

## Annex 5: Ground Rent Reform

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## Part 1: Overall and stakeholder impacts

### 1.1 Overall impacts on total welfare

**This table is a summary only. For full details about each impact, see Section 4.7.**

(1) Overall impacts on total welfare		Directional rating
<b>Description of overall expected impact</b>	<p>Monetised impacts use 2025 prices and 2028 present value (PV).</p> <p><u>Monetised benefits</u></p> <p><b>Savings to leaseholders</b> – PV £10.0bn - £12.7bn lifetime asset value transfer from freeholders to leaseholders</p> <ul style="list-style-type: none"> <li>• This monetised benefit represents a transfer. There will be an equal cost to freeholders, so this particular impact does not contribute to the Net Present Social Value (NPSV).</li> <li>• Impacts of reduced ground rent payments over a ten-year appraisal period have also been assessed as PV £1.6bn - £2.3bn.</li> </ul> <p><b>Fewer transaction fall-throughs</b> – PV £80m (£40m - £120m)</p> <ul style="list-style-type: none"> <li>• Leaseholders will benefit from reduced risk of lending refusals or fall-throughs where high, complex or escalating ground rent terms previously had a negative or undesirable impact on the sale of leasehold properties.</li> </ul> <p><u>Non-monetised benefits</u></p> <ul style="list-style-type: none"> <li>• Improved mortgageability and saleability (excluding the monetised impact of fewer transaction fall-throughs because of high ground rents) (buyers and sellers).</li> <li>• Consumer confidence and wellbeing (leaseholders).</li> </ul>	<b>Positive</b>

- Increased certainty and reduced risk of disputes and consumer liability (leaseholders).
- Reduced complexity (conveyancers, valuers, property and managing agents).
- Reduced risk of consumer dispute and professional liability (conveyancers, valuers and managing agents).

#### Monetised costs

**Loss of ground rent income for freeholders** – PV £10.0bn - £12.7bn lifetime asset value transfer from freeholders to leaseholders. Some of these losses will be passed on to investors in ground rents.

- This monetised cost represents a transfer. There will be an equal benefit to leaseholders, so this particular impact does not contribute to the NPSV. Impacts of reduced ground rent payments over a ten-year appraisal period have also been assessed as PV £1.6bn - £2.3bn.

**Familiarisation and implementation costs** – PV £3.5m (£1.8m - £5.7m) across the ten-year appraisal period.

- Leaseholders, freeholders, managing agents, legal professionals, lenders, valuers and insurers could incur time costs to familiarise themselves with, understand and comply with, the new legislation.

#### Non-monetised costs

- Compliance costs (minimal) (freeholders and managing agents, investors, legal professionals, lenders, surveyors and valuers).
- Insolvency risk for individual businesses (freeholders).
- Freeholder insolvency spillovers (leaseholders).
- Individual business spillovers (freeholders).

	<ul style="list-style-type: none"> <li>• Reduced investor demand (investors).</li> </ul> <p><u>Headline Metrics</u></p> <p>Over the ten-year appraisal period:</p> <ul style="list-style-type: none"> <li>• The <b>NPSV</b> of the policy is <b>£76.5m</b> (£34.3m - £118.2m).</li> <li>• The <b>equivalent annual net direct cost to business (EANDCB)</b> of the policy is £95.6m to £145.3m. This is the expected cost to business groups of the ground rent cap.</li> <li>• The <b>equivalent annual net direct cost to households (EANDCH)</b> of the policy is -£102.5m to -£151.3m. This is the expected cost to leaseholders, and buyers and sellers of leasehold properties, that are not businesses.</li> </ul>	
<p><b>Monetised impacts</b></p>	<p>Monetised impacts use 2025 prices and 2028 PV.</p> <p>The <b>NPSV</b> of the policy over the appraisal period (including transfers which net off) has been calculated as £76.5m (£34.3m - £118.2m).</p> <p><u>Monetised benefits</u></p> <p><b>Savings to leaseholders</b> – PV £10.0bn - £12.7bn lifetime asset value transfer from freeholders to leaseholders.</p> <ul style="list-style-type: none"> <li>• This monetised benefit represents a transfer. There will be an equal cost to freeholders, so this particular impact does not contribute to the NPSV.</li> <li>• Impacts of reduced ground rent payments over a ten-year appraisal period have also been assessed as PV £1.6bn - £2.3bn.</li> </ul> <p><b>Fewer transaction fall-throughs</b> - PV £80m (£40m - £120m)</p>	<p><b>Positive</b></p>

	<ul style="list-style-type: none"> <li>Leaseholders will benefit from reduced risk of lending refusals or fall-throughs where high, complex or escalating ground rent terms previously had a negative or undesirable impact on the sale of leasehold properties.</li> </ul> <p><u>Monetised costs</u></p> <p><b>Loss of ground rent income for freeholders</b> – PV £10.0bn - £12.7bn lifetime asset value transfer from freeholders to leaseholders. Some of these losses will be passed on to investors in ground rents.</p> <ul style="list-style-type: none"> <li>This monetised cost represents a transfer. There will be an equal benefit to leaseholders, so this particular impact does not contribute to the NPSV.</li> <li>Impacts of reduced ground rent payments over a ten-year appraisal period have also been assessed as PV £1.6bn - £2.3bn. This aligns with the approach taken for other costs and benefits in this impact assessment.</li> </ul> <p><b>Familiarisation and implementation costs</b> – PV £3.5m (£1.8m - £5.7m) across the ten-year appraisal period.</p> <ul style="list-style-type: none"> <li>Leaseholders, freeholders, managing agents, legal professionals, lenders, valuers and insurers could incur time costs to familiarise themselves with, understand and comply with the new legislation.</li> </ul>	
<p><b>Non-monetised impacts</b></p>	<p><u>Benefits</u></p> <ul style="list-style-type: none"> <li>Improved mortgageability and saleability (excluding the monetised impact of fewer transaction fall-throughs because of high ground rents) (buyers and sellers).</li> <li>Consumer confidence and wellbeing (leaseholders).</li> <li>Increased certainty and reduced risk of disputes and consumer liability (leaseholders).</li> <li>Reduced complexity (conveyancers, valuers, property and managing agents).</li> </ul>	<p><b>Uncertain</b></p>

	<ul style="list-style-type: none"> <li>• Reduced risk of consumer dispute and professional liability (conveyancers, valuers and managing agents).</li> </ul> <p><u>Costs</u></p> <ul style="list-style-type: none"> <li>• Compliance costs (minimal) (freeholders and managing agents, investors, legal professionals, lenders, surveyors and valuers).</li> <li>• Insolvency risk for individual businesses (freeholders).</li> <li>• Freeholder insolvency spillovers (leaseholders).</li> <li>• Individual business spillovers (freeholders).</li> <li>• Reduced investor demand (investors).</li> </ul>	
<p><b>Any significant or adverse distributional impacts?</b></p>	<p>The ground rent cap operates uniformly across England and Wales. Modelling suggests the majority of leaseholders benefiting on day one of the policy reside in London and the South. This largely follows the distribution of leasehold stock across the country. It also reflects the variation of ground rent terms across regions. In addition, high ground rents represent a heavier burden as a proportion of income for leaseholders at the bottom of the income distribution relative to those at the top. All leaseholders that pay ground rents with more than 40 years remaining on their lease will benefit over the lifetime of the policy as the cap changes to a peppercorn after 40 years.</p> <p>Overall, this intervention is redistributive. It transfers wealth from freeholders, a wealthier group in general, to leaseholders.</p>	<p><b>Positive</b></p>

## 1.2 Expected impacts on households

(2) Expected impacts on households		
<b>Description of overall household impact</b>	<p>Monetised impacts use 2025 prices and 2028 PV.</p> <p>This section includes benefits and costs to all leaseholders. We know that not all leaseholders are owner-occupiers, and we account for this fact in our EANDCH and EANDCB calculations at in <b>Section 4.7.6</b>. Where the leaseholder is a landlord, savings may be passed through to tenants, in which case they, the 'household', would feel the benefit.</p> <p><u>Monetised benefits</u></p> <p><b>Savings to leaseholders</b> – PV £10.0bn - £12.7bn lifetime asset value transfer from freeholders to leaseholders</p> <ul style="list-style-type: none"> <li>• This monetised benefit represents a transfer. There will be an equal cost to freeholders, so this particular impact does not contribute to the NPSV.</li> <li>• Impacts of reduced ground rent payments over a ten-year appraisal period have also been assessed as PV £1.6bn - £2.3bn.</li> </ul> <p><b>Fewer transaction fall-throughs</b> - PV £80m (£40m - £120m)</p> <ul style="list-style-type: none"> <li>• Leaseholders will benefit from reduced risk of fall-throughs where high, complex or escalating ground rent terms previously had a negative or undesirable impact on the sale of leasehold properties.</li> </ul> <p><u>Non-monetised benefits</u></p> <ul style="list-style-type: none"> <li>• Improved mortgageability and saleability (excluding the monetised impact of fewer transaction fall-throughs because of high ground rents) (buyers and sellers).</li> </ul>	<b>Positive</b>

	<ul style="list-style-type: none"> <li>• Consumer confidence and wellbeing (leaseholders).</li> <li>• Increased certainty and reduced risk of disputes and consumer liability (leaseholders).</li> </ul> <p><u>Non-monetised costs</u></p> <ul style="list-style-type: none"> <li>• Freeholder insolvency spillovers (leaseholders).</li> </ul>	
<b>Monetised impacts</b>	<p>Monetised impacts use 2025 prices and 2028 PV.</p> <p><u>Monetised benefits</u></p> <p><b>Savings to leaseholders</b> – PV £10.0bn - £12.7bn lifetime asset value transfer from freeholders to leaseholders.</p> <ul style="list-style-type: none"> <li>• This monetised benefit represents a transfer. There will be an equal cost to freeholders, so this particular impact does not contribute to the NPSV.</li> <li>• Impacts of reduced ground rent payments over a ten-year appraisal period have also been assessed as PV £1.6bn - £2.3bn.</li> </ul> <p><b>Fewer transaction fall-throughs</b> - PV £80m (£40m - £120m).</p> <ul style="list-style-type: none"> <li>• Leaseholders will benefit from reduced risk of fall-throughs where high, complex or escalating terms previously had a negative or undesirable impact on the sale of leasehold properties.</li> </ul>	<b>Positive</b>
<b>Non-monetised impacts</b>	<p><u>Benefits</u></p> <ul style="list-style-type: none"> <li>• Improved mortgageability and saleability (excluding the monetised impact of fewer transaction fall-throughs because of high ground rents) (buyers and sellers).</li> <li>• Consumer confidence and wellbeing (leaseholders).</li> </ul>	<b>Positive</b>

	<ul style="list-style-type: none"> <li>• Increased certainty and reduced risk of disputes and consumer liability (leaseholders).</li> </ul> <p><u>Costs</u></p> <ul style="list-style-type: none"> <li>• Freeholder insolvency spillovers (leaseholders).</li> </ul>	
<p><b>Any significant or adverse distributional impacts?</b></p>	<p>The ground rent cap operates uniformly across England and Wales. Modelling suggests the majority of leaseholders benefiting on day one of the policy reside in London and the South. This largely follows the distribution of leasehold stock across the country. It also reflects the variation of ground rent terms across regions. In addition, high ground rents represent a heavier burden as a proportion of income for leaseholders at the bottom of the income distribution relative to those at the top. All leaseholders that pay ground rents with more than 40 years remaining on their lease will benefit over the lifetime of the policy as the cap changes to a peppercorn after 40 years.</p> <p>Overall, this intervention is redistributive. It transfers wealth from freeholders, a wealthier group in general, to leaseholders.</p>	<p><b>Positive</b></p>

### 1.3 Expected impacts on businesses

(3) Expected impacts on businesses		
<p><b>Description of overall business impact</b></p>	<p>Monetised impacts use 2025 prices and 2028 PV.</p> <p><u>Monetised Benefits</u></p> <p>We have presented impacts on leaseholders specifically in <b>Section 1.2</b> above (i.e. expected impacts on households). As such, we do not present any monetised benefits here for business, even though we acknowledge that 40.6% of leasehold dwellings are owned privately and let out in the private rented sector (PRS), and a further 4.7% are operated by a housing association. We account for this in the EANDCH and EANDCB calculations at <b>Section 4.7.6</b>. Where the leaseholder is a landlord, savings may be passed through to tenants, in which case they, the ‘household’, would feel the benefit.</p> <p><u>Non-monetised benefits</u></p> <ul style="list-style-type: none"> <li>• Reduced complexity (conveyancers, valuers, property and managing agents).</li> <li>• Reduced risk of consumer dispute and professional liability (conveyancers, valuers and managing agents).</li> </ul> <p><u>Monetised costs</u></p> <p><b>Loss of ground rent income for freeholders</b> – PV £10.0bn - £12.7bn lifetime asset value transfer from freeholders to leaseholders. Some of these losses will be passed on to investors in ground rents.</p> <ul style="list-style-type: none"> <li>• This monetised cost represents a transfer. There will be an equal benefit to leaseholders and the overall impact on the NPSV will be zero.</li> </ul>	<p><b>Negative</b></p>

