

# Modern leasehold: Restricting ground rent for existing leases: summary of consultation responses

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# 1. Overview

This summary of responses should be read in conjunction with the government's policy statement on "[Addressing unregulated and unaffordable ground rent](#)"

## Consultation process

1.1 On 9 November 2023, the previous government published a consultation on options to cap ground rents in long residential leases granted prior to the implementation of the Leasehold Reform (Ground Rent) Act 2022 (the 2022 Act) in England and Wales.<sup>1</sup> The five options set out in the consultation for capping ground rents are summarised as follows:

1. **Option 1: Capping ground rent at a peppercorn** (a token or nominal rent). This would remove the obligation to pay a financial ground rent from a given date set in legislation.
2. **Option 2: Capping ground rent at an absolute maximum value.** This option would cap ground rents in existing leases at a maximum value for the duration of the lease. The consultation asked questions around what the value of an absolute cap should be, referencing £250 in this context. Any ground rent currently above that amount would be reduced to the level of the cap. Ground rents which are currently below that would be permitted to increase up to that value in accordance with the existing lease.
3. **Option 3: Capping ground rents at a percentage of the property value.** The consultation asked questions around what percentage the cap could be set at.
4. **Option 4: Capping ground rent at the original amount it was when the lease was granted.** This option would provide for ground rents to revert to, or remain at, the initial level provided for in a lease.
5. **Option 5: Freezing ground rent at current levels.** This option would provide for ground rents to remain at the value provided for in the lease as at the date on which such a measure comes into force.

1.2 The consultation invited the views of stakeholders on the following:

- (a) The full range of problems that existing ground rents can cause for leaseholders, and the scale of those problems.
- (b) Which of the five proposed options to cap ground rents respondents believe is best to deliver a fairer deal to leaseholders and the impacts of each potential cap on a range of interested stakeholders.

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<sup>1</sup> [Modern leasehold: restricting ground rent for existing leases - GOV.UK](#)

(c) Questions on making the proposals work, including whether there should be a period of delay before implementing any cap, the types of leases which need to be exempted from any cap and enforcement of a cap.

(d) Practical considerations including around implementation of a cap.

(e) Questions on the freeholder<sup>2</sup> management functions and costs which may be funded through ground rent, alongside sector-specific questions on how the business models of freeholders/intermediate landlords, investors and the wider property market work and their experience of ground rent.

1.3 On 8 December 2023, the previous government published a consultation impact assessment<sup>3</sup> which set out the monetary impacts of the five options. The consultation deadline was extended from 21 December 2023 to 17 January 2024, to give stakeholders a greater opportunity to engage with the options and with the assessment of the impacts.

## RESPONSES TO THE CONSULTATION

1.4 The consultation received 8,725 responses. 7,647 respondents identified as leaseholders, 336 identified as organisations and 742 identified as individuals who were neither organisations nor leaseholders. All submissions were made in English, and none were submitted in Welsh.

1.5 We are grateful for the engagement provided by a range of stakeholders. This includes policy papers shared during the consultation period, and the campaigns organised by Compton Group, TIME Investments, the New Providence Wharf Leaseholders & Residents Association and others.

1.6 We are also grateful to the Association of Leasehold Enfranchisement Practitioners for surveying 44 of their members on this issue and sharing the results with us, and to the National Leasehold Campaign, which delivered an open letter to the department (at that time named the Department for Levelling Up, Housing and Communities) on 17 January 2024 signed by 5,443 leaseholders in support of the peppercorn option.

1.7 Further to the consultation responses and written representations received, ministers and officials from across government, including HM Treasury and the Department of Business and Trade, met with leaseholder, freeholder, investment and property groups both during the consultation period and afterwards, to develop the government's understanding and evidence base. We are particularly

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<sup>2</sup> In this summary (as in the consultation), we generally use the term "freeholder" to mean any party who is able to demand ground rent. Often this will also be the party who granted the lease. At other times, it may be an intermediate landlord. There may be several layers of landlords. For example, the freeholder (who owns the building and land forever) may grant a lease of the whole building to a leaseholder who may then grant further subleases of the individual flats and would be the intermediate landlord for the subleases.

<sup>3</sup> [Consultation impact assessment - Modern leasehold restricting ground rents for existing leases](#)

grateful to the British Property Federation and the Association of British Insurers for their input and ongoing engagement with the government.

## **CURRENT POSITION**

- 1.8 The previous government did not respond to this consultation prior to the UK general election held in July 2024, nor did it set out its policy position on the issues raised.
- 1.9 During the general election campaign in 2024, the Labour Party’s manifesto made a commitment to “tackle unregulated and unaffordable existing ground rent charges”, as well as to “finally bring the feudal leasehold system to an end”.<sup>4</sup> These commitments were restated in government as part of the King’s Speech in July 2024.<sup>5</sup> In the Housing Minister’s Written Ministerial Statement to Parliament on Commonhold and Leasehold Reform in November 2024, the commitment on ground rents was given again and it was stated that the government would deliver this in legislation.<sup>6</sup>
- 1.10 In general, there is no expectation that governments respond to consultations issued under previous governments. However, given the significant efforts of both stakeholders and officials in both drafting and responding to this consultation, we have continued to use the evidence gathered through responses to help inform decision-making. This consultation, while issued and drafted under a previous government, asked pertinent and relevant questions and the responses provide important evidence in assessing the options for reform.
- 1.11 With the announcement of the government’s policy position on ground rent reform on 27 January 2025,<sup>7</sup> we think it is appropriate for the government to issue a summary of stakeholder feedback received during this consultation. This summary of responses should be read in conjunction with this policy statement.

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<sup>4</sup> [Change Labour Party Manifesto 2024](#)

<sup>5</sup> [FINAL - 17/07/24 King's Speech 2024 background briefing final GOV.uk.docx](#)

<sup>6</sup> [Written statements - Written questions, answers and statements - UK Parliament.](#)

<sup>7</sup> [Addressing unregulated and unaffordable ground rent](#)

## 2. Residential ground rents in a modern context: overview of findings

### What are ground rents

- 2.1 Ground rent is a fixed payment made by the leaseholder to the freeholder. Critically, the freeholder does not have to provide a service in order to collect a ground rent. Ground rent is separate to the service charge which is typically a variable cost that leaseholders pay in return for services provided by their freeholder.
- 2.2 Ground rents have been in existence for a long period of time and may once have signified a guaranteed and fixed level of rent which a tenant would have to pay to a landlord to reside in that particular property for the term of the lease. Tenants would then pay an additional premium on top of this ground rent to secure the property.
- 2.3 The leasehold market has evolved considerably since those arrangements were first put in place. Ground rents no longer represent anything close to market rents and leasehold houses sell for many, many multiples of ground rents. Yet many leaseholders continue to pay an annual ground rent alongside their annual service charge, in addition to the original purchase price (premium) that they had to pay for their property.

### Payment of ground rents

- 2.4 The consultation asked a range of questions around the experience of leaseholders who pay ground rents. 96.9% of leaseholders who responded to the consultation stated that they pay a ground rent.<sup>8</sup> Of those who knew how much their ground rent was, the average reported was £447 in England and £349 in Wales. The median reported ground rent was £340 in England and £250 in Wales. These averages are higher than the annual ground rent averages used in our impact assessment modelling: a median of £80-£95 for properties in England<sup>9</sup>, £150 for flats in Wales and £200 for houses in Wales.<sup>10</sup> NB: England averages have been adjusted to account for misreporting in the English Housing Survey. This has had the effect of reducing our estimate of average ground rents. Full details of this exercise can be found in the 'Impact Assessment Technical Annex'<sup>11</sup> which accompanies the draft Commonhold and Leasehold Reform Bill

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<sup>8</sup> According to the English Housing Survey 2023 to 2024: leasehold experience - fact sheet, 76.9% of leaseholders reported paying a ground rent [English Housing Survey 2023 to 2024: leasehold experience - fact sheet - GOV.UK](#)

<sup>9</sup> [Addressing unregulated and unaffordable ground rent](#), 2026 (see Analysis and Methodology annex)

<sup>10</sup> [Research into the sale and use of leaseholds in Wales](#), 2021

<sup>11</sup> [Draft Commonhold and Leasehold Reform Bill - GOV.UK](#)

Impact Assessment <sup>12</sup>. It is possible that respondents to this consultation reported higher ground rents because those who had high ground rents were more incentivised to respond to the consultation or they could potentially have conflated service charge or other payments with ground rent payments.

2.5 The consultation asked participants how often their ground rent increased, and received the following responses from those who answered:

*Table 3.1: Table showing responses to the question “how often does your ground rent increase?”*

<b>Option</b>	<b>Total</b>	<b>Percent</b>
<b>More frequently than every 5 years</b>	<b>799</b>	<b>16.6%</b>
<b>Every 5 years</b>	<b>739</b>	<b>15.3%</b>
<b>Every 10 years</b>	<b>1,185</b>	<b>24.6%</b>
<b>Every 15 years</b>	<b>278</b>	<b>5.8%</b>
<b>Every 20 years</b>	<b>317</b>	<b>6.6%</b>
<b>Every 25 years</b>	<b>429</b>	<b>8.9%</b>
<b>Over 25 years</b>	<b>73</b>	<b>1.5%</b>
<b>Not sure</b>	<b>997</b>	<b>20.7%</b>

2.6 It also asked respondents about which mechanism their leases allowed for ground rents to increase across time:

*Table 3.2: Table showing responses to the question “how is your ground rent increase calculated?”*

<b>Option</b>	<b>Total</b>	<b>Percent</b>
<b>By the Retail Prices Index (RPI)</b>	<b>1,519</b>	<b>31.6%</b>
<b>By an index link other than RPI</b>	<b>82</b>	<b>1.7%</b>
<b>By fixed increments (i.e. doubling every set number of years)</b>	<b>1,170</b>	<b>24.3%</b>
<b>By an open market rent review (i.e. in line with the increase in capital value of the property)</b>	<b>188</b>	<b>3.9%</b>
<b>Other (Please specify)</b>	<b>223</b>	<b>4.6%</b>
<b>Not sure</b>	<b>1,634</b>	<b>33.9%</b>

2.7 25% of respondents (almost 1,200 leaseholders) reported that their ground rents increased by fixed increments; this is potentially significant, given that industry estimates suggest that a very limited number of ground rents still exist that double

<sup>12</sup> To further develop the evidence base, MHCLG analysts undertook analysis to verify a sample of self-reported ground rents in the EHS by manually checking against lease documents registered to the same address via HM Land Registry (HMLR). This process resulted in lower estimates of ground rent paid in England, which in turn reduced the department’s estimates of the overall size of the ground rent market, the transfer value related to proposals for a cap, and the number of affected leasehold dwellings from any such cap.

more frequently than every 20 years,<sup>13</sup> after action taken by the Competition and Markets Authority (CMA). This might suggest that, in practice, there are more remaining ‘doubling clauses’ than have been estimated. However, some respondents may have ground rents that double less frequently than every 20 years or may increase by a smaller, fixed amount. It may also be true that those leaseholders with frequently doubling clauses were more incentivised to respond to the consultation.

2.8 Respondents were also asked if they had ever refused to pay their ground rent because it was too much. Of those who answered this question, only 228 (4.76%) of respondents reported that they had, while 4,566 (95.24%) confirmed they had not. This may be because it is not considered to be a large enough amount to engage in a challenge; it may also be because of the so-called assured shorthold tenancy (AST) trap, whereby some leaseholders risk forfeiting their lease in the event that ground rent is unpaid (though this has now been addressed by the Renters’ Rights Act 2025 with the measure in force since December 2025).

## Freeholders

2.9 The consultation also addressed some introductory questions to freeholders. Freeholders are not homogenous. A freeholder can be a professional freeholder, an institutional investor, an individual person, an entity owned collectively by some or all leaseholders, a charity or a public body or authority.

2.10 Most freeholders collect ground rent from residential leaseholders under the terms set out in their individual leases. There is no restriction on how these ground rents can be used and it has become clear that these payments have attracted the interest of outside investors and that many investors have borrowed money using the stream of future ground rents income to repay the loan.

2.11 Some freeholders are very dependent on the ground rent they receive, whereas others derive most of their income from other sources. 135 respondents confirmed that they collect a ground rent; of those, 132 gave details on the proportion of their ground rent revenue. The results were as follows:

*Table 3.3 – Table showing responses to the question “what proportion of your revenue (as a percentage of your total revenue) comes from ground rent?”*

Option	Total	Percent
<input type="checkbox"/> <1%	32	24.2%
<input type="checkbox"/> 1-10%	26	19.7%
<input type="checkbox"/> 11-20%	7	5.3%
<input type="checkbox"/> 21-30%	5	3.8%
<input type="checkbox"/> 31-40%	0	0.0%

<sup>13</sup> [Public pledge for leaseholders - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/publications/public-pledge-for-leaseholders) – freeholders and developers publicly committed to amending leases where ground rents doubled more frequently than every 20 years.

<input type="checkbox"/> 41-50%	4	3.0%
<input type="checkbox"/> 51-60%	9	6.8%
<input type="checkbox"/> 61-70%	5	3.8%
<input type="checkbox"/> 71-80%	7	5.3%
<input type="checkbox"/> 81-90%	7	5.3%
<input type="checkbox"/> 91-100%	20	15.2%
<input type="checkbox"/> Not sure	10	7.6%

2.12 Over half of the freeholders who responded to the consultation derive most of the income from sources other than ground rent. For some long-established freeholders, such as the Great Estates, it is known that the reversionary income they receive for any given period from lease extensions will far outweigh the income they receive from ground rents. However, the table above shows that 20% of the freeholder respondents received 81-100% of their income from ground rents.

### Market response to proposed reforms

2.13 Organisations were also asked if they had changed their approach to residential ground rent since the government announced its intention to significantly reform the leasehold system, and if so, how. 86 respondents confirmed that they had changed their approach, while 78 confirmed that they had not.

*Table 3.4 – Table showing responses to the question “Has your organisation’s approach to residential ground rent changed since the government announced its intention to significantly reform the leasehold system (c.2017)? If so, how?”<sup>14</sup>*

Option	Total	Percent
<b>We have bought new freeholds</b>	<b>21</b>	<b>10.1%</b>
<b>We are no longer taking on new business/investments in residential ground rent</b>	<b>34</b>	<b>16.4%</b>
<b>We have disinvested interests in residential ground rent</b>	<b>10</b>	<b>4.8%</b>
<b>We have sold some of our freeholds</b>	<b>18</b>	<b>8.7</b>
<b>We have sold lots of our freeholds</b>	<b>3</b>	<b>1.5%</b>
<b>We have changed the way that we value our assets</b>	<b>21</b>	<b>10.1%</b>
<b>Other</b>	<b>59</b>	<b>28.5%</b>
<b>Not relevant to my organisation</b>	<b>96</b>	<b>46.4%</b>

Note: Respondents could choose more than one option as part of their response.

2.14 Several respondents said that the way they value their assets has changed since 2017, with government reforms being a driver for that. One valuer reported that they have largely withdrawn from offering valuation advice on portfolios of

<sup>14</sup> The total number of responses exceeds the total number of respondents to this question, and the percentages exceed 100%. This is because some respondents’ answers referred to multiple reasons and these have been counted separately.

leases with initial terms in excess of 125 years for loan security purposes. It was noted that this was due to the substantial risk, given such uncertain market conditions caused by regulatory reforms in this space.

2.15 Others noted that they had signed up to the 2019 voluntary pledge and made changes a result of this, or as a result of the CMA investigation into ground rent, including offering their leaseholders routes to change existing doubling clauses. The 2019 voluntary pledge – [Public Pledge for Leaseholders](#) – was developed to alleviate the most pressing aspects of the doubling ground rent issue. This was led by developers and freehold investors, in partnership with government. Signatories committed to reviewing their portfolios to identify leases that had ground rent terms which doubled more frequently than every 20 years and offering these leaseholders amended terms linked to RPI, as well as committing to not insert into any future lease agreement a clause whereby ground rent doubles more frequently than every 20 years.

2.16 Other respondents noted they have stopped investing in leasehold houses and leases with particularly high ground rents or steep uprating clauses. One lender reported that they had introduced new policies detailing the parameters within which ground rents and their escalation mechanisms are acceptable to them. Others said that they had not made material changes to existing assets as they believed that these were outside of the scope of the then government's reforms. It is clear that at the time of the consultation a proportion of the market had reacted to signals from the previous government about its intention to reform ground rents and changed its behaviour as a result.

## 3. The problems caused by ground rents

### The experience of leaseholders

**Question 1: Think about how leaseholders experience ground rent. What do you see as the key problems that ground rents are causing for leaseholders? (select all which apply)**

### SUMMARY OF RESPONSES

Table 3.1 Table showing responses to the question “Think about how leaseholders experience ground rent. What do you see as the key problems that ground rents are causing for leaseholders? (Select all which apply)<sup>15</sup>

Option	Total	Percent	Responses by leaseholders		Responses by organisation				Responses by individuals	
					All organisations		... of which were freeholders and investors <sup>16</sup>			
<b>No problem</b>	<b>239</b>	<b>2.9%</b>	37	0.5%	89	35.0%	51	54.3%	113	22.2%
<b>Leaseholders or prospective leaseholders do not understand the terms of the ground rent when buying property</b>	<b>5,026</b>	<b>60.4%</b>	4670	61.8%	105	41.3%	25	26.6%	251	49.4%
<b>Leaseholders have to pay a ground rent for no clear service given in return</b>	<b>7,245</b>	<b>87.1%</b>	6879	91.1%	69	27.2%	2	2.1%	297	58.5%
<b>Leaseholders find that ground rent payments are unaffordable</b>	<b>4,367</b>	<b>52.5%</b>	4108	54.4%	47	18.5%	0	0.00%	212	41.7%
<b>Leaseholders find that ground rent payments get more expensive over time</b>	<b>6,495</b>	<b>78.1%</b>	6117	81.0%	76	29.9%	7	7.5%	302	59.5%
<b>Leaseholders do not know or understand when their ground rent will increase</b>	<b>4,333</b>	<b>52.1%</b>	4017	53.2%	78	30.7%	18	19.2%	238	46.9%
<b>Leaseholders do not know or understand how much their ground rent will increase</b>	<b>5,139</b>	<b>61.8%</b>	4787	63.4%	86	33.9%	17	18.1%	266	52.4%
<b>Leaseholders and prospective leaseholders cannot buy or sell property because mortgage providers do not like the ground rent terms</b>	<b>5,949</b>	<b>71.6%</b>	5538	73.3%	109	42.9%	21	22.3%	302	59.5%
<b>Other problem</b>	<b>766</b>	<b>9.2%</b>	644	8.5%	65	25.6%	23	24.5%	57	11.2%

<sup>15</sup> The total number of responses exceeds the total number of respondents. This is because some respondents' answers referred to multiple reasons which have been counted separately.

<sup>16</sup> Freeholders and investors here are understood as any respondent who reported that their primary interest in responding to the consultation was as a “A freeholder / building owner / intermediate landlord”, or “A pension fund or investment company that has a portfolio of ground rents”, or “A company that buys and sells ground rents” or “An organisation representing freeholders”.

- 3.1 As well as the reasons set out in the table, respondents were also free to select “other problem” and were invited to explain what they meant.
- 3.2 Many respondents also took the opportunity to expand further on the list of issues already identified in the table above, rather than offer a new “other problem”.
- 3.3 New issues that were raised included a lack of understanding about the consequences of failing to pay a ground rent where required, in particular the risk of forfeiture.
- 3.4 Leaseholders expressed the view that ground rent increases were often unfair and difficult to contest, due to the lack of transparency and control that they have in relation to this – for example, the fact that ground rents can increase without leaseholders being made aware until a demand form is delivered. Some leaseholders referenced difficulties in financially planning for ground rent increases, especially when unexpected or higher than anticipated. Respondents also indicated that contacting freeholders could be a difficult and expensive process, which exacerbated issues including buying out the ground rent or securing a deed of variation.
- 3.5 Others expressed the view that leaseholders who pay a ground rent face a disadvantage when trying to sell their properties compared to those who do not pay ground rent, including leases which were granted after the 2022 Act came into force, arguing that there should be a level playing field between leases. Respondents considered that this was a particular problem where homes with radically different ground rent terms were in the same building complex, estate or local area, with the current position creating a ‘tiered’ system.
- 3.6 The CMA said that an additional problem for leaseholders in some circumstances was the use of ‘back-dated’ rent review clauses, which meant that ground rent may already have been increased or uprated beyond its face value prior to purchase; this was echoed by leaseholder respondents.

**Question 2: Do you have any evidence about the scale of any problems that ground rents cause to leaseholders?**

**SUMMARY OF RESPONSES**

*Table 3.2: Table showing responses to the question “do you have any evidence of the scale of any problems that ground rents are causing leaseholders?”*

Option	Total Percent		Responses by leaseholders		Responses by organisations				Responses by individuals	
					All organisations		... of which were freeholders and investors			
<b>Yes</b>	<b>5,088</b>	<b>61.2%</b>	4682	62.0%	127	51.4%	50	54.9%	279	54.9%
<b>No</b>	<b>3,222</b>	<b>38.8%</b>	2873	38.0%	120	48.6%	41	45.1%	229	45.1%

- 3.7 Nearly 5,000 respondents stated that they had evidence of the scale of problems and expanded on their answer.
- 3.8 Many of the answers were from leaseholders who referenced their personal experience and examples that they had seen on the news and on social media. Many people referenced the National Leasehold Campaign and argued that the campaign having 27,000 members was evidence itself of the scale of issues that leaseholders face.
- 3.9 Some respondents used this question to give detail of the problems identified in Question 1. One issue raised in more detail was that leaseholders felt that they received no clear service in return for ground rent payments, and that they viewed ground rent as money for nothing. Many leaseholders set out their own views and experiences of this, but the repetition of this theme suggests that the problem is system-wide in terms of scale. The following comments from leaseholders were typical of responses on this issue:

*“None of us are wealthy and this strips us of hard won savings. We have Right To Manage and do all the work here. The freeholder sits back and watches their building improved through the labour and expenditure of we leaseholders. It's criminal.”* (a leaseholder)

*“Ground rent has incentivised investors to purchase the freeholds of properties of which they have no clear interest or incentive to properly provide any benefit to the leaseholders. In many cases large institutional freeholders treat the ownership of freeholds purely as an income stream and provide no other clear function, this is especially evident when management of the property is laid out in the leases as the responsibility of a separate Resident Management Company - in these cases the only function that the freeholder appears to perform is to collect ground rent, premiums for deeds of variation/lease extensions and fees for granting permissions to alter the property (but even in this case, the consideration is purely based on the wording of the lease, as in most leases consent cannot be unreasonably withheld). The ground rent provides no incentive for the freeholder to maintain the property, or to improve the property for the benefit of leaseholders.”* (a leaseholder)

*“Our Freeholder (FH) is an overseas entity... with no UK address or directors listed [...]). The FH has no managing agent, and does not maintain, repair or properly insure the building. The only building works ever undertaken were under a 2014 Court order we successfully obtained against it. The Initial Rent is set at £500. When we purchased the Leasehold in 2011 we were asked to pay the Initial rent at £500, and have been asked to pay that same amount until 2014. We have evidence GR at that amount was paid since 2005. We have not heard from the FH since end 2014. In August 2022, we got a claim for indexed GR going back to 2016, from a lawyer on behalf of the FH. The lawyer claimed the indexed GR, and ignored our arguments that (i) GR was not properly demanded; (ii) we had a legitimate expectation that indexation would not apply; (iii) indexation was found to breach consumer protection laws by the CMA. The FH is continuing to claim the indexed GR, which is almost the double of the Initial Rent.”* (a leaseholder)

3.10 This position was disputed, often by freeholders and investors, who gave a range of views on the purposes of ground rent. These include:

- ground rent is a rent in recognition of the freeholder's property rights (i.e. that freeholders receive ground rent as owners of property rights, not as service providers);
- ground rent is paid and is legitimate simply because there is a promise by one person to fulfil an obligation of payment;
- ground rent is part of the consideration for a contract – the lease;
- ground rent is a rent for the exclusive use of the land over the period of the lease;
- being the owner of a freehold carries continuing obligations, including some regulatory and statutory obligations, such as ensuring that a building is insured. Ground rent is income necessary for freeholders to meet the cost of carrying out their freeholder management functions which are not chargeable to the lease and is an incentive to freeholders to perform them;
- ground rent is the payment for freeholders taking on the risks and obligations incumbent in property ownership;
- ground rent is used to service a loan for the purchase of the building;
- ground rent is used as an income stream (profit) for freeholders/intermediate landlords;
- ground rent is used to fund further development;
- where sites have significant communal areas, such as retirement developments, ground rents are used to recoup these development costs.

3.11 Perhaps the most frequent argument made was that ground rent “formed part of the consideration paid for the property” and reflected in the sale price of the property. It was stated that leaseholders pay a lower initial capital value in exchange for an ongoing ground rent. This has been called a ‘leasehold discount’. Some respondents compared this fee to a mortgage; although this argument was put forward by investors and other freehold owners, it was not put forward in the responses from developers who (where relevant) would have set the prices and ground rents in their original contracts.

3.12 Many freeholders and investors linked this argument to a possible exemption to a cap for circumstances in which the freeholder can prove that they negotiated an agreement which resulted in the leaseholder paying a reduced premium when purchasing the property. The argument here was that this exemption proves that there is a discount on property premiums paid for via a ground rent, and therefore freeholders have foregone capital for a future revenue stream.

