



Llywodraeth Cymru
Welsh Government

Leasehold Reform (Ground Rent) Act 2022

GUIDANCE FOR
LEASEHOLDERS, LANDLORDS
AND MANAGING AGENTS

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Introduction

This guidance has been prepared for leaseholders, freeholders and managing agents in Wales to help them understand the Leasehold Reform (Ground Rent) Act 2022 ('the Act').

The Act puts an end to ground rents for most new long residential leasehold properties in England and Wales. Royal Assent was granted on 8 February 2022 and the Act will be brought into force on 30 June 2022.

The Act will make homeownership fairer and more transparent for millions of future leaseholders. The reputation of the leasehold system has been damaged by unfair practices that have seen some leaseholders contractually obligated to pay onerous and escalating ground rents, with no clear service in return. The Act will prevent this from happening in future, tackling significant ambiguity and unfairness for future leaseholders.

This document provides guidance to leaseholders, freeholders and managing agents in Wales on how the provisions of the Act may affect them. It also provides details of the further action that may be taken should anyone not follow the requirements of the Act. Leaseholders in England should read the **UK Government Guidance on the Act**.

Unless otherwise stated, the term “leaseholder” refers to the person who currently owns the leasehold interest in the property; the legal definition of this is also listed in the Act, and in a lease this person may be known as the “leaseholder”. The term “landlord” refers to the person who is the immediate landlord of that person (either the freeholder or another leaseholder with a superior interest in the property).

This guidance provides links and contact details where you may seek further advice.

Leaseholders and landlords should seek legal advice on how the Act may apply to their particular circumstances.

Individual terms in **bold** are defined in the glossary at the end of this document.

What the Ground Rent Act means for you

From 30 June 2022, landlords of regulated leases must not require a leaseholder to make a payment of prohibited rent.

The **peppercorn** limit generally only applies to new residential **leases** that were granted after commencement of the Act, that is leases granted on or after **30 June 2022**. If you bought a new (regulated) lease after this date you will not be faced with financial demands for ground rent. There are minor exceptions to this, which are listed below.

What is Ground Rent?

A '**ground rent**' is a property industry term given to a rent that is usually paid annually by owners of residential long leases to their landlord.

Long leases (those exceeding 21 years) frequently require a leaseholder to pay an annual ground rent, often hundreds of pounds a year, for which the landlord does not have to provide a clear service in return.

A ground rent is not defined in law in England and Wales – the term 'rent' is used in legislation covering the long leasehold sector as it is in other areas of property law.

What is a 'peppercorn' ground rent?

Historically, a '**peppercorn**' ground rent often meant a rent that was of nominal or low value. The Act defines a peppercorn rent for the first time, which is 'an annual rent of one peppercorn'. The Act restricts ground rents on new residential long leases (unless an excepted or non-regulated lease) to a peppercorn rent, effectively restricting these ground rents to zero financial value. There is no obligation on a landlord to levy a peppercorn rent.

What does the Act do?

The Act means that any ground rent demanded as part of a new regulated residential long lease where a **premium** is paid may not exceed more than one peppercorn per year. Most new leaseholders will not be faced with financial demands for ground rent.

The Act also bans landlords from charging administration fees for collecting a peppercorn rent. If a landlord charges ground rent in contravention of the Act, they are liable to receive a monetary penalty between £500 to £30,000.

Will landlords make leaseholders pay an actual peppercorn?

There is no obligation on a landlord to charge or collect a peppercorn rent and we do not envisage that landlords will request their tenants pay a peppercorn as a rent in practice.

The Act also bans landlords from charging a fee related to the collection of a peppercorn rent, further reducing the incentive to charge a leaseholder an actual peppercorn.

Who will enforce the Act?

Enforcement will be the duty of the local weights and measures authority (Trading Standards authorities) in England and Wales.

District councils may also enforce in England but are not required to do so. Please see further information on enforcement in the section below.

Which leases does the Ground Rent Act's peppercorn limit apply to?

Regulated new leases

Generally, a lease will be regulated by the Act where:

- It is granted on or after 30 June 2022.
- It is a long lease (exceeding 21 years) for a single **dwelling**.
- It was granted for a **premium** (a premium is also commonly known as the “purchase price”), this also includes where a lease has been changed (referred to as ‘varied’) by a ‘deemed surrender and regrant’ and no premium was required.

- It is not an excepted lease (see further information below).

Statutory lease extensions for flats must already be granted at a peppercorn (regardless of this Act).