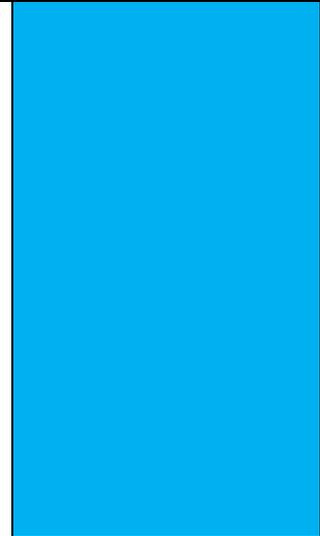
	<ul style="list-style-type: none"> <li>• Impacts of reduced ground rent payments over a ten-year appraisal period have also been assessed as PV £1.6bn - £2.3bn.</li> </ul> <p><b>Familiarisation and implementation costs</b> – PV £3.5m (£1.8m - £5.7m) across the ten-year appraisal period.</p> <ul style="list-style-type: none"> <li>• Freeholders, managing agents, legal professionals, lenders, valuers and insurers could incur time costs to familiarise themselves with, understand and comply with, the new legislation.</li> </ul> <p><u>Non-monetised costs</u></p> <ul style="list-style-type: none"> <li>• Compliance costs (minimal) (freeholders and managing agents, investors, legal professionals, lenders, surveyors and valuers).</li> <li>• Insolvency risk for individual businesses (freeholders).</li> <li>• Individual business spillovers (freeholders).</li> <li>• Reduced investor demand (investors).</li> </ul>	
<p><b>Monetised impacts</b></p>	<p>Monetised impacts use 2025 prices and 2028 PV.</p> <p><u>Monetised costs</u></p> <p><b>Loss of ground rent income for freeholders</b> – PV £10.0bn - £12.7bn lifetime asset value transfer from freeholders to leaseholders. Some of these losses will be passed on to investors in ground rents.</p> <ul style="list-style-type: none"> <li>• This monetised cost represents a transfer. There will be an equal benefit to leaseholders and the overall impact on the NPSV will be zero.</li> <li>• Impacts of reduced ground rent payments over a ten-year appraisal period have also been assessed to as PV £1.6bn - £2.3bn.</li> </ul>	

	<p><b>Familiarisation and implementation costs</b> – PV £3.5m (£1.8m - £5.7m) across the ten-year appraisal period.</p> <ul style="list-style-type: none"> <li>Freeholders, managing agents, legal professionals, lenders, valuers and insurers could incur time costs to familiarise themselves with, understand and comply with, the new legislation.</li> </ul>	
<p><b>Non-monetised impacts</b></p>	<p><u>Benefits</u></p> <ul style="list-style-type: none"> <li>Reduced complexity (conveyancers, valuers, property and managing agents).</li> <li>Reduced risk of consumer dispute and professional liability (conveyancers, valuers and managing agents).</li> </ul> <p><u>Costs</u></p> <ul style="list-style-type: none"> <li>Compliance costs (minimal) (freeholders and managing agents, investors, legal professionals, lenders, surveyors and valuers).</li> <li>Insolvency risk for individual businesses (freeholders).</li> <li>Individual business spillovers (freeholders).</li> <li>Reduced investor demand (investors).</li> </ul>	<p><b>Negative</b></p>
<p><b>Any significant or adverse distributional impacts?</b></p>	<p>The ground rent cap operates uniformly across England and Wales. Modelling suggests the majority of leaseholders benefiting (and thus freeholders and investors impacted) on day one of the policy reside in London and the South. This largely follows the distribution of leasehold stock across the country. It also reflects the variation of ground rent terms across regions. Furthermore, it is uncertain whether the corresponding freeholders and investors reside in the same region.</p> <p>Some freeholders and intermediate landlords are small or micro businesses. Evidence suggests that escalating leases are more likely to be owned by larger investors with portfolios of multiple leases, so small and micro businesses (SMBs) are less likely to be</p>	<p><b>Uncertain</b></p>

impacted. However, for small freeholders, particularly those without diversified income streams, the loss of ground rent income over £250 could create financial pressures and may prompt some to exit the market. The 40-year transitional period to a peppercorn gives all businesses time to mitigate impacts.

The preferred option of a flat cash cap transitioning to peppercorn is a more manageable and proportionate change for smaller operators (lenders, managing agents, and property agents), allowing them to adapt over time. It is not expected to create significant administrative burdens that will impact SMBs disproportionately.

There are no specific mitigations for SMBs, but our chosen option reduces the regulatory burden as the cap will take effect at one point and will not change until a peppercorn is introduced.



## Part 2: Impacts on wider government priorities

Category	Description of impact	Directional rating
<p><b>Business environment:</b></p>	<p>This section covers the impact on the ease of doing business and wider business and investment environment, rather than the impact on affected businesses themselves, which are covered above. Given that ground rent reform has been long signalled, and affects a specific area of business investment, we do not believe there are significant effects</p> <p>There may be some short-term domestic disruption once the cap comes into effect. Freeholders and investors who benefitted from high average ground rents income will be affected most, with the significance of losses for investors depending on individual portfolios characteristics. As noted above, there is a risk that some freeholders will find it more difficult to meet ongoing obligations, particularly where they rely heavily on ground rent income to fund other liabilities, including building safety obligations, debt service, or operational costs. In some cases, this might require restricting debts and, in some cases, may cause insolvency. This would risk spillover impacts for leaseholders. However, there are short term benefits from ending the current uncertainty around ground rents. Currently assets with ground rents are often impossible to sell, and it is difficult for leaseholders to make informed decisions on enfranchisement or lease extension. Settling this issue will allow the market to adjust and normal operations resume.</p> <p>Over the medium-term businesses will benefit from the wider housing market benefits that our preferred option will bring, via fewer fall-throughs and resulting benefits in the chain, and smoother and faster transactions.</p> <p>Many freeholders and investors have argued that this policy represents an infringement of Article 1 of Protocol 1 (A1P1) of the European Convention on Human</p>	<p><b>Uncertain</b></p>

	<p>Rights (ECHR) rights vis a vis effects on existing contractual arrangements and investments. Some organisations have indicated legal challenge on this basis. Freeholders and investors have suggested that this could affect investor confidence in the UK market. These changes will affect some wider business incentives and behaviour as it will restrict investment in ground rent funds.</p>	
<p><b>International Considerations:</b></p> <p>Does the measure support international trade and investment?</p>	<p>We do not believe that the ground rent cap conflicts with the UK's international trade obligations nor imposes discriminatory barriers or restrictions on foreign investors or service providers. However, it should be noted that foreign governments and foreign investors have investments in ground rent funds and thus will be affected. The extent to which this is the case depends on the type of ground rent assets they hold.</p>	<b>Uncertain</b>
<p><b>Natural capital and Decarbonisation:</b></p> <p>Does the measure support commitments to improve the environment and decarbonise?</p>	<p>While our assessment is based on limited evidence, no adverse effects on environmental outcomes have been identified. We have not identified any impacts on natural capital, ecosystem services, or decarbonisation objectives.</p>	<b>Neutral</b>

### Part 3: Summary: Analysis and Evidence

A non-legislative regulatory option is not included in the summary table because, as set out in the evidence base (**Section 4.3**), no credible non-legislative intervention is capable of achieving the policy objectives on ground rent. Ground rents are embedded in long-term contracts, can last for centuries, and continue to affect current and future leaseholders every time a property is bought or sold. Market incentives provide no mechanism for sector-wide self-correction. Voluntary initiatives have already been tested and found insufficient, and interventions by the Competition and Markets Authority (CMA) have so far only targeted the worst cases.

**Price base year: 2025**

**PV base year: 2028**

<b>Table 3</b>	<b>1.Option 0 - Business as usual (baseline) costs and benefits)</b>	<b>2. Option 1 - (Preferred way forward) - £250 cap changing to peppercorn after 40 years</b>
<b>NPSV</b> (with brief description, including ranges, of individual costs and benefits)	<p>The impacts of this option are explored qualitatively in <b>Section 4.5</b>.</p> <p>Benefits:</p> <ul style="list-style-type: none"> <li>• Freeholders do not lose existing ground rent income</li> <li>• No adjustments required for lenders</li> <li>• Continuity for managing agents</li> </ul> <p>Costs:</p> <ul style="list-style-type: none"> <li>• Leaseholders continue being exposed to high and harmful ground rents.</li> <li>• Wider housing market inefficiencies persist.</li> </ul>	<p>£76.5m (£34.3m - £118.2m)</p> <p>Benefits:</p> <ul style="list-style-type: none"> <li>• Wellbeing benefits for leaseholders.</li> <li>• Wider housing market inefficiencies addressed.</li> <li>• Reduced complexity and risk of consumer dispute and professional liability for valuers and managing agents</li> </ul> <p>Costs:</p> <ul style="list-style-type: none"> <li>• Compliance costs.</li> <li>• Insolvency risk for individual businesses.</li> <li>• Freeholder insolvency spillover effects on leaseholders</li> <li>• Individual business spillovers for freeholders.</li> <li>• Reduced investor demand.</li> </ul>
<b>Asset value transfer</b> (from leaseholders to	N/A	£10.0bn - £12.7bn

freeholders over the lifetime of the policy)		
<b>Key risks</b> (and risk costs, and optimism bias, where relevant)	<ul style="list-style-type: none"> <li>• Increased disputes as a result of leaseholder dissatisfaction and continued inaction.</li> <li>• Ongoing market stagnation.</li> <li>• Deepening affordability pressures</li> <li>• Long-term two-tier system of leases with and without a ground rent.</li> </ul>	<ul style="list-style-type: none"> <li>• Hit to freeholder finances where organisations are heavily reliant on ground rent income to fund obligations. Significantly below immediate losses under peppercorn.</li> <li>• Insolvency risk for individual businesses.</li> <li>• Freeholder insolvency spillover effects on leaseholders.</li> <li>• Compliance and implementation risks across professional sector. Optimism bias as freeholder impacts may be underestimated (though more contained than Options 2-3) – sensitivity analysis reduces optimism bias.</li> </ul>
<b>Results of sensitivity analysis</b>	N/A	Extensive sensitivity analysis is performed around our preferred option, stress testing key assumptions and producing a range of impacts – see <b>Section 4.7.12</b> .

	<b>3. Option 2 – immediate peppercorn</b>	<b>4. Option 3 (Less ambitious preferred way forward) - £250 cap</b>	<b>5. Option 4 - Less ambitious preferred way forward – 0.1% cap</b>
<b>NPSV</b> (with brief description, including ranges, of individual costs and benefits)	<p>The impacts of this option are explored qualitatively in <b>Section 4.5</b></p> <p>Benefits:</p> <ul style="list-style-type: none"> <li>• Wellbeing benefits for leaseholders.</li> </ul>	<p>The impacts of this option are explored qualitatively in <b>Section 4.5</b></p> <p>Benefits:</p> <ul style="list-style-type: none"> <li>• Wellbeing benefits for leaseholders.</li> <li>• Wider housing market inefficiencies addressed.</li> </ul>	<p>The impacts of this option are explored qualitatively in <b>Section 4.5</b></p> <p>Benefits</p> <ul style="list-style-type: none"> <li>• Wellbeing benefits for leaseholders.</li> <li>• Wider housing market inefficiencies addressed</li> </ul>

	<ul style="list-style-type: none"> <li>Wider housing market inefficiencies addressed.</li> </ul> <p>Costs:</p> <ul style="list-style-type: none"> <li>Heightened insolvency risk for individual freeholders with undiversified income streams.</li> <li>Freeholder exits from market.</li> <li>Service disruption for leaseholders if their freeholder goes insolvent.</li> </ul>	<ul style="list-style-type: none"> <li>Reduced complexity and risk of consumer dispute and professional liability for valuers and managing agents</li> </ul> <p>Costs:</p> <ul style="list-style-type: none"> <li>Compliance costs</li> <li>Insolvency risk for individual businesses.</li> <li>Freeholder insolvency spillover effects on leaseholders</li> <li>Individual business spillovers for freeholders.</li> <li>Reduced investor demand.</li> </ul>	<p>Costs:</p> <ul style="list-style-type: none"> <li>Higher and widespread valuation costs.</li> <li>Process complexity.</li> <li>Administrative burden.</li> </ul>
<b>Asset value transfer</b> (from leaseholders to freeholders over the lifetime of the policy)	£18.3bn - £20.7bn	£8.7bn - £11.4bn	£8.1bn - £10.8bn
<b>Key risks</b> (and risk costs, and optimism bias, where relevant)	<ul style="list-style-type: none"> <li>Freeholder insolvency</li> <li>Management disruption</li> <li>Building safety works disrupted</li> <li>Wider sector disruption for related property sector businesses.</li> <li>Investor hardship</li> </ul>	<ul style="list-style-type: none"> <li>Flat-cap risks are possible but generally more limited than a peppercorn, they include:</li> <li>Financial impact on freeholders may be greater than expected</li> <li>Insolvency risk</li> <li>Leaseholder spillover impacts, particularly where insolvencies occur.</li> </ul>	<ul style="list-style-type: none"> <li>Valuation disputes if valuations create arbitrary differences and disputes.</li> <li>Transaction delays if disputes stall sales and mortgage approvals.</li> <li>Administrative burden and high operational workload across the sector.</li> <li>Dispute-related costs for leaseholders and public sector</li> </ul>

	<ul style="list-style-type: none"> <li>• Optimism bias as distress may be larger or faster than expected.</li> </ul>	<ul style="list-style-type: none"> <li>• Some leaseholders with low value properties may face mortgage constraints, if cap is set high.</li> <li>• Compliance burden exceeds expectations.</li> <li>• Optimism bias if stress on freeholders may be underestimated.</li> </ul>	<ul style="list-style-type: none"> <li>• Optimism bias if dispute and burden levels may be underestimated.</li> </ul>
<b>Results of sensitivity analysis</b>	N/A	N/A	N/A

## Part 4: Evidence Base

### 4.1 Policy background

1. There are approximately 3.8 million residential leasehold properties with a ground rent obligation across England and Wales. Ground rent is a payment with no clear service in return. The lease sets out how much ground rent is payable, whether it can increase, and by how much and when. It can allow for ground rent to increase both substantially and frequently. We estimate that leaseholders across around 770,000 to 900,000 dwellings pay over £250 per year. Further detail on estimates of ground rent levels is set out in **Section 4.3**.
2. Ground rent is distinct from a service charge. The amount of ground rent does not necessarily have a bearing on the quality of service or maintenance provided in a given property. Service charges are the mechanism by which landlords recover costs of maintenance, repairs and insurance, and – where used – for contributions to sinking funds for major works such as replacing a roof. A landlord’s entitlement to collect ground rent is unconnected to the maintenance of the building.<sup>1</sup>
3. Ground rent can vary significantly depending on the terms of the lease: some ground rents are fixed in value, while others increase significantly over time, and annual payments can range from a peppercorn (no financial value) to over £1,000 per year. The English Housing Survey (EHS) is our primary source of information on ground rent. For the purposes of this impact assessment, we have adjusted the underlying EHS data to account for a degree of misreporting by respondents – please see the **Technical Annex** which accompanies this impact assessment for full details of this exercise. Following this adjustment, we estimate mean annual ground rent in England to be between £124 and £153, though the median is lower (at £80 to £95).
4. The nature of ground rent has changed significantly over time. Historically, ground rents were often relatively small payments, but in more recent years we have seen higher ground rents, and an increasing prevalence of those which rise substantially over time. Some individuals and institutions have invested in ground rents, purchasing freeholds from freeholders or developers, or lending money to landlords based on their expected future ground rent income, in order to create stable long-term sources of income. These include ground rents that escalate in line with the Retail Price Index (RPI) or other indices of inflation, and ground rents that increase by fixed amounts.