3.13 Other leaseholders who responded to Question 2 referred to issues with escalating ground rent – for example, where the terms of the lease allow this to be increased in line with RPI, or to double after a set period. Respondents indicated that such terms resulted in significant increases to ground rent during the term of the lease, an unaffordable burden to some leaseholders. Respondents reported difficulties that were caused by a range of escalation mechanisms and review periods, including ‘doubblers’ (terms that mean that ground rent doubles over set review periods) and increases linked to RPI or to the Consumer Prices Index (CPI), among others. Some leaseholders said that their ground rents increased more quickly than house prices, wages and, in some cases,

inflation. Evidence provided by freeholders suggests the most common rent review mechanism is RPI.

3.14 Another recurring theme from leaseholders was around selling or refinancing of leasehold properties, often including requirements from mortgage providers to secure a deed of variation to amend the ground rent, without which sales have collapsed, or loans been refused. Examples were frequently given from personal experience; however, there was no clear consensus among leaseholders about why ground rent made properties unmortgageable. Some said that their problem was with the ground rent being caught by the AST trap; others pointed to the mechanism for escalation, with some stating that it was linked to doubling clauses every set number of years, and others referencing ground rents tied to the value of the property or other indices. Others said that, while they had an RPI escalation clause, mortgageability issues remained due to other terms, including the frequency of their reviews and the fact that RPI reviews were compounded.

3.15 Respondents repeatedly referenced numerous major high street lenders which refused to lend in these cases. They reported changes to the risk appetite of lenders in recent years with respect to ground rent. Some leaseholders who purchased their properties within the last decade are now struggling to sell or remortgage those same properties, despite the lease terms remaining the same now as they were at the point of purchase. These responses from three leaseholders, were typical of responses on this issue:

*“My in-laws had a leasehold flat with a ground rent of £600 (due to double in 2027). They had to extend the lease to reduce this to a peppercorn rent of 0 to enable them to sell their property. This cost them £40,000 (yes unbelievably 40K) to do this. Prior to the lease extension they had three failed sales and this cost them over 5K in fees.”* (a leaseholder)

*“I put my house up for sale and had nearly 100 viewings and 5 offers accepted. All of which fell through as the buyers bank refused mortgage unless freeholder signed a deed of variation regarding the ground rent being capped at its current rate. Freeholder refused”* (a leaseholder)

*“I have seen the sale of the property fall through due to lenders being unwilling to release funds .... This came at a significant financial penalty to myself as I had incurred estate agent and legal fees in the process. ... I tried in 2021 to exercise my statutory right to extend the lease and drop the payment to a peppercorn. Not only did I have to pay substantial fees just to get a quote, I was then flabbergasted when I was quoted £22000 plus legal fees to proceed. As to where they got this figure, who knows as they were not forthcoming when pressed. At least 3 of my neighbours have received similar quotes ranging from 17k to 23k within the last 2-3 years. Note that the average value of property in the street would be around 70-75k.”* (a leaseholder)

3.16 While many leaseholders acknowledged that they could enter into a deed of variation or fund a lease extension to resolve ground rent issues, they reported that in reality, the costs involved for some made it impossible – examples were repeatedly provided of these costs being many thousands of pounds. They also said that some freeholders would not participate in negotiations or were not incentivised to do so in a timely manner,

which itself caused sales to fall through. Others reported that they could not secure indemnity insurance, meaning that they were unable to proceed with purchases.

3.17 Some freeholders and developers made the point that prospective leaseholders should have had information on ground rents provided at the time of purchase from an estate agent as well as received advice from their licensed conveyancer or conveyancing lawyer, and so should have been fully aware of their ground rent liabilities. The point was also made that there is existing recourse for leaseholders where there was material non-disclosure or misrepresentation.

3.18 However, many leaseholders claimed that they were not made aware of the ground rent terms at the point of purchase, and were not aware until their ground rent changed, often long after they would have been able to raise this as a complaint with their solicitor or conveyancer, under statutory time limits for negligence claims. Others stated that they were made aware of the terms accurately when they purchased the property, but not of the consequences of these terms – in other words they did not understand the implications that this might have in monetary terms or the challenges they would face when they came to sell their properties at a later date. For example, leaseholders said that:

*“My conveyancing lawyer told us at the time that the doubling ground rents in the lease was a “perfectly normal provision” in leases... I am trapped in a ticking time bomb. I have sought legal advice from multiple firms, who have said that the conveyancing lawyer's advice at the time was correct, and that banks only stopped lending mortgages against leases with doubling ground rents soon after I purchased the property. They told me how widespread this issue was, and how they have to deal with it all the time.”* (a leaseholder)

*“I was only told that the house was leasehold on the day I exchanged contracts on purchase, I was then told that I would pay £100 ground rent per year, and lease was 999 years I was never told it would increase or any other fees like permission.”* (a leaseholder)

3.19 Others reported that even though they were informed properly at the time, their local market was saturated with such terms – and they had no choice but to accept them if they wanted to get onto the property ladder. For instance, they said that:

*“When purchasing my leasehold flat my solicitor informed that a doubling ground rent might eventually become a problem in the future if the government does not address the issue leading up to being unable to remortgage or sell the property, however given London's high property prices I had no choice as in finding another property without ground rent or without increasing ground rent because I would not be able to afford and/or find another suitable property.”* (a leaseholder)

3.20 Some leaseholders referenced building safety remediation, making the point that safety defects persisted, even though they paid a ground rent to the freeholder. Several raised questions about why the ground rent paid previously had not been used to fund known issues. This is in contrast to arguments reported by freeholders, who argued that ground rents were necessary to meet their obligations set out under the Building Safety Act 2022 (the BSA).

3.21 Several respondents raised the issue of forfeiture and that relatively minor debts can lead to proceedings which could result in leaseholders losing not only their home, but also any equity they have in it. More still raised the issue that freeholders threatened this as a way to ensure that leaseholders would not challenge or dispute ground rent costs.

3.22 A number of property professionals substantiated the evidence from leaseholders. Some professionals commented that they were seeing regular issues with the market, notably with ground rents causing problems in buying and selling. Some put this down to lenders becoming significantly more selective on ground rent values and escalations which were deemed acceptable; others put it down to freeholders being unwilling to negotiate in good faith on lease extensions or deeds of variation. It was reported that what was deemed acceptable by lenders was a constantly moving picture, with different rules for different lenders, and with individual lenders regularly reassessing their risk appetite. Even where sales went through, property professionals said that ground rents could cause significant delays to transactions and that issues can come up late in the process and drag on significantly. Some property professionals noted that these issues are widespread and pose significant problems for the sale of leasehold properties in England and Wales, although others said that they saw problems infrequently, linked only to doubling ground rents, and did not believe that buying and selling disruption was a wide-scale issue for the market. Three such examples are:

*“We have acted on many deals where leases have escalating ground rents. Sometimes we are able to overcome these problems but sometimes not. Where we are not successful the property is unsaleable and un-mortgageable for the clients. Where we are able to provide a solution to clients this inevitably means extra legal costs for them as we may have to negotiate with a landlord to vary the terms of an existing lease or provide legal indemnity insurance on behalf of a lender to cover the issue.”* (a solicitor / conveyancer)

*“I am a qualified mortgage adviser and I have a constant stream of clients unable to purchase with certain lenders because the ground rent terms are deemed to be onerous”.* (a leaseholder who is also a mortgage adviser)

*“We are lease extension and enfranchisement valuers. Since 2016, we have experienced a significant increase in the number of enquiries from leaseholder clients who have been unable to sell or remortgage their flats because the ground rent was considered to be onerous.”* (a chartered surveyor specialising in enfranchisement)

3.23 This question also exposed the human cost of ground rents. Several dozen leaseholders explained how ground rent payments and escalations negatively impacted their mental health.

## **Impact on wider property market**

3.24 The consultation also included four further questions (Questions 33-36), which were aimed at property professionals, about the potential impact of ground rents on property

sales. This summary of responses to the consultation generally follows the order of questions set out in the consultation; however, the responses to these questions are included here due to the close alignment of subject matter.

**Question 33: As a property professional, do you recognise the statement “residential ground rents can have a negative or undesirable impact on the sale of leasehold properties” to be true?**

**SUMMARY OF RESPONSES**

*Table 3.3: Table showing responses to the question “as a property professional, do you recognise the statement “residential ground rents can have a negative or undesirable impact on the sale of leasehold properties” to be true?”*

Option	Total	Percent	...of which were organisations	
<b>Yes</b>	<b>242</b>	<b>53.6%</b>	68	56.2%
<b>No</b>	<b>76</b>	<b>16.8%</b>	36	29.7%
<b>Not sure</b>	<b>20</b>	<b>4.4%</b>	3	2.5%
<b>Not applicable</b>	<b>114</b>	<b>25.2%</b>	14	11.6%

3.25 Respondents who identified that there was a negative or undesirable impact on the sale of leasehold properties were invited to set out the main causes of these issues.

3.26 The mortgageability of leasehold properties being compromised through high or escalating ground rents was regularly cited, particularly by those caught or likely to become caught in the AST trap which results in a reduction in the saleability of such properties, with sales falling through because the buyer has been unable to secure a mortgage. They also said that affordability can result in a negative or undesirable impact on the sale of leasehold properties, as buyers and leaseholders face potentially expensive costs in the form of deeds of variation and lease extensions, as well as the annual cost of ground rents.

3.27 A lack of understanding about ground rent on the part of leaseholders, estate agents and conveyancers was another reason given. Respondents said that confusion is common, with leaseholders not realising what they are signing up to and estate agents and conveyancers not being sufficiently diligent in explaining ground rent to buyers. As a result of this and due to the complexity involved, there can often be long delays in conveyancing, which run the risk of the buyer’s mortgage offer expiring. Some respondents indicated that high or escalating ground rents can deter potential buyers. They argued that fair and transparent lease terms are essential for smooth property sales, as additional costs and uncertainties relating to ground rent terms can complicate the sale process. Other respondents provided a more nuanced view on the scale of these issues, arguing that concerns relating to ground rents vary depending on lease terms and lender requirements and that, despite common concerns, leasehold properties which do not have high or quickly escalating ground rent arrangements remain desirable and sellable.

3.28 Other causes cited by respondents include the rise of media attention on the subject, which they claim has resulted in the spread of misinformation about ground rents. There were also references to a two-tier system following the 2022 Act, under which new leasehold properties can only be subject to a peppercorn ground rent.

3.29 Some respondents highlighted the relative rarity of problematic ground rent review provisions in leases relative to the overall size of the market, with others suggesting that misinformation and negative publicity have exacerbated negative perceptions of ground rents and contributed to issues with the market for such properties.

**Question 34: In your view, how often do ground rents considerations either slow down or cause the collapse of leasehold property sales?**

**SUMMARY OF RESPONSES**

3.30 There were 453 responses to this question. Of these, 119 were responding on behalf of organisations. Generally, organisational respondents were more likely to suggest that ground rents caused the slow down or collapse of property sales either rarely or never, compared to other respondents.

*Table 3.4: Table showing responses to the question “in your view, how often do ground rents considerations either slow down or cause the collapse of leasehold property sales?”*

Option	Total	Percent	Responses by organisations	
Frequently	139	30.1%	11	9.2%
Sometimes	54	11.9%	14	11.8%
Rarely	115	25.4%	61	51.3%
Never	34	7.5%	16	13.4%
Not sure	111	24.5%	17	14.3%

3.31 Most reported minimal impacts, arguing that the extent to which ground rents presented an issue depended on the specifics of the lease agreement and was rare. Some respondents acknowledged that, while the proportion of property sales overall impacted by ground rents may be small, the impact on individual leaseholders can be very significant when transactions are affected. Others argued that in their professional experience, ground rent issues disproportionately affect leasehold transactions compared to other issues. Several respondents claimed that their frequency had increased over recent years.

3.32 Several referred to sales collapsing and transactions being slowed down, claiming that ground rents can cause delays to the sales process, but that issues are generally resolvable.

3.33 132 respondents provided reasons for delayed or collapsed sales, these included lender requirements and concerns of diligent buyers. They said that this is especially prevalent in cases where the ground rent was particularly high and/or above £250. (or £1,000 in London). Some said that the AST trap thresholds were particularly problematic.<sup>17</sup> Others highlighted that freeholder responsiveness and willingness to negotiate variations to ground rent terms were beneficial in facilitating property sales, and that the opposite is true when freeholders are unresponsive.

3.34 Others argued that issues with ground rents are less prevalent than perceived, with the issues that arise often being due to misunderstandings, or due to other issues – for example, the lease length or service charges. Several respondents gave explanations related to leasehold as a whole, rather than specifically related to ground rent, for example, issues with obtaining information relating to the lease or waiting for a lease extension to be carried out.

**Question 35: As a lender, what are your key considerations when thinking about lending against a property? (Please select all which apply)**

3.35 Question 35 was not published on Citizen Space due to an uploading error. This resulted in the numbers responding directly to it being significantly lower than for other questions. There were two responses to this part of the question as these responses were submitted via email.

*Table 3.5: Table showing responses to the question “as a lender, what are your key considerations when thinking about lending against a property?”*

Option	Total	Percent	Responses by organisations	
The AST trap	2	100.0%	2	100.0%
Affordability concerns	2	100.0%	2	100.0%
The price of ground rent relative to the property’s value	2	100.0%	2	100.0%
Other	1	50.0%	1	50.0%

3.36 The responses made to this question were by a lender and by an organisation representing lenders.

3.37 The lender shared that they take into consideration the way in which ground rents can escalate over time and that although ground rents may be ‘affordable’ (and within policy) initially, they can escalate to unacceptable sums in the future and potentially during the mortgage term and suggested that they viewed this as a risk to potential investments.

**Question 36: As a lender, have you ever refused to lend on a leasehold property owing to the level of ground rent?**

<sup>17</sup> 25 respondents explicitly referenced the AST trap. This has subsequently been addressed (December 2025) following the Renters Rights Act gaining Royal Assent

Option	Total	Percent	Responses by organisations			
			All organisations		... of which were lenders <sup>18</sup>	
<b>Yes</b>	<b>42</b>	<b>10.1%</b>	3	3.3%	2	33.3%
<b>No</b>	<b>21</b>	<b>5.0%</b>	4	4.4%	0	0.0%
<b>Not applicable</b>	<b>353</b>	<b>84.9%</b>	84	92.3%	4	66.7%

3.38 Of the two lenders who answered “yes”, one was an organisation representing lenders who said that each lender has its own criteria for accepting applications, but that many lenders will decline properties with ground rents that are at or could exceed the level which would class the lease as an AST. Some lenders will still accept properties with ground rents exceeding these levels if a suitable indemnity policy can be arranged or if the lease can be formally varied to ensure that the lease cannot be classified as an AST. In either case, the work required to meet these criteria will add delays and significant costs to the transaction. They also said that lenders may have additional criteria to ensure ground rents remain reasonable. For instance, lenders may exclude leases that allow for ground rents to double every 5, 10, 15 or 20 years.

3.39 The other lender reported that their valuer guidance specifies the acceptable parameters within which they accept ground rents. When they come across properties with ground rents which exceed their acceptability criteria either in terms of current ground rent or escalation mechanism, these have been declined due to the potential risks placed upon the borrower, the lender themselves, and potentially on the future value and saleability of the property; however they said that this occurrence is a rarity.

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<sup>18</sup> Here, a lender is any respondent who selected “Type of org is “A pension fund or investment company that has a portfolio of ground rents” or “An insurer” or “A lender” or “An organisation representing lenders” or “Other type of investor” as their main interest. There were 41 such respondents.

## 4. Proposals to cap ground rents in existing leases

**Question 3: If government were to legislate to rectify problems with ground rents in existing leases, which of the proposed options could achieve this? (Tick all which apply)**

### SUMMARY OF RESPONSES

*Table 4.1: Table showing responses to the question “If government were to legislate to rectify problems with ground rents in existing leases, which of the proposed options could achieve this?”*

Option	Total	Percent	Responses by leaseholders		Responses by organisation				Responses by individuals	
					All organisations		... of which were freeholders and investors			
<b>Option 1 - peppercorn</b>	<b>7,599</b>	<b>87.5%</b>	7172	93.9%	80	25.9%	4	3.5%	347	47.2%
<b>Option 2 - absolute maximum value</b>	<b>1,068</b>	<b>12.3%</b>	935	12.2%	46	14.9%	9	8.0%	87	11.8%
<b>Option 3 - % of the property value</b>	<b>545</b>	<b>6.3%</b>	452	5.9%	37	12.00%	13	11.5%	347	47.2%
<b>Option 4 - original amount</b>	<b>1,990</b>	<b>22.9%</b>	1868	24.5%	40	12.9%	10	8.8%	87	11.8%
<b>Option 5 - freezing ground rents</b>	<b>962</b>	<b>11.1%</b>	883	11.6%	34	11.00%	12	10.6%	347	47.2%
<b>None of the above</b>	<b>799</b>	<b>9.2%</b>	267	3.5%	187	60.5%	91	80.5%	87	11.8%

4.1 Where respondents selected “none of the above”, they were asked to provide a reason. The responses to this question highlighted the divide between leaseholders and freeholders: while some respondents from both groups did not support any of the proposed options, their reasons for doing so were based on different stated motivations and priorities.

- 4.2 For example, some freeholders rejected the premise of the question altogether, arguing – in contrast to what was heard from some leaseholders and some property professionals – that the market is transparent and functioning efficiently, and that it was incorrect to assume that prospective leaseholders do not consider the impacts of ground rent. Their conclusions were often that there are no issues to rectify.
- 4.3 Other freeholders recognised the issues with terms that double ground rent more frequently than every 20 years or at higher rates than inflation, but did not recognise more systemic issues and argued that all the options proposed by government were excessive. There were some suggestions that restricting all ground rent increases to inflation would be a proportionate response.
- 4.4 Other freeholders explained that they had chosen this option as they did not consider that any of the options proposed were fair to them; similar reasoning was provided by investors. These included concerns that any of the proposals could diminish the value of investments and undermine property rights. Respondents also considered that the options proposed would go against contractual agreements that had been entered into willingly by both parties. Several respondents raised the point that the leases were agreed within the existing legal framework which recognises ground rents as a legitimate form of income. Additionally, some respondents were concerned about loss of income that would result from any of the options proposed and expressed the view that compensation would be needed.
- 4.5 Different views were expressed by leaseholders who selected “none of the above”. Many leasehold respondents who selected this stated that they felt that ground rents should be abolished altogether. Various reasons were provided for this, with respondents tending to reference their personal experience of paying ground rent. Some argued that ground rents offered no value for money – with respondents reporting that they did not receive services for the ground rent paid, or alternatively paid a service charge separately. Other respondents expressed concerns that the proposed options would still result in leasehold properties becoming unaffordable and unsellable.
- 4.6 Some respondents highlighted different potential solutions, based on the specific housing and rental costs for the area in which they live. For example, it was suggested that a ground rent cap for London should be set at a higher level than the rest of England. More consistently, however, there was a call for consistency to ensure fairness and to reduce confusion, with particular reference to the difference in ground rent terms between new leases granted after the 2022 Act came into force (for which ground rents are limited to a peppercorn) and existing leases. Among the respondents who selected “none of the above”, there was a general consensus that the best solution would be a peppercorn cap.
- 4.7 Some respondents also argued that all five options had the potential to create unintended consequences, or would fail to address problems where intermediate leases exist – for example, for shared ownership properties.

**Question 4: Considering all options to cap ground rent, please rank the following in order of preference (1 being your most preferred option) and/or provide an alternative option.**

## SUMMARY OF RESPONSES

The responses have been given a weighted average<sup>19</sup> and in rank order are as follows:

*Table 4.2: Table of "Ranking options" to the question "considering all options to cap ground rent, please rank the following in order of preference (1 being your most preferred option) and/or provide an alternative option."*

Option	Overall Ranking	Responses by leaseholders	Responses by organisation		Responses by individuals
			All organisations	... of which were freeholders and investors <sup>20</sup>	
Option 1 - peppercorn	5.32	5.71	1.69	0.61	2.97
Option 2 - absolute maximum value	3.12	2.22	1.60	1.34	1.55
Option 3 - % of the property value	2.22	1.76	1.55	1.69	1.28
Option 4 - original amount	2.14	3.32	1.57	1.34	1.69
Option 5 - freezing ground rents	1.71	2.33	1.60	1.53	1.32
A different option	1.05	0.93	2.51	3.49	1.66

*Table 4.3: Ranking options - Option 1 - Capping ground rents at a peppercorn (zero financial value)<sup>21</sup>*

Preference	Total	Percent		Responses by organisations	
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<sup>19</sup> The question asked respondents to rank in order of preference. The overall popularity of each option is measured by calculating a weighted average score for each item. This was achieved by assigning a weight to each possible ranking position for each respondent. As there were six possible options, the first-place preference for each respondent was given a weight of six, the second place given a rank of five and so on. The weighted average score for each item is then calculated as:  $(w_1c_1 + w_2c_2 + w_3c_3 + \dots + w_nc_n) / t$ , where: 'w1, w2 ... wn' are the weightings of position 1, position 2, etc; 'c1, c2 ... cn' are the number of respondents who chose position 1, number of respondents who chose position 2, etc; 't' is the total number of respondents who answered the question. A respondent is included in the total if they ranked any item in the question, even if they did not select a position for this particular item. This calculation is repeated for each item to be ranked.

<sup>20</sup> "Freeholders and investors" are categorised as being any respondent who selected their main interest as: "A freeholder / building owner / intermediate landlord"; "A pension fund or investment company that has a portfolio of ground rents"; "A company that buys and sells ground rents" and "An organisation representing freeholders". There were 121 such respondents in total.

<sup>21</sup> While a lack of response to questions is generally not included in the analysis, an exception has been made for Question 4 – we have chosen to count those who did not provide an answer to specific proposals, as the lack of an answer here may have been indicative of a lack of support for some or all options, and so should inform the understanding of the proposals.

			Responses by leaseholders		All organisations		... of which were freeholders and investors		Responses by individuals	
<b>1</b>	<b>7,178</b>	<b>82.3%</b>	6791	88.8%	66	19.6%	3	2.4%	321	43.3%
<b>2</b>	<b>465</b>	<b>5.3%</b>	431	5.7%	7	2.1%	0	0.00%	27	3.7%
<b>3</b>	<b>119</b>	<b>1.4%</b>	108	1.4%	3	0.9%	0	0.00%	8	1.1%
<b>4</b>	<b>63</b>	<b>0.7%</b>	54	0.7%	4	1.2%	2	1.7%	5	0.7%
<b>5</b>	<b>104</b>	<b>1.2%</b>	48	0.6%	30	8.9%	10	8.3%	26	3.5%
<b>6</b>	<b>185</b>	<b>2.1%</b>	91	1.2%	52	15.5%	30	24.8%	42	5.7%
<b>Not answered</b>	<b>611</b>	<b>7.0%</b>	124	1.6%	174	51.8%	76	62.8%	313	42.2%

4.8 Respondents who selected Option 1 as their preferred option expressed the view that reducing ground rent to a peppercorn would be a fair approach, as freeholders can already make a profit from the sale of leaseholds. Some argued that, along with high service charges, lack of clarity over increases to ground rents during a lease term can be off-putting to potential buyers of leasehold properties. Respondents also argued in favour of a consistent approach to ground rents for all properties. Other respondents argued that ground rents are punitive and outdated, generating funds for freeholders without leaseholders receiving any clear service in return, and called for wider reforms to the leasehold system alongside reforms relating to ground rents.

4.9 Respondents who ranked Option 1 as their least preferred option expressed the view that it is necessary to strike a balance between achieving fairness for leaseholders while protecting freeholders' income. Some responses indicated that other options for capping ground rents would strike this balance more effectively than Option 1, as they would allow responsible freeholders to continue to collect or increase ground rents in a way that would be beneficial to freeholders, particularly those who have existing obligations. Related to this, some argued against government intervention in private agreements. Some respondents also questioned whether it would be practical to implement Option 1. Further details of what was heard about the advantages and disadvantages of Option 1 are set out below.

Table 4.4: Ranking options - Option 2 - Capping ground rents at an absolute upper value

Preference	Total	Percent	Responses by leaseholders		Responses by organisations				Responses by individuals	
					All organisations	... of which were freeholders and investors				
<b>1</b>	<b>100</b>	<b>1.2%</b>	60	0.8%	16	4.8%	3	2.5%	24	3.2%
<b>2</b>	<b>1,234</b>	<b>14.1%</b>	1116	14.6%	34	10.1%	11	9.1%	84	11.3%
<b>3</b>	<b>1,089</b>	<b>12.4%</b>	972	12.7%	0	11.9%	13	10.7%	77	10.4%
<b>4</b>	<b>1,457</b>	<b>16.7%</b>	1381	18.0%	23	6.9%	6	5.0%	53	7.1%

<b>5</b>	<b>1,170</b>	<b>13.4%</b>	1104	14.4%	20	5.9%	9	7.4%	46	6.2%
<b>6</b>	<b>801</b>	<b>9.2%</b>	769	10.1%	3	0.9%	1	0.8%	29	3.9%
<b>Not answered</b>	<b>2,874</b>	<b>33.0%</b>	2245	29.4%	200	59.5%	78	64.5%	429	57.8%

4.10 Respondents who selected Option 2 as their preferred option argued that an absolute cap would provide a fair position for both the leaseholder and landlord, providing certainty and ensuring that the asset would continue to be cared for responsibly. They considered that this option would strike a balance between supporting leaseholders, while preserving freeholders' rights.