Transition Period

There is a transition period that applies to regulated leases of **retirement homes**, which means the Act will not come in to force for these leases any earlier than 1 April 2023.

Where does the peppercorn limit not apply?

The Act will not apply where:

- A lease is not a regulated lease.
- Buyers and sellers enter into a legally binding contract (i.e. exchange of contracts) for the grant of a lease (other than an option or right of first refusal) before 30 June 2022, even if the lease itself is granted after 30 June 2022.
- Leases are for of community-led housing, certain financial products and business leases (more information on this below).
- Voluntary or non-statutory lease extensions, which can retain the existing level of ground rent for the remainder of the original lease period.
- In a shared ownership lease, where rent is payable on the landlord’s owned share and the peppercorn rent limit applies to the leaseholder’s owned share.

Business Leases

A landlord may charge ground rent of more than ‘an annual rent of one peppercorn’ if the lease is a business lease. A business lease is where:

- The lease allows the premises to be used for business purposes (without needing further consent from the landlord for this use).
- The use of the dwelling significantly contributes to this business purpose, for example a residential flat above a commercial shop which is where the shop keeper lives who is also required to open the shop at certain times.
- At or before the time the lease is granted the landlord and leaseholder exchange written notices confirming that the use of the premises is for the business purposes specified in the lease.

What does the written notice for business premises need to contain?

The written notice must contain:

- The address (or an identifying description sufficient to identify the premises) for the lease in question.
- Statements to the effect that:
 - The landlord or leaseholder (or prospective landlord or leaseholder) intends the premises demised by the lease to be used, and to continue to be used for purposes which are business purposes and this is expressly permitted by the lease (and no further consent is required from the landlord for such use).

- The nature of the business purposes permitted by the lease (or prospective lease) is such that the use of the premises demised by the lease as a dwelling significantly contributes to the business purposes.
- The lease (or prospective lease) is excepted from the Act and the lease can require the leaseholder to pay a rent which is more than a peppercorn rent.
- The name and signature of the landlord or leaseholder (or prospective landlord or leaseholder) giving the notice or the person authorised to give the notice on that person’s behalf.

The notice can be given by hand, left at the proper address, sent by post to the proper address or via electronic communication accepted by the party. The proper address for the party is, in the case of a company, at its registered office, and in the case of an individual, at their last known address. The notice must not be included as part of the lease.

For more information, please see the **Leasehold Reform (Ground Rent) (Business Lease Notices) Regulations 2022**.

What should I do if I am a leaseholder?

What should I do if my lease says I have to pay a ground rent?

Check whether your lease is covered by this Act. The Act's peppercorn limit only applies to leases granted after 30 June 2022.

If your lease is regulated by the Act and says a prohibited rent is required initially you should speak to your landlord informally and request that the lease complies with the Act¹. If this does not resolve the situation and you want to take further action please see the Enforcement section below. You may also wish to see the section on Enforcement below.

The Act requires that, where a regulated lease has a term requiring payment of a prohibited ground rent it must be treated as if that prohibited rent is replaced with a permitted rent (usually a peppercorn rent but see section 7 of the Act for further details). This happens without any formal change to the lease being required.

There may be situations where a leaseholder or landlord may want the lease formally varied and may seek a **declaration** from the **Leasehold Valuation Tribunal** as to the effect of a term in a lease that requires the payment of ground rent.

This might be desirable if there is disagreement on whether a ground rent term in a lease is a prohibited rent or what permitted rent it should be replaced with, under section 7 of the Act. For example, a leaseholder might choose to seek a tribunal decision to confirm whether the ground rent is payable or should be replaced with a peppercorn rent to help clarify this liability in the lease when deciding to sell the property. The tribunal can also require the landlord to update the Land Registry's records in relation to the lease, the leaseholder may also do this.

You may also want to seek initial advice from the organisations listed at the end of this document.

What should I do if I have paid a prohibited ground rent?

Where a lease is regulated by the Act, and you have wrongly been required to pay and have paid a prohibited rent, you should speak to your landlord to request that they repay the amount within 28 days, as the Act requires them to do. If this does not happen and you want to take further action, please see the Enforcement section below.

¹ There are some selected exceptions from this Act where it is permitted for a lease to still charge a rent, such as where the lease is excepted or meets special provisions.

Where a landlord or a person acting on their behalf (such as a **managing agent**) requires a payment of prohibited rent (by asking the tenant for payment) and/or does not refund it within 28 days, an **enforcement authority** may investigate and consider taking enforcement action against that person. This can include requiring the payments to be refunded by the person who received them and issuing a financial penalty against the landlord (but not a person acting on their behalf).

