton Street,
Manchester,
M1 2EH

0161 806 0015
certproperty.co.uk
info@certproperty.co.uk

Book a meeting with your
Property Investment
Consultant Amy Collins



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