4.11 Respondents who selected Option 2 as their least preferred option tended to argue for ground rents to be reduced to a peppercorn, or for the leasehold system to be abolished, rather than against the specific details of the proposal set out in Option 2. Further details of what was heard about the advantages and disadvantages of Option 2 are set out below.

*Table 4.5: Ranking options - Option 3 - Capping ground rents at a percentage of the property value*

Preference	Total	Percent	Responses by leaseholders		Responses by organisations				Responses by individuals	
					All organisations		... of which were freeholders and investors			
<b>1</b>	<b>120</b>	<b>1.4%</b>	72	1%	26	7.8%	11	9.1%	22	3.0%
<b>2</b>	<b>442</b>	<b>5.1%</b>	354	4.6%	33	9.8%	15	12.4%	55	7.4%
<b>3</b>	<b>773</b>	<b>8.8%</b>	718	9.4%	12	3.6%	7	5.8%	43	5.8%
<b>4</b>	<b>1,133</b>	<b>13.0%</b>	1049	13.7%	28	8.3%	8	6.6%	56	7.6%
<b>5</b>	<b>2,255</b>	<b>25.9%</b>	2144	28.0%	30	8.9%	6	5.0%	81	10.9%
<b>6</b>	<b>996</b>	<b>11.4%</b>	945	12.4%	7	2.1%	0	0.00%	44	5.9%
<b>Not answered</b>	<b>3,006</b>	<b>34.4%</b>	2365	30.9%	200	59.5%	74	61.1%	441	59.4%

4.12 Respondents who selected Option 3 as their preferred option considered that this proposal represented a fair and proportionate approach, achieving a compromise that would take account of the freeholder's investment.

4.13 In line with the responses received to Option 2, respondents who ranked Option 3 as their least preferred option argued that ground rent should not exist, due to leaseholders receiving no clear benefits in return, and called for the abolition of the leasehold system. Further details of what was heard about the advantages and disadvantages of Option 3 are set out below.

*Table 4.6: Ranking options - Option 4 - Capping ground rents at the original amount it was when the lease was granted*

Preference	Total	Percent	Responses by leaseholders		Responses by organisations				Responses by individuals	
					All organisations		... of which were freeholders and investors			
<b>1</b>	<b>263</b>	<b>3.0%</b>	241	3.2%	11	3.3%	7	5.7%	11	1.5%
<b>2</b>	<b>3,317</b>	<b>38.0%</b>	3158	41.3%	38	11.3%	5	4.1%	121	16.3%
<b>3</b>	<b>1,444</b>	<b>16.6%</b>	1343	17.6%	25	7.5%	4	3.3%	76	10.2%
<b>4</b>	<b>889</b>	<b>10.2%</b>	781	10.2%	39	11.6%	19	15.7%	69	9.3%
<b>5</b>	<b>266</b>	<b>3.1%</b>	205	2.7%	27	8.0%	11	9.1%	34	4.6%
<b>6</b>	<b>51</b>	<b>0.5%</b>	48	0.6%	0	0.0%	0	0.0%	3	0.4%
<b>Not answered</b>	<b>2,495</b>	<b>28.6%</b>	1871	24.5%	196	58.3%	75	62.0%	428	57.7%

4.14 Respondents who selected Option 4 as their preferred option argued that this would be a fair approach, as the capped and predictable cost would avoid future issues with saleability, while also considering freeholders' investments and responsibilities.

4.15 A number of respondents who selected Option 4 as their least preferred option argued that ground rents should be reduced to a peppercorn. The reasons for this were varied and included providing equality with new leases granted following the 2022 Act, ensuring that leases with high ground rents were not subject to the AST trap, and addressing the distress caused to leaseholders by high ground rents. Further details of what was heard about the advantages and disadvantages of Option 4 are set out below.

*Table 4.7 Ranking options - Option 5 - Freezing ground rents at current levels*

Preference	Total	Percent	Responses by leaseholders		Responses by organisations				Responses by individuals	
					All organisations		... of which were freeholders and investors			
<b>1</b>	<b>84</b>	<b>1.0%</b>	55	0.7%	13	3.9%	5	4.1%	16	2.2%
<b>2</b>	<b>477</b>	<b>5.5%</b>	424	5.5%	27	8.0%	12	9.9%	26	3.5%
<b>3</b>	<b>2,261</b>	<b>25.9%</b>	2123	27.8%	51	15.2%	18	14.9%	87	11.7%
<b>4</b>	<b>1,557</b>	<b>17.8%</b>	1444	18.9%	31	9.2%	6	5.0%	82	11.0%
<b>5</b>	<b>1,236</b>	<b>14.2%</b>	1152	15.1%	12	3.6%	2	1.7%	72	9.7%
<b>6</b>	<b>278</b>	<b>3.2%</b>	260	3.4%	2	0.6%	1	0.8%	16	2.2%
<b>Not answered</b>	<b>2,832</b>	<b>32.4%</b>	2189	28.6%	200	59.5%	77	63.6%	443	59.7%

4.16 Some respondents who selected Option 5 as their preferred option argued that this would be fair to both freeholders and leaseholders. Others made arguments around transparency and affordability, claiming for example that it would support budgeting and

prevent properties from becoming unmortgageable. While some respondents expressed a preference for the total abolition of the leasehold system, they expressed the view that capping ground rents would be preferable to current arrangements if abolition were not possible.

4.17 Respondents who selected Option 5 as their least preferred option tended to express the view that ground rent needs to be minimised or abolished, arguing that leaseholders receive no clear benefit for the ground rent that they pay and that high ground rents can cause issues with access to mortgage finance and the saleability of properties. Some argued that this put leaseholders who pay a ground rent at a disadvantage with regard to selling their property, compared to those whose leases were granted following the commencement of the 2022 Act. Further details of what was heard about the advantages and disadvantages of Option 5 are set out below.

*Issues raised by respondents to all ranking questions.*

4.18 Under Options 2 to 5, a number of respondents argued for the abolition of ground rent, along with wider reforms to land law, due to it constituting an unnecessary burden on leaseholders.

*Table 4.8 Ranking options - A different option to those listed*

Preference	Total	Percent	Responses by leaseholders		Responses by organisations				Responses by individuals	
					All organisations	... of which were freeholders and investors				
<b>1</b>	<b>632</b>	<b>7.2%</b>	345	4.5%	129	38.4%	66	54.6%	158	21.3%
<b>2</b>	<b>388</b>	<b>4.5%</b>	364	4.8%	6	1.8%	2	1.6%	18	2.4%
<b>3</b>	<b>199</b>	<b>2.3%</b>	179	2.3%	5	1.5%	2	1.6%	15	2.0%
<b>4</b>	<b>310</b>	<b>3.5%</b>	294	3.9%	1	0.3%	0	0.0%	15	2.0%
<b>5</b>	<b>279</b>	<b>3.2%</b>	261	3.4%	4	1.2%	3	2.5%	14	1.9%
<b>6</b>	<b>1,158</b>	<b>13.3%</b>	1085	14.2%	9	2.7%	2	1.7%	64	8.7%
<b>Not answered</b>	<b>5,759</b>	<b>66.0%</b>	5119	66.9%	182	54.1%	46	38.0%	458	61.7%

4.19 Respondents were also given the opportunity to select an option which was different from those listed. Many of these respondents objected to interference in property rights without adequate justification or compensation. Others argued that a variation of option 4 (capping ground rents at the original level when the lease was granted) where ground rents were capped at current levels would be preferred, as Option 1 (capping ground rents at a peppercorn) and Option 2 (capping ground rents at an absolute value) would disregard the agreement in the lease and result in a disproportionate reallocation of value from freeholders to leaseholders, with a negative effect on investors. Other respondents went on to suggest other alternative options to the five given in the consultation paper

4.20 Many of the professional freeholders and investors who selected a different option expressed a preference for an alternative option which they titled 'Option 6'. Under Option 6, on any review date under a lease, the ground rent for that review period would be calculated such that it would be the lower of:

- the ground rent payable as per the terms of the lease, or
- the starting ground rent when the lease was agreed, adjusted for historic RPI inflation (capped at 5% annualised).

4.21 Respondents who put forward this option argued that it built on Option 4 but would also preserve the real economic value of the original ground rent over time. These respondents argued that this solution would immediately deal with both historic and future unfair escalations in ground rents, by preventing them from exceeding a capped level of inflation while recognising the economic value of the original ground rent to the leaseholder in the reduced purchase price of their property.

4.22 Other popular options put forward included:

- - banning ground rent entirely, with some respondents going further and suggesting that leasehold should be banned as a form of tenure; capping ground rent at a low or nominal amount, with respondents suggesting amounts such as £5, £50, £100, and suggestions made that these small payments could be used by the freeholder for particular purposes that benefited the leaseholders;
- capping ground rents at £250, making the point that, as this was the AST limit, this would remove the AST trap from all properties;
- making an independent authority (for example a local authority responsible for setting and reviewing ground rents .

4.23 A small number of respondents considered that a move to commonhold for all properties would be an alternative approach, or to convert leasehold to freehold at low (or no) cost to leaseholders

4.24 Some of those opposed to any of the options did so on the basis that all caps interfered with property rights and existing contractual arrangements. A small number of respondents considered that an appropriate approach would be to take no action on ground rents, but to pursue only those freeholders who were abusing the current system. Aligned to this was a view that ground rents should remain as they are but that, if government were to proceed with reforming ground rents, then equity should apply, with both parties treated equally and the freeholder receiving fair compensation.

## **Impact of the options to cap ground rent**

### **Question 5: Please consider Option 1 of capping ground rent at a peppercorn.**

- A. Would capping ground rents at peppercorn have a positive, neutral or negative impact on the following groups: [leaseholders; freeholders / intermediate landlords; investors; mortgage lenders; wider property market]

- B. Please consider the impacts of a peppercorn cap on leaseholders.
- C. Please consider the impacts of a peppercorn cap on freeholders / intermediate landlords.
- D. Please consider the impacts of a peppercorn cap on investors – including local authorities, pension funds and others.
- E. Please consider the impacts of a peppercorn cap on mortgage lenders.
- F. Please consider the impacts of a peppercorn cap on the wider property market (developers, conveyancers, estate agents etc.).
- G. Imagine government chooses a peppercorn cap. Consider whether there should be a period of delay between the legislation passing and a peppercorn cap coming into force. Which of the following statements do you agree with the most?
- H. If you selected “I would prefer for there to be a period of delay before a peppercorn cap was introduced”, imagine that a peppercorn cap was introduced. What do you think would be the best time period between the law being passed and implementing the cap?
- I. Imagine that a peppercorn cap was introduced with a period of delay before implementation. Which of the following statements do you agree with the most?
- J. Imagine that the peppercorn cap was introduced. Are there any circumstances or types of property which should be subject to different transitional arrangements?

## SUMMARY OF RESPONSES

4.25 In response to Question 5A, respondents from across all stakeholder groups identified a number of benefits arising from Option 1 (capping ground rents at a peppercorn). Respondents argued that this would simplify the current ground rent regime and have a positive effect on the property market, making it more attractive and dynamic. They also identified a number of stakeholder specific benefits, relating to relationship dynamics, investment stability and lending risk.

4.26 The disadvantages arising from Option 1 raised by respondents primarily related to the impacts on freeholders and investors. The potential loss of income resulting from this option was identified as generating financial concerns amongst freeholders and investors. Related to this, both freeholders and investors expressed concerns relating to operational and investment challenges, including specific impacts on investment strategies.

### 5B. Leaseholder impacts

*Table 5B: Perceived impact of peppercorn cap on ground rents*

Option	Total	Percent	Responses by leaseholders		Responses by organisations				Responses by individuals	
					All organisations		... of which were freeholders and investors			
<b>Positive Impact</b>	<b>7,898</b>	<b>94.3%</b>	7391	97.6%	130	51.2%	27	27.8%	377	69.6%

<b>Neutral Impact</b>	<b>97</b>	<b>1.2%</b>	74	1.0%	11	4.3%	8	8.3%	12	2.2%
<b>Negative Impact</b>	<b>296</b>	<b>3.5%</b>	48	0.6%	101	39.8%	55	56.7%	147	27.1%
<b>Not sure</b>	<b>82</b>	<b>1.0%</b>	64	0.8%	12	4.7%	7	7.2%	6	1.1%

4.27 While many respondents thought there should be no ground rent at all, many accepted that a peppercorn cap would be better than the current arrangements. For these respondents, there was a high level of agreement that there would be significant **advantages of a peppercorn cap for leaseholders** and several key themes emerged.

#### Levelling the playing field

4.28 Respondents noted that the introduction of a peppercorn cap would put existing leaseholders on a level playing field with those who had new leases following the 2022 Act.

#### Making buying and selling simpler and faster

4.29 Leaseholder respondents said a peppercorn cap would make their properties easier to sell, and significantly simplify the buying and selling process by removing an issue that different lenders viewed as risky in different ways. This was a perspective which was supported by some property professionals, including a number of solicitors, conveyancers and managing agents. A number of respondents noted that it would mean that existing leaseholders could obtain more competitive mortgage rates. They argued that prospective buyers and solicitors would have confidence that there is no difference in status between new and existing leaseholders, and overall a peppercorn ground rent would support the housing market more generally. Moreover, it was said that leaseholders would be able to present definitive costings to potential buyers of the property and would also be able to sell the property at a market value determined by regular and normal sale and purchase criteria and supported by potential buyers' finance.

#### Reducing the burden on leaseholders

4.30 Respondents also noted that a peppercorn ground rent would enable them to budget more effectively, with no risk of unpredictable or unaffordable cost increases. Increased transparency of long-term costs was a key argument made by respondents. Others said that removing ground rent affordability issues would be beneficial as it would put money directly back into leaseholders' pockets. Leaseholders would be freed from annual ground rents for which they receive no service or benefit from the freeholders and would not be faced with uncertainty.

4.31 Another key theme was making the process of enfranchisement easier. Respondents who expanded on this theme commented that the enfranchisement system is currently unfair and heavily weighted in favour of the freeholder, is complex and also attracts high legal fees. They believed that making enfranchisement cheaper and easier for leaseholders via a peppercorn ground rent would be a major step in the right direction to better deliver a route that is already provided for in law.

4.32 The large majority of respondents to Question 5B on **disadvantages to leaseholders** were leaseholders themselves, who thought that there would be no disadvantages from a peppercorn cap (with many expressing their frustration at the current system). In stating this position, respondents voiced the view that it is a disadvantage to have a ground rent at all (even if this were a peppercorn), stating their preference for the total abolition of ground rent. Others raised concerns about the fairness of introducing a peppercorn cap to those who had already paid to enfranchise or extend their lease.

4.33 A number of respondents to Question 5B did outline some disadvantages.

#### Potentially increasing costs

4.34 Some raised the concern that the loss of income for freeholders would result in costs being passed on to leaseholders in other ways – for example, through administration fees, service charges, increased house prices or higher insurance costs. These responses were underpinned by general distrust in freeholders and their motivations, and the notion that they would be incentivised to offset a peppercorn cap elsewhere.

4.35 Respondents were also worried that a peppercorn cap would reduce freeholders' motivations to invest in the fabric of their properties, leading to reduced levels of maintenance and services. Others felt that there may be a consequential transfer of considerable liability, such as building safety costs, to leaseholders in the absence of a financially incentivised freeholder with the resources to meet them. Conversely, some respondents did not see this as an issue, as they felt that freeholders/intermediate landlords do not currently contribute to property maintenance.

4.36 Some respondents highlighted issues around compensation for landlords and concern that this could fall to leaseholders themselves.

#### The impact of freeholder insolvency on leaseholders

4.37 Concerns were raised that capping ground rents at a peppercorn without compensation would result in widespread insolvency of freeholders, causing those freeholds to be abandoned or revert to the Crown. Some felt that a peppercorn cap could cause an immediate and disorderly exit of professional freeholders from the market which would have negative consequences for leaseholders. These include potential termination of a property management contract, the freezing of ongoing maintenance works, an administration vacuum which would result in leaseholders being unable to obtain the information required to mortgage or sell their flat, and an increase in the reluctance of mortgage providers to lend on such properties. Others thought that solicitors may be unwilling to take on conveyancing instructions for fear of being unable to proceed without freeholder input. Several thought these issues would have a detrimental effect on marketability and property value.

#### Property management issues

4.38 Some argued that a peppercorn cap would result in a significant step back in terms of professionalising the sector. Respondents thought that a reduction in ground rent could result in a reduction in investment in the management and maintenance of blocks and the wider estate. Some made the point that these issues are likely to manifest for leaseholders with relatively lower wealth, as they may have fewer available funds to

obtain replacement professional support. Others highlighted that freeholders did not contribute to the property, so do not see this as an issue.

4.39 Some warned that leaseholders may end up with predatory, unprofessional freeholders who are incentivised to increase costs and could cause widespread disruption in terms of building management, building safety and provision of information to conveyancers when acting for buyers or sellers. Some freeholders warned this could result in ‘zombie buildings’, which have no stewardship from either the freeholder or leaseholders, and significantly reduced oversight regarding enforcement of safety standards and arbitration of resident disputes, and there will be no incentive to appoint professional, regulated managing agents.

4.40 Many professional freeholders reported that they had seen first-hand the struggles of getting leaseholders to engage on aspects of management. They argued that leaseholders are not equipped or qualified to make decisions on some of the more specialist subjects, such as health and safety.

#### 5C. Freeholder/intermediate landlord impacts of a peppercorn ground rent

Option	Total	Percent	Responses by leaseholders		Responses by organisations				Responses by individuals	
					All organisations		... of which were freeholders and investors			
<b>Positive Impact</b>	<b>1,088</b>	<b>13.0%</b>	1038	13.8%	4	1.6%	1	1.0%	46	8.5%
<b>Neutral Impact</b>	<b>2,431</b>	<b>29.1%</b>	2312	30.6%	18	7.1%	3	3.0%	101	18.6%
<b>Negative Impact</b>	<b>3,533</b>	<b>42.4%</b>	2951	39.1%	226	88.6%	95	96.0%	356	65.5%
<b>Not sure</b>	<b>1,294</b>	<b>15.5%</b>	1247	16.5%	7	2.7%	0	0.00%	40	7.4%

4.41 Overall, in response to Question 5C on the impact of Option 1 on freeholders/intermediate landlords, there was widespread acceptance from respondents that there would be losses for freeholders but with a major split in views about whether this was reasonable or lawful. The majority of respondents to this question were leaseholders. While a number of respondents identified negative impacts on freeholders/intermediate landlords’ revenue, they expressed limited sympathy. This was largely due to the view of leaseholders that they have been exploited by freeholders for too long, with current arrangements being described as “feudal”. Leaseholders were particularly critical of specialist offshore companies which have bought up freeholds.

4.42 For those who identified **advantages of a peppercorn cap for freeholders**, many respondents thought that a peppercorn ground rent would be fairer and increase certainty, reducing disputes between freeholders and leaseholders and resulting in more harmonious relationships.

#### Revenue and investments

- 4.43 Others argued that this would reduce administrative costs for freeholders/intermediate landlords, delivering operational efficiencies. Some argued that it would improve affordability and make leasehold properties easier to buy and sell, with freeholders benefitting from increased investment in the sector.
- 4.44 While it was acknowledged that some freeholders might exit from the market in response to a peppercorn cap being introduced, a number of respondents thought that this could be a positive move, as investment may then be redirected into more economically productive and socially useful activities. However, there was also a view that ‘bad’ freeholders might simply find another way to replace lost revenue streams.
- 4.45 The primary **disadvantage to freeholders/intermediate landlords** expressed in response to Question 5C related to the anticipated loss of income from ground rents, as this would affect freeholders’ financial planning and stability. The need for operational adjustments and exploring new revenue models was identified in response to this.
- 4.46 Some freeholders identified issues around the impact of option 1 on asset values, and the consequent likely friction with investors and pension funds, asset write-offs, cashflow shortfalls, the viability of portfolios and the possibility of freeholders failing to discharge their lease obligations, especially in terms of maintenance and compliance with the BSA.
- 4.47 Other respondents predicted that institutional investors would leave the sector, and that there would be loan call-ins and redundancies, and a possible collapse in pension funds and the freehold market.
- 4.48 It was also apparent that there were a number of different business models that would be impacted in various ways. Small business owners who had built up ground rents businesses were concerned that they would be wiped out. Similar concerns were raised about organisations who had borrowed with securitisation based on incomes from ground rents that would now be devalued, and about intermediate landlords such as freehold management companies who own the freeholds of buildings on behalf of their leasehold members.
- 4.49 Some respondents referred to the loss of property rights or the appropriation of assets and called for compensation if Option 1 were implemented. They raised the possibility of legal challenges being brought on human rights grounds.
- 4.50 In contrast, there were numerous complaints from leaseholders about previous failures and poor value from the ground rent system. Leaseholders expressed views that many of the freehold companies and investors knew what they were getting into and had therefore accepted the risk that reform would come one day. They argued that freeholders had made large profits in the intervening period while providing poor value to leaseholders – several companies were mentioned repeatedly as egregious offenders in this regard – and that implementing a peppercorn cap would prevent freeholders from being able to make ‘money for nothing’.

5D. Investor impacts of a peppercorn ground rent

Option	Total	Percent		Responses by organisations	
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			Responses by leaseholders		All organisations		... of which were freeholders and investors		Responses by individuals	
<b>Positive Impact</b>	<b>1,939</b>	<b>22.7%</b>	1858	24.6%	9	3.3%	2	2.0%	72	10.2%
<b>Neutral Impact</b>	<b>2,745</b>	<b>32.2%</b>	2613	34.7%	21	7.7%	0	0.0%	111	15.8%
<b>Negative Impact</b>	<b>2,054</b>	<b>24.1%</b>	1376	18.2%	227	828%	95	96.0%	451	64.1%
<b>Not sure</b>	<b>1,786</b>	<b>21.0%</b>	1699	22.5%	17	6.2%	2	2.0%	70	9.9%

4.51 A plurality of respondents thought that impact would be overall neutral and, when explaining this opinion, said that ground rent forms a small part of investment or income, and that pension and investment funds are well diversified.

4.52 In response to Question 5D, on the **advantages of a peppercorn cap on investors**, respondents expressed the view that the elimination of ground rents would contribute to a more stable and predictable financial environment for property investments – generally this argument seemed to relate most to buy-to-let investors and mortgage investors. Related to this, some respondents argued that removing ground rent would make investments more straightforward, therefore appealing to a broader base of potential investors. Some respondents argued that Option 1 would ensure alignment with public opinion and wider legislation relating to ground rents.

#### Ethical investments

4.53 Although only a relatively small number of respondents mentioned ethics specifically, this was a general theme across a number of respondents, who felt that investors should not be investing in the buying and selling of residential freehold as a profit-making enterprise. Investors were wrong to look at residential leases as a source to maximise their income by drawing a profit without clear service from other people's homes.

#### Investment and growth

4.54 Many respondents thought that Option 1 would have a generally positive impact on private property investors in leasehold properties. It was suggested that the introduction of a peppercorn cap would result in a more liquid market and better investments. A healthy housing market was seen as being one impact of a peppercorn cap, and this would provide a good environment for investors, with a larger pool of properties available for them to invest in, freeing up a free market for future investment and creating a buoyant housing market.

4.55 In relation to local authorities, some respondents noted that local authority ground rent is generally low, and so a peppercorn ground rent would not impact local authorities negatively. It was thought that there were likely to be some positive impacts for local authorities from a decision to cap ground rent at a peppercorn. These fell into two main areas – first, improved prosperity (with local residents having more money in their pockets to spend, impacting well on the economy/local economy as a whole). Secondly,

some respondents suggested that local authorities would benefit from the wider improvements in the housing supply that might result.

4.56 Some leaseholders who commented on the impact on pensions did not consider that the impact would be significant, as pensions have only small amounts of their assets invested in ground rents. Moving those funds that are currently in ground rents was seen to be a positive move from respondents – with other investment vehicles seen as being more aligned with economic and social good and corporate social responsibility requirements (which were seen to be an uncomfortable fit with ground rent investments). This was a view that was strongly contested by some large investors and pension fund insurers, who had significant concerns around the impact on pension investments.

4.57 A large number of respondents acknowledged there would be an impact on freeholders, though little sympathy was expressed for this – with a view that freeholders had ample warning that changes were on the way, and that they had been taking ‘money for nothing’ for some time, and that it was right that this should cease.

4.58 On the **disadvantages of Option 1 for investors**, respondents argued that this would have a direct impact on financial returns from property investments.

Investment and exposure

4.59 Respondents expressed concern about the potential for increased investment risk and uncertainty resulting from the changes. They also identified the need for investors to adapt their investment strategies to align with a loss of income and any impact on wider market dynamics, as well as their operational approaches.

4.60 Some thought that investors’ ability to fund their obligations, such as debt and overhead costs where ground rent income makes a contribution, would be challenged. These investors could also be left as captive owners of interest in land with zero economic value, yet major liability and management responsibility. The investor may struggle to sell or even give away the asset as there would be no one willing to take them on.

4.61 Some made the point that buy-to-let investors, including those who own property in more expensive areas, would be major beneficiaries. The argument was that these investors would receive a windfall at the expense of other investors.