Alternatively, you, your guarantor, or a person acting on your behalf may apply to a tribunal for a **recovery order**, instead of one being issued by Trading Standards. You may be able to seek support with doing this from your local Trading Standards team.

How does the Act affect a statutory lease extension of existing leases that charge ground rent?

Statutory lease extensions for houses and for flats remain unchanged, they are not covered by this Act.

A leaseholder of a house has the right to a lease extension of 50 years. No premium is payable, but the new lease can contain a **modern ground rent**, which can be reviewed after 25 years.

Statutory lease extensions for flats must already be granted at a peppercorn (regardless of this Act).

How does the Act affect a non-statutory (voluntary) lease extension of existing leases that charge ground rent?

Where you negotiate a non-statutory (voluntary) lease extension and the lease is regulated by the Act, the new portion of the lease that extends beyond the date of the original term must only charge a peppercorn ground rent. The ground rent charged on the balance of the term of the original lease must not exceed the original ground rent and the parties may agree to a lower ground rent for the balance of the original term.

For instance, if your existing lease has 80 years remaining, and charged £100 per year in ground rent, then, by agreement between the leaseholder and landlord, the new longer lease may continue charging £100 (or less) per year for those 80 years. The Act does not prevent a landlord and tenant negotiating to reduce or extinguish that £100 per year to a peppercorn, in line with the statutory arrangements. For the extended period of the new lease beyond 80 years, ground rent must not be more than a peppercorn.

Specialist advice should be taken when considering a lease extension. Organisations that may be able to help can be found at the end of this document.

If you have extended your lease and the landlord charges a rent that is prohibited by the Act, you should follow the steps outlined in the section on 'what should I do if I have paid a prohibited ground rent?'. Trading Standards may investigate and consider taking enforcement action against that person.

What should I do if I am a landlord?

What should I do if I, or a person acting on my behalf, charge a leaseholder a prohibited ground rent?

Where the rent is prohibited by the Act, you must refund it within 28 days of the payment being made. If you fail to refund all of the payment(s) you should be aware that you could be investigated by an enforcement authority, issued with a penalty and the amount can be recovered through a recovery order (issued by either an enforcement authority or the Leasehold Valuation Tribunal) in the County Court.

What action can an enforcement authority take against me as a landlord?

Prior to making a final decision about what enforcement action should be taken, you will be invited in a notice of intent to make written representations about the alleged breaches under investigation. You will have 28 days in which to respond to this notice.

Financial Penalty

Following issuing a notice of intent, and a final notice, where the enforcement authority has sufficient evidence that a breach has been committed, it may impose a financial penalty on a landlord (but not a person acting on their behalf). The amount of the financial penalty that may be issued for a breach of the Act is subject to the discretion of the enforcement authority, within the limits of a minimum of £500 and a maximum of £30,000.

Recovery order

A **recovery order** can be issued by the enforcement authority against the landlord, or the person acting on their behalf who received the prohibited rent payment. An enforcement authority cannot issue a recovery order where a leaseholder (or person acting on behalf of the leaseholder) has made their own application to the Leasehold Valuation Tribunal for a recovery order under section 13 of the Act. This restriction also applies if another enforcement authority has previously made a recovery order for the payments.

Managing agents must refund ground rent which has been collected in breach of the Act but will not be liable for a penalty fine under the provisions of the Act.

Enforcement

Enforcement is the duty of the local weights and measures authority in Wales. District councils may also enforce in England but are not required to do so.

The Welsh Government has **published guidance** to support enforcement authorities in exercising their duties under the Act.

Trading Standards services are delivered by officers in these authorities. If you think there has been a breach of the Act and you have already discussed this with your landlord but the issue has not been resolved, you can report the breach to the Citizens Advice Consumer Helpline. The helpline team will pass your report to Trading Standards. Trading Standards officers will then use this information to decide what action is required, and this could include investigating, or issuing a penalty, if required. Citizens Advice can also give you individual advice on what to do next.

Recovery orders issued by the enforcement authority

If the enforcement authority has sufficient evidence, it may order the repayment of the prohibited rent by:

- The landlord at the time when the prohibited rent was paid.
- The landlord at the time when the enforcement authority issues the order; or
- A person acting on behalf of one of the above where the payment was paid to that person.

However, an enforcement authority cannot issue such an order where a tenant (or person acting on behalf of the tenant) has made their own application to a tribunal for recovery order under section 13 of the Act. This restriction also applies if another enforcement authority has previously made a recovery order for the payments.