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<sup>1</sup> In some cases, charges may be reserved as rent. A sum expressed to be payable in respect of rates, council tax, services, repairs, maintenance, insurance or other ancillary matters is not rent merely because it is reserved as rent in the lease.

5. The increased involvement of institutional investors in the residential ground rent market over the last 20 years has coincided with a marked increase in the number of ground rents in new leases that are subject to more frequent rent reviews and increases. Developers and investors have been incentivised to include high or escalating ground rents in leases because such terms increase the market value of freeholds and maintain the value of such investments.
6. Inflation-linked increases are now the most prevalent form of ground rent increase. The EHS 2023-24 shows that 45% of leaseholders paying a ground rent whose ground rent has increased on review indicated it increased with inflation.<sup>2</sup> This makes inflation-linked increases, which were previously rare, the most common escalation mechanism now by which ground rents increase.
7. At the same time, the nature of leasehold has been changing. For over 50 years, governments have been legislating to give leaseholders greater protection and security in their own homes, including statutory rights to take ownership of the property or its management, and protections from unfair charges. Given the length of leases, these changes have necessarily involved making changes that affect existing contractual situations. However, successive governments have sought to balance the protection of property rights with wider public and social policy objectives. Much of this legislation has been tested in the courts.
8. Recurring charges that are not linked to service provision (such as ground rents) are uncommon internationally. In most jurisdictions with condominium, strata or commonhold-type systems, recurring payments are linked to maintenance, reserve funds or communal services, in the same way as service charges in England and Wales. The separation of ground rents as an income stream for a third-party landlord is a distinctive feature of the leasehold system in this jurisdiction. The international context suggests that the issues associated with escalating ground rents are not intrinsic to multi-unit ownership.
9. Properties subject to higher or aggressively escalating ground rents can face reduced mortgage availability, stricter lending criteria and downward valuation adjustments.<sup>3</sup> Industry guidance to lenders often encourages restricting lending where ground rents exceed specified thresholds or escalate at rates deemed onerous, which affects liquidity in local housing markets. In those circumstances, the leaseholder is often compelled either to extend the lease under the statutory process (for instance, in

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<sup>2</sup> Internal EHS analysis. Alongside the 45% with an increasing ground rent who indicated their ground increased with inflation, a further 42% reported their ground rent increasing, but by less than double; with 11% reporting it doubling. This analysis does not capture leaseholders who have an escalating ground rent, but who have not yet reached their review period.

<sup>3</sup> [Lenders' Handbook - UK Finance Mortgage Lenders' Handbook](#)

flats, paying a premium to buy out the ground rent) or to negotiate and pay the landlord for a non-statutory deed of variation in order to reduce the ground rent.

10. The move to charging higher ground rents, particularly those that rise substantially over time, has led to increasing calls for action from leaseholders and campaign groups, including the National Leasehold Campaign, the Leasehold Knowledge Partnership and Free Leaseholders. In 2019, the House of Commons Housing Communities and Local Government Select Committee published their report on leasehold reform, calling for the government to cap ground rents, noting the problems that ground rents in excess of 0.1% of the property value, or £250 (or likely to become so in future due to doubling, or other, review mechanisms), were causing in buying, selling and mortgaging properties.<sup>4</sup>
11. In 2019, the then government asked industry to sign a public pledge committing to remove ground rents that double more frequently than every 20 years and offer to amend these clauses to ones linked to RPI. This pledge had over 60 signatories. Signatories to the pledge also committed not to include clauses in future lease agreements that provide for ground rents to double more frequently than every 20 years.<sup>5</sup>
12. The same year, the CMA also launched an investigation into ground rent mis-selling and unfair terms, driven by the evidence of harms to leaseholders. As a result of this, over 18,000 of the most egregious ground rent terms were addressed, with escalation terms removed and leaseholders refunded for past ground rents payable as a result of these terms.<sup>6</sup> The CMA were clear that this was not the full extent of consumer harm,<sup>7</sup> but that they had focused on the most egregious terms with the greatest impact.
13. The Leasehold Reform (Ground Rent) Act 2022 (GRA) limited ground rent to a peppercorn (no financial value) for the vast majority of new residential leases after its commencement. This stopped new financial ground rents being created but largely did not address issues for existing leaseholders.<sup>8</sup> Given that leases can last for hundreds of years, without further action generations to come would continue to be required to pay ground rents.

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<sup>4</sup> Housing, Communities and Local Government Committee, Twelfth Report of Session 2017–19 (HC 1468), page 4: <https://publications.parliament.uk/pa/cm201719/cmselect/cmcomloc/1468/full-report.html>,

<sup>5</sup> MHCLG, Public Pledge for leaseholders, 27 June 2019:

<https://www.gov.uk/government/publications/leaseholder-pledge/public-pledge-for-leaseholders#public-pledge-for-leaseholders>

<sup>6</sup> CMA: [Leasehold - GOV.UK](#)

<sup>7</sup> CMA (2024), particularly see paras. 11, 18 and 19. [Full text of the CMA's response](#)

<sup>8</sup> Where existing (pre-commencement) leases are varied via a non-statutory lease extension, the GRA caps the existing ground rent at existing levels and only a peppercorn is payable for the new term (see GRA section 6).

14. The previous government consulted in 2023<sup>9</sup> on proposals to address this issue, with a view to legislating. However, the Leasehold and Freehold Reform Act 2024 (LFRA)<sup>10</sup> did not directly address the challenges faced by existing leaseholders who pay unregulated and unaffordable ground rents and are not planning to, nor have sufficient resources to, enfranchise in the near future. The LFRA did include important provisions on the treatment of ground rents when leaseholders use their statutory rights to enfranchise (including purchasing the freehold, extending a lease, or buying out the ground rent liability). This included providing for 990-year statutory lease extensions for both flats and houses at a peppercorn ground rent on payment of a premium, and capping the amount of ground rent considered when calculating the cost of enfranchisement at 0.1% of the property value (freehold vacant possession value). Specific enfranchisement provisions, including the 0.1% cap, were recently upheld by the High Court but have yet to be brought into force.<sup>11</sup>

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<sup>9</sup> [Modern leasehold: restricting ground rent for existing leases - GOV.UK](#)

<sup>10</sup> [Leasehold and Freehold Reform Act 2024](#)

<sup>11</sup> *R (ARC TIME Freehold Income Authorised Fund) v Secretary of State for Housing Communities and Local Government* [2025] EWHC 2751

## 4.2 Problem under consideration

15. **High and rising ground rents can cause significant financial harms to leaseholders.** Although ground rents are set in contractual terms agreed by the parties, they are not necessarily terms that are negotiated on an equal footing. Leaseholders typically have limited bargaining power at the point of purchase and restricted ability to exit once a lease is granted. Professional landlords, by contrast, are far more familiar with the complexities of leasehold law and the long-term financial implications of particular contractual terms. This imbalance creates substantial information asymmetry. Where asymmetry exists, unfavourable ground rent terms may be accepted by leaseholders due to an inability to understand or predict how these costs will escalate over time, to challenge them once they are aware, or to choose an alternative.
  
16. This asymmetry is particularly relevant in relation to how ground rent costs will escalate over time. Ground rent terms, especially those that include inflation-linked or formula-based rises, can be difficult to understand and may not appear problematic to the consumer at the point of purchase, while generating steep increases later in the lease term. When investigating potential breaches of consumer protection law in leasehold, the CMA found “a good basis on which to doubt that the majority of consumers can understand and forecast their future liability for increased costs under index linked price rises.”<sup>12</sup> Consumers may not appreciate how changes in inflation, indexation or review frequency will cause increases to compound over time, nor the impact this may have on affordability or their ability to sell or remortgage. Evidence from representative groups (as detailed in **Section 4.3**) suggests that many leaseholders may struggle to understand or forecast their future liabilities.
  
17. Where consumers cannot reliably assess current or future costs, normal market disciplines cannot operate effectively. Where leaseholders are unable to compare products, exert competitive pressure or identify disproportionate terms, this creates conditions in which harmful ground rent terms can proliferate. Improving information alone does not address all problems caused by ground rents. Even when ground rent terms are clearly stated, this does not ensure that they are fair, comprehensible or subject to meaningful consumer scrutiny. In property transactions, the primary focus of negotiation is the purchase price. Secondary terms, such as the level of ongoing ground rent and the mechanisms by which it may escalate, must be considered alongside location, size and overall affordability of the property in question. This can leave limited capacity or willingness to interrogate complex future cost structures embedded in lease agreements.

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<sup>12</sup> “Modern leasehold: restricting ground rent for existing leases” - response of the CMA, para. 51: [Full text of the CMA's response](#)

18. These issues can be compounded by a lack of choice, often as a result of local market constraints. In many urban areas where housing stock is dominated by flats, consumers may have no realistic alternative but to accept leasehold properties that include ground rents, including potentially unaffordable escalation mechanisms. Once a property has been purchased, leaseholders cannot then alter the lease terms without the landlord's agreement (subject to their statutory rights to enfranchise).
19. As a result, consumers can lack both the ability and the alternatives needed to reject or negotiate on unfavourable terms like high or escalating ground rents. Where information provision and understanding are imperfect and choice is constrained, competitive pressure cannot necessarily correct excessively high ground rents. This allows problematic terms to persist despite their misalignment with consumer protection principles and broader market efficiency.
20. **High ground rents can create significant barriers for people wishing to mortgage, buy or sell a leasehold property**, due to restrictions applied by mortgage providers.<sup>13</sup> Where ground rent levels or escalation mechanisms fall outside lenders' criteria, leaseholders may be unable to access competitive finance or, in some cases, any mortgage finance at all. This can leave individuals effectively trapped in their homes and can slow or disrupt transactions more widely.
21. A commonly referenced benchmark across the mortgage industry is the point at which annual ground rent exceeds 0.1% of the property's value.<sup>14</sup> Above this level, lenders have traditionally required additional checks, imposed stricter underwriting conditions or withdrawn lending altogether due to concerns around affordability and saleability. As a result, ground rents above this threshold can delay or derail property sales and remortgage applications, increasing costs and stress for consumers and reducing the fluidity of the market. This creates direct consumer harm and wider economic effects through reduced labour mobility and increased transaction frictions.
22. Even where prospective buyers and sellers can access finance, ground rents create avoidable complexity in the operation of the housing market. Because ground rents vary in structure and may escalate unpredictably over time, they can create ambiguity around future liabilities and complicate the assessment of property value. This uncertainty generates bureaucratic delays in conveyancing and mortgage processes. For example, transactions may be paused while solicitors seek clarification on review clauses, lenders request additional documentation to assess escalation risks, or managing agents confirm historic ground rent payments, before contracts can progress. These additional checks can add weeks to a transaction, increase costs for consumers, and in some cases cause sales to fall through. Such blockers undermine

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<sup>13</sup> [Lenders' Handbook - UK Finance Mortgage Lenders' Handbook](#)

<sup>14</sup> *ibid*

the smooth functioning of the leasehold purchase process and weaken confidence in the wider housing market, on which broader economic prosperity relies.

**23. The government considers ground rents to be a feature of an outdated system**

that is increasingly misaligned with the operation of a modern housing market.

Ground rents are a payment for no clear service in return. Leaseholders already pay significant sums through the purchase price for their property, and subsequently fund the maintenance, repair and management of the building through service charges.

Unlike service charges, ground rents are not subject to a statutory test of reasonableness. They cannot be challenged for being too high or unfair, as long as they are charged in accordance with the terms of the lease. Any payments said to contribute to the management or upkeep of a building would normally be expected to meet standards of transparency, accountability and consumer protection. Ground rents instead function as a payment arising solely from the landlord's ownership of the freehold. As a result, consumers face ongoing financial burdens that cannot be attributed to service provision, which is perceived by many leaseholders as unfair. Among those who responded to the previous government's consultation on the issue, the fact that ground rent payments were not linked to a clear service in return was the most commonly reported problem.

24. The GRA, which effectively banned ground rents for most new residential long leases, has introduced a structural divergence between new and older leases. Purchasers of new leases benefit from peppercorn ground rents. By contrast, those with leases entered into before the GRA came into force remain subject to a wide variety of ground rent terms. This divergence creates a two-tier market in which properties with similar characteristics face different long-term financial obligations, and attract different lending conditions, solely due to the timing of when the lease was granted.

25. Such segmentation distorts competition, introduces inconsistencies in consumer outcomes and weakens overall market efficiency. Without intervention, the stock of legacy leases with ground rents will continue to impose consumer detriment and generate uneven market effects relative to new leases operating under the GRA regime.

