

Addendum to Leasehold and Freehold Reform Act 2024 Impact Assessment

1. This addendum sets out technical corrections to certain formulas used in the modelling for the reform that caps ground rents at 0.1% of the freehold vacant possession value in enfranchisement calculations. As the intention is to amend the figures as they were presented in the Impact Assessment (IA)¹ at the time it was published in December 2023, we have not made any updates to data or inputs that may have changed between then and now. As this is a technical correction based on our evidence, data and understanding at the time of modelling, the same modelling caveats set out in the Impact Assessment continue to apply.
2. The technical correction relates to the uprating and discounting of the ground rent term.² An amendment has also been made to the interaction applied to the 0.1% ground rent estimate, to ensure the interaction is accounted for as intended.³ Taken together these amendments have had the net impact of increasing the estimated impacts of the 0.1% cap. As ground rents feed into marriage value calculations, the marriage value reform impact has also changed.

Impacts on total costs and benefits

3. The figures below are set out in 2019 prices and 2025 Present Value (PV) in line with the body of the Impact Assessment. The Regulatory Policy Committee (RPC) template at the top of the Impact Assessment (pages 1-6) require figures to be presented in 2020 Present Value (PV) – therefore, figures presented in 2020 PV are set out in relevant footnotes and tables.
4. The impact represents a transfer, i.e. a cost to landlords/freeholders but an equal benefit to leaseholders. Over the 10-year appraisal period, these corrections lead to:
 - a) Total costs increasing from £3.5bn to £4.0bn, an increase of £0.5bn (2019 prices, 2025 PV).
 - b) Total benefits also increasing from £3.6bn to £4.1bn, an increase of £0.5bn (2019 prices, 2025 PV).

¹ [Leasehold and Freehold Reform Bill Impact Assessment](#).

² This includes the removal of an inflation deflator which was not required as part of calculating the ground rent term which had the effect of discounting the future rents too heavily. Amendments were also made to inflation formulas used in calculating the term, to ensure the appropriate growth of ground rent over time, including using the long run Retail Price Index (RPI) assumption of 2% to match Office for Budget Responsibility (OBR) long run economic determinants available at the time of the IA as set out here: [Supplementary forecast information release: Long-term economic determinants – March 2023 - Office for Budget Responsibility](#).

³ See page 118 and page 64 of the IA for more detail.

c) The net change to society is therefore zero as these are transfers, meaning that the Net Present Value is unchanged at £107m (2019 prices, 2025 PV).⁴

5. This increase in costs falls within the ranges of uncertainty for the IA as a whole as set out in the original IA.⁵

Impacts on individual reform estimates

6. Following this correction, the estimate of the 0.1% ground rent cap impact increases from £588m over the 10-year appraisal period to £1,151m, an increase of £563m (2019 prices, 2025 PV). This includes the interaction impact with marriage value which increased from £62m to £100m over the 10-year appraisal period.

7. Marriage value reform impacts are reduced from £1,910m to £1,860m over the 10-year appraisal period, a decrease of £49m (2019 prices, 2025 PV).

8. The net change is an increased estimated cost to freeholders of £513m, and an increased estimated benefit of £513m to leaseholders over the appraisal period.⁶

£m, 2019 prices, 2025 PV	Previously published figures	Corrected figures	Difference
0.1% cap on ground rents	588	1,151	563
Marriage value	1,910	1,860	-49
Total			513

9. The asset value impacts resulting from marriage value reforms decreased from £7.1bn to £6.9bn for England.

10. Average estimates per short lease reduced from £18,500 per short lease in England (£18,000 in England and Wales) to £18,000. The estimated gain relative to property value reduced from approximately 7% - 8% to 6% - 7%.

Impacts on business

⁴ The Net Present Value is £90.9m in 2019 prices, 2020 PV.