4.62 Responses noted that the retrospective interference with long-term contracts and wholesale appropriation of value from investors would discourage future investment, with an impact on consumer confidence wider than the property sector alone. Others suggested that this measure would impact on international trade and investment.

5E. Mortgage lender impacts from a peppercorn ground rent

Option	Total	Percent	Responses by leaseholders	Responses by organisations		Responses by individuals
				All organisations	... of which were freeholders	

							and investors			
<b>Positive Impact</b>	<b>6,574</b>	<b>78.9%</b>	6210	82.3%	70	28.1%	6	6.3%	294	54.4%
<b>Neutral Impact</b>	<b>876</b>	<b>10.5%</b>	770	10.2%	40	16.1%	15	15.6%	66	12.2%
<b>Negative Impact</b>	<b>330</b>	<b>4.0%</b>	56	0.7%	123	49.4%	72	75.0%	151	28.0%
<b>Not sure</b>	<b>554</b>	<b>6.6%</b>	509	6.8%	16	6.4%	3	3.1%	29	5.4%

4.63 Several respondents argued that Option 1 would have a neutral impact on mortgage lenders, due to their indirect relationship with ground rent arrangements – although there was recognition that any impact on broader property market dynamics could influence lending practices over time.

4.64 Mortgage lenders also indicated confidence in their ability to manage any potential indirect impacts through their existing operational and risk assessment frameworks.

4.65 In response to Question 5E, respondents identified **the advantages of a peppercorn cap to mortgage lenders.**

#### Reducing risk for lenders

4.66 Respondents expressed the view that simplifying aspects of property ownership could make the mortgage process more predictable and stable. In addition, respondents argued that reducing financial burdens on leaseholders might lower the risk of defaults. Finally, respondents identified potential benefits for mortgage lenders arising from the positive impact on property market dynamics, on the assumption that properties without significant ground rent obligations could be valued more highly and transacted more easily.

#### Simplifying the market

4.67 Related to the above, respondents identified the scope for operational efficiencies within the lending process, as complex ground rent arrangements would no longer need to be considered.

4.68 There were also a number of **disadvantages identified for investors.**

#### Market disruption

4.69 Several respondents thought that such a wide-ranging reform could create a lack of clarity around future freehold ownership structure, which could impact the housing market and the level of transactions over the coming years.

4.70 Some similar arguments were articulated in response to Question 5C (on the impact on freeholders and intermediate landlords), but with a greater focus on the impact on the values of freeholds and the consequent effect on relationships between freeholders and lenders. There were a number of concerns raised that peppercorn ground rents would affect asset values which would impact on willingness to lend, loan to value ratios, interest rates and uncertainty. Some respondents argued that there might have to be adjustments in the mortgage market and renegotiation of loan terms, and that investor confidence might be affected, which could result in portfolio divestment. Related issues

mentioned by respondents included lower yields, risk assessment changes, loan securitisation and ultimately possible breaches of contract and loan defaults.

#### Impact of freeholder withdrawal on mortgage lenders

4.71 A number of responses mentioned that institutional investor freeholders might be made insolvent or may exit the market. Mortgage lenders rely on professional freeholders to ensure ongoing enforcement of covenants within the lease, which in turn underpins the value and long-term security of the interest in their loans. Without this support from professional freeholders, there would be significant disruption in the housing market. Respondents argued that this could lead to a loss of their stewardship role in arranging the insurance and maintenance of buildings, and in responding to lenders' questions about leases. They argued that this could create problems both around the physical condition of buildings and the speed of housing market transactions and undertaking of other lease compliance checks. The BSA was also mentioned in this context. They argued that these issues could create unsellable flats and cause significant disruption to the residential property market.

4.72 It is also noted that the introduction of the BSA has caused significant practical issues within the residential conveyancing industry, with uncertainty amongst solicitors and their insurers leading to those conveyancing solicitors considering withdrawing from the sector and refusing to act for leaseholders in such transactions. The removal of professional freeholders would exacerbate these concerns amongst solicitors and insurers, in turn causing issues for lenders.

#### 5F. Wider property market impacts of a peppercorn ground rent

Option	Total	Percent	Responses by leaseholders		Responses by organisations				Responses by individuals	
					All organisations		... of which were freeholders and investors			
<b>Positive Impact</b>	<b>5,917</b>	<b>71.0%</b>	5614	74.4%	52	20.8%	3	3.1%	251	46.5%
<b>Neutral Impact</b>	<b>1,132</b>	<b>13.5%</b>	1011	13.4%	41	16.4%	15	15.5%	80	14.8%
<b>Negative Impact</b>	<b>539</b>	<b>6.5%</b>	229	3.0%	136	54.4%	74	76.3%	174	32.2%
<b>Not sure</b>	<b>746</b>	<b>9.0%</b>	690	9.2%	21	8.4%	5	5.1%	35	6.5%

4.73 In response to Question 5F, on **the advantages of option 1 on the wider property market**, several themes emerged.

#### Removal of two-tier system

4.74 Some thought that introducing a peppercorn cap for older ground rents would help avoid a two-tier system for leasehold properties whereby those for which a ground rent is required are harder to sell than those without, putting existing leasehold properties on a level playing field with buildings with new leases granted following the 2022 Act.

### Simplifies the market for property professionals and consumers

- 4.75 A significant number of respondents suggested that implementing Option 1 would simplify property transactions, delivering benefits for a range of stakeholders across the wider property sector, notably resolving issues regarding access to mortgage finance and increasing leasehold attractiveness to potential buyers. Some responses noted that a peppercorn ground rent would reduce the cost of ownership, making the market more affordable and liquid.
- 4.76 Some respondents argued that increased market confidence in leasehold properties would increase the demand for flats, stimulating development to meet housing needs and increasing opportunities for first-time buyers. Others argued that an increase in the number of transactions and confidence in the leasehold tenure would contribute to a more efficient use of housing stock at population level – for example, through enabling people to sell their flats when they have become too small for their family and ‘trade up’ to larger accommodation, and encouraging older people to move out of larger homes and into flats.
- 4.77 Respondents argued that capping ground rents at a peppercorn would increase revenue for estate agents, by enabling them to sell leasehold properties more quickly and reducing the number of sales falling through. For conveyancers, respondents expressed the view that the demands on them would be reduced, as they would no longer need to explain complex ground rent terms or develop worked examples to support this, nor would they need to engage with freeholders to secure a deed of variation in relation to ground rent terms.
- 4.78 Views on the benefits for developers were more mixed. Some respondents indicated that Option 1 would support a more positive public perception of the property market, arguing that this would enable developers to sell properties more quickly and encourage investment into real estate. It was noted that developers would lose an income stream, although this would only apply to leases granted before the 2022 Act came into force for which they continue to own the freehold. It was suggested that this could drive innovation in the sector, through driving developers to explore new business models and revenue streams.
- 4.79 On the **disadvantages of Option 1 for the wider property market**, there were many similarities with the responses to Questions 5C and 5E regarding the impacts on freeholders and mortgage lenders. A large number of respondents said either that there would be little or no impact or that the industry should have foreseen reform.
- 4.80 However, there were equally strong representations from the industry, identifying potential impacts arising from the decline in freehold values, and the consequent effects on certain key stakeholders (including property developers, local authorities and solicitors/conveyancers) as well as freeholders.

### Market disruption

- 4.81 Some argued that rent owners will have little or no incentive to assist in any sale of purchase if no rent is payable. Concerns were also raised over forced liquidation of freeholders and the impact this will have on the saleability and management of properties. A peppercorn cap also has the potential to trigger significant uncertainty and

change in freehold ownership, on a wholesale basis, the clarity around which would then impact on the rate of sales.

- 4.82 A number of respondents suggested that property costs may rise with more upfront costs as freeholders could no longer charge higher ground rents (although this might have already been the case for new leases subject to the 2022 Act). However, there was talk about a period of adjustment to financial and business models to take account of the change due to the impact on funding streams, assets values and viability.
- 4.83 Concerns were expressed around insolvency and that property managers would acquire more responsibility by having to take on responsibilities that the freeholders used to deal with using ground rent income. This increase in services and responsibility may be reflected in greater costs to the service charge which is further subject to VAT. Should such costs be capped to an uneconomic level, this may lead to managers potentially withdrawing from the market.
- 4.84 Some respondents raised the possibility that property developers' finances would be affected negatively, suggesting that a transitional period would be needed to enable them to adjust their financial and business models, to take account of the impact on funding streams, assets values and viability. Respondents also raised the possibility of legal challenges being brought against this option, including under the Human Rights Act 1998 (HRA) and the European Convention on Human Rights (ECHR), and this delaying certainty for the sector.
- 4.85 The issue of building stewardship arose, as did the possibility of staff cuts and insolvency for some freeholders and organisations responsible for head leases. This was linked to issues around building safety, maintenance, zombie or 'orphan' buildings, insurance, and the possibility that disreputable players may try to enter the market as some freeholders were liquidated and other institutions chose to leave.
- 4.86 Reduced fees and increased risks for conveyancers and estate agents were also highlighted, together with the possible need for government intervention. Responses also flagged that this measure would have significant consequences for thousands of people who are employed by institutional freeholders and associated sectors.
- 4.87 Responses noted that, from experience, leaseholders of large blocks do not want to take on the management responsibility, with many leaseholders ill-equipped, inexperienced or lacking time to perform this role. While residents may appoint a managing agent to undertake the practical implementation of the upkeep of the building, managing agents still need to take instructions from those who own the freehold, who will be the responsible party. It is likely that leaseholders will be less adept at requiring the right qualifications and requirements from managing agents than an institutional investor. Points were also made that leaseholders would be expected to take on the role of professional freeholders, and that this will inevitably heighten tensions and lead to greater decline in job satisfaction for those managing the building on their behalf. This may result in qualified and professional staff exiting the sector.
- 4.88 Some pointed to the effect of professional freeholders exiting the market or liquidating, and that freehold assets will transfer to the Crown under the Bona Vacantia rules. They

thought that neither the department nor His Majesty's (HM) Land Registry are equipped to deal with this situation or with subsequent registrations.

#### Property prices/increased costs

4.89 Some respondents noted that requiring existing leases to be set at a peppercorn could push up the cost of leasehold flats in the market. This may add to the difficulties faced by first-time buyers in finding somewhere to buy, particularly with historically high interest rates. This may also make it more expensive for those households looking to downsize and make it harder for people to move out of rented accommodation into a leasehold property. Further, issues with orphaned buildings may mean that a large number of flats will be unsaleable, unless the Crown or the government steps in to manage those buildings.

4.90 Another response noted that a peppercorn cap would almost certainly result in additional costs and a general drop in standard for leaseholders, as lower standard actors would fill the void left by institutional investors and professional freeholders. Alternatively, to avoid a big rise in service charges, necessary elements in the charge may be stripped out or work may be carried out to a less comprehensive or qualified standard.

#### 5g. Transitional period in a peppercorn cap scenario

4.91 Question 5G asked respondents for their views as to whether there should be a period of delay between the legislation passing and a peppercorn cap coming into force (if the government were to take this option forward).

Option	Total	%	Responses by leaseholders		Responses by organisations				Responses by individuals	
					All organisations	... of which were freeholders and investors				
<b>Immediate implementation of a peppercorn cap (once the necessary legislation had passed)</b>	<b>7,503</b>	<b>88.0 %</b>	7128	94.3 %	60	21.6%	3	3.1%	315	45.6 %
<b>A period of delay before a peppercorn cap was introduced</b>	<b>339</b>	<b>4.0 %</b>	293	3.9%	26	9.3%	5	5.1%	20	2.9%
<b>Do not support a peppercorn cap on ground rents, regardless of any period of delay</b>	<b>683</b>	<b>8.00 %</b>	135	1.8%	192	69.1%	90	91.8%	356	51.5 %

4.92 There was a clear split in views. The vast majority of leaseholders wanted an immediate implementation, whereas other stakeholders who wanted a cap were more

evenly split between an immediate implementation and having an adjustment period to soften the impact of the change. Freeholders and investors were overwhelmingly unsupportive of a peppercorn cap irrespective of the implementation period.

4.93 Some freeholders and other stakeholders feared insolvency and wanted time to prepare for the change. They also cited the loss of pension investments and the viability of their business that would result from immediate implementation. They argued that fairness was an issue and also wanted an opportunity for compensation to be discussed. Some suggested that a more proportionate, less market-disruptive and less financially onerous remedy would be to avoid a cap and instead target high-profile action against bad actors, pursue professional negligence against solicitors who failed to make clients aware, and conduct a consumer awareness campaign on leaseholder responsibilities, common terms and risks.

4.94 Leaseholders provided a number of reasons for immediate implementation, including:

- debt traps;
- leaseholders in very difficult situations;
- uncertainty caused by delay, and the risk of unscrupulous freeholders increasing ground rents in the meantime;
- leaseholders who were desperate to sell properties but unable to, due to transactions being delayed by uncertainty over costs;
- leaseholders facing imminent increases or doubling of ground rent, allowing freeholders to charge them more money if there was a delay to implementation;
- boosting the market allowing for quicker sales;
- the already long delay to reform.

#### 5H. How long should a transition to peppercorn be?

Option	Total	Percent	Responses by leaseholders		Responses by organisations				Responses by individuals	
					All organisations		... of which were freeholders and investors			
<b>6 months</b>	<b>688</b>	<b>12.3%</b>	654	12.7%	6	3.3%	0	0.00%	28	9.5%
<b>1 year</b>	<b>233</b>	<b>4.2%</b>	213	4.2%	9	4.9%	1	1.4%	11	3.7%
<b>3 years</b>	<b>74</b>	<b>1.3%</b>	67	1.3%	3	1.7%	0	0.00%	4	1.4%
<b>5 years</b>	<b>25</b>	<b>0.4%</b>	18	0.4%	4	2.2%	0	0.00%	3	1.0%
<b>More than 5 years</b>	<b>44</b>	<b>0.8%</b>	19	0.4%	16	8.7%	11	15.3%	9	3.0%
<b>Not applicable</b>	<b>4536</b>	<b>81.0%</b>	4151	81.0%	145	79.2%	60	83.3%	240	81.4%

4.95 Around a quarter of respondents to Question 5G went on to answer Question 5H. Of those, leaseholders reiterated their view that there should be no delay, and a number of respondents referred to their previous answer(s).

4.96 Of those who favoured a delay, there was no clear consensus as to how long this should be. Numerous respondents who favoured a delay suggested a range of adjustment periods of anything between 6 months and 5-7 years, but there was no clear consensus or emerging theme. Other suggestions included: an adjustment period of up to 50 to 70 years; a delay for as long as the development of any compensation scheme would take; 60 years if there were to be no compensation scheme; or for as long as legal action would take.

4.97 A range of reasons were given by respondents in favour of a delay, ranging from health issues being suffered by leaseholders, through a range of financial and other impacts. However, even where leaseholders gave broadly the same rationale for a delay, the length of the suggested delay varied considerably.

5I. Should ground rents increase during a transition to peppercorn?

Option	Total	Percent	Responses by leaseholders		Responses by organisations				Responses by individuals	
					All organisations		... of which were freeholders and investors			
The value of ground rents should be frozen during the period of delay	7,815	94.2%	7397	98.3%	79	33.9%	8	9.4%	339	63.3%
Ground rents should continue as they are, including the potential to increase, until the new cap is implemented	480	5.8%	129	1.7%	154	66.1%	77	90.6%	197	36.7%

4.98 There was a clear split between leaseholders and freeholders/investors on whether ground rents should be allowed to rise during any delay to implementation. Leaseholders were clear that the value of ground rents should be frozen, whereas freeholders and investors were equally clear that a rise in value should be allowed.

5J. Should there be any circumstances or types of property which should be subject to different transitional arrangements?

Option	Total	Percent		Responses by organisations	
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			Responses by leaseholders		All organisations		... of which were freeholders and investors		Responses by individuals	
<b>Yes</b>	<b>547</b>	<b>6.6%</b>	285	3.8%	102	44.2%	40	48.2%	160	29.9%
<b>No</b>	<b>7,766</b>	<b>93.4%</b>	7261	96.2%	129	55.8%	43	51.8%	376	70.1%

4.99 Respondents to Question 5J identified a variety of circumstances and property types which they considered should be subject to different transitional arrangements if a peppercorn cap were implemented.

4.100 A number of respondents suggested that a longer transitional period may be necessary in cases where ground rent is used for particular services or wider benefits. Examples included upkeep on the common parts of a building, remediating building safety issues and contributing to historical, heritage or environmental maintenance (such as for properties in conservation areas). Some respondents acknowledged that, while it may be possible for freeholders to meet these costs through a service charge, a longer transitional period may be needed to implement new arrangements. Related to this, a number of respondents expressed the view that a transitional period would not be necessary for houses, because the ground rent was not being spent on services for residents. In other cases, respondents identified that freeholders may have ongoing financial obligations – for example, servicing the debt taken out to finance the purchase of the freehold – and that a longer transitional period would be needed to enable them to meet these obligations and avoid disruption to the services provided to leaseholders.

4.101 Some respondents argued that particular categories of freeholder should be subject to different transitional arrangements. Various responses suggested that a longer transitional period would be justified where the freeholder is a local authority, UK government body, charity or pension fund. In some cases, respondents expanded on their reasons for this – for example, stating that local authorities do not charge excessive ground rents and use this income to deliver local services. Others identified that the Crown Estate would lose considerable income, based on which a longer transitional period could be justified.

4.102 In other cases, respondents suggested that the transitional period should be based on the level of ground rent. Several respondents suggested that a cap should be implemented more quickly for high or escalating ground rents, or that the transition could be more gradual for relatively low ground rents or where leaseholders have benefited from artificially low premiums for lease extensions in return for paying a higher ground rent. Other respondents called for the transitional period to be determined by leaseholder characteristics or the value of their property, suggesting variously that a longer transitional period would be justified for ‘wealthy’ leaseholders, properties of a higher value and properties that are not owner-occupied.

4.103 Some respondents argued that a longer transitional period might be required for more complex lease arrangements – for example, for shared ownership properties or where there are intermediate leases. A number of respondents referred to cases where leaseholders have collectively enfranchised, arguing that resident management

companies may require a longer transitional period in cases where they rely on ground rent from non-participating units as their only source of income.

4.104 Finally, some respondents suggested that retirement properties should be subject to different transitional arrangements. Views on this varied: some respondents were in favour of a peppercorn cap being implemented immediately for such properties, while others argued for a longer transitional period, due to reliance on ground rent to provide communal activities and services and residents having benefited from artificially low purchase prices in return for higher ground rents.

**Question 6: Please consider Option 2 of capping ground rent at an absolute value. Please think about the impacts that this cap would have on: [leaseholders; freeholders / intermediate landlords; investors; mortgage lenders; wider property market]**

- A. Please consider whether this cap would have a positive, neutral or negative impact on the following groups: [leaseholders; freeholders / intermediate landlords; investors; mortgage lenders; wider property market]
- B. Considering those impacts, what are the advantages of a cap at an absolute value? Please explain your answer with reference to the key groups listed above and the scale of the advantageous impacts.
- C. Considering those impacts, what are the disadvantages of a cap at an absolute value? Please explain your answer with reference to the key groups listed above and the scale of the disadvantageous impacts.
- D. What should the absolute value figure be (£)?
- E. What do you think would be the best time period between the law being passed and implementing the cap?
- F. Imagine that the absolute value cap was introduced. Are there any circumstances or types of property which should be subject to different transitional arrangements?

**SUMMARY OF RESPONSES**

*6A. Leaseholder impacts of capping ground rent at an absolute value*

Option	Total	Percent	Responses by leaseholders		Responses by organisations				Responses by individuals	
					All organisations		... of which were freeholders and investors			
<b>Positive Impact</b>	<b>2,737</b>	<b>32.8%</b>	2,468	32.7%	87	35.1%	27	28.1%	182	33.8%

<b>Neutral Impact</b>	<b>820</b>	<b>9.9%</b>	758	10.0%	22	8.9%	9	9.4%	40	7.4%
<b>Negative Impact</b>	<b>3,734</b>	<b>44.8%</b>	3,371	44.7%	103	41.5%	45	46.9%	260	48.2%
<b>Not sure</b>	<b>1,044</b>	<b>12.5%</b>	951	12.6%	36	14.5%	15	15.6%	57	10.6%

6A. Freeholder/intermediate landlord impacts of capping ground rent at an absolute value

Option	Total	Percent	Responses by leaseholders		Responses by organisations				Responses by individuals	
					All organisations	... of which were freeholders and investors				
<b>Positive Impact</b>	<b>2,477</b>	<b>29.7%</b>	2,350	31.2%	13	5.3%	2	2.1%	114	21.1%
<b>Neutral Impact</b>	<b>2,238</b>	<b>26.9%</b>	2,104	27.9%	26	10.5%	5	5.2%	108	19.9%
<b>Negative Impact</b>	<b>1,882</b>	<b>22.6%</b>	1,451	19.2%	178	72.1%	82	84.5%	253	46.8%
<b>Not sure</b>	<b>1,734</b>	<b>20.8%</b>	1,638	21.7%	30	12.1%	8	8.2%	66	12.2%

6A. Investor impacts of capping ground rent at an absolute value

Option	Total	Percent	Responses by leaseholders		Responses by organisations				Responses by individuals	
					All organisations	... of which were freeholders and investors				
<b>Positive Impact</b>	<b>1,551</b>	<b>18.2%</b>	1,462	19.4%	12	4.4%	3	3.0%	77	11.0%
<b>Neutral Impact</b>	<b>2,838</b>	<b>33.3%</b>	2,678	35.5%	27	9.9%	2	2.0%	133	18.9%
<b>Negative Impact</b>	<b>2,002</b>	<b>23.5%</b>	1,403	18.6%	197	72.5%	84	84.9%	402	57.2%
<b>Not sure</b>	<b>2,127</b>	<b>25.0%</b>	2,000	26.5%	36	13.2%	10	10.1%	91	12.9%

6A. Mortgage lender impacts of capping ground rent at an absolute value

Option	Total	Percent	Responses by leaseholders		Responses by organisations		Responses by individuals	
					All organisations	... of which were freeholders		

							and investors			
<b>Positive Impact</b>	<b>2,216</b>	<b>26.6%</b>	2,040	27.1%	40	16.4%	4	5.2%	136	25.3%
<b>Neutral Impact</b>	<b>1,706</b>	<b>20.5%</b>	1,564	20.7%	48	19.7%	18	18.8%	94	17.5%
<b>Negative Impact</b>	<b>2,750</b>	<b>33.0%</b>	2,400	31.8%	114	47.1%	61	63.5%	235	43.7%
<b>Not sure</b>	<b>1,652</b>	<b>19.9%</b>	1,538	20.4%	41	16.8%	12	12.5%	73	13.5%

6A. Wider property market impacts of capping ground rent at an absolute value

Option	Total	Percent	Responses by leaseholders		Responses by organisations				Responses by individuals	
					All organisations		... of which were freeholders and investors			
<b>Positive Impact</b>	<b>2,057</b>	<b>24.7%</b>	1,909	25.3%	32	13.2%	5	5.3%	116	21.6%
<b>Neutral Impact</b>	<b>1,693</b>	<b>20.3%</b>	1,538	20.4%	50	20.5%	21	22.1%	105	19.5%
<b>Negative Impact</b>	<b>2,820</b>	<b>33.9%</b>	2,459	32.6%	121	49.8%	56	58.9.0%	240	44.6%
<b>Not sure</b>	<b>1,755</b>	<b>21.1%</b>	1,638	21.7%	40	16.5%	13	13.7%	77	14.3%

6b. Advantages of Option 2 – an absolute maximum value cap

4.105 A significant number of respondents expressed the view that this option would provide increased certainty and transparency of costs. This was identified as benefitting leaseholders primarily, through enabling effective budgeting, providing peace of mind and reducing the risk of forfeiture. Some respondents identified that this would tackle the most onerous and egregious ground rents – for example, those with doubling clauses – and would ensure that ground rents were affordable. Some respondents identified that the burden to leaseholders would reduce in real terms over time, due to the impact of inflation. Others expressed concerns that freeholders would be encouraged to increase the ground rent payable to the cap level as soon as possible, which could present an additional financial burden for leaseholders.

4.106 Some respondents argued that Option 2 would deliver an unjustified ‘windfall gain’ to leaseholders, regardless of their status or wealth. Nevertheless, some respondents identified benefits from Option 2 for freeholders and investors – although these were often framed as being advantages compared to the position that would result from a peppercorn cap, rather than in their own right. Respondents identified that freeholders would still be able to charge ground rents for no clear service in return, with investments retaining some of their value.

- 4.107 Some argued that the clarity of an absolute cap would deliver increased administrative efficiencies for freeholders and more harmonious relationships between them and freeholders, due to increased fairness. Similarly, a small number of respondents suggested that this could improve the reputation of investors.
- 4.108 Similarly to Question 5, a number of respondents expressed the view that this option would increase both market confidence and mortgage availability for leasehold properties, making it easier to sell properties with ground rents – although others identified that there would still be a two-tier market between leases granted before and after the 2022 Act. Some suggested that conveyancing would be easier, due to clearer, simpler and more consistent ground rent.
- 4.109 A significant number of respondents stated that the advantages of Option 2 would depend on the level of cap set. Some suggested that, if the cap were set at a low level, the impact would be similar to a peppercorn cap. Others suggested that a cap should be set below the level at which a lease would become an AST, to avoid issues relating to mortgage finance and potential forfeiture arising from this. One respondent identified that setting the cap above the level of ground rent charged on former right-to-buy properties (£10 per year) would mitigate the impact on local authorities, compared to a peppercorn cap.
- 4.110 Some respondents suggested that there would be no, or very limited, advantages to Option 2, compared to implementing a peppercorn cap.