### 4.3 Rationale for intervention

26. A wide and robust evidence base demonstrates the need to address high and harmful ground rents.

#### Existing evidence base

27. The EHS shows that a majority of owner-occupying leaseholders reported paying a ground rent in 2023-24 - 76.9%.<sup>15</sup> The department analysed existing data from the EHS to estimate the number of leaseholders affected by high ground rents, details of which are set out in **Section 4.7.12**. We estimate that leaseholders across around 770,000 to 900,000 dwellings pay ground rents of over £250 per year, of which 490,000 to 590,000 are in London and the South. In total, last year alone we estimate that leaseholders paid over £600m in ground rents.
28. The CMA's 2020 investigation report<sup>16</sup> provides extensive evidence of reported problems caused by ground rents. For example, the investigation found evidence of potential mis-selling, with purchasers not being told their ground rent terms, and of increased prevalence of higher ground rents. It found specific consumer protection issues with doubling clauses and ground rent increases linked to the Retail Price Index (RPI). The CMA expressed concern that "ground rent has little justification".<sup>17</sup>
29. Research by the HomeOwners Alliance in 2024<sup>18</sup> helps illustrate the information asymmetry in the current market. Information gaps persist in leasehold listings, particularly around costs that may change over time. While most listings disclose tenure (94%) and lease length (78%), fewer than half (49%) specify the ground rent, and just 9% state when the ground rent will be reviewed. This lack of transparency is increasingly consequential, as lenders are often unwilling to lend on properties with high ground rents and frequent review periods less.
30. The previous government's 2023 consultation on ground rents<sup>19</sup> provides evidence on the problems with ground rents from the perspective of leaseholders. There were 8,725 responses, with 7,647 of those submitted by leaseholders. When asked what sorts of issues ground rent terms can cause, the most commonly flagged issue was that no clear service is given in return (84%), increases in price (74%), and issues with buying and selling property (64%). A majority of leaseholder respondents believed that leaseholders or prospective leaseholders do not understand the terms of the ground rent when buying property (62%) and do not know or understand how much their ground rent will increase (63%). Views are set out further in the summary of consultation responses accompanying this impact assessment.

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<sup>15</sup> [English Housing Survey 2023 to 2024: leasehold experience fact sheet - GOV.UK](#)

<sup>16</sup> [Leasehold update report](#)

<sup>17</sup> CMA Leasehold Housing Update Report 2020, paragraph 77: [Leasehold update report](#)

<sup>18</sup> [What-Buyers-need-to-know-Material-Infomation-final.pdf](#)

<sup>19</sup> [Modern leasehold: restricting ground rent for existing leases - GOV.UK](#)

31. Research by stakeholders and regulators suggests that problems with buying and selling leasehold properties caused by high ground rents are widespread. In 2023, research conducted by Propertymark, a professional membership body for property agents, found that 78% of agents struggle to sell a leasehold property with escalating ground rent – even where the property has been priced correctly.<sup>20</sup> The National Leasehold Campaign found similar evidence in a 2025 survey of their members. When asked, 62% of respondents had lost the sale of their property due to their buyer being unable to secure a mortgage. The majority of those (63%) were due to the onerous ground rent<sup>21</sup>. These self-selecting surveys may reflect the experience of those inclined to reply but should nonetheless be considered.
32. The UK Finance Mortgage Lenders' Handbook sets out the lending criteria of individual mortgage providers, including their approach to ground rent.<sup>22</sup> The department's review of these criteria confirms that ground rents below 0.1% of property value are generally unlikely to restrict access to borrowing. However, where ground rents are set at 0.1% or more, lenders are likely to require further scrutiny, and we found few cases of lenders routinely willing to lend where ground rents exceed 0.2% of property value. Even where some lenders may in principle accept ground rents up to 0.2% or 0.5%, this cannot be assumed to apply universally or to be available to all prospective purchasers, given the wide range of other requirements. As of January 2026, all but one of the 12 major lenders we reviewed had policies relating to stricter checks for leases with ground rents of over 0.1% or £250, frequent ground rent rises or doubling clauses.
33. There is less evidence available on why landlords charge and set ground rent as they do currently. Of those responding to the previous government's 2023 consultation, the most common reason provided is that the ground rent forms part of the consideration paid for the property; leaseholders pay a lower initial capital value in exchange for an ongoing ground rent. Landlords also reported that ground rent income is necessary for them to meet their management functions which are not chargeable to the lease, for example, ensuring a building is insured. It is also used to service loans for purchases of buildings, or to cover the wider risks and obligations involved in property ownership. Some respondents argued that ground rents were necessary to meet their obligations under the Building Safety Act 2022. The Law Commission report into the price paid for enfranchisement (2020), took the view that ground rents which are high

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<sup>20</sup> [More must be done on leasehold reform | Propertymark](#)

<sup>21</sup> [Nationwide is the mortgage lender most nervy about ground rents, suggests survey by National Leasehold Campaign - Leasehold Knowledge Partnership](#)

<sup>22</sup> [Lenders' Handbook - UK Finance Mortgage Lenders' Handbook](#)

or increasing over time “have become popular as a means of satisfying increased demand for secure, long-term, inflation-proof returns”.<sup>23</sup>

### **Who will be affected by intervention?**

34. Intervention on existing ground rents will likely affect a number of individuals, businesses and organisations:
- leaseholders who live in a house or flat;
  - leaseholders who rent out their property
  - landlords and intermediate landlords who collect a ground rent;
  - individuals who have invested in pension funds and investment companies that have a portfolio of ground rents;
  - pension funds and investment companies that have a portfolio of ground rents;
  - companies that buy and sell ground rents;
  - lenders;
  - property agents;
  - Resident Management Companies.

### **Why is government intervention necessary?**

35. Legislative action by government is necessary because the problems associated with existing ground rents cannot be resolved through market forces, voluntary industry initiatives or individual consumer action.
36. Market dynamics provide no mechanism for self-correction. As set out in the problem statement, there is little consumer pressure on landlords to offer fairer ground rent terms due to information asymmetry, lack of choice in the market and competing pressures at the point of purchase. Once a property has been purchased, a leaseholder cannot alter the lease without their landlord’s agreement.
37. Voluntary measures aimed at solving this issue have been shown to be insufficient. The 2019 industry pledge addressed only ground rents that double more frequently than every 20 years and involved a limited number of volunteer participants. It did not extend to inflation linked escalations or high starting ground rents for example. Because the underlying commercial incentives remain unchanged, firms that did not sign up to the pledge, or that acquired freeholds later through the secondary market, face no obligation to modify problematic terms. Relying on voluntary compliance therefore cannot deliver consistent consumer protection, a predictable regulatory environment, or a level playing field across the sector.
38. Ground rents are embedded in long-term lease contracts, which can last hundreds of years. Although the leases in question were all first granted before the GRA came into

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<sup>23</sup> [The Law Commission, Leasehold home ownership: buying your freehold or extending your lease - Report on options to reduce the price payable](#)

force, they continue to be bought and sold today, meaning their terms still affect current and future leaseholders

39. Although individual leaseholders may seek a non-statutory deed of variation or pursue their statutory rights to enfranchisement in order to address high ground rents, these mechanisms require the leaseholder to initiate and fund the process. This may involve professional and valuation costs (in addition to the cost of paying off the ground rent liability) and the full balance of these costs is not necessarily affordable for many households. Once commenced, the amended valuation scheme, as well as other provisions reforming the process of enfranchisement introduced by the LFRA, will make enfranchisement cheaper and easier for many leaseholders. Such routes will still however rely on leaseholders taking action on a case-by-case basis. The reforms alone cannot provide a comprehensive or scalable solution for the millions of existing leases with high or escalating ground rent as a result of the structure of the market.
40. Regulatory action outside primary legislation is also constrained. The CMA has publicly acknowledged the limits of its powers and the necessarily targeted nature of its action, noting that it can only partially address its concerns about the operation of ground rents.<sup>24</sup> The CMA's enforcement action between 2019 and 2024 focused on the most extreme and clearly unfair practices, such as ground rents that double more frequently than every 20 years, and secured commitments affecting over 18,000 leases. However, this represented only a narrow subset of the wider problem. The CMA investigation did not address the large number of leases in which ground rents escalate in line with inflation, despite the fact that such terms can also lead to substantial increases over time. As a result, a significant proportion of leaseholders can still expect their ground rents to rise sharply at review points. In its statements following the investigation, the CMA made clear that the most comprehensive and effective way to tackle the broader issues associated with high and escalating ground rents is through legislative reform.<sup>25</sup> The CMA's findings therefore underscore that regulatory enforcement alone cannot resolve the systemic detriment created by legacy ground rent terms.
41. Legislation is also desirable to restore confidence and the proper functioning of the housing and mortgage markets. Lender policies on ground rents have created inconsistencies that undermine market stability. Without statutory intervention, people will continue to face unpredictable barriers to buying, selling or mortgaging leasehold properties. Only a legislative solution can create clarity for lenders, valuers,

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<sup>24</sup> As set out by the CMA in its response to the previous government's consultation on restricting ground rents, which is available here: [Full text of the CMA's response](#)

<sup>25</sup> "Modern leasehold: restricting ground rent for existing leases – response of the Competition and Markets Authority", January 2024, paragraph 11: [Full text of the CMA's response](#)

developers, landlords and consumers, and ensure that the housing market operates on a fair and predictable basis.

42. Finally, legislative intervention is necessary to ensure coherence with the government's wider programme of leasehold reform. Measures in the GRA have improved the position for new leases and the measures in the LFRA will improve the terms of enfranchisement for qualifying leases. However, the continued existence of high and escalating ground rents in pre-GRA leases leaves that aspect of the leasehold regime untouched and perpetuates inequity within the system. Bringing legacy ground rents into alignment with modern expectations of fairness and transparency requires statutory action; no other route can achieve the scale or durability needed to support a modernised tenure framework.

### **Gaps and harms if the government does not intervene**

43. The level of ground rents both now and in the future determines the extent of harm faced by leaseholders. Higher levels of ground rent cause issues for leaseholders in terms of affordability, as well as when buying, selling and mortgaging properties.

44. If no legislative action is taken, these harms could persist for the stock of pre-GRA leases, with financial pressures remaining for those paying the highest ground rents. Evidence from the CMA and lenders indicates that high and escalating ground rents will remain a barrier, creating a subset of properties that cannot easily be sold or mortgaged. This may increase the disparity between owners of post-GRA leases subject to ground rent at a peppercorn and owners of older leases still subject to high and escalating ground rents.

45. A failure to act would undermine the coherence of the leasehold reform programme: consumers may perceive the legal framework as inconsistent and unfair if unregulated and unaffordable ground rents persist indefinitely.

### **Has a post-implementation review or evaluation of the existing regulations been undertaken?**

46. The CMA's 2019-2024 enforcement programme provides the most comprehensive assessment of the sector to date.<sup>26</sup> The CMA has publicly stated that while its action tackled certain extreme and unfair practices, its powers under consumer protection law cannot resolve systemic problems across millions of leases. The CMA's findings, combined with evidence from parliamentary inquiries, consumer organisations and professional bodies, form a robust evidence base demonstrating the need for legislative reform.

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<sup>26</sup> CMA Investigation: [Leasehold - GOV.UK](#)

47. The government will conduct a programme-wide evaluation, covering the GRA, and the draft Bill after its provisions have been in force for a reasonable amount of time. Details of this are set out at **Section 4.7.13** below.

#### 4.4 Policy objective

48. The government made manifesto commitments to tackle unregulated and unaffordable ground rent charges and to finally bring the feudal leasehold system to an end. This was a starting point for the development of the objectives below when considering changes to ground rent.

- **Objective 5a – Ensure that ground rents are reasonable, affordable and proportionate**

49. **Specific:** The objective is to protect leaseholders from excessive financial burdens arising from ground rent obligations, avoiding situations where ground rents place pressure on household finances, reduce confidence in leasehold transactions, or create barriers when buying, selling or mortgaging leasehold properties.

50. **Measurable:** Progress can be assessed through evidence of reduced affordability pressures linked to ground rents, improved mortgage access, and fewer transactions affected by problematic ground rent terms. Indicators may include leaseholder survey data, lender feedback (e.g. UK Finance), conveyancing fall-through rates, and trends in consumer complaints. Further insight can be drawn from confidence measures and resilience indicators in the EHS.

51. **Achievable:** Evidence suggests that affordability pressures, reduced mortgageability and transaction barriers stem from specific values of current and future ground rents, making improvements targeted and realistic. Lenders and consumers already favour predictable and modest ground rent obligations. The objective aligns with broader policy principles around fairness, transparency and modern consumer protection standards in the housing sector, and reflects achievable outcomes supported by clear evidence of harm and market appetite for greater predictability and fairness.

52. **Relevant:** The objective is relevant to supporting leaseholder confidence, ensuring fairness in residential long leases, and restoring the efficient functioning of the housing market. It addresses evidence that ground rents contribute to affordability pressures, and at higher levels inhibit mortgage access and deter transactions. The objective also aligns with wider government priorities on growth, consumer protection and market efficiency, contributing to a more transparent and predictable business environment and supporting the long-term stability of the residential property sector.

53. **Timebound:** Impacts are expected to emerge over the medium-term as the chosen intervention influences household finances, housing transactions and market behaviour.
- **Objective 5b – End the anachronism of ground rents and the current two-tier ground rent system**
54. **Specific:** The objective is to ensure that the treatment of legacy ground rents is updated to reflect expectations for fairness and transparency and deliver a modernised and efficient housing market, aligning older long leases with the rules for new leases entered into since the implementation of the GRA. This includes addressing the two-tier system created by historic ground rent terms, as well as ensuring that, in the long term, leaseholders are not required to make ongoing payments without a clear service or justification.
55. **Measurable:** Progress can be assessed through trends in average ground rent levels, and the proportion of leaseholders paying peppercorn or zero financial value (e.g. the EHS).
56. **Achievable:** The objective is achievable through reforms that modernise legacy ground rent arrangements and reduce inconsistencies between leases that pre- and postdate implementation of the GRA.
57. **Relevant:** The objective is relevant to delivering a modern, fair and efficient housing market in which similar leasehold properties are treated consistently, and in which leaseholders are not subject to outdated charges which are paid for no clear service in return. This will contribute to a housing market that is quicker, cheaper and more efficient to navigate, reducing friction in conveyancing, improving lender confidence and supporting smoother, more predictable transactions.
58. **Timebound:** Observable impacts will depend on the intervention's timing and scope. Changes should be apparent in market practice, lease structures and the distribution of legacy terms.

