

# A new era in home ownership

A shake-up of the residential leasehold property system is on the horizon, writes Kate Rigby. What will this mean for all the parties involved?



## IN BRIEF

► Examines the Labour government's plans for home ownership, including and beyond the measures introduced in the Leasehold and Freehold Reform Act 2024.

► Assesses the likely impact of the changes on leaseholders, landlords and institutional investors.

The Freehold and Leasehold Reform Bill, introduced to Parliament on 27 November 2023, was hailed as a significant step towards improving home ownership for millions of leaseholders in England and Wales.

This legislation, which became law on 24 May 2024, is set to bring about substantial changes to the residential leasehold property system. Despite the Bill passing on the final day of the Conservative government, it has yet to come into effect. Some of the key provisions require secondary legislation, the timing of which will depend on the new government's priorities. Briefing documents published alongside the King's Speech said the government would 'act quickly' to implement provisions in the Leasehold and Freehold Reform Act 2024. However, the National Residential Landlords Association believes that the Act won't come into effect until 2025 or 2026.

## Key provisions of the Act

The Act aims to empower leaseholders and improve their consumer rights. Some of the key provisions include:

- **Extension of lease terms** The standard lease extension term for houses and flats will be extended to 990 years, a significant increase from the current 90 years for flats and 50 years for houses. This ensures long-term, ground rent-free ownership for leaseholders.
- **Removal of 'marriage value'** The so-called marriage value, which makes it more expensive to extend leases when they're close to expiry, will be removed.
- **Immediate rights for new leaseholders** The requirement for a new leaseholder to have owned their house or flat for two years before they

can benefit from these changes will be removed.

- **Increase in non-residential limit** The non-residential limit, which currently restricts leaseholders in mixed-use buildings from buying their freehold or managing their buildings, will be raised from 25% to 50%.

## Repercussions for the sector

The enactment of the Act is set to have profound implications for leaseholders, landlords and the broader property market.

For leaseholders, the reforms will make it easier and cheaper to extend a lease or buy the freehold of a property. The reforms will also provide greater transparency over service charges and make it easier for leaseholders to take over the management of their building.

Landlords and investors breathed a sigh of relief—albeit temporary—as the Act excluded any changes to ground rents for existing leaseholds. Ground rents are a favourite asset class with institutional investors and any changes to the law in this area will be of great concern.

## One step further

The Labour government has bigger ambitions, extending beyond the scope of the Act. In the King's Speech, the government pledged to introduce draft legislation aimed at revitalising commonhold and phasing out the leasehold system. Commonhold is a tenure that has existed on the statute books as an alternative to leasehold since 2002 but failed to take off. Given its current unpopularity, most do not know what commonhold is and how it works.

The typical commonhold system offers the following:

- (1) **Freehold ownership** Unlike leasehold, commonhold allows you to own the freehold of individual flats, houses and non-residential units in a building or on an estate. You own the property as a freehold, indefinitely.
- (2) **Shared ownership and responsibility** Commonhold involves the indefinite freehold tenure of part of a multi-occupancy building, with shared ownership of and responsibility for

common areas and services. When you buy a property in a commonhold, you are buying a 'unit', and you will become a 'unit owner'.

- (3) **Commonhold association** All unit owners are entitled to become a member of the commonhold association, which owns and manages the common parts of the building or estate. The directors of the commonhold association decide how much money unit owners will need to contribute to cover the costs of repairing and maintaining the commonhold.
- (4) **Rights and responsibilities** Each commonhold has a 'rulebook' called the Commonhold Community Statement, setting out the rights and obligations of the unit owner.
- (5) **No landlord** Unlike leasehold properties, commonhold properties have no overall landlord. They are owned jointly by the owners of each property or unit in the building.

The new Act will also tackle existing ground rents, which the government described as 'unregulated and unaffordable'. It will regulate ground rents for existing leaseholders so they no longer face such costs.

Finally, the Labour government is resolute on ending the 'disproportionate and draconian threat' of forfeiture as a means of ensuring compliance with a lease agreement.

## Conclusion

Leasehold reform appears front and centre of the new government's agenda and we therefore await a new era in home ownership. The proposals are a win for many leaseholders and those who wish to purchase property in the future. The proposed changes to ground rent, and the restrictions on the use of forfeiture, will be a blow for landlords and institutional investors.

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