#### 6c. Disadvantages of Option 2 – an absolute maximum value cap

- 4.111 In response to Question 6C, on the disadvantages of capping ground rents at an absolute value, a number of respondents indicated that the benefits of this option for leaseholders would be comparatively lower than those arising from Option 1 (capping ground rents at a peppercorn). Respondents expressed concerns that, depending on the level of cap, leaseholders could continue to face high ground rents, which would not address the problems with existing arrangements (for example, unaffordable payments and being ‘trapped’ due to issues selling their properties). Leaseholders expressed the view that an absolute cap would not tackle the fundamental problem of ‘feudal’ ground rents. Some respondents expressed the view that an absolute cap could present legal and regulatory challenges – for example, adding additional complexity to property transactions.
- 4.112 A high number of respondents said that it was very difficult to assess the pros and cons of such a cap unless they knew who would set the cap, what level it would be set at and whether there would be any inflation uplifts. There was also concern as to whether it was equitable for a single level of cap to be implemented across England and Wales, when property values vary so much in different locations. Some expressed concerns that setting an absolute cap might encourage landlords to raise ground rents to this level as quickly as possible; others expressed concerns that they might increase fees, such as service charges, to compensate for loss of income. A number of respondents raised the issue of the AST trap and argued that, if a cap were set at a level which created an AST, it would be necessary to amend the Housing Act 1988 to reflect this.

4.113 A number of respondents raised concerns about the potential negative effect of an absolute cap on market dynamics, which could affect investments and property values. Specific points raised included the impact on incomes, freehold values, financial markets and the viability of companies, as well as the risk that freeholders would be less motivated to undertake building stewardship functions. Other respondents raised concerns that this option would result in the continuation of a two-tier market for leasehold properties, due to leases granted after the 2022 Act came into force being more attractive to buyers.

4.114 Other concerns that were mentioned included the following:

- market distortions due to a glut of properties entering the market if freeholders tried to exit the market before a cap came into force;
- legal challenges and compensation claims, with the likelihood of these increasing if a cap were set at a low level;
- possible impacts on lease extension costs and issues around headleases;
- impacts on the market for leasehold flats.

6d. How much should the absolute maximum value be?

4.115 Question 6D asked respondents to provide views as to the level at which a cap should be set, if the government were to implement this option.

Option	Total	Percent	Responses by leaseholders		Responses by organisations				Responses by individuals	
					All organisations		... of which were freeholders and investors			
<b>£1-100</b>	<b>5,429</b>	<b>74.3%</b>	5,171	78.0%	41	20.9%	2	2.9%	217	45.2%
<b>£101-200</b>	<b>712</b>	<b>9.7%</b>	663	10.0%	6	3.1%	2	2.9%	43	9.0%
<b>£201-300</b>	<b>561</b>	<b>7.7%</b>	495	7.5%	28	14.3%	5	7.3%	38	7.9%
<b>£301-400</b>	<b>123</b>	<b>1.7%</b>	107	1.6%	9	4.6%	4	5.8%	7	1.4%
<b>£401-500</b>	<b>179</b>	<b>2.5%</b>	143	2.2%	17	8.7%	9	13.0%	19	4.0%
<b>Over £500</b>	<b>299</b>	<b>4.1%</b>	48	0.7%	95	48.5%	47	68.1%	156	32.5%

4.116 Consultees were invited to explain why they selected their chosen value. A summary of responses is set out below.

4.117 **Cap of £1-100:** of respondents who answered this question, there was a large number who gave reasoning for selecting the cap of £1-100 as their response. Arguments largely centred around keeping the figure as low as possible, in order to remain reasonable and affordable. Some responses were consistent with other questions in calling for the abolition of ground rent or keeping the cap as close to a peppercorn as possible.

4.118 **Cap of £101- 200:** respondents in favour of this level of cap argued the need for the figure to be below £250 due to ensuring the lease doesn't become an AST. Many respondents highlighted how this figure was similar to their original payments. Some respondents who gave reasoning for this cap, highlighted that they thought it was fair for both freeholder and leaseholder.

4.119 **Cap of £201-300:** respondents in favour of a cap at this level argued that this was a 'reasonable' figure, with leaseholders drawing comparisons with the ground rent that they currently pay. Similarly to respondents in favour of a higher cap level, respondents suggested that a higher cap could be implemented in areas with higher property prices, such as London. A number of responses referred to the £250 figure in the context of a lease becoming an AST. Responses also gave, as a justification for this amount, the fact that a cap at this level would ensure that it was less than 0.1% of the average property value.

4.120 **Cap of £301-400:** Respondents who selected this option argued that this was a 'reasonable' figure and reflected upon this being the 'average'.

4.121 **Cap of £401-500:** Some respondents highlighted that this was in line with, or less than, the ground rent that they currently pay, with particular reference to ground rents in London. They argued that this would be a fair level at which to set a cap on that basis, representing a compromise between the positions of freeholders and leaseholders.

4.122 **Cap of £500+:** This option was selected by few respondents. Those who favoured a cap of £500+ argued that the cap should be proportionate to prices across the country, to reflect wide variations in property prices and ground rents.

4.123 It was also argued by respondents that a 'one size fits all approach' will not work and therefore one value was not given. Respondents argued there is a wide variety of rents across the country and that ground rents are invested differently by freeholders. Rents should remain as agreed in leases between landlord and a tenant and it may be more appropriate to tackle leases with onerous or doubling ground rents only.

**6E. How long should a transition to implementation be?**

Option	Total	Percent	Responses by leaseholders		Responses by organisations				Responses by individuals	
					All organisations		... of which were freeholders and investors			
<b>Immediate implementation (once the necessary legislation had passed)</b>	<b>6,771</b>	<b>81.7%</b>	6411	85.0%	60	27.3%	4	5.4%	300	56.3%
<b>6 months</b>	<b>350</b>	<b>4.2%</b>	327	4.3%	8	3.7%	1	1.4%	15	2.8%
<b>1 year</b>	<b>322</b>	<b>3.9%</b>	285	3.8%	14	6.4%	1	1.3%	23	4.3%

<b>3 years</b>	<b>102</b>	<b>1.2%</b>	86	1.1%	12	5.5%	4	5.4%	4	0.7%
<b>5 years</b>	<b>59</b>	<b>0.7%</b>	37	0.5%	12	5.5%	5	6.8%	10	1.9%
<b>More than 5 years</b>	<b>691</b>	<b>8.3%</b>	396	5.3%	114	51.8%	59	79.7%	181	34.0%

4.124 The vast majority of leaseholder respondents thought that there should be no transitional period and that implementation should take place as soon as the legislation was in place, with some arguing that leaseholders had already waited long enough for reform. This was in stark contrast to freeholder and investor respondents who believed that implementation should be delayed for at least 5 years. Those arguing for a 5 year delay argued that business should be given time to adjust. They felt strongly that a very short implementation period would not allow business to flex their financial model and would increase the risk of disorderly exits from the market. In addition, a number of respondents said that this period of delay would also allow for any legal challenge to be heard and any compensation arrangements to be put in place.

4.125 A smaller number of respondents made arguments for a transitional period which ranged from between 6 months and 3 years. They felt that some period of adjustment was necessary to allow affected parties to adjust and also to avoid leaseholders being issued with incorrect bills – allowing the legislation to match up with billing cycles. However, there was a sense that this adjustment period should not go on for too long. However, it was also suggested that government always underestimates how long it takes for new processes and procedures to bed in, and so a longer transitional period which stopped short of 5 years would allow for this.

6F. Should there be any circumstances or types of property which should be subject to different transitional arrangements?

Option	Total	Percent	Responses by leaseholders		Responses by organisations				Responses by individuals	
					All organisations		... of which were freeholders and investors			
<b>Yes</b>	<b>758</b>	<b>9.1%</b>	504	6.7%	94	41.8%	35	43.8%	160	30.0%
<b>No</b>	<b>7,543</b>	<b>90.9%</b>	7039	93.3%	131	58.2%	45	56.2%	373	70.0%

4.126 A number of respondents suggested that more expensive or larger properties should be subject to different transitional arrangements, although they generally did not elaborate as to what these arrangements should be. Examples of where this threshold could be set was for those properties worth more than £1.5 million or £2 million.

4.127 A number of respondents argued that transitional arrangements should apply to certain categories of freeholder, to limit the impact on their effective operation. Examples included local authorities, the Crown Estate, charities and pension funds. Some suggested that properties in heritage or conservation areas would benefit from a longer

transitional period to enable them to secure alternative sources of funding for their unique maintenance and preservation needs (as ground rent might have provided a contribution to this previously). Others argued that a longer transitional period might be needed for buildings where leaseholders have enfranchised and rely on ground rent from non-participating units to service the loan taken out to buy the freehold.

4.128 Some respondents identified the need for a longer transitional period where the implementation of a cap would otherwise affect housing delivery. Specific examples included affordable housing and cases where a developer is relying on income from ground rents to complete a project – especially for large scale developments with complex finance arrangements.

4.129 Similarly to Question 5, some respondents suggested that a longer transitional period would be justified in cases where ground rent is used to provide a service. One respondent suggested that properties with a very high ground rent would benefit from a longer transitional period, to avoid sudden financial shocks resulting from the freeholder’s loss of income. A number of respondents also called for a longer transitional period for retirement properties, due to developers relying on ground rent to fund the construction of extensive communal areas, although others made the case for implementing a cap for this sector as soon as possible, due to leaseholders being on fixed incomes.

**Question 7: Please consider Option 3 of capping ground rents at a percentage of the property value. Please think about the impacts that this cap would have on: [leaseholders; freeholders / intermediate landlords; investors; mortgage lenders; wider property market]**

- A. Please consider whether this cap would have a positive, neutral or negative impact on the following groups: [leaseholders; freeholders / intermediate landlords; investors; mortgage lenders; wider property market]
- B. Considering those impacts, what are the advantages of capping ground rents at a percentage of the property’s value? Please explain your answer with reference to the key groups listed above and the scale of the advantageous impacts.
- C. Considering those impacts, what are the disadvantages of capping ground rents at a percentage of the property’s value? Please explain your answer with reference to the key groups listed above and the scale of the disadvantageous impacts.

**SUMMARY OF RESPONSES**

*7A. Leaseholder impacts of capping ground rent at a percentage of property value*

Option	Total	Percent	Responses by leaseholders	Responses by organisations		Responses by individuals
				All organisations	... of which were freeholders	

							and investors			
<b>Positive Impact</b>	<b>1,220</b>	<b>14.6%</b>	1,063	14.1%	60	24.0%	23	24.0%	97	18.0%
<b>Neutral Impact</b>	<b>769</b>	<b>9.2%</b>	690	9.1%	35	14.0%	18	18.8%	44	8.2%
<b>Negative Impact</b>	<b>5,300</b>	<b>63.6%</b>	4,834	64.0%	125	50.0%	44	45.8%	341	63.4%
<b>Not sure</b>	<b>1,050</b>	<b>12.6%</b>	964	12.8%	30	12.0%	11	11.4%	56	10.4%

7A. Freeholder/intermediate landlord impacts of capping ground rent at a percentage of property value

Option	Total	Percent	Responses by leaseholders		Responses by organisations				Responses by individuals	
					All organisations		... of which were freeholders and investors			
<b>Positive Impact</b>	<b>3,050</b>	<b>36.5%</b>	2,886	38.3%	31	12.1%	3	3.1%	133	24.7%
<b>Neutral Impact</b>	<b>1,725</b>	<b>20.7%</b>	1,618	21.4%	20	7.8%	3	3.1%	87	16.1%
<b>Negative Impact</b>	1,655	19.9%	1,247	16.5%	174	68.0.3%	85	87.6%	234	43.3%
<b>Not sure</b>	1,905	22.9%	1,793	23.8%	31	12.1%	6	6.2%	86	15.9%

7A. Investor impacts of capping ground rent at a percentage of property value

Option	Total	Percent	Responses by leaseholders		Responses by organisations				Responses by individuals	
					All organisations		... of which were freeholders and investors			
<b>Positive Impact</b>	<b>1,701</b>	<b>20.0%</b>	1,594	21.1%	21	7.7%	3	3.0%	86	12.3%
<b>Neutral Impact</b>	<b>2,428</b>	<b>28.5%</b>	2,279	30.2%	35	12.8%	3	3.0%	114	16.3%
<b>Negative Impact</b>	<b>2,153</b>	<b>25.3%</b>	1,564	20.7%	190	69.6%	87	87.9%	399	57.0%
<b>Not sure</b>	<b>2,235</b>	<b>26.2%</b>	2,107	28.0%	27	9.9%	6	6.1%	101	14.4%

7A. Mortgage lender impacts of capping ground rent at a percentage of property value

Option	Total	Percent	Responses by leaseholders		Responses by organisations				Responses by individuals	
					All organisations		... of which were freeholders and investors			
Positive Impact	1,005	12.1%	928	12.3%	18	7.4%	1	1.0%	59	11.0%
Neutral Impact	1,555	18.7%	1,409	18.7%	47	19.2%	17	17.9%	99	18.4%
Negative Impact	3,934	47.2%	3,505	46.5%	138	56.3%	60	63.2%	291	54.1%
Not sure	1,832	22.0%	1,701	22.5%	42	17.1%	17	17.9%	89	16.5%

7A. Wider property market impacts of capping ground rent at a percentage of property value

Option	Total	Percent	Responses by leaseholders		Responses by organisations				Responses by individuals	
					All organisations		... of which were freeholders and investors			
Positive Impact	1,011	12.1%	923	12.2%	23	9.3%	9	9.4%	65	12.1%
Neutral Impact	1,476	17.7%	1,352	17.9%	40	16.1%	14	14.5%	84	15.6%
Negative Impact	3,877	46.6%	3,442	45.7%	145	58.5%	59	61.5%	290	53.9%
Not sure	1,966	23.6%	1,827	24.2%	40	16.1%	14	14.6%	99	18.4%

7B. Advantages of Option 3 – capping ground rents at a percentage of the property value

4.130 There were mixed responses and arguments to this question.

4.131 Respondents who supported this option considered that it represented a fair option. Ground rent payable could reduce depending on the amount they currently pay, the cap that is put into place and the property value itself. It represents a clear and consistent way of calculating ground rents, ensuring that they remain stable. This was thought to be especially important to provide clarity prior to the purchase of a property, noting that this could be an acceptable option for mortgage providers. Some respondents also highlighted that this option could be beneficial to freeholders or investors, as it would ensure a regular income stream (although others felt that these groups were the only beneficiaries of this option).

4.132 In relation to property value, respondents thought that determining house prices could be an issue, and also queried whether ground rent would rise in line with property value or whether it would stay the same. They also made a point about regional fairness, with

ground rents varying regionally with higher ground rents in London and the South East, due to higher house prices in these areas.

4.133 Respondents emphasised the point that the advantages were dependent on the cap that was chosen.

#### 7C. Disadvantages of Option 3 – capping ground rents at a percentage of the property value

4.134 Respondents did not provide many views on disadvantages, although a number repeated their view on disadvantages already set out in response to the previous question (mainly relating to regional fairness, rising house prices, and the potential for ground rent to rise over time under this option). Others used this question to reiterate their view that a peppercorn cap was the only fair ground rent option.

#### 7D. What percentage of the property value should this be and why?

Option	Total	Percent	Responses by leaseholders		Responses by organisations				Responses by individuals	
					All organisations		... of which were freeholders and investors			
<0.1%	6,226	86.1%	5,911	90.4%	57	26.4%	2	2.6%	258	54.4%
0.1%	595	8.2%	499	7.6%	37	17.1%	12	15.4%	59	12.5%
0.2%	102	1.4%	63	1.0%	28	13.0%	22	28.2%	11	2.3%
0.3%	72	1.0%	33	0.5%	27	12.5%	19	24.4%	12	2.5%
> 0.3%	236	3.3%	35	0.5%	67	31.0%	23	29.4%	134	28.3%

4.135 Many respondents indicated that they wished ground rent to be as low as possible and selected the options of <0.1% or 0.1% of the value of the property. Limited explanations for selecting this response were given, but themes included that it was the fairest and most affordable option. While respondents noted that they did not think that they should pay any ground rent at all, they had selected this option as it was the closest to a peppercorn available under this option. However, some respondents stated that this option would represent an increase on the level of ground rent that they currently pay.

4.136 Of the respondents that selected other options (>0.3%, 3%, 2%, 1%), there were limited explanations and limited distinction between answers. For these respondents these different levels represented, for them, the fairest amount – although some highlighted that this option, overall, would result in their property becoming an AST. Again the majority stated that they thought ground rent should be the smallest value possible. Some respondents took the view that there should not be a restriction, as it was not in line with contractual arrangements.

#### 7E. Who should be responsible for making sure that valuations of the property are undertaken?

Option	Total	Percent	Responses by leaseholders		Responses by organisations				Responses by individuals	
					All organisations		... of which were freeholders and investors			
The freeholder	1,900	26.8%	1,714	26.8%	70	30.8%	34	40.0%	116	24.8%
The leaseholder	2,053	28.9%	1,950	30.5%	27	11.9%	11	12.9%	76	16.2%
Other	3,145	44.3%	2,739	42.8%	130	57.3%	40	47.1%	276	59.0%

4.137 Many respondents to this question referenced the importance of neutrality and independence in valuing the property, stressing the need for this to be undertaken by a third party. Some respondents suggested that the valuation should be undertaken either by government or a government-appointed body. Others suggested that either HM Land Registry or a local authority would be appropriate, or that qualified experts should be engaged. Examples given were surveyors (with the Royal Institution of Chartered Surveyors (RICS) mentioned here) or valuers (with the Valuation Office mentioned).

4.138 A number of respondents thought that a mortgage company or lender, banks or estate agents should undertake the valuation. Other respondents considered that the valuation should be agreed between the freeholder and the leaseholder, while others thought that one or other of these two parties should be responsible for valuing the property.

4.139 Where the respondent stated that they thought the leaseholder should be responsible for valuing the property, one reason given was lack of trust in the freeholder, who may be motivated to reach a higher valuation. Others thought that, as the person who paid the ground rent, the leaseholder should be responsible – though some respondents were concerned about the cost of valuation and who would pay this.

4.140 If the respondent stated that the freeholder should be responsible for valuing the property, this tended to focus on the cost of valuation, with a view that the freeholder should pay this. Respondents considered that the administrative and financial burden should not fall on the leaseholder, but on the freeholder who is both best equipped to bear the cost and receives all the benefit. However, respondents also felt that it was important that the valuation be independent, with the leaseholder having a right of challenge. Many respondents highlighted the subjective nature of valuation, leading them to conclude that they did not support this option as a result.

7F. How long should the period be between the law being passed and the cap being implemented?

Option	Total	Percent		Responses by organisations	
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			Responses by leaseholders		All organisations		... of which were freeholders and investors		Responses by individuals	
<b>An immediate implementation of this option (once the necessary legislation had passed)</b>	<b>5,801</b>	<b>69.8%</b>	5,476	72.6%	53	22.6%	4	4.6%	272	50.8%
<b>6 months</b>	<b>442</b>	<b>5.3%</b>	418	5.6%	8	3.4%	1	1.3%	16	3.0%
<b>1 year</b>	<b>545</b>	<b>6.6%</b>	496	6.6%	24	10.2%	7	8.1%	25	4.7%
<b>3 years</b>	<b>239</b>	<b>2.9%</b>	204	2.7%	16	6.8%	6	7.0%	19	3.6%
<b>5 years</b>	<b>149</b>	<b>1.8%</b>	121	1.6%	16	6.8%	10	11.6%	12	2.2%
<b>More than 5 years</b>	<b>1132</b>	<b>13.6%</b>	823	10.9%	118	50.2%	58	67.4%	191	35.7%

4.141 A large number of respondents, particularly leaseholders, expressed a preference for immediate implementation of this option once the necessary legislation had passed, to reduce delay and increase certainty. A number of other respondents noted that the question required them to provide an answer, and so they had opted for the shortest period of time, with others again referencing their preference for a peppercorn cap alone.

4.142 Of those who thought the period should be 6 months or one year, most said that this would give adequate time for preparation and offer an adjustment period. Additionally, respondents noted it would give time for valuations of property (and any challenges to those) to take place, as well as allow time for administrative work to be undertaken.

4.143 Those favouring 3 or 5 years again thought this would allow time for valuation and change. In particular, respondents referenced allowing time for 'mass' valuation of all properties that would be affected. Some also referenced a need to allow leaseholders time to sell their property if they would not be able to afford their ground rent following the implementation of changes.

4.144 Those who wanted a delay of 5 years or more mainly said this because they disagreed with this option in principle. Respondents also made references here to the requirement of changes to leases and the legal implications of this.

**7G. Are there any circumstances or types of property which should be subject to different transitional arrangements?**

Option	Total	Percent	Responses by leaseholders	Responses by organisations		Responses by individuals
				All organisations	... of which were freeholders	

							<b>and investors</b>			
<b>Yes</b>	<b>985</b>	<b>11.9%</b>	722	9.6%	96	40.5%	36	40.9%	167	31.2%
<b>No</b>	<b>7328</b>	<b>88.1%</b>	6819	90.4%	141	59.5%	52	59.1%	368	68.8%

4.145 Many respondents considered that all properties should be treated equally. Others did highlight types of property they felt should be subject to different types of arrangements, including apartments and flats, retirement homes, shared ownership homes, commercial properties and council housing. Affordability was also mentioned by some respondents – such as capping high values or capping where prices are high (for example in London). Respondents also suggested that arrangements should not be applied to housing where this would result in a higher ground rent than is currently payable under the existing lease.

**Question 8: Please consider Option 4 of limiting ground rents in existing leases to the original amount in the lease.**

- A. Please consider whether this cap would have a positive, neutral or negative impact on the following groups: [leaseholders; freeholders / intermediate landlords; investors; mortgage lenders; wider property market]
- B. Considering those impacts, what are the advantages of capping ground rents at their original value? Please explain your answer with reference to the key groups listed above and the scale of the advantageous impacts.
- C. Considering those impacts, what are the disadvantages of at their original value? Please explain your answer with reference to the key groups listed above and the scale of the disadvantageous impacts.
- D. Will ascertaining the original ground rent value in leases (i.e. the ground rent charged in the first year of the lease) create a significant problem for implementing this option across existing leases?

**SUMMARY OF RESPONSES**

*8A. Leaseholder impacts of limiting ground rents to original amount in lease*

Option	Total	Percent	Responses by leaseholders		Responses by organisations				Responses by individuals	
					All organisations	... of which were freeholders and investors				
<b>Positive Impact</b>	<b>3,666</b>	<b>44.0%</b>	3,358	44.5%	103	41.2%	32	33.3%	205	38.3%
<b>Neutral Impact</b>	<b>1,430</b>	<b>17.2%</b>	1,347	17.8%	23	9.2%	10	10.4%	60	11.2%
<b>Negative Impact</b>	<b>2,587</b>	<b>31.0%</b>	2,259	29.9%	107	42.8%	47	49.0%	221	41.2%
<b>Not sure</b>	<b>654</b>	<b>7.8%</b>	587	7.8%	17	6.8%	7	7.3%	50	9.3%

8A. Freeholder/intermediate landlord impacts of limiting ground rents to original amount in lease

Option	Total	Percent	Responses by leaseholders		Responses by organisations				Responses by individuals	
					All organisations		... of which were freeholders and investors			
Positive Impact	1,996	24.00%	1,896	25.1%	17	6.8%	5	5.1%	83	15.4%
Neutral Impact	2,624	31.5%	2,491	33.0%	18	7.3%	3	3.1%	115	21.4%
Negative Impact	2,283	27.4%	1,813	24.0%	197	79.1%	86	88.7%	273	50.7%
Not sure	1,429	17.1%	1,345	17.9%	17	6.8%	3	3.1%	67	12.5%

8A. Investor impacts of limiting ground rents to original amount in lease

Option	Total	Percent	Responses by leaseholders		Responses by organisations				Responses by individuals	
					All organisations		... of which were freeholders and investors			
Positive Impact	1,396	16.4%	1,327	17.6%	11	4.0%	3	3.0%	58	8.3%
Neutral Impact	3,150	37.0%	2,993	39.7%	25	9.1%	2	2.0%	132	18.9%
Negative Impact	2,073	24.3%	1,443	19.1%	214	78.1%	90	90.9%	416	59.5%
Not sure	1,898	22.3%	1,781	23.6%	24	8.8%	4	4.1%	93	13.3%

8A. Mortgage lender impacts of limiting ground rents to original amount in lease

Option	Total	Percent	Responses by leaseholders		Responses by organisations				Responses by individuals	
					All organisations		... of which were freeholders and investors			
Positive Impact	2,605	31.3%	2,432	32.2%	42	17.2%	6	6.4%	131	24.5%
Neutral Impact	2,057	24.7%	1,892	25.1%	49	20.1%	21	22.4%	116	21.6%

<b>Negative Impact</b>	<b>2,178</b>	<b>26.2%</b>	1,836	24.3%	127	52.0%	61	64.8%	215	40.1%
<b>Not sure</b>	<b>1,484</b>	<b>17.8%</b>	1,384	18.4%	26	10.7%	6	6.4%	74	13.8%

*8A. Wider property market impacts of limiting ground rents to original amount in lease*

Option	Total	Percent	Responses by leaseholders		Responses by organisations				Responses by individuals	
					All organisations	... of which were freeholders and investors				
<b>Positive Impact</b>	<b>2,267</b>	<b>27.2%</b>	2,125	28.2%	32	13.0%	4	4.2%	110	20.5%
<b>Neutral Impact</b>	<b>2,064</b>	<b>24.8%</b>	1,908	25.3%	44	17.8%	17	17.7%	112	20.9%
<b>Negative Impact</b>	<b>2,379</b>	<b>28.6%</b>	2,004	26.5%	144	58.3%	70	72.9%	231	43.1%
<b>Not sure</b>	<b>1,617</b>	<b>19.4%</b>	1,507	20.0%	27	10.9%	5	5.2%	83	15.5%

8B. Advantages of Option 4 – capping ground rents to the original amount set out in the lease

4.146 Many respondents were relatively positive about this proposal. Of those that had a positive perception of the capping of ground rent to their original value, many highlighted that it would result in certainty for leaseholders in terms of the costs they would pay, would provide clarity and predictability and was a transparent option. For some homeowners, it was noted that this could result in a reduction in the ground rent they were currently paying. One caveat highlighted by respondents was the £250 AST limit, with respondents considering that this option would only be advantageous if the original ground rent was below this limit.