⁵ In order to comply with RPC requirements, the template at the top of the IA on pages 1-6 present figures in 2020 PV. In this form the original IA showed that the total costs were 3.0bn and gave a high scenario for total costs of 3.9bn, a range of £900m (2019 prices, 2020 PV). The corrected central estimate for total costs is £3.4bn in 2020 PV, an increase of c400m of the central estimate (2019 prices, 2020 PV). Although not all costs in the IA are in relation to freeholders, the majority are.

⁶ Figures may not sum due to rounding.

11. These technical changes have increased our estimates of net direct costs to business per year:
- The Equivalent Annual Net Direct Cost to Business (EANDCB), for the enacting legislation, increased from £159m to £191m (2019 prices, 2025 PV).
 - When including the expected costs of the secondary legislation, the EANDCB increased from £227m to £259m (2019 prices, 2025 PV).⁷

Impacts further broken down by region or affected group

12. The total reform package has total benefits of £4.1bn over the 10-year appraisal period, most of which are received by leaseholders (although not all). Dividing this by the total number of leasehold properties leads to an estimated benefit of £83 per year per leasehold property.
13. Most of the £4.0bn costs are felt by freeholders (although not all). The average annual cost divided by the estimated number of freeholders is estimated to be £948 (2025 PV).
14. The 0.1% cap estimated impact of £1,151m over the 10-year appraisal period can be broken down into £426m for business leaseholders and £725m for non-business leaseholders.⁸
15. The marriage value estimated impacts of £1,860m across the 10-year appraisal period can be broken down into £688m for business leaseholders and £1,172m for non-business leaseholders.
16. The subgroup of 11,900 leaseholders that benefit from marriage value reforms each year will receive discounted transfers of £15,700 per affected lease. There is significant regional variation, for example the average reduction in London is estimated to be £26,400 compared to the North East which has an average reduction of £4,800. Spread over the 10-year appraisal period the £15,700 figure equates to £1,600 per affected leasehold property per year.
17. Most of the impacts in the summary impact Table 3.2 arise from the valuation reforms (90%), in particular marriage value reforms (46%). In terms of regional distribution, 66% of marriage value transfers occur in London, largely due to there being a higher proportion of flats in London and also reflecting the relatively higher property prices.

⁷ In order to comply with RPC requirements, the template at the top of the IA on pages 1-6 presents figures in 2020 PV. In this form, the EANDCB including the expected costs of secondary legislation increased from £222.8m to £254.6m (2019 prices, 2020 PV).

⁸ Splits are based on 37% of leasehold properties in the private rented sector. This assumption is discussed further in the IA.

18. The primary EANDCB of £191m (2019 prices, 2025 PV) is equivalent to direct net costs of £448 per freeholder and £38 per leasehold dwelling in England.
19. The Annex sets out corrected tables from the Impact Assessment. The tables show just the affected reforms and consequential updates to calculated totals or averages.
20. Further detail on enfranchisement measures – some of which are in the scope of the technical correction described here – will be subject to secondary legislation as set out in the Written Ministerial Statement.⁹ The Department will consult on the valuation rates used to calculate the cost of enfranchisement premiums. Parliament will then need to approve the secondary legislation that sets out the detail, before implementing the package. This will be supplemented with further analysis at the appropriate time.

⁹ [Leasehold and Commonhold Reform, 21 November 2024.](#)

Annex: Amended Tables

Page 1-6 – Summary tables at front of the Impact Assessment.

Note: this is set out in 2019 prices, 2020 PV in line with RPC requirements, but elsewhere tables are set out in 2025 PV.

Cost of Preferred (or more likely) Option (in 2019 prices, 2020 present value, £m)			
Total Net Present Social Value	Business Net Present Value	Net cost to business per year	Business Impact Target Status
90.9	-1,975.5	254.6	1,272.9

Price Base	PV Base	Time Period	Net Benefit (Present Value (PV)) (£m)		
2019	2020	10 years	Low: -1,515.9	High: 1,532.4	Best Estimate: 90.9

COSTS (£m)	Total Transition (Constant Price)Years	Average Annual (excl. Transition)	Total Cost (2020 Present Value)
Low	33.6	309.5	2,691.2
High	53.9	498.5	4,319.6
Best Estimate	43.7	393.4	3,419.1