## 4.5 Description of options considered

### 4.5.1 Longlist - Assessment of longlist options

59. As part of developing options to address the harms associated with ground rents payable under leases granted before the commencement of the GRA, the government considered a wide range of potential interventions. This included the five options on which the previous government consulted:

- **Option 1: Capping ground rent at a peppercorn:** This option would remove the obligation to pay any financial ground rent from a specified commencement date, reducing all ground rents to a nominal peppercorn.
- **Option 2: Capping ground rent at an absolute maximum value:** Under this approach, ground rents in existing leases would be capped at a fixed maximum value for the duration of the lease. Leaseholders paying a higher ground rent at commencement of the measures would see it reduced immediately to the level of the cap; those paying less would be subject to ground rent increases in line with the lease terms but only up to the level of the cap. The consultation sought views on the most appropriate level for such a cap.
- **Option 3: Capping ground rent at a percentage of the property value:** This option would cap ground rent at a percentage of the market value of the property. Ground rents above the threshold would be reduced accordingly. Views were invited on the appropriate percentage threshold.
- **Option 4: Capping ground rent at the original amount when the lease was granted:** This option would reset ground rent to the initial level specified in the lease, removing the effect of escalation clauses but allowing ground rents to continue at their original financial level.
- **Option 5: Freezing ground rent at current levels:** This option would prevent future increases by fixing ground rents at the level applying on the date the measures come into force.

60. A summary of the consultation responses is being published alongside this impact assessment<sup>27</sup>, setting out stakeholder views on the five initial options and on several detailed design questions. This provides important evidence on stakeholder views, particularly on the design choices that drive harm such as escalation terms, proportionality and transitional arrangements. Further questions about whether a ground rent cap should change over time, and whether there should be any transitional period before implementing these reforms, were also considered and the impacts of these options examined.

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<sup>27</sup> Summary of responses can be found here: [Modern leasehold: restricting ground rent for existing leases - GOV.UK](#)

61. The government also considered additional options not consulted on, including options that were raised by respondents to the previous government’s consultation on ground rents.

- **Option 6: Capping increases from the original lease date at inflation or 5% per year (whichever is lower):** This option would allow ground rent to continue but restrict annual increases to CPI or 5%, providing a ceiling on escalation. It was proposed by industry representatives following the consultation.
- **Option 7: Banning the most egregious escalation terms:** This option would selectively prohibit the most problematic types of ground rent terms, such as frequent fixed-increment increases or increases rising above inflation, while allowing other forms of ground rent terms to continue.
- **Option 8: Assessing individual ground rents, with powers to ban those deemed ‘unfair’:** This approach would involve an assessment of ground rents based on statutory fairness criteria and the prohibition or reduction of ground rents considered excessive.
- **Option 9: Capping ground rents at an absolute maximum value and freezing any rents below that value:** This combined approach would impose a cap (as per Option 2) but also freeze rents below the cap at their current level, preventing any increase even where permitted by the lease terms.

62. The government also considered whether any **non-legislative approaches** could meet the policy objectives. Non-legislative interventions have already taken place – in this area, including the CMA’s market investigation<sup>28</sup> and resulting voluntary undertakings and the public pledge signed by industry,<sup>29</sup> which have only affected a subset of leases. These interventions have proven unable to fully address the affordability, mortgageability or transaction issues identified under Objective 5a, nor have they modernised legacy leases or resolved the two-tier system targeted under Objective 5b. The government has not identified any viable non-legislative options capable of delivering the required outcomes.

63. The following section assesses longlist regulatory options and the ‘Do nothing’ counterfactual against the policy objectives for ground rent reform:

- **Objective 5a – Ensure that ground rents are reasonable, affordable and proportionate;**
- **Objective 5b – End the anachronism of ground rents and the current two-tier system.**

*Assessment of longlist options and the ‘Do nothing’ comparator:*

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<sup>28</sup> [Leasehold - GOV.UK](https://www.gov.uk/government/consultations/leasehold-reform)

<sup>29</sup> [Public pledge for leaseholders - GOV.UK](https://www.gov.uk/government/consultations/public-pledge-for-leaseholders)

Table 4.1. Summary table of the assessment of the longlist regulatory options

Option	Fit with Objective 5a	Fit with Objective 5b	Outcome
<b>0. Do Nothing</b>	Weak	Weak	<b>Shortlisted (baseline)</b>
<b>1. Peppercorn</b>	Strong	Strong	<b>Shortlisted</b>
<b>2. Absolute Cap</b>	Strong	Weak	<b>Shortlisted</b>
<b>3. % of Property Value Cap</b>	Strong	Weak	<b>Shortlisted</b>
<b>4. Reset to Original Rent</b>	Weak	Weak	Rejected
<b>5. Freeze at Current Level</b>	Weak	Weak	Rejected
<b>6. CPI/5% Increase Cap</b>	Weak	Weak	Rejected
<b>7. Ban Escalation Terms</b>	Partial	Weak	Rejected
<b>8. Case-by-Case Fairness Test</b>	Partial	Weak	Rejected
<b>9. Absolute Cap + Freeze</b>	Partial	Weak	Rejected

64. **Option 0: Do nothing:** The ‘Do nothing’ option does not perform well against either objective, as it leaves affordability pressures, high ground rents and the two-tier system unchanged. However, it is retained as the mandatory **counterfactual** for appraisal purposes, and so is taken through to shortlisting.

65. **Option 1: Capping ground rent at a peppercorn:** Option 1 performs strongly against both objectives. Reducing all financial ground rents to a nominal level removes affordability pressures and eliminates the financial burden associated with high or escalating rents, directly supporting Objective 5a. It also achieves Objective 5b by removing the historic system of non-service ground rents and bringing legacy leases into line with leases signed after the GRA, providing a clear and permanent resolution to the two-tier system. Given its strong performance against both objectives, this option is taken forward for shortlisting. No other policy intervention fully achieves Objective 5b, so the options below are taken forward for shortlisting primarily based on their ability to achieve Objective 5a, which reduces the disparities between the two systems.

66. **Option 2: Capping ground rent at an absolute maximum value:** If set at the right level, Option 2 delivers immediate improvements against Objective 5a by lowering high ground rents, improving affordability and predictability, and reducing transaction frictions. The option is taken forward to shortlisting due to its strong performance against Objective 5a.

67. **Option 3: Capping ground rent at a percentage of property value:** This option, if set at the right level, strongly supports Objective 5a by reducing excessive ground rents, easing affordability pressures and improving predictability for lenders and consumers. As with Option 2, this option is taken forward for further appraisal.
68. **Option 4: Capping ground rent at the original amount when the lease was granted:** This option does not address any high baseline ground rents set at the time the lease was granted, meaning affordability pressures and mortgageability issues would persist for some leases. It therefore performs poorly against Objective 5a.
69. **Option 5: Freezing ground rent at current levels:** Freezing rents at current values provides predictability but does not reduce existing high or unaffordable rents. It therefore fails to address the core harms captured in Objective 5a. The option is rejected.
70. **Option 6: Capping increases from the original lease date at inflation or 5% per year:** While this option moderates future escalation, it does not address high baseline rents or affordability pressures already faced by many leaseholders. Its contribution to Objective 5a is therefore minimal. This option is rejected.
71. **Option 7: Banning the most egregious escalation terms:** Removing the most extreme escalation clauses addresses a subset of problematic leases but does not reduce already high existing rents. Its contribution to Objective 5a is minimal. This option is therefore rejected.
72. **Option 8: Assessing individual ground rents and banning those deemed 'unfair':** This option could reduce some high or harmful ground rents but would do so on a case-by-case basis. It would not deliver timely or consistent improvements across the leasehold sector and therefore does not meet Objective 5a. It is not clear this would significantly improve market confidence, as the individual nature of the proposal and lack of sector-wide action could undermine the confidence of consumers and lenders. Additionally, this option could be complex and costly to implement, with these burdens likely being put on leaseholders and public authorities. It is therefore rejected.
73. **Option 9: Capping ground rents at an absolute maximum value and freezing rents below the cap:** The capping element offers some benefit against Objective 5a, similar to Option 2. However, the freeze on rents below the cap provides no further contribution to affordability, as these ground rents are unlikely to cause affordability or mortgageability problems at the current rates, and introduces complexity without policy benefit. As the benefits of the cap can be achieved more efficiently through Option 2, this option is rejected.

74. **Summary:** The longlist assessment showed that only a small number of interventions were capable of achieving Objective 5a (improving affordability and market functioning), and only one intervention addressed Objective 5b (modernising legacy rents and reducing the two-tier system). Accordingly, the shortlist focuses on the interventions that the longlist identified as effective in lowering current and future ground rent liabilities, while considering deliverability, proportionality and risks of unintended adverse consequences. These options provide the clearest pathway to reducing affordability pressures, improving mortgageability, and supporting a more coherent and consistent leasehold system. Each shortlisted option offers a distinct mechanism for constraining ground rents, ranging from full abolition to capped approaches, allowing the appraisal to test different balances of consumer benefit, proportionality, and implementation feasibility.

#### *4.5.2 Shortlist - Assessment of shortlist options*

75. The following section sets out in detail the shortlisted options and assesses their performance against the policy objectives, expected outcomes, risks, distributional impacts and wider system-level considerations.

#### **Option 0 - Do Nothing (Non-Legislative) (Counterfactual)**

76. **Baseline comparator:** Under the baseline, no legislative change is made to existing ground rents. The only routes available to remove or reduce ground rent obligations are those already in force within the current legal framework such as enfranchisement and lease extensions.<sup>30</sup> Existing routes (including for flats in existing enfranchisement legislation, and both houses and flats under the LFRA) require payment of a premium to compensate the freeholder for the loss of future ground rent revenue, alongside legal, valuation fees. This counterfactual forms the basis for assessing incremental impacts of all shortlisted options.

77. **Description:** The existing legal framework remains unchanged. Ground rents continue as currently set in leases. Leaseholders may use statutory routes to buy out ground rents, but this requires negotiation, valuation, and payment to freeholders. No cap or restructuring of ground rents is introduced.

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<sup>30</sup> The government has committed to implementing reforms in the LFRA that will make enfranchisement cheaper and simpler, including capping the value of any ground rent at 0.1% of the freehold value when used in enfranchisement premium calculations; and introducing a new right for qualifying leaseholders to buy out their ground rent without extending their lease. These reforms will interact with the policy options assessed in this impact assessment. However, as these measures are not yet in force, they are not included in the 'Do nothing' baseline. Under the baseline, enfranchisement premiums continue to reflect existing valuation rules, meaning that leaseholders, particularly those with escalating rents, may face costly premiums. Leaseholders who own houses also continue to face more limited statutory routes than flat owners, as statutory lease extensions for houses require payment of a modern ground rent rather than a peppercorn.

## 78. Assessment against SMART objectives

### Objective 5a – Ensure ground rents are reasonable, affordable and proportionate

- **Specific:** The ‘Do nothing’ option does not protect leaseholders from excessive financial burdens. Existing high or escalating ground rents continue unchanged. Households remain exposed to affordability pressures, reduced confidence in leasehold transactions, and barriers to buying, selling or mortgaging properties.
- **Measurable:** Indicators including lender feedback, conveyancing fall-through rates, consumer complaints, and EHS measures would show no associated improvement. In many cases, detriment may worsen over time as ground rents rise (where they rise in real terms).
- **Achievable:** This option achieves no improvements. The evidence-based harms arising from current and future ground rent levels are left unaddressed.
- **Relevant:** The ‘Do nothing’ option remains misaligned with wider government priorities on housing market efficiency, fairness, transparency and growth. Affordability pressures and mortgage restrictions attributable to high ground rents continue to hinder consumer and lender confidence and efficient market functioning.
- **Timebound:** Over the medium term, affordability pressures, lending restrictions and transaction barriers would persist. No time-bound progress is delivered towards the objective.
- **Assessment:** Objective 5a is *not met*.

### Objective 5b – End the anachronism of ground rents and the current two-tier ground rent system

- **Specific:** No reforms are introduced to modernise legacy ground rents or align them with the GRA. The two-tier system is preserved indefinitely, worsening as more new leases are delivered with peppercorn rents, and leaseholders continue to make payments without any linked service or justification.
- **Measurable:** Indicators such as average ground rent levels and the proportion of peppercorn rents are not improved, in relation to existing stock – changes may arise over the long term as more new leases are subject to a peppercorn ground rent.
- **Achievable:** The ‘Do nothing’ scenario takes no steps to modernise legacy arrangements or reduce inconsistencies between pre- and post-GRA leases. The objective is therefore unachieved.
- **Relevant:** The option is misaligned with the goal of delivering a modern, fair and efficient housing market. Outdated charges continue to create inconsistent treatment of similar leasehold properties.
- **Timebound:** No time-bound progress occurs. Legacy terms continue unchanged and their effects accumulate over time.
- **Assessment:** Objective 5b is *not met*.

79. **Expected outcomes:** Under the ‘Do nothing’ scenario, the key harms associated with existing ground rents continue unchecked. Leaseholders facing high or escalating ground rents would experience ongoing affordability pressures, with these charges adding to the financial burden of homeownership. Mortgage availability would also remain constrained for leases carrying ground rents above lender thresholds, meaning that affected leaseholders would continue to encounter restricted borrowing options and in some cases the inability to secure a mortgage. These lending constraints contribute directly to wider saleability problems as properties with high ground rents are more likely to encounter delays during conveyancing, increased risks of transactions falling through, and reduced demand in the resale market.

80. In addition, any leaseholder wishing to address a problematic ground rent through a statutory or negotiated ground rent buy-out would continue to face high individual costs, including valuation, legal and professional fees.

