

Can lease extensions remove burdensome ground rent charges?

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On 30 June 2022, Parliament enacted the [Leasehold Reform \(Ground Rent\) Act 2022](#). This long-awaited reform ended the charging of ground rent payments to owners of new residential long leases of single dwellings in England and Wales by their landlord.

With a few exceptions, landlords who grant new residential long leases for a premium after the enforcement of this Act, may now only charge the leaseholder a peppercorn rent. A peppercorn rent is effectively a nil-rated annual rental payment.

However, while the 2022 Act went some way to abolish annual ground rents going forwards, it is not retrospective. As such, ground rent payments charged under long leases granted before 30 June 2022 do not benefit from this effect and remain in place, many of which may be significant, rising at regular intervals throughout their lease term.

A possible solution

While the Levelling Up, Housing and Communities Secretary, [Michael Gove MP](#), recently declared a desire to further reform the UK leasehold system in an attempt to ensure that "if you buy a flat, it should be yours," many leasehold owners continue to be affected by potentially escalating ground rents, in addition to increasing service charges.

In a time of economic pressure, those still paying ground rent may be considering their options to avoid this financial burden. Of course, you could go "cap in hand" to your landlord to negotiate away any ground rent payments. However, a landlord does not have to negotiate with you.

Until the government introduces further changes, lease extensions offer existing leaseholders the only real

opportunity to compel a landlord to give up their ground rents, but how?

How a lease extension can remove ground rent charges

Under [section 56](#) of the Leasehold Reform, Housing and Urban Development Act 1993, all qualifying tenants of a leasehold property have the right to claim a new lease "at a peppercorn rent for a term expiring 90 years after the term date of the existing lease," often described as a lease extension.

To qualify (subject to a few exceptions), you must have owned your lease for at least two years. In addition, the lease must have originally been granted for more than 21 years at a low ground rent.

Accordingly, provided an existing long lease owner qualifies under the 1993 Act, the landlord must grant a new lease for a peppercorn rent, removing any ground rent payment charge, whether minimal or increasingly onerous, albeit at a premium.

The 2022 Act also applies to non-statutory, "voluntary" lease extensions of existing long residential leases. In most cases, where existing leaseholders elect to extend their lease voluntarily through negotiations, the new term of the lease may now only be subject to a charge of a peppercorn ground rent. However, this only applies to the period extended beyond the date the original term was due to expire. As a result, you must continue paying ground rent until your current lease term expires.

As explained above, all leaseholders may seek a voluntary lease extension from their landlord. However, if you follow this route, there is no guarantee the landlord will agree to it, as they are not obligated to do so.

The key benefits of a lease extension

Lease extensions will invariably increase the value of the lease and marketability of the property, with most lenders having specific requirements for the minimum length of years they are prepared to accept. Historically, lessees primarily sought lease extensions to increase the length of the existing term of their lease. However, removing ground rent charges is fuelling leaseholders to apply for a lease extension.

Many leaseholders are now seeking lease extensions sooner rather than later to avoid paying years of ground rent and a higher premium, despite having many years left on their lease.

Contact a member of our leasehold enfranchisement team today to see if you qualify for a lease extension and to assess the pros and cons of the statutory route versus the voluntary lease extension option.

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Note: This article is not legal advice; it provides information of general interest about current legal issues.

