

Committees: Community and Children’s Services Committee Housing Management and Almshouses Sub-Committee	Dated: 20/09/2024 09/10/2024
Subject: Leasehold and Freehold Reform Act 2024	Public
Which outcomes in the City Corporation’s Corporate Plan does this proposal aim to impact directly?	Providing Excellent Services
Does this proposal require extra revenue and/or capital spending?	N
If so, how much?	N/A
What is the source of Funding?	
Has this Funding Source been agreed with the Chamberlain’s Department?	N/A
Report of: Judith Finlay, Executive Director of Community and Children’s Services	For Information
Report author: Liam Gillespie, Head of Housing Management, Department of Community and Children’s Services	

Summary

The Leasehold and Freehold Reform Act 2024 was given Royal Assent in May 2024 and will introduce wide-ranging changes to current legislation on residential long leases.

The bulk of the new Act is not expected to come into force until 2025/26, and the purposes of this paper is to outline the changes to Members and examine the implications for both the City Corporation as landlord, and for our leaseholders.

Recommendation

Members are asked to:

- Note the report.

Main Report

Background

1. The Leasehold and Freehold Reform Act 2024 (“the Act”) was given Royal Assent in May 2024 and introduces changes to the administration of residential leases in England and Wales.

2. The Act strengthens the rights of long leaseholders and simplifies the process of extending long leases or exercising rights to purchase the freehold of a property (known as enfranchisement).
3. The City Corporation manages a significant number of leasehold properties, including 955 on its social housing estates, and the Act will have implications for the management of these leases.

Main Provisions

4. The Act is extensive and addresses some long-standing areas of concern for those with long leasehold interests in residential property. Important provisions of the Act include:

- **Longer Lease Extensions**

The Act modifies the Leasehold Reform, Housing and Urban Development Act 1993 and gives lessees the right to extend their lease by 990 years, rather than the current 90 years for flats and 50 years for houses.

This will provide leaseholders with more security and reduce the expense and inconvenience of having to potentially apply for multiple lease extensions.

At the time of writing, 147 leases on our social housing estates have been extended by the statutory 90 years.

- **Abolition of 'Marriage Value'**

The Act abolishes the concept of 'marriage value', which significantly increases the cost of extending a lease when it falls below 80 years remaining. New methods will be provided for calculating the premium for lease extensions.

Marriage value is a component of the valuation when calculating the premium payable by the leaseholder for an extended lease. It reflects the increased market value of the extended lease, and legislation currently requires that this is shared between the leaseholder and the landlord.

The marriage value on a flat worth £500k is likely to exceed £20k, so the abolition of this concept will make extending sub-80-year lease much more affordable.

- **Minimum Ownership Requirements – Lease Extension**

The current requirement that a lessee must have held their lease for two years before they can exercise their right to extend it will be abolished, meaning that lessees can apply to extend from day one.

- **Service Charges and Ground Rent**

The Act will introduce standardised service charge demands, to increase transparency and clarity for leaseholders on the services they pay for. A schedule of administration costs must be provided, without which the costs will not be recoverable.

Restrictions are also placed on ground rent to prevent significant increases being applied. There will be a requirement for landlords to produce a year-end report with details of planned major works to relevant buildings. There will also be a legal right to buy out the ground rent.

These provisions are intended to enable homeowners to be able to challenge their landlord's service charge regime more readily and have greater transparency on ground rent costs.

The City Corporation has low ground rents of £10 per annum, which generated £8,530.00 in income for the HRA in 2023/24. It should be noted that leaseholders who have extended their leases no longer pay ground rent, as this is 'bought out' in that process.

- **Redress and Scrutiny**

The Act gives homeowners on private and mixed tenure estates comprehensive rights of redress, so they receive more information about what charges they pay, and the ability to challenge how reasonable they are. Landlords, including private managing agents, will be required to belong to an approved redress scheme.

- **Right to Manage**

The Act simplifies the process for leaseholders to assume management responsibility for their buildings. Leaseholders will now be able to exercise this right when up to 50% of the floorspace of their building is made up of commercial use, when previously the limit was 25%.

- **Property Purchase and Sale**

The purchase and sale of leasehold properties will be made easier, as a maximum timescale and fee will be set for the provision of home buying and selling information (sales packs).

- **Insurance**

The Act will require greater transparency around fees for arranging insurance.

- **Legal Fees**

The presumption that leaseholders must pay their landlords' legal costs when challenging poor practice will be abolished, which may encourage more leaseholders to exercise their rights in this regard without fear of incurring significant bills.

5. Only a small number of provisions within the Act have so far come into force, including minor amendments to the Building Safety Act 2022 relating to litigation costs for residents in a Right to Manage company (not relevant to the City Corporation), some technical insolvency provisions, and another section relating to the repossession of homes due to 'rentcharge' arrears (again, not relevant to the City Corporation's management of leases).
6. The remaining provisions require secondary legislation to give them effect, and this process is anticipated to take until 2025/26 according to the latest information available.
7. Until then, current rules on leasehold administration and the rights of lessees will continue to have effect.