### 81. Costs and benefits

Stakeholder group	Benefits	Costs
Leaseholders	<ul style="list-style-type: none"> <li>No additional benefits</li> </ul>	<ul style="list-style-type: none"> <li>Continued exposure to high and harmful ground rents.</li> <li>Affordability and saleability issues persist.</li> </ul>
Freeholders	<ul style="list-style-type: none"> <li>Retain all existing ground rent income</li> </ul>	None
Lenders	<ul style="list-style-type: none"> <li>No adjustment required</li> </ul>	<ul style="list-style-type: none"> <li>Ongoing lending risk for leases with high ground rents, particularly as more escalate above £250 over time.</li> </ul>
Managing agents	<ul style="list-style-type: none"> <li>Continuity</li> </ul>	<ul style="list-style-type: none"> <li>Ongoing disputes with affected leaseholders</li> </ul>

82. **Small & micro business impact:** No change to current practices.

83. **Distributional impacts:**<sup>31</sup> Under the ‘Do nothing’ option, distributional impacts fall unevenly across different groups of leaseholders. Those currently paying high or escalating ground rents continue to experience the greatest detriment, as they remain exposed to affordability pressures and reduced market mobility. Households with fewer financial resources are disproportionately affected by the mortgage restrictions

<sup>31</sup> Throughout, the consideration of distributional impacts includes whether the policy’s effects vary across sectors, business sizes, regions or specific groups (such as by household income), rather than being evenly spread across the economy and country. We only address those topics which impacts have been identified.

associated with higher ground rents, as they have less flexibility to absorb delays, seek alternative lending options or fund buy-outs.

84. More broadly, the baseline involves no redistribution of value between leaseholders and freeholders so existing imbalances remain unchanged.

**85. Risks and uncertainties**

<b>Risk</b>	<b>Description</b>	<b>Likelihood</b>	<b>Impact</b>	<b>Mitigation</b>
Increased disputes	That leaseholder dissatisfaction with high rents increases as they rise over time and the public come to understand consequences better (through work led by consumer groups), and this will prompt challenges via the First-tier Tribunal or Leasehold Valuation Tribunal, or in extreme cases, refusal to pay.	High	Medium	<ul style="list-style-type: none"> <li>• LFRA provisions capping ground rents at 0.1% of the property value for the purposes of enfranchisement</li> </ul>
Capacity constraints	That a lack of specific action drives large-scale buyouts, which overwhelm professional sectors	Very low	Medium	None
Market stagnation	That mortgages continue to be restricted for leases subject to high ground rent, which stifles transactions particularly in the flat market	Medium	High	None
Deepening affordability pressures and long-term two-tier system	High and rising ground rents continue to reduce affordability over time, entrenching a long-term two-tier market between leases with and without ground rent, with growing divergence in consumer outcomes and marketability.	High	Medium-high	None

**86. Public sector costs:** No additional costs

87. **Key uncertainties and dependencies:** Assumptions are sensitive to external factors, including future interest rates (affecting the rate at which ground rents rise in real terms and buy-out valuations) and lender policy tightening or loosening.
88. **NPSV:** *Qualitative assessment only.* The ‘Do nothing’ option results in a moderate negative NPSV when considered against the policy objectives and the evidence on consumer outcomes. While it introduces no new direct regulatory costs, this does not equate to a neutral impact. The baseline embeds and perpetuates a system that continues to generate significant detriment for a substantial proportion of leaseholders, including unnecessary frictions in the housing market (of which there are wider negative impacts to the economy). This option would not see the monetised benefits of fewer fall-throughs.
89. This assessment assumes no behavioural change among leaseholders, freeholders or lenders, and continued use of existing lease terms. Under these conditions, the issues associated with high and escalating ground rents persist. Leaseholders with high ground rents remain exposed to affordability pressures, limited mortgage availability and impaired saleability, with these effects being most acute for households least able to absorb additional financial or transactional burdens.
90. More broadly, the baseline foregoes the potential benefits associated with a modernised and simplified system in which ground rents no longer distort market incentives or create avoidable barriers to mobility. These missed opportunities reduce transparency and fairness within the housing market, reduce economic efficiency and entrench existing inequalities, particularly for lower-income households and those living in properties with high or escalating ground rents.
91. Taken together, these factors indicate that the ‘Do nothing’ option represents a net negative societal outcome, even in the absence of monetised costs. The harms associated with high ground rents persist, while the benefits of achieving the objectives remain unrealised.
92. **Summary:** The ‘Do nothing’ option is not considered viable. While it requires no legislative change and introduces no new direct regulatory burdens, it fails to address the core policy problems and delivers no progress towards government’s objectives. Retaining the status quo would lock in market inefficiencies and allow existing inequalities to deepen over time. It perpetuates avoidable burdens and foregoes the wider individual, societal and economic benefits associated with reform. For these reasons, the ‘Do nothing’ option neither meets the policy objectives nor offers a credible alternative to intervention.

### **Option 1 - Peppercorn cap (legislative)**

93. **Description:** Ground rents in older long residential leases are reduced immediately to a peppercorn cap. No financial ground rent remains payable on qualifying leases.

#### 94. **Assessment against SMART Objectives**

##### **Objective 5a – Ensure that ground rents are reasonable, affordable and proportionate**

- **Specific:** This option fully eliminates ongoing ground rent obligations for all qualifying leases, immediately removing affordability pressures and resolving cases where ground rents inhibit household finances, affect transactions or undermine mortgage access. It directly addresses the core problem of the presence of unreasonable or unaffordable financial ground rents.
- **Measurable:** Indicators such as lender feedback, EHS measures, consumer complaints and conveyancing fall-through data would show clear improvement. The affordability detriment linked to ground rents would fall to zero. Mortgage restrictions associated with high ground rents would disappear immediately for affected properties.
- **Achievable:** Although the intervention is technically straightforward and immediately effective in achieving affordability outcomes, evidence suggests that this option risks significant adverse effects on freeholders. This weakens the achievability dimension for the option because, while the objective itself is achieved, associated disruption may generate unintended consequences in building management and remediation, where ground rents may be directly required to meet such costs.
- **Relevant:** The option strongly supports consumer protection and housing transaction confidence by removing all harmful ground rents. However, the relevance is tempered by potential negative implications for building safety governance (in cases where obligations are met through ground rent) and lender confidence in freeholder solvency for some buildings.
- **Timebound:** Impacts occur immediately on commencement, delivering rapid progress against the affordability objective. However, transitional instability, including insolvency related risks, may emerge in the short to medium term.
- **Assessment:** Objective 5a is *fully met* in consumer terms but raises wider system level concerns that affect overall feasibility and unintended consequences.

##### **Objective 5b – End the anachronism of ground rents and the current two-tier ground rent system**

- **Specific:** This option completely ends the legacy ground rent regime by converting ground rents in older residential leases to a peppercorn cap. The two-tier system between leases granted before and after the GRA came into force is removed in full and with immediate effect following commencement.

- **Measurable:** Measurable indicators such as average ground rent levels and the proportion of peppercorn leases would shift to reflect universal peppercorn ground rents across the residential sector (subject to limited exceptions).
- **Achievable:** Legislating for an immediate peppercorn cap for ground rent payable under older leases is achievable based on the peppercorn regime introduced by the GRA in 2022 but remains high risk in operational terms. Removing all ground rent income at once creates financial disruption for portfolios reliant on this income to fund operations, debt servicing or building safety compliance, in cases where freeholders are reliant on ground rent to meet their obligations.
- **Relevant:** The option strongly advances fairness, transparency and consumer protection by ending an outdated and unjustified charge. However, the relevance is moderated by risks to building and portfolio stability, which could undermine wider policy goals for safe buildings.
- **Timebound:** This option delivers immediate alignment of older leases with leases granted after the GRA came into force. Timebound progress is maximised.
- **Assessment:** Objective 5b is *fully met*, though the speed of implementation introduces risks to market and building level stability.

95. **Expected outcomes:** The expected outcomes of this approach include the complete removal of harmful ground rents from the leasehold system, ensuring that existing arrangements are fully aligned with leases granted after the GRA came into force. This shift would transfer 100% value from freeholders to leaseholders, fundamentally altering the financial balance within the sector. An immediate peppercorn cap would leave some freeholds with little or no financial value. This may create increased risks of freeholder insolvency, particularly where freeholders are responsible for building safety liabilities, with leaseholders potentially facing risks of insolvency and slower remediation.

#### 96. Costs and benefits

Stakeholder group	Benefits	Costs
Leaseholders	<ul style="list-style-type: none"> <li>• Ground rent eliminated</li> <li>• Improved lending and saleability</li> <li>• Wellbeing benefits</li> </ul>	<ul style="list-style-type: none"> <li>• Some leaseholders may experience disruption if the freeholder goes insolvent or cannot remediate safety issues as fast</li> </ul>
Freeholders	None	<ul style="list-style-type: none"> <li>• Loss of ground rent income; increase insolvency risk for freeholders who do not have diversified income sources</li> <li>• Familiarisation and compliance costs</li> </ul>
Mortgage lenders	<ul style="list-style-type: none"> <li>• Reduced lending risk</li> <li>• More properties to lend on</li> </ul>	<ul style="list-style-type: none"> <li>• Familiarisation and compliance costs, including underwriting updates as required</li> </ul>

Managing agents	None	<ul style="list-style-type: none"> <li>• Risk of freeholder withdrawal from market</li> <li>• Familiarisation and compliance costs</li> </ul>
Investors and other businesses which are highly leveraged in ground rent income	None	<ul style="list-style-type: none"> <li>• Loss of income and subsequent spillover consequences</li> </ul>

97. **Small & micro business impact:** For small freeholders, particularly those without diversified income streams, the sudden loss of ground rent income could create acute financial pressures and may prompt some to exit the market.

98. **Distributional impacts:** The benefits of this option would apply to all leaseholders who pay ground rents, though those who currently face high ground rents would see the greatest immediate financial impact. High ground rents represent a heavier burden as a proportion of income for leaseholders at the bottom of the income distribution relative to those at the top. Benefits will be particularly accrued in London and the South, with 1.8m leasehold dwellings benefiting there, with 1.2m in the North benefiting, and 630,000 in the Midlands (however this follows the distribution of leasehold stock across the country).<sup>32</sup>

99. **Risks:** This option has the highest value transfer and the highest risk of negative impacts due to impacts on freeholders' and investors financial position as their ground rent-related income streams would be removed. The impacts of this option will vary depending on the financial situation of individual freeholders and investors.

100. In general freeholders who are more highly leveraged or/and have higher liabilities (e.g. safety remediation) will face more risks in this scenario and their buildings are more likely to experience financial distress and/or negative outcomes. These sensitivities create material variation in potential outcomes, ranging from manageable transition for stronger portfolios to severe disruption for weaker ones.

Risk type	Description	Likelihood	Impact	Potential mitigation
<b>Freeholder insolvency</b>	Loss of ground rent income may undermine financial viability for freeholders with limited resilience, leading to insolvency.	Medium	High	<ul style="list-style-type: none"> <li>• Compensation</li> </ul>

<sup>32</sup> Explicit estimates for the number of leasehold dwellings impacted in Wales have not been produced due to evidence gaps.

<b>Building management disruption</b>	Insolvency of freeholders may leave buildings without a clear management party, creating operational uncertainty for leaseholders.	Medium	High	<ul style="list-style-type: none"> <li>• None within option</li> </ul>
<b>Building safety</b>	Insolvent freeholders may be unable to progress remediation or other safety critical works, leading to delays and risk escalation.	Medium	High	<ul style="list-style-type: none"> <li>• Compensation; consider phased implementation for blocks with outstanding works</li> </ul>
<b>Wider sector disruption</b>	Freeholder insolvencies may have spillover effects on associated businesses (e.g. investors, lenders, professional services) and could create instability in parts of the property market that depend on predictable freeholder revenue streams.	Medium	Medium	<ul style="list-style-type: none"> <li>• Compensation</li> </ul>
<b>Investor hardship cases</b>	Some small, individual or undiversified investors may face acute income shocks where ground rent formed a significant part of expected returns.	Medium	Medium	<ul style="list-style-type: none"> <li>• Targeted transitional support and signposting</li> </ul>
<b>Optimism bias in projections</b>	There is a risk that modelling underestimates the scale or speed of financial distress, given uneven resilience across freeholder types and limited detailed data.	Medium	Medium	<ul style="list-style-type: none"> <li>• Sensitivity testing.</li> <li>• Monitoring and evaluation aligned with programme governance</li> </ul>

101. **Public sector costs:** This option is likely to generate additional pressures across several parts of the public sector. Demand for updated guidance and support would increase substantially, as leaseholders, freeholders, managing agents and advisors seek clarity on the new regime and its immediate implications. There could be additional pressure on non-governmental public bodies such as the Insolvency Service to mitigate instances of buildings not being managed, as well as pressure for the government to cover some of the costs relating to building management that leaseholders would otherwise be liable for.

102. **Monetised impacts:** This option would result in substantial, measurable consumer benefits and significant costs for freeholders and investors. As set out in **Table 4.3**, the estimated **value transfer over the lifetime of the policy is £18.3bn - £20.7bn**, with a 100% loss to freeholders. This would benefit an estimated 3.8m leasehold dwellings across England and Wales on day 1 of implementation.
103. **NPSV:** This option allows for substantial consumer and welfare gains amongst the leaseholders, which should be weighed against the possibility of concentrated financial distress among some freeholders, alongside knock-on effects for solvency, and potential costs arising from safety non-compliance. The balance of these opposing forces creates a broad range of potential outcomes, resulting in high uncertainty around the overall NPSV.
104. **Summary:** This option is not preferred. Although it would achieve the intended outcomes for both objectives, delivering substantial and immediate benefits for leaseholders through the full removal of ground rents, the asset transfer of 100% of value in pre-existing contracts is judged to be disproportionate, and the cost of likely unintended consequences is too high. Our methodology for calculating value transfer is set out in the **Technical Annex**. The concentration of losses among freeholders and pension-linked investors means that the option does not represent a proportionate approach or a fair balance. In particular, the heightened insolvency risk and potential disruption to building safety remediation demonstrate that the option is likely unachievable without adverse effects

## **Option 2 – Flat cash cap (legislative)**

105. **Description:** A universal flat monetary cap is applied to all existing ground rents.