Where a person fails to pay an amount ordered under a recovery order, the enforcement authority may seek to recover it via a County Court order.

Leaseholder application for recovery orders from the tribunal

The Act allows leaseholders (or person acting on behalf of a leaseholder) under a regulated lease who have paid prohibited rent that has not been refunded to apply to the Leasehold Valuation Tribunal for a recovery order.

Trading Standards may be able to provide assistance with the application for a recovery order through the tribunal and you may wish to seek further legal advice. Leaseholders cannot separately apply for the recovery order if an enforcement authority has previously made a recovery order in relation to the payments.

If a landlord, or the person acting on their behalf, fail to pay all of the recoverable rent by the date given, the outstanding amount may be recovered through the County Court. Trading Standards may be able to provide assistance with that application.

A enforcement authority may assist leaseholders with applications to the tribunal. A lawyer or Citizens Advice may also be able to support you with your application.

Managing agents (acting on a landlord’s behalf)

Managing agents play an important role in acting on behalf of landlords to demand and collect money from leaseholders, including ground rent charges.

Managing agents must only collect charges that are legal and also must be prepared to take responsibility where their actions contravene the Act.

Managing agents must refund incorrectly collected ground rent but will not be liable for a penalty fine under the provisions of the Act.

This Act implements strong measures to make sure both landlords and managing agents cannot charge ground rent and must refund it where it is incorrectly charged.

A recovery order can be issued against the landlord, or the person acting on their behalf who received the prohibited rent payment.

Penalties

Where the enforcement authority has sufficient evidence, it may impose a financial penalty on a landlord (not a person acting on their behalf). The amount of the financial penalty that may be issued for a breach of the Act is subject to the discretion of the enforcement authority, within the limits of a minimum of £500 and a maximum of £30,000. See above section on “what action an enforcement authority can take against a landlord” for more information on the notice process when issuing financial penalties.

Trading Standards assistance for leaseholders?

The Act allows Trading Standards to assist leaseholders with applications for a recovery order (where Trading Standards have not already issued one) and an application for a declaration on whether a lease contains a prohibited ground rent term.

Trading Standards, subject to their own discretion, may conduct proceedings or give advice. Trading Standards may also help a person make an application for a County Court order concerning any unpaid amounts that are already subject to a recovery order (one that the tenant or person acting on their behalf has pursued).

Costs for leaseholders when taking the freeholder to Leasehold Valuation Tribunal

Each party (leaseholder and landlord) will pay their own costs unless ordered otherwise by the tribunal or Court.

Leaseholder applications to the tribunal where administration charges are required by a landlord

The Act requires that no administration charge is payable in relation to the collection of any ground rent that is restricted to a peppercorn rent by the Act. It does this by amending relevant provisions in the Commonhold and Leasehold Reform Act 2002.

A leaseholder is able to apply to the Leasehold Valuation Tribunal for a determination as to whether an administration charge is payable or for an order varying the lease.

A tenant may also apply to the Leasehold Valuation Tribunal to request that it makes an order appointing a manager where prohibited administration charges have been made. This will enable the Leasehold Valuation Tribunal to take action where, for example, a landlord includes prohibited administration charges in leases on numerous occasions.

Glossary

Commencement date: the date on which the provisions of the Act come into force, which is on or after 30 June 2022 for most new regulated leases. There is a transition period that applies to regulated leases of retirement homes, which means the Act will not apply any earlier than 1 April 2023 for these properties.

Declaration: a formal decision made by a relevant tribunal (which in relation to a lease of premises in Wales is a relevant Leasehold Valuation Tribunal).

Deemed surrender and regrant: arises where a lease is varied in a particular way, for example: where the term of the lease is extended, or where the demise of the lease is changed.

Dwelling: a building or part of a building, occupied or intended to be occupied as a separate dwelling, together with any yard, garden, outhouses and appurtenances belonging to it or usually enjoyed with it.

Enforcement authorities: a local weights and measures authority in England and Wales, known as Trading Standards (see below for more). In England a district council may also enforce this Act.

Exchange of contracts: a legally binding contract which commits the parties to the sale/purchase of land and/or the grant of a lease. Completion occurs when the land is transferred and the purchase price is paid and/or when the lease is entered into.

Final Notice: a notice issued by an enforcement authority, requiring a penalty to be paid and/or the amount specified in a recovery order to be paid within 28 days of the date of service of the notice.