4.147 Some respondents thought that this option would provide assurance to mortgage advisors and lenders, allowing the property to be sold more easily. Others noted that the freeholder would still have an income stream, so this would be an advantageous option for them.

8C. Disadvantages of Option 4 – capping ground rents to the original amount set out in the lease

4.148 Some respondents said that their ground rent's original value was already too high, so this option would not be advantageous. Some highlighted that they felt they did not receive anything in return for the ground rent paid, so they did not feel as though they should pay it.

4.149 Some respondents were concerned as to whether this option would impact people in buying and selling their homes.

4.150 Some respondents' arguments said it could be difficult to identify the original value of the ground rent, depending on the length of the lease. Similarly, some responses

highlighted the view that older properties may be at a disadvantage to the peppercorn cap of new leases, resulting in a two-tier system. Similar arguments to other questions arose about what leaseholders get in return for paying ground rent.

4.151 Of those responses that considered the disadvantages for freeholders or investors, some respondents felt that this option could be unfair as it may result in a loss of income. Some were concerned that it could result in legal challenges from freeholders or investors due to a change in contractual terms. Some respondents considered that, due to the length of leases, ground rent value may be eroded if this option was pursued.

**8D. Will establishing what the original ground rent value in leases was create a significant problem for implementing this option?**

Option	Total	Percent	Responses by leaseholders		Responses by organisations				Responses by individuals	
					All organisations		... of which were freeholders and investors			
<b>Yes</b>	<b>1701</b>	<b>23.0%</b>	1502	22.4%	69	30.5%	28	31.1%	130	27.6%
<b>No</b>	<b>5689</b>	<b>77.0%</b>	5191	77.6%	157	69.5%	62	68.9%	341	72.4%

4.152 For respondents who answered “no” this question, many felt that the issue at hand was being overstated and that in practice, even if the leaseholder did not have access to the correct figure, the freeholder should have access to any necessary records, either as part of the lease or as part of the purchase agreement for the freehold or other financial records. Others suggested that such information would be publicly available, including at HM Land Registry.

4.153 Several respondents felt that a significant problem with implementation of this option could be avoided by stipulating that, if an original ground rent could not be identified, then the value of the ground rent should be reduced to a peppercorn or other pre-determined value in that instance. Others thought that, if the original value when the lease was first signed could not be ascertained, then the ground rent should revert back to the amount paid in the first year of the existing leaseholder.

4.154 Amongst respondents who answered “yes” to this question, several called for simplicity in the implementation of any cap, and cast doubt over whether this option would be simple to implement.

4.155 Several practical issues were identified. There could be challenges for ascertaining the original value of ground rents in older properties, in either identifying the value, or in the value being so small that it is not worth administering. There was also a concern around determining what the original value of the ground rent should be, if the lease had been subject to a deed of variation or a surrender and re-grant. Some respondents highlighted that there could be multiple leases in one property (split properties/flats) which would cause complexity. Others raised concerns around how to calculate a modern value for leases which were first signed pre-decimalisation.

4.156 Administration concerns were raised repeatedly. These included who would be responsible for ascertaining the value of the lease, how this would be financially resourced in difficult cases, and how the original value would be agreed in the event of a dispute. Some freeholders raised administration as a significant concern, stating that they would have to manually review every lease in their portfolios. Some leaseholders feared that this would mean they would need to pay legal and administrative costs to determine the original value. Others still highlighted issues around the potential for errors in determining the original ground rent and that this could lead to unfair implementation of the cap or the need for an appeals process.

4.157 Furthermore, some leaseholders pointed out that freeholders would not be incentivised to provide historical information which could result in lower revenue for them, and that therefore the process of implementing this cap could take a very long time. One property group mentioned that its members have often reported that it is difficult to get into contact with freeholders to arrange any changes to the original contract. They also warned that legal professionals are weary of getting involved in leasehold due to existing stigma surrounding it. They said that this leaves property agents spending significant time and resources in chasing the freeholder, who often is not interested in engaging with the lease and legal documents. They also cited the resources needed to understand the complexities of the leases, despite not being legal professionals. They believed that these issues would create a significant problem for implementing Option 4.

**8E. In instances where the original ground rent amount cannot be established, how should the value of the cap be determined?**

4.158 Many respondents proposed that, where the original ground rent amount cannot be established, another type of cap should be applied to these leases. Many suggested this should be their preferred cap, with most respondents arguing for a peppercorn cap in this instance. Others argued for a percentage of the property value, and different percentages were suggested. Others still wanted the ground rents to be frozen at their current value in this instance, or for there to be a statutory value set for such leases. Others thought that a value could be determined based on the year of construction by applying an indexation retrospectively.

4.159 Other respondents provided novel proposals for this issue, including that an assessment should be made by an independent valuer, local authority or a tribunal. Others thought that a cap in this instance should be set by reference to the ground rents of similar leasehold properties in the local area.

**8F. Imagine that the government caps ground rents at their original value. How long should the period be between the law being passed and the cap being implemented?**

Option	Total	Percent	Responses by leaseholders	Responses by organisations		Responses by individuals
				All organisations	... of which were	

							freeholders and investors			
<b>Immediate implementation of this option (once the necessary legislation had passed)</b>	<b>6,754</b>	<b>81.3%</b>	6,402	84.8%	57	24.9%	5	6.1%	295	55.4%
<b>6 months</b>	<b>366</b>	<b>4.4%</b>	347	4.6%	5	2.2%	1	1.2%	14	2.6%
<b>1 year</b>	<b>453</b>	<b>5.5%</b>	405	5.4%	23	10.0%	4	4.9%	25	4.7%
<b>3 years</b>	<b>125</b>	<b>1.5%</b>	102	1.4%	14	6.1%	7	8.5%	9	1.7%
<b>5 years</b>	<b>68</b>	<b>0.8%</b>	48	0.6%	15	6.6%	7	8.5%	5	0.9%
<b>More than 5 years</b>	<b>542</b>	<b>6.5%</b>	242	3.2%	115	50.2%	58	70.8%	185	34.7%

4.160 In general, the time chosen by respondents corresponded to the time that they believed was reasonable for the option to be implemented.

4.161 Most leaseholder respondents wanted immediate implementation of the option and, for those who explained their rationale, it was often based on not seeing issues with the implementation of this option and therefore seeing no reason for delay. Several thought that immediate implementation would reduce uncertainty for leaseholders, reduce leaseholder costs and prevent more leaseholders from being impacted by escalations or buying and selling issues.

4.162 Of those who favoured 6 months and 1 year, respondents highlighted that they wanted the change to happen quickly and felt that this was a reasonable timeline for businesses to adjust and any necessary administration to occur.

4.163 For those who chose 3 years, several made more explicit reference to the necessary implementation of this option, and how 3 years could be proportionate to the time and resource needed to find and have the relevant parties agree to the original ground rent.

4.164 For those who chose 5 years or more than 5 years, some respondents felt this was fairer on the beneficiaries of ground rent. Others thought that this was a more realistic time to prepare for the cap, given the necessary administration.

8G. Are there any circumstances or types of property which should be subject to different transitional arrangements?

Option	Total	Percent	Responses by leaseholders		Responses by organisations				Responses by individuals	
					All organisations		... of which were freeholders and investors			
<b>Yes</b>	<b>713</b>	<b>8.6%</b>	463	6.1%	95	41.7%	38	45.8%	155	29.1%

<b>No</b>	<b>7,594</b>	<b>91.4%</b>	7,083	93.9%	133	58.3%	45	54.2%	378	70.9%
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4.165 The vast majority of respondents thought that transitional arrangements would not be necessary. However, there were some suggestions about properties which might be treated differently: some respondents suggested very old properties with very low ground rents, charities which relied on ground rent income to fund their work, retirement properties where the service charge is lower in exchange for high ground rents and exit fees, and properties where loans were secured against future ground rent income or there was no service charge provision in the lease.

**Question 9: Please consider Option 5 of freezing ground rents at their current value. Please think about the impacts that this cap would have on: [leaseholders; freeholders / intermediate landlords; investors; mortgage lenders; wider property market]**

- A. Please consider whether this cap would have a positive, neutral or negative impact on the following groups: [leaseholders; freeholders / intermediate landlords; investors; mortgage lenders; wider property market]
- B. Considering those impacts, what are the advantages of freezing ground rent at their current value? Please explain your answer with reference to the key groups listed above and the scale of the advantageous impacts.
- C. Considering those impacts, what are the disadvantages freezing ground rent at their current value? Please explain your answer with reference to the key groups listed above and the scale of the disadvantageous impacts.

**SUMMARY OF RESPONSES**

*9A. Leaseholder impacts of freezing ground rent at current value*

Option	Total	Percent	Responses by leaseholders		Responses by organisations				Responses by individuals	
					All organisations		... of which were freeholders and investors			
<b>Positive Impact</b>	<b>1,811</b>	<b>21.7%</b>	1,626	21.5%	71	28.4%	34	35.4%	114	21.3%
<b>Neutral Impact</b>	<b>1,603</b>	<b>19.2%</b>	1,476	19.6%	43	17.2%	16	16.7%	84	15.7%
<b>Negative Impact</b>	<b>4,282</b>	<b>51.4%</b>	3,864	51.2%	123	49.2%	41	42.7%	295	55.0%
<b>Not sure</b>	<b>639</b>	<b>7.7%</b>	583	7.7%	13	5.2%	5	5.2%	43	8.0%

*9A. Freeholder/intermediate landlord impacts of freezing ground rent at current value*

Option	Total	Percent	Responses by leaseholders		Responses by organisations				Responses by individuals	
					All organisations		... of which were freeholders and investors			
Positive Impact	2,423	29.1%	2,286	30.3%	24	9.7%	3	3.1%	113	21.0%
Neutral Impact	2,626	31.5%	2,481	32.9%	25	10.1%	3	3.1%	120	22.3%
Negative Impact	1,880	22.6%	1,459	19.3%	182	73.4%	86	89.6%	239	44.4%
Not sure	1,402	16.8%	1,319	17.5%	17	6.8%	4	4.2%	66	12.3%

9A. Investor impacts of freezing ground rent at current value

Option	Total	Percent	Responses by leaseholders		Responses by organisations				Responses by individuals	
					All organisations		... of which were freeholders and investors			
Positive Impact	1,359	16.0%	1,275	16.9%	14	5.2%	3	3.1%	70	10.1%
Neutral Impact	3,193	37.5%	3,026	40.1%	29	10.8%	1	1.0%	138	19.8%
Negative Impact	2,073	24.4%	1,472	19.5%	200	74.3%	88	90.7%	401	57.5%
Not sure	1,885	22.1%	1,771	23.5%	26	9.7%	5	5.2%	88	12.6%

9A. Mortgage lender impacts of freezing ground rent at current value

Option	Total	Percent	Responses by leaseholders		Responses by organisations				Responses by individuals	
					All organisations		... of which were freeholders and investors			
Positive Impact	1,484	17.8%	1,392	18.5%	24	9.7%	2	2.1%	68	12.7%
Neutral Impact	2,180	26.2%	1,977	26.2%	66	26.7%	29	30.2%	137	25.5%
Negative Impact	3,109	37.3%	2,729	36.2%	125	50.6%	56	58.3%	255	47.6%
Not sure	1,554	18.7%	1,446	19.2%	32	13.0%	9	9.4%	76	14.2%

9A. Wider property market impacts of freezing ground rent at current value

Option	Total	Percent	Responses by leaseholders		Responses by organisations				Responses by individuals	
					All organisations		... of which were freeholders and investors			
<b>Positive Impact</b>	<b>1,310</b>	<b>15.7%</b>	1,229	16.3%	18	7.3%	2	2.1%	63	11.8%
<b>Neutral Impact</b>	<b>2,165</b>	<b>26.0%</b>	1,976	26.2%	64	26.0%	31	32.3%	125	23.3%
<b>Negative Impact</b>	<b>3,197</b>	<b>38.4%</b>	2,795	37.0%	134	54.5%	57	59.4%	268	50.0%
<b>Not sure</b>	<b>1,653</b>	<b>19.9%</b>	1,543	20.5%	30	12.2%	6	6.2%	80	14.9%

9B. Advantages of Option 5 – freezing ground rents at current levels

- 4.166 A large number of respondents replied to this question, but there was little consensus about whether there were any advantages to freezing ground rent at current levels (and if so, to whom the advantage accrued). Within leaseholder responses there was a split. Some thought that it would be better than the status quo and would prevent the situation from getting worse through increasing costs, while others thought that current ground rents are already at unaffordable levels.
- 4.167 A large number of respondents felt that any possible advantages would depend on the level at which ground rents were frozen and related this to the level of their own ground rent.
- 4.168 Numerous respondents considered that a key advantage of a ground rent freeze was that the proposal is simple, and would provide clarity and certainty, affordability, ease of administration and fairness. Respondents also considered that it would provide more security to leaseholders, with others noting that it may make property sales easier as there was also more certainty for lenders. A number of respondents noted that leaseholders would benefit in the long run as inflation eroded the cost of the ground rent in real terms.
- 4.169 Some respondents included disadvantages in their answer to this question – some that it would create a breach of contract. Others suggested pension funds and freeholders would ‘lose out’. It was also suggested that this proposal would not deal with the problem of a two-tier market. Others noted that some ground rents were already too high.
- 4.170 A small number of respondents felt that this proposal may be a reasonable compromise, in that it preserved some asset value for freeholders and was therefore less likely to be the subject of litigation than abolition of ground rent (or introduction of a peppercorn cap). It was also suggested that locking in some value for freeholders may create less of an issue when it came to viability (and funding gaps) in relation to new

residential developments. However, other respondents thought that this measure did not go far enough.

#### 9C. Disadvantages of Option 5 – freezing ground rents at current levels

4.171 While there was no clear consensus on the disadvantages, a majority of respondents considered that the major disadvantage of this option is that it fails to address the underlying issue of high ground rents – freezing them at current levels merely serves to lock in this issue. It was also noted that this option would not address the two-tier issue relating to existing leaseholds versus new build leasehold properties. It was felt that pursuing this option would represent a missed opportunity to address the issue. Several leaseholders considered that the leasehold market would still be left blocked were this option pursued.

4.172 Freeholders and organisations considered that disadvantages included inflation erosion, diminishing freehold value, and the impact on freeholder financial capacity and income flows. These respondents also noted that this option could have a knock-on impact on investment and pension funds. Respondents suggested that freeholders might sell up, and there could be a possible requirement for government intervention in the future if the market was negatively impacted. Freeholders also made similar points to other questions in relation to contractual arrangements, and the need for compensation to be provided.

4.173 Respondents also suggested it could reduce flexibility in management and maintenance of buildings, with an increase in unmanaged buildings, and also raise challenges for intermediate landlords.

#### 9D. How long should the period be between the law being passed and the freeze being implemented?

Option	Total	Percent	Responses by leaseholders		Responses by organisations				Responses by individuals	
					All organisations	... of which were freeholders and investors				
<b>Immediate implementation of this option (once the necessary legislation had passed)</b>	<b>6,854</b>	<b>82.6%</b>	6,482	85.9%	68	30.4%	8	10.1%	304	57.0%
<b>6 months</b>	<b>298</b>	<b>3.6%</b>	280	3.7%	5	2.2%	0	0.00%	13	2.5%
<b>1 year</b>	<b>310</b>	<b>3.7%</b>	276	3.7%	13	5.8%	2	2.6%	21	3.9%
<b>3 years</b>	<b>106</b>	<b>1.3%</b>	86	1.1%	13	5.8%	5	6.3%	7	1.3%

<b>5 years</b>	<b>70</b>	<b>0.8%</b>	47	0.6%	12	5.4%	6	7.6%	11	2.1%
<b>More than 5 years</b>	<b>662</b>	<b>8.0%</b>	372	5.0%	113	50.5%	58	73.4%	177	33.2%

4.174 The majority of respondents to this question could not see any reason for delay in implementation as it could be implemented easily, offered certainty, fairness and consistency, and would help to stabilise or boost the housing market. Respondents thought that further delay could be damaging and could provide freeholders with an opportunity to either increase their costs, or seek to put further obstacles in place (with legal challenges being mentioned). Respondents also mentioned that immediate implementation would prevent some ground rent values exceeding the £250 AST limit.

4.175 Respondents favouring 6 months or 1 year considered that this would be a sufficient time period to allow for adjustment, with a small number of respondents also mentioning the importance of billing cycles. However, other respondents felt 3 years would be a more appropriate transitional period for adjustment – allowing for a gradual transition for stakeholders, permitting adjustment of business plans and consideration of implications for investment values. These respondents also noted that changes could have significant cost implications for some providers. A 3 year period would also allow for an orderly sale of freeholds and sufficient time for any legal challenges. It would also accommodate upcoming development projects in development cycles.

4.176 Of those favouring a transitional period of 5 years or more, similar arguments were deployed, but respondents also mentioned a longer period would allow leaseholders more opportunity either to sell their property or to obtain an extension to their lease.

9E. Are there any circumstances or types of property which should be subject to different transitional arrangements?

Option	Total	Percent	Responses by leaseholders		Responses by organisations				Responses by individuals	
					All organisations		... of which were freeholders and investors			
<b>Yes</b>	<b>791</b>	<b>9.5%</b>	540	7.2%	93	41.0%	36	43.9%	158	29.6%
<b>No</b>	<b>7,513</b>	<b>90.5%</b>	7,003	92.8%	134	59.0%	46	56.1%	376	70.4%

4.177 Only a small number of respondents explained their thinking, giving a broad range of types of property. However there were no emerging themes – the responses covered every type of property and no clear rationale for exclusion was put forward.

**Investors**

4.178 Given the impacts that each of the proposals would have on investors, the industry questions directed at investors have been bought into this section.

**Question 31: As an investor, have you lent against a residential portfolio and/or are you directly involved in the ownership and/or management of the property? If helpful, please provide further detail.**

**SUMMARY OF RESPONSES**

Option	Total	Percent
Lent against a residential portfolio	19	4.2%
Directly involved in the ownership and/or management of the property	101	22.4%
Both	34	7.6%
Not applicable	296	65.8%

4.179 There were a wide range of answers to this question, which demonstrate the wide range of interests that investors have in freeholds and the numerous types of investment.

4.180 Some respondents were individuals or small companies which own a small portfolio of freeholds, others were leaseholders who had purchased the freeholds of their buildings and/or are part of a resident-owned management company/share of freehold, who collect the ground rent of non-participating leaseholders to pay for purchasing loans and other expenses. Some reported that they were private investors in funds which invest in residential ground rent assets. Others were companies which managed private and family trusts, and larger companies where the business model is based upon long-term lending to companies investing in the ground rent market.

4.181 Some responses were from investors with direct exposure to ground rent cashflows through loans to freeholders which are structured as direct pass-throughs of the vast majority of the ground rent cashflows of the secured properties. Some came from very large pension fund and insurance firms which issue ground rent bonds from freehold investment companies.

4.182 Pension funds do not always directly own the ground rents; typically they provide the capital to a third party, often isolated in a special purpose vehicle, who then use that money to purchase the freehold. In return, the ground rents pay interest on that loan. This will often be 90-95% of ground rents received for a 50 year+ period. In their consultation response, one major investor freeholder said *'Across our portfolios, the Property Companies are currently able to apply in excess of 90% of ground rent income to the pension fund servicing requirements set out above.*

4.183 Some said they were companies directly involved with the ownership of the properties by granting long-leasehold interest to developers, as the freeholder with a chain of intermediate leaseholders below them. Several other respondents stressed that, while they had lent against a building or invested in ground rents by buying them directly, they were not involved in the management of the block.

**Question 32: As an investor, what proportion of your portfolio is currently invested in residential freehold/leasehold? If helpful, please provide further detail.**

## SUMMARY OF RESPONSES

Option	Total	Percent
<1%	21	3.8%
1-5%	28	5.1%
6-10%	39	7.1%
11-15%	32	5.8%
16-20%	25	4.6%
21-25%	21	3.8%
>25%	154	28.1%
Not applicable	229	41.7%

4.184 Some respondents provided further details on their investments. While some reported that they had invested solely in residential freeholds, others indicated that they have mixed portfolios which include both commercial and residential properties. Several respondents expressed concerns about the potential impact of proposals to cap ground rents on their business or personal finances. Conversely, a few respondents stated that they have chosen deliberately not to invest in ground rents, due to ethical concerns.

4.185 Investors who responded to the consultation have been clear that they do not support any actions which will reduce ground rents that are not considered to be onerous. A number of the large investors put forward an alternative approach (Option 6) in response to this consultation, which is set out in the summary of response to Question 4. This proposal would limit ground rent to the lower of either the ground rent payable as per terms of the lease, or the original starting ground rent when the lease was agreed adjusted for historic RPI inflation capped at 5% annualised. The case was made that it would prevent unfair escalations to ground rent, while also ensuring that investors could meet any index-linked liabilities to their members. They argued that it would strike a balance between achieving the government's objectives to support homeowners, while treating freeholders and investors fairly, thereby avoiding significant uncertainty and disruption in the leasehold sector.

## 5. Making our proposals to cap ground rent work

### Updating the chosen cap

**Question 10: Imagine that a ground rent cap comes into force. Which of the following mechanisms for increasing ground rent do you most agree with?**

### **SUMMARY OF RESPONSES**

*Table 6.1 Table showing responses to the question “Imagine that a ground rent cap comes into force. Which of the following mechanisms for increasing ground rent do you most agree with?”*

Option	Total	Percent	Responses by leaseholders		Responses by organisations				Responses by individuals	
					All organisations		... of which were freeholders and investors			
Ground rents should not be able to increase again after a cap is introduced (if there was a maximum value cap in place, ground rent should be able to rise to that fixed maximum value but never beyond it)	7,154	85.9%	6,764	89.6%	70	28.2%	7	7.3%	320	59.5%
Ground rents should increase by a pre-determined index link (e.g. RPI)	453	5.4%	179	2.4%	128	51.6%	67	69.8%	146	27.1%
Ground rents should increase by a fixed increments (e.g. a doubling term at a given interval)	38	0.5%	24	0.3%	5	2.0%	3	3.1%	9	1.7%
Ground rents should increase by an open market review (e.g. in line with any increase in capital value of the property at a given interval)	144	1.7%	103	1.4%	16	6.5%	6	6.3%	25	4.7%
Ground rents should increase by a different mechanism (please specify)	183	2.2%	138	1.8%	19	7.7%	10	10.4%	26	4.8%
Not sure	360	4.3%	338	4.5%	10	4.0%	3	3.1%	12	2.2%

- 5.1 The consultation paper set out that uprating would not be necessary for some of the proposed options to cap existing ground rents. This included a peppercorn cap (Option 1), capping ground rent at its original value (Option 4) and freezing ground rent at its current value (Option 5), all of which are fixed values that would prevent further escalation. However, for capping at a maximum value (Option 2) and capping at a percentage of the property's value (Option 3), it was recognised that it might be possible to permit an uprating mechanism, so that the value of the ground rent could increase.
- 5.2 Those who selected that ground rents should increase by a different mechanism were invited to specify what this should be. Only a small number of respondents chose to do so, and of those a significant number reiterated their view that a peppercorn cap was required (this was raised across all options where written answers were provided). A small number of respondents provided their thoughts on different mechanisms for uprating, providing a range of numerical figures, but also suggesting links to wages or earnings, or inflation/CPI. Some respondents wanted an increase to be in line with the terms of lease. Other suggested mechanisms included a fixed national increase or alternatively a formula that reflected local economic conditions.
- 5.3 Several respondents wanted the mechanism to reflect a percentage value of the property or at least not to exceed this percentage. A number of respondents also suggested that ground rents could be reduced if market conditions worsened and property values therefore decreased.
- 5.4 One respondent wanted to incorporate ground rents into the service charge, subject to a reasonableness test. An open market review and an independent review body were also suggested, although without the specifics of how the outcome would be determined. In addition, reviews over set time periods were suggested, including every 5 years, but another suggesting something based on a 10-25 year period. Other responses suggested linking to AST values, Council Tax valuation, and one saying that this should be done at the lender's discretion.
- 5.5 Only one respondent thought that ground rents should increase by a fixed increment. This respondent noted that doubling at 33 years for long leases appeared reasonable on the grounds that it was uncontentious. Three respondents thought ground rents should increase by a pre-determined index link.
- 5.6 Those respondents who chose an option which allowed for ground rents to be updated were asked how regularly they thought ground rents should be reviewed. The responses were as follows:

*Table 6.2: Table showing how regularly, in years, respondents thought ground rent values should be reviewed.*

<b>Uprate cycle (years)</b>	<b>Total</b>	<b>Percent</b>
<b>100+</b>	52	9.9%
<b>50 to 99</b>	18	3.4%
<b>25 to 49</b>	62	11.7%
<b>15 to 24</b>	55	10.4%
<b>10 to 14</b>	107	20.3%
<b>5 to 10</b>	77	14.6

<b>3</b>	10	1.9%
<b>2</b>	12	2.3%
<b>1</b>	135	25.5%

- 5.7 Those respondents who chose an option which allows for ground rents to be uprated were asked for further details on how they thought their preferred mechanism should work. Amongst those respondents, there was an equal preference for ground rents to escalate via fixed increments or via index-linked ground rents. There was also support for the use of banding, like that used for Council Tax, as a mechanism to determine the level of any increase.
- 5.8 Freeholder respondents made a number of arguments in support of retaining the ability for ground rents to rise in line with RPI. They noted that inflation-linkage and growth is relied upon by some investors in ground rents to support pension payments. These pension payments are linked to RPI and investment in ground rents by these institutions was on the basis of matching the income from ground rents to meet these liabilities.
- 5.9 They also felt that leaseholders as consumers were familiar with the concept of inflation and that having ground rents index-linked provides leaseholders with a protection against ground rents becoming unaffordable over the long term. They also submitted evidence to support RPI-linked ground rents being widely accepted by mortgage lenders and therefore argued that they presented no issues with mortgageability.
- 5.10 Some larger freeholders believed that if the government were to pursue options that cap or severely curtail the ability of ground rents to rise with inflation, this would reduce the net present value of their assets and investors would immediately lose half of the value of their investment.