Implications

8. The 2024 Act has significant implications for owners of residential leases on the City Corporation's housing estates, and our administration of these leases, including:

Lease Extensions

9. Members may be aware that a large proportion of leases granted on City Corporation housing estates were initial Right to Buy sales in the 1980s and 1990s; these leases were granted for 125 years and are therefore approaching the (currently) important 80-year mark, below which 'marriage value' and higher premiums apply for extension. A further issue is that the City Corporation opted to grant leases for 125 years *from the date of the first lease granted in the same building*, meaning that those exercising their Right to Buy in 2024 may be offered a lease with only 80-85 years remaining. This issue will be the subject of a separate Committee report.
10. While some leaseholders are currently taking advantage of the 90-year extension currently available, the abolition of marriage value and the opportunity to extend for 990 years will likely lead to an increase in extension applications once the new law comes into force.
11. The removal of marriage value, and the scrapping of the two-year residence requirement for extensions applications, is likely to make buying and selling leasehold properties easier, and we may experience an increase in open market sales activity.
12. These possible increases in workload will require us to consider staffing resources once the administrative demands become clearer. Lease extensions are administered by the Barbican Estate's Service Charges and Revenues Team, for both the Barbican and HRA estates, and an increase in applications may require at least a temporary increase in staffing.

Service Charge Statements

13. As the Act will provide for a standard format for service charge demands, the City Corporation will have to ensure that its IT systems can produce statements that meet legal requirements.
14. Feedback received from residents on our current service charge demands is that they could include more detail, particularly for non-routine items (major works), where cost headings are not sufficiently broken down into their constituent parts.
15. The detail of these new requirements is not yet available, however once published, changes will be made to ensure that we comply with the new rules.

Implications for Leaseholders

16. While the new Act will benefit leaseholders in various ways, the uncertainty around the commencement of the new provisions places some leaseholders in a difficult position. Those considering extending their leases may be unsure whether to wait until the new rights come into effect or take advantage of existing legislation.
17. Those with leases approaching the 80-year mark may be concerned about acting sooner rather than later, however as the new valuation criteria are not yet clear, it is difficult to guess whether it is worth waiting for the longer lease extension rights to come into effect. Indications are that for those with leases under 80 years remaining, it is likely to be cheaper to wait due to the abolition of marriage value, however the situation for leases over 80 years is less clear. Lease extensions under the new rules may prove more expensive, however this must of course be balanced with the benefits to be gained (a 990-year extension) and the potential increase in value of the leasehold interest as a result.
18. We are unable to advise individual leaseholders on the appropriate course of action, however there are various independent sources of advice for leaseholders such as that available through the Leasehold Advisory Service or the HomeOwners Alliance.

Proposals

19. Officers recently met with representatives from leaseholder associations at Golden Lane and Middlesex Street Estates, to discuss the new Act and the implications for City Corporation leaseholders. It was agreed that officers would set up a page on the Corporation's website to explain the changes, and sources of advice and information.
20. Additionally, articles on the new Act will be included in the Housing Division's newsletters and magazine, @home. As the guidance on the new Act is published, further information will be provided to leaseholders to ensure that they are aware of their rights and how to exercise them.
21. It is proposed that officers continue to monitor the implementation of the Act, and update residents and Members as the picture becomes clearer. Further work will

also be undertaken by officers to consider the implications for leasehold management and ensure that policies and procedures are ready for the remaining sections coming into force.

Corporate & Strategic Implications

Strategic implications

Providing Excellent Services: our response to this plan, and any changes to policy and procedure, will help us manage residential leases effectively and improve the services provided to leaseholders; the effective management of our housing estates is integral to supporting the strategic aim of 'providing excellent services'.

Financial implications

At this stage, the financial implications for the City Corporation are not yet clear, however it is possible that there may be an increase in personnel and administrative costs around lease extensions and service charge accounting when the new Act comes into force. This will be given further consideration once timescales and workload demands become clearer.

Resource implications

See financial implications.

Legal implications

The new Act is a major piece of legislation in leasehold management and brings about significant changes to current practice. Further advice will be taken to ensure that we are compliant with the new obligations as they come into effect.

Risk implications

None.

Equalities implications

An equalities analysis will be conducted as the relevant guidance is issued, to ensure that we deliver on our obligations in an inclusive way. For instance, thought will be given to how we communicate with leaseholders to ensure they are aware of their rights and obligations, and the processes we have in place, and methods of communication, must be accessible and meet the diverse needs of residents living on our estates (e.g. IT accessibility).

Climate implications

None.

Security implications

None.

Conclusion

22. The Leasehold and Freehold Reform Act 2024 brings in significant new rights for leaseholders and introduces changes to the way in which landlords must keep lessees informed about the charges they pay, enabling residents to hold them to account more easily.

23. The most eagerly anticipated parts of the Act, including those giving leaseholders a right to extend their leases for longer, and reducing the cost involved in doing so, are not expected to become law until 2025/26.
24. It is anticipated that there will be significant interest among residents seeking to extend their leases, given that a significant proportion of leases are diminishing in duration, having been granted with start dates in the 1980s and 1990s.
25. Officers will monitor the implementation of the Act and, once guidance becomes clearer, ensure that our processes, policies and communications are fit for purpose and meet the needs of residents on our estates.

Appendices

- None

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