### **106. Assessment against SMART Objectives**

#### **Objective 5a – Ensure that ground rents are reasonable, affordable and proportionate**

- **Specific:** A flat cash cap provides a simple, predictable ceiling on ground rent liabilities, directly improving leaseholder affordability by ensuring clear, stable outgoings that support household budgeting and protect leaseholders from volatility.
- A flat cash cap can limit the highest ground rents to a reasonable level, but the extent to which it eases affordability pressures, reduces transaction barriers and mitigates mortgage related risks depends on the level at which the cap is set. When set at an appropriate threshold, the cap eliminates the most unreasonable charges now and into the future; however, if set too high, it would fail to address key harms, and if set too low, it could generate disproportionate impacts on freeholders.

- **Measurable:** Improvements can be tracked through reduced affordability pressures for affected leaseholders, improved lender willingness to lend on previously problematic leases, lower conveyancing fall-through rates linked to high ground rents, and consumer feedback. Data sources include EHS affordability indicators, lender feedback and consumer complaints.
- **Achievable:** Achievability is ultimately contingent on where the cap is set, but the measure is operationally simple and easy for stakeholders to understand. Because lenders and consumers already favour predictable, affordable ground rents, the policy aligns with market expectations. The intervention is also less disruptive than an immediate move to a peppercorn cap.
- **Relevant:** The option is well aligned with fairness, transparency and consumer-protection objectives. By reducing only the most harmful ground rents, it supports a more efficient and proportionate market without destabilising freeholder financial viability (depending on the level the cap is set).
- **Timebound:** Benefits materialise quickly once the cap is introduced. Market adjustments in lending behaviour, transaction processes and consumer confidence are expected to emerge over the short to medium term.
- **Assessment:** Contingent on the chosen cap level, Objective 5a is *met* in a proportionate and achievable manner that addresses the core affordability harms.

#### **Objective 5b – End the anachronism of ground rents and the current two-tier ground rent system**

- **Specific:** A flat cash cap removes the problematic ground rents and narrows disparities between pre-and post-GRA leases but does not remove the two-tier structure. Existing leases continue to require payment for a non-service charge, meaning the system is modernised but not resolved.
- **Measurable:** While average ground rent levels would fall and the prevalence of high or escalating rents would decrease, the proportion of pre-GRA leases paying a peppercorn would remain unchanged. Because ground rents continue, measurable progress toward ending the two-tier system is limited.
- **Achievable:** The measure is operationally simple and avoids the risks associated with immediate implementation of a peppercorn cap. However, although the policy is administratively achievable, it does not achieve the core aim of alignment: ground rents continue indefinitely for older leases granted before the GRA came into force and the historic system remains in place.
- **Relevant:** The option improves transparency and consistency by removing the most harmful ground rents, but it does not support the longer-term policy aim of eliminating ground rents.
- **Timebound:** Improvements in market clarity and transaction predictability arise quickly, but no timebound pathway is created for moving ground rents in legacy leases to a peppercorn cap. As a result, the two-tier system persists without a defined end state.

- **Assessment:** Objective 5b is *not met*. The cash cap mitigates the worst excesses of legacy ground rents but does not bring the system to an end. The two-tier structure between pre-and post-2022 leases remain, and leaseholders continue to pay for a cost with no clear service in return. The policy represents partial modernisation rather than fulfilment of the objective.

107. **Expected outcomes:** Depending on the level of the cap, the introduction of a flat cash cap would reduce the highest and most problematic ground rents, directly addressing the most acute consumer harms, and preventing terms from allowing more leases to reach those levels. By setting a single, easily understood cap, the policy provides clarity and certainty for leaseholders, freeholders, professionals and lenders. This approach avoids the sharp impacts that an immediate peppercorn cap would create, though the impact on freeholders would remain.

108. The key driver of variation in outcomes is the level at which the cap is set, as this determines the scale of leaseholder benefits and the income effects on freeholders. Different cap values would therefore produce materially different distributions of impacts. Because the mechanism itself is stable and predictable, the main uncertainty is not behavioural responses, but rather the choice of the threshold. The severity of the impact on freeholders would be higher, the lower the point at which the cap is set. Further analysis of alternative cap values, including distributional implications, proportionality considerations and potential market reactions, is provided below.

#### 109. Costs and benefits

Stakeholder group	Benefits	Costs
Leaseholders	<ul style="list-style-type: none"> <li>• Immediate reduction of ground rents that are above the cap</li> </ul>	<ul style="list-style-type: none"> <li>• None, relative to the counterfactual.</li> </ul>
Freeholders	<ul style="list-style-type: none"> <li>• None</li> </ul>	<ul style="list-style-type: none"> <li>• Reduced ground rent income</li> <li>• Familiarisation and compliance costs</li> </ul>
Lenders	<ul style="list-style-type: none"> <li>• Clearer underwriting rules</li> </ul>	<ul style="list-style-type: none"> <li>• Minor updates required</li> <li>• Familiarisation and compliance costs</li> </ul>
Managing Agents	<ul style="list-style-type: none"> <li>• Simple to administer</li> </ul>	<ul style="list-style-type: none"> <li>• Transitional queries are likely</li> <li>• Familiarisation and compliance costs</li> </ul>
Investors and other businesses which are highly leveraged in ground rent income, in excess of where the cap is set	<ul style="list-style-type: none"> <li>• None</li> </ul>	<ul style="list-style-type: none"> <li>• Loss of income and subsequent spillover consequences</li> </ul>

110. **Small & micro business impact:** This option is not expected to create significant administrative burdens, which would disproportionately impact SMBs. Compared with an immediate peppercorn cap, a flat cash cap represents a more manageable and proportionate change for smaller operators, allowing them to adapt over time.

111. **Distributional impacts:** This option will see the greatest benefits flowing to leaseholders currently facing the highest ground rents, or those who will in the future. These leaseholders experience the most acute financial pressures, and the cap would limit those costs. The ground rent cap would operate uniformly across England and Wales, though impacts would be felt differentially based on the spread of the stock across the country. In addition, high ground rents represent a heavier burden as a proportion of income for leaseholders at the bottom of the income distribution relative to those at the top. The corresponding impacts on freeholders will vary depending on the level at which the cap is set, with higher-rent portfolios experiencing a larger relative reduction in income.

112. **Risks:** The following risks may arise under a flat cap, but overall, they are anticipated to be more limited in scale and distribution than under a peppercorn.

Risk type	Description	Likelihood (supposing a £250 cap)	Impact (supposing a £250 cap)	Potential mitigation
<b>Financial impact on freeholders exceeds expectation</b>	Risk that freeholders reliant on ground rent income above the cap may face material losses; scale and severity depend on the level chosen (a £250 cap likely low–medium).	Medium	Low–Medium	<ul style="list-style-type: none"> <li>Ongoing engagement and monitoring</li> </ul>
<b>Insolvency risk</b>	Some exposed or undiversified freeholders could face insolvency where income above the cap is essential to meet obligations; risk increases at lower caps.	Low–Medium	Medium	<ul style="list-style-type: none"> <li>Monitoring and early engagement with affected freeholders</li> </ul>
<b>Leaseholder spillover</b>	Insolvency may cause management disruption for relevant blocks; likelihood and severity vary with cap level and	Low–Medium	Medium	<ul style="list-style-type: none"> <li>Monitoring and early engagement with affected blocks</li> </ul>

	distribution of high ground rents.			
<b>Continued financing difficulties</b>	Some leaseholders, particularly in lower value properties, may continue to face lending constraints tied to absolute ground rent levels; risk reduces at lower caps.	Medium	Medium	<ul style="list-style-type: none"> <li>• Lender engagement.</li> <li>• Guidance to bring clarity</li> </ul>
<b>Compliance and implementation costs are greater than expected</b>	Professional sector faces greater administrative burdens than expected in assessing leases, applying the cap, and updating systems; scale depends on how many leases sit above the chosen cap.	Medium	Low–Medium	<ul style="list-style-type: none"> <li>• Clear guidance</li> <li>• Explore potential for phased implementation</li> </ul>
<b>Optimism bias</b>	Financial stress on a subset of freeholders may be underestimated; sensitivity depends on cap level and uneven resilience across freeholders.	Medium	Medium	<ul style="list-style-type: none"> <li>• Sensitivity testing</li> <li>• Ensuring a robust and responsive monitoring and evaluation plan.</li> </ul>
<b>Limited immediate benefit</b>	Leases already below the cap see no change until they reach it; extent of the two-tier market depends directly on where the cap is set.	High	Low	<ul style="list-style-type: none"> <li>• None within option</li> </ul>

113. **Public sector costs:** The public sector costs are expected to be low, reflecting the relative simplicity of the cap. Consumer and professional guidance and communication would be required. Ongoing monitoring would be needed to track compliance and assess market responses, but this is not expected to necessitate significant additional resource.

114. **NPSV:** A flat cash cap would generate targeted reductions in the highest and most harmful ground rents and the associated improvements in affordability, mortgageability and market confidence. Administrative and compliance costs are modest because the mechanism is simple and can be implemented within existing enforcement structures. Many of the costs considered for an NPSV, such as transitional impacts on freeholders, adjustments in portfolio management, and minor administrative burdens, would arise under any intervention that applies a statutory cash cap, whether introduced alone or alongside a later move to a peppercorn; these are therefore not unique to this option. The main constraint on long-term gains arises because a flat cap stabilises, rather than ultimately removes, financial ground rents. This means any remaining consumer detriment persists over time, particularly leases of a long length, where leaseholders could continue to pay ground rent for many years, and the persistence of a two-tier market. These limitations temper the overall benefits, even though the option performs strongly on deliverability and near-term impacts. Monetised transfer estimates are set out below at **Table 4.3**.

115. **Summary: This option is preferred.** Overall, the flat cash cap represents the most proportionate mechanism for reducing harm while maintaining market stability. It delivers clear and measurable improvements against Objective 5a by capping the most problematic ground rents, improving affordability, reducing barriers to lending, and enhancing confidence without triggering significant risks. However, against Objective 5b, the option does not eliminate the two-tier structure. Nonetheless, when balancing the objectives against achievability, proportionality and risk, the flat cash cap offers a sustainable and targeted approach. The specific value of the cap and associated transitional arrangements are analysed separately below, as these choices will shape the magnitude and distribution of impacts.

### **Option 3 - Cap as a percentage of property value (legislative)**

116. **Description:** Ground rents would be capped at a fixed percentage of each property's value (for example, 0.1%). Implementing this approach would require establishing an up-to-date valuation for approximately 3.8 million existing leasehold dwellings with a ground rent obligation. The policy would therefore necessitate rules for determining the valuation methodology, update cycles and dispute resolution routes.

117. The costs, benefits and risks of a % of property value cap would depend to some degree on the particular approach taken to valuation. There are a range of ways a % of property value cap could be implemented, the simplest would be to require a valuation of the property but this would be prohibitively expensive especially if applied on an annual basis and have the highest risk of disputes. The department considered a range of options including the potential for formula approaches to simplify operation. Formulas could simplify operation of the cap but are likely to introduce unfair outcomes if they do not accurately reflect individual circumstances. No

approach can address the additional complexity of an individual cap for each property.

## 118. Assessment against SMART Objectives

### **Objective 5a – Ensure that ground rents are reasonable, affordable and proportionate**

- **Specific:** The policy targets excessive ground rents by linking them to a proportion of property value, reflecting the mechanism through which harm arises in some cases. However, because values vary significantly across locations, property types and valuations, the policy may produce inconsistent affordability outcomes. Some leaseholders may experience substantial reductions, while others may see little or no improvement.
- **Measurable:** Affordability impacts would be measurable via rent-to-value ratios, lender feedback and consumer complaint data. While rent-to-value ratios can provide some insight, affordability is not necessarily linked to property value, so reliance on valuations introduces additional uncertainty. Variation in outcomes across leases makes the objective difficult to measure consistently and may weaken perceptions of fairness-to-value ratios, lender feedback and consumer complaint data.
- **Achievable:** The option is operationally complex. Achieving consistent application across millions of leases would require valuations and dispute systems. This would impose high administrative burdens, generate capacity pressures in professional markets and increase risk of litigation in challenging assessed property values. As a result, although the objective is technically achievable, the practical barriers are significant.
- **Relevant:** While the approach aligns with proportionality by linking rents to asset value, it diverges from broader policy priorities for simplicity, clarity and low-friction consumer protection. High complexity and inconsistency may undermine market confidence and could create new affordability pressures if valuations fluctuate.
- **Timebound:** Benefits would not materialise quickly. The time required to produce valuations and resolve disputes delays progress, and any need to revalue properties could reduce predictability. Timebound delivery is therefore weak relative to alternatives.
- **Assessment:** Objective 5a is *partially met* but performs poorly on achievability, consistency and predictability.

### **Objective 5b – End the anachronism of ground rents and the current two-tier ground rent system**

- **Specific:** This option modernises the treatment of existing ground rents by imposing a rationalised cap. However, it does not align provisions with the system introduced in 2022 and does not end the two-tier structure between older and newer leases.
- **Measurable:** Ground rent levels would shift based on percentage calculations, but the proportion of legacy leases subject to a peppercorn cap would be unchanged.
- **Achievable:** Achievability is constrained by valuation requirements, methodological disputes, professional capacity constraints and enforcement. Unlike simpler options, this approach requires ongoing operational infrastructure.
- **Relevant:** The policy contributes only partially to the objective of modernising ground rents. While percentage-based caps appear principled, they introduce complexity rather than simplifying the system or moving towards uniformity, so relevance to the long-term policy direction is limited.
- **Timebound:** This option does not provide timebound effectiveness in ending the current two-tier ground rent system.
- **Assessment:** Objective 5b is *not met*. Harms are reduced but the two-tier system is preserved and further complexity is introduced.