BENEFITS (£m)	Total Transition (Constant Price)Years	Average Annual (excl. Transition) (Constant Price)	Total Benefit (2020 Present Value)
Low	0.0	325.7	2,803.7
High	0.0	490.8	4,223.6
Best Estimate	0.0	407.8	3,510.0

BUSINESS ASSESSMENT (Option 3)

Direct impact on business (Equivalent Annual) £m:			Score for Business Impact Target (qualifying provisions only) £m:
Costs: 391.2	Benefits: 136.6	Net: 254.6	1,272.9

Tables from Chapter 3 – Headline reform impacts

Table 3.1 and 3.2

Note: 2019 prices, 2025 PV over a 10-year appraisal period.

£m	Total costs (2025 PV)	Total benefit (2025 PV)	Net Present Value	EANDCB (Primary and Secondary Legislation)
	4,040.4	4,147.7	107.3	259.3
Measures under Annex 2 – reforms to the valuation process to make it cheaper and easier to enfranchise, and mandate the valuation methodology for most lease extensions and freehold acquisitions				
<ul style="list-style-type: none"> Removal of Marriage value 	1,860.4	1,860.4	0.0	117.2
<ul style="list-style-type: none"> Cap ground rents at 0.1% of freehold value 	1,151.0	1,151.0	0.0	72.5

Table 3.2 extended

Note: 2019 prices, 2025 PV over a 10-year appraisal period.

Impact	Value (£m)	Group impacted	Direct/ Indirect
Transfers			
By removing marriage value payment	£688	Freeholders to Leaseholders (Businesses)	Direct
	£1,172	Freeholders to Leaseholders (Non-Businesses)	Direct
By capping ground rents within the valuation process	£426	Freeholders to Leaseholders (Businesses)	Direct
	£725	Freeholders to Leaseholders (Non-Businesses)	Direct
Costs			
Total Benefits	£4,048		
Direct Benefits	£3,630		
Direct Benefits to Business	£1,356		
Total Cost	£3,630		
Direct Cost	£3,630		
Direct Cost to Business	£3,618		
Total Net Benefits	£418		
Direct Net Benefits	£0		

Direct Net Benefits to Business	-£2,262
EANDCB	£226

Table 3.3: Summary of the EANDCB

2019 prices, 2025 PV (£m)	EANDCB, Central	EANDCB without PRS leaseholder assumption
Estimated annual net direct cost to business (EANDCB) – primary legislation only	191	306
Estimated annual net direct cost to business (EANDCB) – primary and secondary legislation	259	400

Tables from Annex 2

Relevant sections from tables on page 112 and 113 of the Impact Assessment.¹⁰

(2019 prices, 2025 PV)	Average Marriage Value (£)	Annual Discounted Marriage Value impact (£m)	Distribution of Marriage Value Impacts
Total	15,661	186	100%
North East	4,819	2	1%
North West	6,996	5	2%
Yorkshire and The Humber	6,268	3	1%
East Midlands	6,406	2	1%
West Midlands	6,972	8	4%
East of England	10,265	13	7%
London	26,378	122	66%
South East	11,095	25	13%
South West	8,918	7	4%

Sensitivities

Relevant tables from page 137 of the Impact Assessment.

a) Number of lease extensions per year

2019 prices, 2025 PV	31,000 Lease Extensions	38,900 Lease Extensions (central assumption)	54,000 Lease Extensions
Marriage Value (£m)	1,554	1,860	2,429

b) Distribution of leases at the point of enfranchisement

¹⁰ Figures may not sum due to rounding.

2019 prices, 2025 PV	No Restriction	110 Years (central assumption)
Marriage Value (£m)	737	1,860

c) Average ground rents

2019 prices, 2025 PV	Central – different ground rents applied to leases based on assumptions of fixed vs. variable leases	Scenario – average EHS ground rent for all leases
Ground Rent Cap (£m)	1,151	942