Financial penalty: under section 9, an enforcement authority may impose a penalty on the landlord where they have breached section 3 of the Act.

Ground rent: a payment specified in a lease that the leaseholder is required to make to the landlord (directly or indirectly through an agent or representative) without obligation on the landlord (or person acting on behalf of the landlord) to provide a clear service in return to the leaseholder.

Landlord: In general, the person who holds the freehold, or the superior lease to your lease, or held it at the time when a breach of the Act took place.

Lease: the legal device (usually a written document) that grants a tenant a leasehold interest in a property and sets out the rights and responsibilities of the leaseholder and landlord.

Leaseholder: a person who owns a leasehold interest in property, granted by a person (the landlord) who holds the freehold interest or a superior leasehold interest in that property.

Leasehold Valuation Tribunal: a court that specialises in settling property disputes, including over leasehold charges and fees, enfranchisement and land registration. The Leasehold Valuation Tribunal can issue repayment orders, fines and consider appeals.

Long lease: generally, this means a lease of a dwelling that is granted for a term longer than 21 years. The full definition of this is set out at section 22(1) of the Act.

Managing agent: if your property is leasehold, it may be managed by an agent on the landlord's behalf or by the landlord directly. You may be legally required to pay a 'service charge' to cover the cost of services provided by the landlord – which will be set out in the lease.

Modern ground rent: a type of ground rent that leaseholders of houses pay per year on the extended portion of their lease once they have exercised their statutory right to a lease extension. The amount is calculated using a formula set in legislation and it can sometimes be higher than the ground rent on the original lease.

Peppercorn rent: the phrase 'peppercorn rent' has been used historically to mean a very low or small amount of rent. This Act defines it as an annual rent of one (actual) peppercorn.

Pre-commencement lease: a lease that was granted before the commencement date (30 June 2022). This also includes where a lease is granted in accordance with a contract (except if this was an option or right of first refusal) exchanged before the commencement date but which was granted after this date.

Premium: Any pecuniary (monetary) consideration for the grant of the lease other than rent, usually the purchase price.

Recovery order: under section 10, an enforcement authority may order the repayment of the prohibited rent from a landlord (including a person acting on their behalf or a person who has ceased to be a landlord) where all or part of that rent has not been refunded.

Redress scheme – a free, independent service that helps leaseholders and landlords to address complaints about a managing agent where they haven't been dealt with satisfactorily.

Regulated lease: a lease which fulfils the criteria listed above (and as per section 1 of the Act), meaning it is covered by the Act and the peppercorn limit applies.

Retirement home lease: where it is a term of the lease that the premises must be occupied by persons who are at least 55 years old.

Statutory lease extension: a legal process through which a leaseholder can increase the number of years remaining on their lease. For a house, this will be under Part 1 of the Leasehold Reform Act 1967, or for a flat, under Chapter 2 of Part 1 of the Leasehold Reform, Housing and Urban Development Act 1993.

Trading Standards: an organisation that provides support and resources to help combat activity that would be detrimental to consumers. Trading Standards officers are based within local authorities and enforce consumer rights. They can investigate whether a leaseholder has been charged a prohibited rent by a landlord, issue an order to recover prohibited rent from the landlord or person acting on their behalf and may issue a financial penalty against the landlord.

Voluntary ('non-statutory') lease extension: a process followed to increase the number of years remaining on a lease, without needing to follow the exact steps as set out in law required under a statutory lease extension.

Written representation: an opportunity for a landlord, or a person acting on their behalf, to respond in writing to a notice of intent that proposes a penalty and/or a recovery order.

Helpful links

To find information about the leasehold system	<p>An online version of The (Leasehold Reform) Ground Rent Act 2022</p> <p>The Leasehold Advisory Service</p>
To find information, advice and support	<p>Association of Leasehold Enfranchisement Practitioners</p> <p>Federation of Private Residents' Associations</p> <p>Homeowners Alliance</p> <p>Leasehold Knowledge Partnership</p> <p>The Leasehold Advisory Service</p>
To find general free advice on managing your money	Money Helper
To make a complaint about a property manager or estate agent	<p>The Property Ombudsman</p> <p>Property Redress Scheme</p> <p>The Housing Ombudsman</p>
To report concerns about a possible breach of the Act	Citizens Advice Consumer Helpline or call 0808 223 1133
To find your local Trading Standards team	Local Trading Standards postcode checker
To consider taking a case to the Leasehold Valuation Tribunal	Information on how to use the Leasehold Valuation Tribunal