## **Freeholder management functions and transparency of costs**

**Question 11: Are there any specific freeholder management functions which cannot be charged through the service charge?**

**11a If you selected “yes” above, please set out what these functions are. Please provide this in the form of a list if there are multiple functions.**

**Please explain, for each function identified, why it cannot be charged for through the service charge.**

### **SUMMARY OF RESPONSES**

- 5.11 The consultation paper set out that any monies that a leaseholder hands over to a freeholder that are said to either contribute to or enable proper management of the building should be subject to the requirements of being transparent, reasonable and challengeable.
- 5.12 Respondents were asked whether there were any specific freeholder management functions which cannot be charged through the service charge.

Option	Total	Percent	Responses by leaseholders		Responses by organisations				Responses by individuals	
					All organisations		... of which were freeholders and investors			
<b>Yes</b>	<b>945</b>	<b>11.4%</b>	621	8.2%	148	58.7%	81	81.8%	176	32.8%
<b>No</b>	<b>3,986</b>	<b>47.8%</b>	3,736	49.5%	64	25.4%	10	10.1%	186	34.7%
<b>Not sure</b>	<b>3,401</b>	<b>40.8%</b>	3,187	42.3%	40	15.9%	8	8.1%	174	32.5%

5.13 Freeholders/investors were clear that it is not the function of ground rent to meet the cost of services, nor is it in any way related to the provision of services; and that successive governments had conflated the function of ground rent with that of service charge. They see the ground rent, combined with the premium, as part of the consideration for the grant of the lease; and the material benefit for a leaseholder from paying a ground rent is the right to enjoy exclusive possession for the term of the lease. The ground rent is therefore received by the freeholder as the owner of property rights, not as a service provider.

5.14 Yet other freeholders, with large portfolios, have been explicit that, if there is a disconnect between what the lease allows them to recover and any legitimate costs they have incurred, functions not funded via the service charge are financed by ground rents.

5.15 There was a broad range of management functions that were listed as not being able to be funded through the service charge including correspondence, serving notices and repairing structural defects. Many freeholders also cited services relating to the maintenance of a number of buildings across a portfolio and retaining the most value while minimising the costs. These included ground rent being used to:

- facilitate the appointment of a residential asset manager to make decisions and instruct/advise the managing agent on the building's management;
- fund management and crisis response teams, particularly important where the freeholder's input is needed to sanction emergency payments or other work;
- allow freeholders to meet funding gaps that can be found within service charge budgets and estate charges;
- provide an assurance and an immediate reserve for unexpected expenditure. Freeholders cited as examples interest-free loans and forward fund costs for essential works before all leaseholder service charge monies have been collected. Many cited this in the context of the new obligations under the BSA, with ground rent providing the ability to comply and absorb the costs of compliance when the benefit of immediate service charge funds is not available. There was little evidence provided as to the reactive or pre-emptive steps that ground rent enabled, prior to these new requirements coming into force;
- provide the means to secure more comprehensive buildings insurance at a comparatively lower cost. Some freeholders were of the view that many buildings would be uninsurable were it not for the scale provided by a professional freeholder's wider portfolio;

- enable freeholders to act as independent arbitrators to assist in resolving conflicts between leaseholders, managing agents, developer or contractors, as well as to fund legal and consultancy fees when disputes arise;
- facilitate wide access to experts from across the property spectrum.

5.16 Certain freeholders responded that if all management functions were invoiced to the service charge, leaseholders would experience a reduced or no level of service, with freeholders not being able to run the buildings or no longer being willing to play a part due to the loss of income. Examples included the inability to manage leases or sales, and the inability to fulfil statutory obligations which could potentially expose leaseholders to legal or compliance risk and lack of insurance. All of which highlights significant cross-subsidising expenses across freehold portfolios where leaseholders, through ground rent, are paying for the management costs of others, without any means to challenge the costs, simply because they share a freeholder.

5.17 Many respondents noted that the profit/income from ground rent makes it worthwhile to be involved in actively managing the building and that no freeholder without a financial stake in the building would agree to be responsible for its management simply in return for having its costs covered.

**Question 12: We want to improve the transparency and accountability of costs by making sure that freeholder management functions can be funded through the service charge. Can you foresee any unintended consequences of bringing all freeholder management functions into the service charge regime?**

#### SUMMARY OF RESPONSES

Option	Total	Percent	Responses by leaseholders		Responses by organisations				Responses by individuals	
					All organisations		... of which were freeholders and investors			
<b>Yes</b>	<b>2,366</b>	<b>28.4%</b>	2,102	27.9%	119	48.0%	75	77.3%	145	27.1%
<b>No</b>	<b>5,964</b>	<b>71.6%</b>	5,444	72.1%	129	52.0%	22	22.7%	391	72.9%

5.18 For those who selected “yes”, they were asked to explain these consequences/their reasons. These included:

- an exit of ‘professional freeholders’ from the market (since, without ground rent, many freeholders felt entities or individuals would not want to accept the obligations placed on the freeholder. This could lead to speculative investors seeking to purchase freeholds at a reduced price and then to profit from the service charge;
- a significant number of blocks of flats moving from third-party freeholder ownership to leaseholder-controlled ownership;
- an increase in the service charge and the functions which leaseholders can be required to pay for. They noted that VAT is applicable to a service charge, as are

annual price increases (so prices could rise more quickly than the majority of escalating ground rents);

- as service charges are subject to heavy regulation, the First-tier Tribunal could be inundated with claims over management costs, leading to delays;
- the types of services that ground rent currently provides for are difficult to apportion on a building-by-building basis and the task of trying to invoice for these services in relation to individual buildings would be a significant undertaking, could be for substantial sums and could risk an application to the First-tier Tribunal on the basis that the costs are unreasonable (costly for all parties involved);
- ground rent is a dependable and consistent income stream, capable of matching pension fund liabilities, whereas the service charge is not. Even if the revenue received is the same, the freeholder would still suffer significant loss of value.

5.19 The consultation also included questions which were directed at freeholders/intermediate landlords but asked about the use of ground rent for certain functions (Questions 29-30). The responses to these questions have been included in this section due to the close alignment of subject matter.

**Question 26: As a freeholder or intermediate landlord, what income streams do you have available to you? Please indicate all which apply. Please give any details that you are able to about the proportion of your income that each stream accounts for**

#### SUMMARY OF RESPONSES

Option	Total	Percent	...of which were freeholders/intermediate landlords <sup>22</sup>	
<b>Ground rent</b>	<b>250</b>	<b>50.61%</b>	72	98.6%
<b>Income generated through lease extensions and/or sale of the freehold (ground rent capitalisation/reversion value)</b>	<b>197</b>	<b>39.9%</b>	61	83.6%
<b>Income through marriage value</b>	<b>135</b>	<b>27.3%</b>	38	52.0%
<b>Income through administration charges and other fees (such as commission charges, discretionary charges etc.)</b>	<b>139</b>	<b>28.1%</b>	36	49.3%
<b>Other</b>	<b>57</b>	<b>11.5%</b>	14	19.2%
<b>Not applicable</b>	<b>209</b>	<b>42.3%</b>	0	0.00%

5.20 Out of the 84 freeholders/intermediate landlords who responded to the consultation, 73 answered this question. The responses received indicated that a wide variety of income streams are available to freeholders. Ground rent was the most popular answer, with a high number of respondents stating that it was their entire or a large proportion of their income stream. However, other common answers in both the multiple-choice selection and in the free text part of this question included lease extensions, marriage

<sup>22</sup> This is any organisation which selected "A freeholder / building owner / intermediate landlord" as their main or a secondary interest. 84 respondents are in this group in total.

value, administrative charges/fees and sales. Income was also derived from service charges. A number of responses also commented that they did not see streams such as lease extensions as a way to generate income, but more as a way of creating capital.

**Question 27: As a freeholder or intermediate landlord, what are the key uses for ground rents income (select all which apply)**

**SUMMARY OF RESPONSES**

Option	Total	Percent	...of which were freeholders/ intermediate landlords <sup>23</sup>	
To service loans	120	24.3%	46	63.0%
To meet statutory obligations	99	20.1%	41	56.2%
To generate profit	160	32.4%	34	46.6%
To fund the building of further homes	37	7.5%	9	12.3%
To perform specific freeholder management functions which are not funded through the service charge	106	21.5%	45	61.6%
Other	77	15.6%	26	35.6%
Not applicable	208	42.2%	1	1.4%

5.21 The most common responses were to generate profit, service loans and perform specific freeholder management functions which are not funded through the service charge; only 7% used this to funding the building of further homes. For those who selected “other”, answers included: using the rent to fund their own living expenses, both now or for their own retirement; paying staff members; paying shareholders; covering internal company costs; making charitable donations; investing in other parts of their company/companies; and using the income as ‘compensation’ for the discounted freehold price paid by the leaseholder when they bought their house.

5.22 Respondents reiterated the ‘incentive’ that ground rent provides to hold the freehold of the block, as well as the consideration for delivering freeholder management functions. This appeared as distinct from the point about funding management functions. Examples of such perspectives included:

*“the benefit of the long-term ground rent income stream makes the ownership and stewardship of leasehold properties by professional freeholders and institutional investors realistic. In order to protect the underlying value of such investments, professional freeholders maintain and deploy experienced resource, in our case by engaging a professional freehold manager to administer and oversee the properties, which ultimately benefits a range of stakeholders, most importantly leaseholders.*

<sup>23</sup> This is any organisation which selected “A freeholder / building owner / intermediate landlord” as their main or a secondary interest.

*This results in a layer of oversight, checks and controls over the proper and efficient management, maintenance, upkeep and safety provisions for buildings, and an effective safety net with the resource to intervene in the event of critical issues arising. None of these functions are charged for through service charge but exist and are provided as a consequence of the ground rent income” (a freeholder)*

*“Ground rent provides the freeholder with incentive and consideration to provide a range of other services. All leases confer responsibilities and obligations on both leaseholders and freeholders. Some freeholder obligations involve tasks which have a cost attributable to them, which is recovered through the service charge. Others, such as having the obligation to “step in” to take over the management of a block in the event that the residents management company or right to manage company fails or is wound up, do not have an identifiable current cost attached to them. In the absence of a ground rent, there is no reason for anyone to willingly assume such obligations and responsibilities, regardless of whether tangible costs incurred can be recovered from the service charge, given the length of the lease term (which governs the relevant period of commitment).” (a freehold group)*

5.23 On the funding of such functions, it was said that *“ground rent income provides a proxy for recovery of some element of such costs and without it freeholders would not have the financial resources to continue with these services”*. Some freeholders also raised their obligations under the BSA as a use of their ground rent income.

5.24 The issue of serving loans to pension funds and insurers was raised again here. For example, some organisations are *“formed to service long-dated pension liabilities, ultimately for the benefit of UK pensioners. Hence, income received from ground rents is applied to ultimately service the pension funds’ commitments to UK pensioners”*.

5.25 Several respondents were intermediate leaseholders and reported that they paid their ground rent onwards to the freeholder.

5.26 In addition, several respondents reported using ground rent for: payments to the freeholder; income; compensating leaseholders who paid for the freehold purchase by those that did not; funding for the local authority’s Housing Revenue Account; improvement or investment in the estate; funding pensions; and subsidising service charges.

5.27 Question 27 also asked respondents who reported using ground rent to fund specific functions that are not funded through the service charge to set out the proportion of ground rent income being spent in this way. The results were as follows:

<b>% of ground rent revenue spent funding freeholder management functions</b>	<b>No of respondents</b>	<b>... of which were freeholders</b>
<b>0</b>	<b>5</b>	<b>0</b>
<b>1</b>	<b>3</b>	<b>0</b>
<b>5</b>	<b>5</b>	<b>2</b>
<b>8</b>	<b>1</b>	<b>1</b>

10	9	3
15	6	4
20	2	1
25	6	3
30	5	5
35	1	0
37	1	0
40	4	2
50	2	2
51	2	0
55	1	0
70	1	0
75	2	0
80	2	1
85	1	0
95	1	0
100	11	4

**Question 28: As a freeholder or intermediate landlord, could you meet any ongoing loan obligations if government were to cap ground rent in existing leases?**

**28a If “Yes”, how would you meet those obligations?**

**SUMMARY OF RESPONSES**

Option	Total	Percent	...of which were freeholders/ intermediate landlords	
<b>Yes</b>	95	19.4%	12	16.4%
<b>No</b>	103	21.1%	35	48.0%
<b>Not applicable</b>	291	59.5%	26	35.6%

5.28 Of the respondents who said that they would not be able to meet these obligations and left a comment, many explained that ground rent was their only source of income, which would explain their inability to meet ongoing loan obligations. Respondents who said “yes” often cited the existence of other incomes or investments (e.g. rental income from other properties) as their means of continuing to meet their obligations or noted that they had existing cash reserves. A handful of respondents stated that they would potentially need to sell the freehold.

**Question 29: If you use ground rent revenue to perform freeholder management functions, would there be any impact on the management of your portfolio if you could no longer collect ground rent revenue?**

**29a. If yes, please set out what this impact would be? Feel free to replicate evidence supplied for Question 5 if helpful.**

## SUMMARY OF RESPONSES

Option	Total	Percent	...of which were freeholders/ intermediate landlords	
Yes	129	26.9%	49	79.0%
No	77	16.0%	3	4.9%
Not applicable	274	57.1%	10	16.1%

5.29 In response to Question 29a on what the potential impact would be on the management of a portfolio if there was no ground rent revenue, some respondents reported that ground rents underpinned their finances and provided the basis through which they secured loans, arguing that the removal of this income stream would leave a gap in their operational budgets and require them to adopt alternative financial strategies. Others expressed concerns about their ability to meet future loan repayments, identifying that defaulting on these obligations could have a negative impact on their creditworthiness and future borrowing potential. Some respondents also expressed concerns that the loss of ground rents as an income stream would lead to a devaluation of their freeholds, which they argued could have a negative impact on their ability to secure further loans against these properties or to sell them at favourable prices.

5.30 The most common impact cited was being unable or unwilling to perform management functions or meet obligations under the lease. Examples included responding to leaseholder enquiries, putting insurance in place, implementing works related to the BSA, appointing and supervising managing agents, completing repairs (especially emergency repairs) and the maintenance of communal grounds. Some freeholders explicitly warned that they would intentionally become absent freeholders in this event, as their incentive for participation had been removed. Others warned that speculative investors may move into the space, or that leaseholders would be left to undertake the functions, the risk being that neither group would have the skills or intent to perform such functions.

5.31 Some respondents reported that ground rents underpinned their finances and provided the basis through which they secured loans, arguing that the removal of this income stream would leave a gap in their operational budgets and require them to adopt alternative financial strategies. Others expressed concerns about their ability to meet future loan repayments, identifying that defaulting on these obligations could have a negative impact on their creditworthiness and future borrowing potential. Some respondents also expressed concerns that the loss of ground rents as an income stream would lead to a devaluation of their freeholds, which they argued could have a negative impact on their ability to secure further loans against these properties or to sell them at favourable prices.

**Question 30: If you use ground rent revenue to perform freeholder management functions, would there be any impact on the leaseholders in your block/s if you could no longer collect ground rent revenue?**

## SUMMARY OF RESPONSES

Option	Total	Percent	...of which were freeholders/ intermediate landlords	
<b>Yes</b>	131	27.1%	53	81.5%
<b>No</b>	77	16.0%	2	3.1%
<b>Not applicable</b>	275	56.9%	10	15.4%

5.32 Respondents who expressed the view that this would have an impact on their ability to perform freeholder management functions identified ways in which this could negatively affect leaseholders including:

- this could increase their financial burden, as maintenance costs that were previously covered by ground rent would need to be funded through increased service charges or other levies;
- the quality of maintenance and service provision could reduce due to the loss of income from ground rents;
- this could result in a decline in building upkeep, meaning that delays to repairs and reduced service quality could affect their living conditions, leading to a reduction in value of properties or to leaseholders needing to take on responsibilities themselves.

**Question 13: Do you believe there are any specific considerations we need to give to blocks that have exercised the Right to Manage? Please explain why you have given this response, including what any such considerations should be.**

## SUMMARY OF RESPONSES

Option	Total	Percent	Responses by leaseholders		Responses by organisations				Responses by individuals	
					All organisations		... of which were freeholders and investors			
<b>Yes</b>	<b>1,054</b>	<b>12.8%</b>	966	12.8%	39	17.2%	23	27.0%	49	10.4%
<b>No</b>	<b>2,730</b>	<b>33.1%</b>	2,461	32.6%	106	46.7%	39	46.0%	163	34.5%
<b>Not sure</b>	<b>4,458</b>	<b>54.1%</b>	4,116	54.6%	82	36.1%	23	27.0%	260	55.1%

5.33 Among those respondents who replied “yes”, a common theme expressed support for the Right to Manage (RTM) and highlighted the considerations that could be implemented for those who undertook the RTM. Of those who explained their answer:

- many suggested a need for clarity surrounding the RTM role, with the possible implementation of guidance/guidelines;
- others suggested the need for clear rules for those managing the block;
- some respondents reflected on their own experience of the RTM – both positive and negative (but with both perspectives suggesting the need for clarity and guidance);
- some respondents felt that there should be regulation of management services and companies to ensure transparency.

5.34 Other respondents highlighted the issue of unreasonable costs being imposed by leaseholders, despite their block exercising the RTM, and additional costs being caused by residents’ committees or those managing the building.

5.35 Throughout this question, respondents voiced their support for the RTM, with many stating that all blocks should have this option and that the process to do so should be made simpler.

5.36 Of those respondents who did not think specific consideration was required, a limited number explained their reasoning: many expressed their support of the RTM regime – making comparisons with international examples where it is the norm.

**Question 14: In instances where leaseholders have exercised the Right to Manage, does the freeholder or intermediate landlord continue to provide any specific freeholder management functions which contribute to the ongoing maintenance or smooth running of the building?**

**If yes, please give details of the role of the freeholder or intermediate landlord in these instances.**

#### SUMMARY OF RESPONSES

Option	Total	Percent	Responses by leaseholders		Responses by organisations				Responses by individuals	
					All organisations		... of which were freeholders and investors			
<b>Yes</b>	<b>625</b>	<b>7.6%</b>	413	5.5%	121	53.1%	70	79.5%	91	19.4%
<b>No</b>	<b>3,209</b>	<b>38.9%</b>	3,006	39.8%	46	20.2%	10	11.4%	157	33.5%
<b>Not sure</b>	<b>4,406</b>	<b>53.5%</b>	4,124	54.7%	61	26.7%	8	9.1%	221	47.1%

5.37 Respondents who answered “no” mostly highlighted that freeholders did not contribute to the running or maintenance of the building. Some respondents stated that where the RTM has been exercised, leaseholders should pass on responsibility for maintenance to the person now managing the building. Some respondents expressed frustration at paying ground rent while living in a property that has exercised the RTM.

5.38 Those respondents who were unsure either highlighted that this was because they were unsure of what the freeholder/intermediate landlord did, or stated that the question was not applicable as they were not involved in the RTM.

5.39 Respondents who answered “yes” highlighted situations where freeholders or intermediate landlords continued to provide specific freeholder management functions such as:

- changes to the lease e.g. extensions or amendments;
- responsibility for building insurance – some respondents highlighted costs associated with the freeholders picking the insurance companies themselves;
- alterations to building structure/structural maintenance – such as cladding or external maintenance;
- responsibility for common areas or shared areas such as outside/garden maintenance or gyms/pools;
- administration such as answering queries and communication, as well as collection of ground rent;
- parking;
- compliance with health and safety rules;
- compliance with fire and building safety (e.g. cladding remediation works);
- facilitating urgent or emergency works to the building.

5.40 This list represents a combination of responses, with not all functions seen in all responses. Some respondents also highlighted that, while they thought the freeholder/intermediate landlord should take on these functions, this was not always the case.

## Compensation and reimbursement

**Question 15: Imagine that a ground rent cap was introduced. Do you think that compensation should be paid to freeholders or intermediate landlords for any loss of ground rent revenue?**

### SUMMARY OF RESPONSES

Option	Total Percent		Responses by leaseholders		Responses by organisations				Responses by individuals	
					All organisations		... of which were freeholders and investors			
<b>Yes</b>	<b>1173</b>	<b>14.1%</b>	577	7.9%	215	76.2%	101	98.1%	381	55.2%
<b>No</b>	<b>7150</b>	<b>85.9%</b>	6774	92.1%	67	23.8%	2	1.9%	309	44.8%

### Those in favour of compensation

5.41 Those termed as ‘freeholders’ and ‘investors’ were largely in favour of compensation. Some ‘leaseholder’ respondents agreed that compensation should be made but were cautious in their support. Among those strongly in favour of compensation, an argument was put forward that capping of ground rents is expropriatory in nature, and it should

therefore not be a question of whether or not compensation should be paid, but of how much should be paid. It was suggested that a ground rent cap imposed without compensation would be a deprivation to property rights contrary to the HRA and the rule of law, and that a decision to introduce any of the five options in the consultation would inevitably result in legal challenge.

5.42 These respondents also tended to state that ground rents would have been explained to leaseholders at the point of purchase (where both parties are legally represented) and felt that it was a fair contract.

5.43 A number of respondents noted that the vast majority of ground rent investments were not created by their current owners and were acquired in good faith, and that capping ground rents would be a direct infringement of the property rights of freeholders and investors. It was also suggested that with any cap freeholders would face financial hardship, banks and lenders would suffer heavy losses, and pension funds may not be able to meet their liabilities. A small number of respondents also suggested that freeholders would no longer be able to maintain their buildings without this revenue stream. Some respondents worried about the precedent that such intervention might set, if compensation is not paid, and thought that it would be reputationally damaging for the UK.

5.44 In terms of the level of any compensation and who should pay it, views on both differed and were often tied to which cap might be introduced. Some respondents thought that freeholders should be fully compensated for the total value of the loss across the life of the lease, while others thought a more modest payment may be appropriate.

5.45 On who should fund any compensation scheme, it was suggested that it should be the government (through a statutory scheme), the freeholder/developer who originally sold the ground rent, or leaseholders who would benefit from the cap who might fund any compensation arrangements. Leaseholders who supported compensation were clear in their view that it should not be paid by leaseholders.

#### Those opposed to compensation

5.46 The majority of respondents were opposed to payment of compensation, noting that leaseholders have been treated unfairly over many years, paying ground rents for nothing in return. A number of respondents considered they had been exploited by freeholders, and responded very strongly that compensation should absolutely not be considered in any circumstances.

5.47 Some respondents who viewed ground rent as a charge for no service noted that freeholders are able to recover any legitimate cost for services provided through the service charge.

5.48 There was a strong view amongst this group that investors in ground rent are sophisticated investors, who have already made strong returns on their investment – with some also adding that ground rents should not have been allowed to become an investment vehicle, and that people’s homes should not have been turned into an index-linked income stream. Several respondents argued that these firms and investors have had chances to change their business model – which is both unethical (being linked to someone’s home) and unregulated.

5.49 A number of respondents noted that all investments are at risk of changes in the market, the law and the environment, and so reform in this area is something that could have been reasonably foreseen. In addition, on a more general level, all asset/investment values may rise or fall, and all investments come with some risk.

5.50 A small number of respondents made suggestions on how a cap could be introduced. It was suggested that it should be possible to set the cap at a level that manages the transfer of value, allowing time for investors and freeholders to financially adjust, and for ground rents to be phased out gradually. A view was also expressed that, providing the cap is fair, only opportunistic freeholders will lose money.

