

Is this the end of ground rent?

24 November 2023  Mohab Halab

Big changes are coming to the real estate world. The Department for Levelling Up, Housing & Communities has launched a consultation that could totally transform existing residential leaseholds. The focus? Ground rents on existing leases.

The five options the government has floated during the consultation are:

1. Capping ground rents at a peppercorn
2. Capping ground rents at an absolute maximum value
3. Capping ground rents at a percentage of the property value
4. Capping ground rents at the original amount it was when the lease was granted
5. Freezing ground rents at current level

For tenants, this is undoubtedly good news. Last year we saw the government cap ground rent for new leasehold to a peppercorn and now they are turning their attention to existing leaseholds.

This comes as part of larger leasehold reforms the government is bringing to the table to address and regulate ground rents which has been long awaited by tenants.

On the other end we will have displeased landlords, including investors and professional leasehold managers, who are potentially going to lose revenues from ground rents which they have previously enjoyed (and in some cases will have paid a significant capital sum for those investments based on the expected long term return).

This is likely to raise legal questions as the government is considering passing a bill that would interfere with the payment terms in existing contracts.

We will have to wait and see if the government can pass the legislation before a general election.

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