5.51 On the whole, respondents used this question to provide their views on ground rent more generally, viewing ground rent as money ‘stolen’ from leaseholders which should be repaid, and reiterating views made elsewhere in the consultation regarding the unfairness of ground rent more generally – particularly in view of the perceived lack of service provided in return.

**Question 16: Imagine that a ground rent cap is introduced. Do you think that leaseholders should be reimbursed for past payments of ground rent where they were above the newly introduced cap?**

#### SUMMARY OF RESPONSES

Option	Total Percent		Responses by leaseholders		Responses by organisations				Responses by individuals	
					All organisations		... of which were freeholders and investors			
<b>Yes</b>	<b>4,500</b>	<b>55.8%</b>	4,319	59.3%	25	10.2%	3	3.2%	156	29.5%
<b>No</b>	<b>3,561</b>	<b>44.2%</b>	2,967	40.7%	221	89.8%	91	96.8%	373	70.5%

5.52 A high proportion of leaseholder respondents did not think that they should be reimbursed for past payments if they were above the level of any ground cap subsequently introduced. A very strong theme emerged of a ‘clean slate’ and a new start, with respondents using language such as ‘what’s paid is paid’ and ‘what’s in the past is in the past’.

5.53 In addition, respondents made the point that ground rents paid were lawful at the time and the money will have been spent. The point was made by freeholders that leaseholders had entered into leaseholds with ground rent requirements willingly.

5.54 A small number of respondents noted that introducing such arrangements would make the law retrospective and that this was not an acceptable position. Another common view was that any system set up for retrospective reimbursement would be difficult, costly and expensive. For example, previous owners would need to be traced, and

dividing ground rent reimbursement between multiple owners difficult to justify and achieve. The general view was that any such scheme would be unwieldy and expensive.

5.55 Amongst those respondents (mainly leaseholders) who thought that leaseholders should be compensated, while some considered that they had been ‘ripped off’ and the money should therefore be ‘repaid’, others thought that, while it would be nice to have the money back, it was more important for everyone to draw a line and move on (echoing the view of those respondents who had answered “no”).

5.56 A high proportion of respondents who answered “yes” did not go on to provide any further explanation or reason for their view.

**Question 17: Imagine that a ground rent cap is introduced. Do you think that leaseholders should pay any related administrative or legal costs?**

Option	Total Percent		Responses by leaseholders		Responses by organisations				Responses by individuals	
					All organisations		... of which were freeholders and investors			
<b>Yes</b>	<b>805</b>	<b>9.8%</b>	465	6.3%	138	57.7%	74	83.2%	202	38.0%
<b>No</b>	<b>7,384</b>	<b>90.2%</b>	6,953	93.7%	101	42.3%	15	16.8%	330	62.0%

5.57 A very small proportion of respondents thought that leaseholders should pay related administrative or legal costs, with some arguing that freeholders should not have to pay for the process of losing revenue.

5.58 However, the vast majority of respondents were strongly opposed to leaseholders being required to pay anything extra. Respondents questioned whether there would be any costs relating to this, and others thought that the government should bear the cost.

## Enforcement

**Question 18: For each option to cap ground rents, please indicate whether you agree or disagree that the enforcement provisions could mirror those set out in the Leasehold Reform (Ground Rent) Act 2022, including the financial penalties if freeholders and intermediate landlords impose a ground rent on leaseholders which falls outside of the reformed ground rents regime?**

### SUMMARY OF RESPONSES

*Enforcement mirroring the 2022 Act – capping ground rent at a peppercorn (zero financial value)*

Option	Total	Percent	Responses by leaseholders		Responses by organisations				Responses by individuals	
					All organisations		... of which were freeholders and investors			
<b>Agree</b>	<b>7,022</b>	<b>84.5%</b>	6,602	87.5%	112	49.1%	31	37.8%	308	57.5%
<b>Disagree</b>	<b>334</b>	<b>4.0%</b>	98	1.3%	87	38.2%	38	46.3%	149	27.8%
<b>Not sure</b>	<b>956</b>	<b>11.5%</b>	848	11.2%	29	12.7%	13	15.9%	79	14.7%

*Enforcement mirroring the 2022 Act – capping ground rent at an absolute maximum value*

Option	Total	Percent	Responses by leaseholders		Responses by organisations				Responses by individuals	
					All organisations		... of which were freeholders and investors			
<b>Agree</b>	<b>5,108</b>	<b>61.5%</b>	4,760	63.1%	104	46.0%	29	35.8%	244	45.4%
<b>Disagree</b>	<b>1,538</b>	<b>18.5%</b>	1,263	16.7%	90	39.8%	38	46.9%	185	34.5%
<b>Not sure</b>	<b>1,663</b>	<b>20.0%</b>	1,523	20.2%	32	14.2%	14	17.3%	108	20.1%

*Enforcement mirroring the 2022 Act – capping ground rent at a percentage of the property value*

Option	Total	Percent	Responses by leaseholders		Responses by organisations				Responses by individuals	
					All organisations		... of which were freeholders and investors			
<b>Agree</b>	<b>4,599</b>	<b>55.4%</b>	4,286	56.8%	95	42.2%	24	29.6%	218	40.7%
<b>Disagree</b>	<b>1,940</b>	<b>23.3%</b>	1,640	21.7%	91	40.5%	38	46.9%	209	39.0%
<b>Not sure</b>	<b>1,769</b>	<b>21.3%</b>	1,621	21.5%	39	17.3%	19	23.5%	109	20.3%

*Enforcement mirroring the 2022 Act – capping ground rent at the original amount it was when the lease was granted*

Option	Total	Percent	Responses by leaseholders		Responses by organisations				Responses by individuals	
					All organisations		... of which were freeholders and investors			
<b>Agree</b>	<b>5,374</b>	<b>64.7%</b>	5,037	66.8%	99	44.0%	29	35.8%	238	44.4%

<b>Disagree</b>	<b>1,314</b>	<b>15.8%</b>	1,030	13.6%	93	41.3%	39	48.2%	191	35.6%
<b>Not sure</b>	<b>1,619</b>	<b>19.5%</b>	1,479	19.6%	33	14.7%	13	16.0%	107	20.0%

*Enforcement mirroring the 2022 Act – freezing ground rents at current levels*

Option	Total	Percent	Responses by leaseholders		Responses by organisations				Responses by individuals	
					All organisations	... of which were freeholders and investors				
<b>Agree</b>	<b>4,969</b>	<b>59.8%</b>	4,635	61.4%	105	46.4%	32	39.5%	229	42.7%
<b>Disagree</b>	<b>1,644</b>	<b>19.8%</b>	1,357	18.0%	89	39.4%	37	45.7%	198	37.0%
<b>Not sure</b>	<b>1,693</b>	<b>20.4%</b>	1,552	20.6%	32	14.2%	12	14.8%	109	20.3%

5.59 Very few respondents provided any enforcement context for their answers, with many using the free text box to make general points on ground rent. Those who were more familiar with the enforcement provisions in the 2022 Act were broadly happy with the approach being adopted, and in favour of the enforcement being undertaken by Trading Standards.

5.60 There was general agreement that penalties should be able to be applied and that enforcement should be reasonable and proportionate. However, there were some concerns over the translation of penalties on single leases to a large block of flats.

5.61 Some respondents also felt that, while the 2022 Act in relation to future ground rents was relatively straightforward and has limited scope for misunderstanding, there is an increased scope for uncertainty and dispute under these reforms, so enforcement provisions should be tailored to these circumstances. The majority of respondents who disagreed felt that either party should have the power to ask an expert independent surveyor or the First-tier Tribunal to resolve disputes.

5.62 In the absence of a regulator for the sector, respondents urged that any enforcement powers should consider funding for local authorities to ensure sufficient capacity.

## Exemptions

**Question 19: Please select any type of leases which you agree should be given an exemption to a cap on existing ground rent?**

### SUMMARY OF RESPONSES

Option	Total	Percent	Responses by leaseholders		Responses by organisations				Responses by individuals	
					All organisations		... of which were freeholders and investors			
Where a lease has been granted for fewer than 21 years in length	922	10.9%	626	8.3%	114	43.5%	46	46.9%	182	28.8%
A long residential lease where the current freeholder or intermediate landlord can prove they have negotiated an agreement resulting in the current leaseholder not having to pay a premium	1,024	12.1%	717	9.5%	119	45.4%	56	57.1%	188	29.8%
Where leases are for community-led housing: where it is a community housing lease (where the landlord is a community land trust) or it is in a building controlled or managed by a co-operative society	787	9.3%	538	7.1%	93	35.5%	33	33.7%	156	24.7%
Leases that are for home reversion plans or 'rent to buy' arrangements or sharia compliant finance that rely upon rent to operate as a route to purchase a home	713	8.4%	452	6.0%	95	36.3%	37	37.8%	166	26.3%
Business leases as defined by the 2022 Act	860	10.2%	553	7.3%	115	43.9%	49	50.0%	192	30.4%
Other	411	4.9%	74	1%	115	43.9%	52	53.1%	222	35.2%
None of the above	3,739	44.3%	3,535	46.8%	43	16.4%	10	10.2%	161	25.5%
Not sure	2,824	33.4%	2,673	35.4%	26	9.9%	5	5.1%	125	19.8%

5.63 The consultation asked if there were other types of leases which should be exempt from a cap on ground rents. A number of suggestions came up frequently:

5.64 **Buy-to-let properties:** Several major freeholders and freeholder representative organisations suggested that any leaseholder properties owned as investment properties, such as buy-to-lets, should be exempt from any cap. Their rationale was that a cap which included this group would result in an unfair transfer of wealth from one investor group to another, not in keeping with the previous government's stated aims around policy reform.

5.65 **Intermediate leases:** Several respondents raised concerns around how a cap would work in circumstances where an intermediate lease sits between that of a leaseholder and freeholder and ground rent is paid up the chain, and whether it would just be the leasehold property owners themselves who would benefit, or whether the cap would apply to all leaseholders in the chain. If intermediate landlords were forced to fund this cost to freeholders it would have negative impacts, including undermining some companies' abilities to bring forward new developments and potentially risk insolvency for others.

5.66 **Leases of retirement and sheltered accommodation:** Several freeholders and investors have argued that leaseholders in retirement properties (excluding new retirement properties after the coming into force of the 2022 Act) benefited from a significantly discounted purchase price, and from additional services and communal spaces which require higher ground rents than standard owner-occupier properties. Several different retirement providers who have different business models using ground rent responded to the consultation. Some argued that, in relation to pre-2022 Act leases, event fees, service charges and ground rent each support the costs of providing intensive building management and services to leaseholders, much of which cannot be recovered through the service charge alone. For example, service charge income cannot be used to cross-subsidise loss-making food and beverage facilities or care services in Integrated Retirement Communities.

5.67 **Enfranchised blocks:** Several respondents supported an exemption where leaseholders have undertaken collective enfranchisement, for three main reasons – some enfranchised blocks took out a loan to fund all or part of their enfranchisement premium and they fund these loans through ground rents, including from non-participating leaseholders; a cap could mean that blocks relying on ground rent to meet non-participation costs will be unable to perform freeholder management functions not set out in the lease; and there were concerns around the financing of company costs that cannot be met through the service charge.

5.68 **Headlease arrangements:** Several respondents supported an exemption for headlease arrangements. These agreements are in place where, for example, a freeholder has sold the land on a long lease to another party such as a developer, local authority or housing association. The headlessee can grant a subsequent lease for smaller parts of the property, such as units. One reason given was that headlessees can pay ground rent to their landlord, as well as collecting ground rent, and could therefore be asked to pay the same amount with a reduced income stream. Related to

this, another reason is that the rent paid by the headleasee to the landlord was often negotiated based on ground rent projections.

**5.69 Lower premium leases:** Several arguments were made for an exemption for leases granted at a lower premium as the ground rent reserved forms part of the consideration paid for the property and capping the ground rent would represent an expropriation of part of the sale price of an asset.

**Question 20: Do you think that Shared Ownership leases should be subject to the ground rent cap, for the share owned by the leaseholder?**

**SUMMARY OF RESPONSES**

Option	Total Percent		Responses by leaseholders		Responses by organisations				Responses by individuals	
					All organisations		... of which were housing associations <sup>24</sup>			
<b>Yes</b>	<b>6636</b>	<b>88.6%</b>	6191	90.1%	119	56.4%	6	66.7%	326	79.7%
<b>No</b>	<b>855</b>	<b>11.4%</b>	680	9.9%	92	43.6%	3	33.3%	83	20.3%

5.70 Of those who thought that shared ownership leases should not be subject to a ground rent cap, a number stated that there should either be no ground rent at all or only a peppercorn cap. The point was made that shared ownership is meant to be an affordable housing model, and paying ground rent is likely to be least affordable for those who were only able to access the housing market through this route. Some respondents considered that the ground rent payable should be linked to, or aligned to, the percentage of the equity in the property owned.

5.71 Some respondents answering “no” went on to say that they do not understand the shared ownership model. A small number of respondents thought that capping ground rent for housing association properties would disadvantage these organisations, which are aimed at granting very specific leases to assist those who cannot afford to purchase a home outright, and discourage such strategies of assisting leaseholders. This was argued on the basis that the freehold will be owned by a social landlord, so any material cap will impact on the finances of the social landlord.

5.72 For those who thought that the leases should be subject to a ground rent cap for the share owned by the leaseholder, respondents considered that this was a matter of fairness and that all leaseholders should be treated equally. However, shared owners were seen to face additional burdens already when compared to other leaseholders – such as the requirement for shared owners to meet 100 percent of service charges and other costs, even though they did not own all of their home.

5.73 Several respondents argued that shared ownership leases should be exempt from a cap to allow the payment of rent in relation to the unacquired percentage. Most shared ownership schemes only require ground rent to be paid once a tenant has ‘staircased’

<sup>24</sup> Housing associations have been categorised as being any respondent who selected their main interest as: “A Housing Association / Registered Provider”. There were 9 such respondents in total.

to 100% ownership. At this point, it was argued that leaseholder protections for the wider part of the leasehold market should be triggered.

## Practical considerations

**Question 21: Are you aware of any costs – other than lost ground rent revenue – that introducing a cap on ground rents would generate?**

### SUMMARY OF RESPONSES

Option	Total Percent		Responses by leaseholders		Responses by organisations				Responses by individuals	
					All organisations		...of which were freeholders and investors			
<b>Yes</b>	<b>997</b>	<b>12.0%</b>	456	6.3%	184	68.4%	87	87.0%	337	50.4%
<b>No</b>	<b>7,191</b>	<b>88.0%</b>	6,774	93.7%	85	31.6%	13	13.0%	332	49.6%

5.74 There were a number of key themes which emerged as core arguments for other costs that a cap would generate:

5.75 **Financial costs:** Potential administrative and legal costs of the change, with a need for lease amendments and the associated administration and costs (though many felt the charges would reappear elsewhere); conveyancing difficulties and increased charges for sale packs; compensation payable to freeholders/intermediate landlords and investors; and a loss of tax revenue to HM Treasury (Stamp Duty Land Tax and Corporation Tax).

5.76 **Investment impact/investor confidence:** Many respondents were concerned that this was a potential retrospective interference in property rights, which they felt were protected by the ECHR, without compensation, and the precedent this could set for legal and investment uncertainty going forward. Beyond the overriding of property rights, it was also expressed that interference in contracts mutually agreed by two parties would raise questions about a range of investments in the UK economy.

5.77 **Pension funds:** Several respondents expressed concern that investments in ground rent form a key part of overall investment portfolios which are used as a source of income for retirement. They stressed that the beneficiaries of ground rent funds are often members of the public, including pensioners' investments, charities and other organisations providing services. It was stated that, while the government quoted the impact of the proposals as representing less than 1% of pension fund investments, in the UK they are valued at nearly £3 trillion.

5.78 **Insolvency and escheat risk:** Several respondents expressed concerns that freeholders are likely to consider their position as to whether they dispose of their assets or in some cases become insolvent (including through defaulting to lenders), which could result in a position where the freehold status of buildings remains unconfirmed. It

was felt that this could bring about the bankruptcy of a significant number of freeholders, as well as resultant impacts on supply chains of insolvencies and redundancy costs for businesses. This may also leave leaseholders without the protections under the BSA, where in some cases the freeholder would be responsible for building repair costs.

**5.79 Property management:** A few respondents highlighted that ground rent payments represent the freeholder’s continuing performance of its obligations under the lease and such reforms would impact the ability of freeholders to maintain these contractual obligations, with resulting business failure that may may impact leaseholders with higher costs.

**5.80 Property market value:** A few respondents argued that the consultation ignores the basis of a leasehold purchase and that ground rents represent part of the consideration for the purchase of the leasehold property, meaning that the price the leaseholder initially paid was lower.

**5.81 Disputes:** Some respondents note the additional burden this may place on the First-tier Tribunal to settle disputes and that such a burden will add to the costs which will ultimately fall to the taxpayer.

**Question 22: Are you aware of any practical barriers to introducing a cap on existing ground rents, which you have not addressed in your previous answers?**

**SUMMARY OF RESPONSES**

Option	Total Percent		Responses by leaseholders		Responses by organisations				Responses by individuals	
					All organisations		... of which were freeholders and investors			
<b>Yes</b>	<b>519</b>	<b>6.5%</b>	237	3.3%	118	48.8%	53	60.9%	164	32.4%
<b>No</b>	<b>7,414</b>	<b>93.5%</b>	6,947	96.7%	124	51.2%	34	39.1%	343	67.6%

**5.82** A large number of respondents raised legal challenges, ECHR and human rights issues, demands for compensation and also enforcement challenges. On the leaseholder side, the risk of judicial review due to unequal treatment of leaseholders was also mentioned.

**5.83** A number of respondents thought that freeholders may find a way to replace lost income through other means – with service charges, insurance and car parking leases all mentioned as examples. Others thought that there may be practical difficulties in locating absent freeholders to enforce the changes to leases.

- 5.84 On this note, a number of respondents thought that freeholders may refuse to co-operate and anticipated pushback against the measures and ongoing freeholder lobbying.
- 5.85 Respondents also identified a range of potential impacts on leaseholders, including complications over gaining the RTM, and issues surrounding complex leases and headleases. Retirement communities were also considered to be at financial risk if ground rent obligations are not adjusted consistently throughout the contractual chain (leaseholders, intermediate landlords and freeholders/investors). It was also suggested that the housing market as a whole could slow down if clear guidance was not provided.
- 5.86 Impacts on new builds and development land availability were also mentioned, as was the possibility of additional burden being placed on the First-tier Tribunal. It was noted that there would need to be standardised costs and charges put in place, as well as a mechanism for arbitration.
- 5.87 Similar themes to previous question were raised by respondents:
- 5.88 **Investor and lending confidence:** As above, the retrospective nature of the legislation overriding contractual property law could impact property values, property transactions, housing supply and the wider economy, and deter foreign investment. There were also concerns about the potential impact on the mortgage market of a high cap – because ground rents which exceed £250 per annum (or £1,000 per annum in London) are technically classed as ASTs under the Housing Act 1988 and this is an issue for mortgage lenders as they are not protected for ASTs.
- 5.89 **Property management:** Some respondents expressed concern that self-managing leasehold blocks often require external expertise and that managing agents are not party to the lease so will need additional funds. Significantly changing existing ground rents would affect the entire management structure, posing a risk to good property management.
- 5.90 **Litigation:** Many respondents expressed concern over significant group litigation by freehold owners seeking to force the government to provide adequate compensation. It was felt that this is likely to give rise to further market instability. They expect legal challenge as to whether a cap breaches human rights under the ECHR.
- 5.91 **Insolvency risk:** Some respondents were concerned that the timing and scale of any changes could see freeholders unable to finance the system changes required and they may go insolvent. A few respondents identified the risk of the consequences of freeholder insolvency and transition to the Crown through Bona Vacantia, leaving a significant number of properties in a limbo state unless all leaseholders collectively agree to acquire the freehold.

**Question 23: We want to hear about additional measures that could minimise the impacts of a cap on different stakeholder groups (leaseholders, freeholders and intermediate landlords, investors, mortgage lenders, the wider property market). What other measures, if any, should be considered to minimise any negative impact that a cap may have?**

**Please tick which groups will benefit from your suggested measures.**

<b>Option</b>	<b>Total</b>	<b>Percent</b>
<b>Leaseholders</b>	3,252	91.0%
<b>Freeholders and intermediate landlords</b>	1,024	28.7%
<b>Investors</b>	1,226	34.3%
<b>Mortgage lenders</b>	1,836	51.4%
<b>The wider property market (developers, conveyancers etc.)</b>	1,799	50.3%

5.92 Respondents used this question to reiterate their views on ground rent in general, and the wider leasehold environment (with commonhold, enfranchisement and the ending of forfeiture being common themes). Some respondents also used this question to provide their thoughts on formulae for ground rents and service charges. Other respondents wanted regulation of property managers, strong penalties for freeholders breaching the new regulations, and an ombudsman or alternative dispute resolution mechanism to be introduced.

5.93 Other ideas included improved protection for leaseholders such as publicity, transparency and clarity about the changes and charges, with one suggestion for management companies to be required to provide full detailed accounts within 6 months of account closures so as to prevent hidden charges, with another suggestion for a code of practice to be introduced.

5.94 Several respondents also wanted provisions to prevent freeholders increasing charges to the level of the cap before implementation. Other concerns raised by leaseholders included the need for measures to deal with delays in the provision of sales information.

5.95 There were also numerous suggestions for an arbitration service and a degree of consensus around tapering, a transitional period and ideas for a compensation scheme and/or an orderly process which could be created for leaseholders to buy out freeholders, including offering shares to leaseholders (although this might be very complex). Other ideas included letting freeholders crystallise their tax losses. The need for increased flexibility from lenders was mentioned by several respondents. Several respondents suggested a state-funded compensation scheme that compensates stakeholders for loss on asset value.

5.96 Other suggestions included the removal of existing onerous lease provisions and simplifying/standardising processes, with one respondent suggesting charges being capped for existing leaseholders, with increases only being allowed upon the sale of properties.

5.97 Several respondents suggested the establishment of a state-owned freeholder body to take over liabilities and obligations for any properties where freeholders became insolvent where their assets would otherwise be subject to insolvency law or Bona Vacantia issues.

5.98 Several respondents suggested a 'triple lock' proposal/three stage proportionality test that would reset disproportionate ground rents and limit all existing ground rents in line with the lesser of RPI or a 5% uplift in any given year. This would be in line with analysis from RICS which has argued that ground rents should not rise above 0.25% of the freehold value. It is argued this would give leaseholders transparent and uniform protection and would not be a complete appropriation of assets and cashflows or represent a retrospective change to the originally agreed contractual ground rent.

## 6. Additional impacts

### Protected characteristics

**Question 24: Thinking about the responses that you have given to Questions 1-23. Do you believe any of the proposals put forward could negatively or positively impact individuals who have a protected characteristic. Please explain your rationale, and evidence your thinking where possible.**

#### SUMMARY OF RESPONSES

Option	Total	Percent
Yes	967	13.9%
No	6002	86.1%

Options (respondents could choose more than 1)	Total	Percent
Age	812	87.2%
Disability	632	67.9%
Sex	291	31.3%
Gender reassignment	233	25.0%
Marriage or civil partnership	264	28.4%
Pregnancy and maternity	335	36.0%
Race	345	37.1%
Religion	245	26.3%
Sexual Orientation	238	25.5%

Note: Respondents who responded to the initial yes or no question were then free to then decide whether to pick more than one option. 917 people said yes and wrote an explanatory note.

6.1 It is important to note that many respondents used this question to restate the wider issues they saw with ground rents in their current form, as well as the benefits and drawbacks they associated with each of the proposed reform options.

6.2 Some respondents noted that many of the beneficiaries of ground rent income are charities that support people with certain protected characteristics through this income, and many charities hold freeholds as investment assets, which could lead to unintended consequences were that income to be reduced or stopped. The rest of the comments mainly focussed on age, disability and sex.

#### Age

6.3 Respondents frequently noted that the impacts of the proposals could vary for people of different ages, and many linked age-related impacts with disability. Some highlighted that older leaseholders could benefit the most from lower or capped ground rents because they may face increased care costs or have fixed or limited incomes. Others mentioned that younger leaseholders might also benefit, particularly where affordability is already constrained.

- 6.4 Respondents further observed that groups over-represented in the leasehold sector, such as older people, disabled people, those on lower incomes, ethnic minority communities and LGBT+ individuals, might see positive impacts from lower ground rents.
- 6.5 Conversely, some noted that older people may also be over-represented among freeholders or pension fund beneficiaries, meaning any reductions in ground rent income could negatively affect older people in those roles.

### Disability

- 6.6 Respondents often discussed disability in conjunction with age so a number of potential impacts on disabled people are set out above. Additional specific disability-related themes included:
- The importance of reducing barriers to selling leasehold homes for disabled people.
  - Challenges faced by leaseholders with cognitive impairments when navigating legalistic language associated with leases.
  - The need for better support or accessible information to ensure disabled people understand and can exercise their rights.

### Sex

- 6.7 Comments linked sex-related impacts primarily to existing socio-economic inequalities. Respondents noted that women are more likely to have lower incomes, to take maternity leave, to be single parents, or to live in flats or leasehold properties. They also highlighted that women remain over-represented among unpaid carers. These factors were cited as potentially increasing the affordability pressures associated with ground rents.