119. **Expected outcomes:** Based on the principles of a % of property value cap, we would expect a significant variation in the level of the cap across different leases, reducing clarity for both consumers and the market. The requirement for valuations is likely to increase professional fees and generate a higher volume of disputes as parties challenge assessed values. These additional frictions could, in turn, have the adverse effect of slowing down conveyancing processes and lead to delays in property transactions compared to the counterfactual, particularly for properties where the ground rent is close to 0.1% of the value. If the cap were permitted to change over time, this could introduce additional uncertainty and administration for both freeholders, leaseholders and prospective leaseholders.

## 120. Costs and benefits

Stakeholder group	Benefits	Costs
Leaseholders	<ul style="list-style-type: none"> <li>• Cap will target a known cause of harm and reflect the value of properties.</li> </ul>	<ul style="list-style-type: none"> <li>• Potential for complexity and confusion, leading to disputes.</li> <li>• Potential to have to fund the setup of the new valuation systems.</li> </ul>
Freeholders	<ul style="list-style-type: none"> <li>• Identifiable relationship to value of leasehold property helps clarity.</li> </ul>	<ul style="list-style-type: none"> <li>• A high administrative burden to set up valuation systems.</li> </ul>
Lenders	<ul style="list-style-type: none"> <li>• Will already be familiar with these kinds of valuation considerations related to ground rent.</li> </ul>	<ul style="list-style-type: none"> <li>• Risk of inconsistency across valuations.</li> </ul>

Stakeholder group	Benefits	Costs
Managing agents	None	<ul style="list-style-type: none"> <li>Potential for high dispute volumes, which would need to be managed.</li> </ul>

121. **Small & micro business impact:** Small and micro freeholders and managing agents are likely to face a cost burden due to the need for valuations and the heightened likelihood of disputes. Many smaller operators have limited financial and administrative capacity to absorb repeated valuation expenses, challenge outcomes or defend their position at tribunal. This could strain cash flow and increase operational uncertainty.

122. **Distributional impacts:** The distributional effects of this option would vary significantly across the leasehold sector, as outcomes are directly linked to property values. Leaseholders of higher-value properties may experience proportionately larger ground rent obligations than those in lower-value homes, creating uneven levels of protection and potential perceptions of inequity. Two otherwise similar households and leases could face materially different outcomes.

123. **Risks.** The scale of these risks depends on where the % cap is set and how it is implemented, and they are generally more limited than those under a peppercorn. As with a cash cap, risks of insolvencies and spillovers are present, with severity dependent on the level of the cap. Other risks are presented below.

Risk type	Description	Likelihood (supposing a 0.1% cap)	Impact (supposing a 0.1% cap)	Potential mitigation
<b>Valuation disputes</b>	Difficulties estimating property value may create arbitrary rent differences or trigger disputes over methodology, accuracy, or fairness.	High	High	<ul style="list-style-type: none"> <li>Clear methodology standardised valuation guidance (but cannot eliminate risk)</li> </ul>
<b>Transaction delays</b>	Valuation disputes may stall remortgaging or mortgage approvals, slowing transactions and reducing market certainty.	Medium	High	<ul style="list-style-type: none"> <li>Clear lender guidance.</li> <li>Streamlined dispute routes</li> </ul>
<b>Administrative burden</b>	High operational and administrative workload for agents,	High	Medium	<ul style="list-style-type: none"> <li>Phased implementation. Clear</li> </ul>

	valuers, lenders, conveyancers, and freeholders to evidence, apply and potentially update, valuations.			professional guidance.
<b>Dispute related costs</b>	Increased valuation challenges may raise professional fees which could be passed through to leaseholders. It could also create additional tribunal workload, and slow case handling.	Medium–High	Medium–High	<ul style="list-style-type: none"> <li>• Standardised processes.</li> <li>• Clear escalation pathways.</li> </ul>
<b>Optimism bias</b>	Risk that dispute volumes, administrative burdens, and valuation capacity pressures are underestimated, given uncertainty around lender and consumer behaviour.	Medium	Medium	<ul style="list-style-type: none"> <li>• Sensitivity testing.</li> <li>• Ensuring a robust and responsive monitoring and evaluation plan.</li> </ul>

124. **Public sector costs:** Oversight of valuation methodologies would require clear guidance and monitoring to ensure consistency across millions of leases. Dispute volumes are expected as parties challenge valuation outcomes, increasing caseloads for the tribunals in England and Wales. Enforcement activity would be necessary as public bodies would need to verify compliance with capped rent calculations and intervene in cases involving mis-valuations. Collectively, these pressures would elevate costs across multiple fronts.

125. **Sensitivity analysis:** The impacts of this option are highly sensitive to several overlapping variables. Outcomes depend on the valuation methodology selected and its capacity to reflect localised price variation. The volatility of property values adds uncertainty, as shifts in the housing market could lead to rapid fluctuations in capped rent levels and increase the number of disputes or the need for revaluations. Appeal rates also introduce significant uncertainty: even small increases in challenges to assessed values could create disproportionate strain on tribunals, delay enforcement and undermine confidence in the system. As a result, the option presents a wide range of possible outcomes.

126. **Monetised impacts:** We have monetised the impact of a 0.1% cap, given that was the percentage mentioned in the consultation. As set out in **Table 4.3**, under such a cap, we estimate a value transfer (over the whole life of the lease) to be £8.1bn - £10.8bn.<sup>33</sup> We estimate that this would be a -44% to -52% change of ground rent revenue for freeholders. An estimated 570,000-680,000 leasehold dwellings would benefit immediately from this option. Leaseholders across 2.5m dwellings would benefit over the lifetime of the policy.

127. **NPSV:** Due to the many uncertainties presented in the sensitivity analysis section, an NPSV has not been constructed for this option.

128. **Summary:** This option is not preferred. Although it offers a seemingly proportionate cap by aligning ground rents to property value, the associated complexity, administrative burden for managing agents and freeholders, and dispute risks which could cause more cases being driven to court, make it a low-confidence solution. Against the objectives, the option delivers only partial progress, in that it addresses some affordability concerns (Objective 5a) but performs poorly on achievability, simplicity and predictability, while making little progress towards ending the two-tier system of older and newer leases (Objective 5b). The requirement for valuation exercises at scale introduces uncertainty, slows transactions and creates disproportionate burdens for households, professionals and public agencies.

#### *4.5.3 Shortlist – Considerations regarding the preferred option*

##### **Determining the value of the cap (applies to Option 2 – flat cash cap)**

129. This section sets out the rationale for determining the appropriate monetary value for the universal flat cash cap applied under Option 2. A range of potential levels for the cap were considered. In line with the policy objectives, the level of the cap must ensure that ground rents are reasonable, affordable and proportionate (Objective 5a). The cap must therefore deliver measurable improvements in affordability and mortgageability, be achievable and realistic.

130. The value of the cash cap directly shapes several core elements of the policy's impact. First, it determines the number of leases brought below commonly applied mortgage lender risk thresholds. These thresholds significantly influence mortgageability and saleability and therefore heavily affect the overall effectiveness of the reform. Secondly, the cap level determines the scale of value transfer from freeholders and investors to leaseholders, which in turn affects the proportionality of the intervention.

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<sup>33</sup> This is calculated by comparing the average ground rent in a region (see Table 4) with 0.1% of corresponding median property value, as per the [ONS](#), across our leasehold population.

131. Balancing these considerations requires selecting a cap low enough to meaningfully reduce the consumer harms and frictions for leaseholders, but high enough to avoid excessive disruption or financial stress within freeholder and investor portfolios.

### **Evidence on harms at different ground rent levels**

#### *Lender underwriting thresholds and consumer harm*

132. Analysis of major lender policies<sup>34</sup> shows two widely used risk thresholds: annual ground rent of £250 and annual ground rent above 0.1% of property value. These thresholds are set in response to affordability concerns. Exceeding either threshold can trigger stricter underwriting, reduced lender availability, slower approvals, and in some cases refusals to lend.

133. These thresholds provide a practical and evidence-based benchmark for identifying an effective cap level, which is confirmed by evidence from professional organisations and the HLCG Committee (as set out in **Section 4.3** above). A £250 cap is broadly equivalent to 0.1% of the average flat price in the UK,<sup>35</sup> aligning with lender practice and with the threshold used in the LFRA for ground rent related enfranchisement calculations. Keeping ground rents below this level materially reduces transaction friction, supports mortgage access, and provides an objective indicator of when ground rents remain affordable and proportionate, directly supporting Objective 5a.

134. The previous government used £250 as an illustrative benchmark in the 2023 consultation on ground rent<sup>36</sup> because it was already well-understood by stakeholders: it aligned with the former 'assured shorthold tenancy (AST) trap' threshold and with levels at which lenders commonly applied extra underwriting checks. Although the Renters' Rights Act 2025 has now removed the AST trap, £250 remains a commonly used threshold in the market and retains operational relevance.

#### *Investor and freeholder considerations*

135. Consideration was also given to the financial impacts on freeholders and investors. The previous government's consultation asked respondents about caps at absolute maximum values. The upper financial level mentioned was £250. A cap set at very low levels (for example, £100) would generate a larger value transfer to leaseholders and likely heighten portfolio stress, yet without clearer corresponding evidence of greater consumer benefit on things like mortgageability, relative to a £250 cap. Conversely, a cap set too high (for example, £500) would leave many leases above lender thresholds and would therefore fail to address the main harms the policy seeks to remedy. Ensuring proportionality of impacts and a fair balance between the different interests reflects the objectives, as caps that impose excessive value transfers would undermine

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<sup>34</sup> [Lenders' Handbook - UK Finance Mortgage Lenders' Handbook](#)

<sup>35</sup> In England and Wales, the median price paid for a flat/maisonette for the year ending March 2025 was £245,000 ([Median house prices for administrative geographies](#), ONS (2025)).

<sup>36</sup> [Modern leasehold: restricting ground rent for existing leases - GOV.UK](#)

financial viability and risk insolvency, contrary to the broader aims of a functioning, predictable housing market.

### **Assessment of alternative cash cap values**

136. **Cap above £250:** High cap values would reduce financial impacts on freeholders and investors but would not meaningfully address the core objectives of the policy and harms caused by high ground rents. Many leases would remain subject to ground rents above the £250 and 0.1% property value lender thresholds, leaving key frictions in place. For example, assuming the average flat price, a £500 cap could still leave a typical flat owner paying more than 0.2% of property value, and a £100,000 property could still face ground rent of up to 0.5% of value – levels linked to severe mortgage restrictions.
137. In considering the value of the cap, the Government has sought to ensure a proportionate approach. While both a £250 and £500 cap require redistribution, the profiles of cost and benefit differ materially. As set out at **Tables 4.2 and 4.3** below, a £250 cap transfers an estimated £8.7–£11.4bn of ground rent value (equivalent to a 47–55% reduction in freeholder ground rent income), whereas a £500 cap transfers £4.5–£7.1bn (24–34% reduction). The higher level therefore reduces the scale of value transfer, but at the cost of sharply reducing consumer protection: only 30,000–130,000 leaseholders receive a day one benefit under a £500 cap compared with 770,000–900,000 under a £250 cap. This difference is significant because harms associated with affordability pressures and mortgageability and lender restrictions are likely to arise above the £250 threshold. Targeting intervention at this point therefore maximises protection for households most exposed to detriment, while ensuring the scale of value transfer remains clearly linked to an evidence-based harm threshold. The £500 cap, by contrast, limits redistributive impacts but does so by leaving many affected households without any immediate improvement in their position and exposed to known harms.
138. Such financial levels would therefore fail to meet the requirements of Objective 5a, as they would not materially reduce affordability pressures or transaction frictions and so were therefore rejected.
139. **Cap below £250:** A cap below the £250 range would bring the overwhelming majority of leases below lender thresholds, significantly improving market function, reducing delays and lowering transaction failure rates. This range provides the strongest alignment to the Objective 5a considerations by reducing identified harms, ensuring progress can be tracked against lender thresholds and consumer metrics. Perhaps unsurprisingly, caps significantly below £250 were favoured by leaseholders. 78% of respondents to the previous government's consultation who gave a view on the level of a cap preferred a cap of £100 or less.

140. A very low cap such as £100 or less would virtually eliminate all ground rent risks but would result in effects on freeholders and investment portfolios that the government considers disproportionate given the percentage of total value it would transfer from freeholders to leaseholders, and the significant impacts it would have on freeholders and investment portfolios, while offering only marginal additional benefit to consumers relative to a cap set at £250. In addition, the evidence suggests that reducing the cap substantially below £250 would increase the scale of value transfer from freeholders without delivering proportionately higher consumer benefit to leaseholders. Harms rise sharply above £250 but fall only moderately below that level. So, the lower the cap, the more significant the effect on freeholders, for relatively marginal additional consumer benefits. For this reason, we do not consider caps significantly below £250 as achievable or realistic.

#### *Rationale for selecting £250*

141. The government considers £250 a year to be the appropriate level for the universal flat cash cap for the following reasons:

- a) **It aligns with the widely used 0.1% of property value risk threshold in lender practice.** £250 is approximately equivalent to 0.1% of the average price of a flat in the UK.
- b) **It targets ground rents that give rise to the greatest harm,** with evidence showing that harms escalate significantly where ground rents which are higher than £250. Ground rents below this level tend to have lower impacts on affordability and saleability.
- c) **It provides a clear and easily communicable rule,** supporting consistency across the sector. A single figure across England and Wales avoids the complexity associated with valuation-based approaches and improves enforceability.
- d) **It avoids disproportionate impacts on freeholders and investors.** A lower cap could increase the value transfer from freeholders/investors to leaseholders without delivering proportionate additional consumer benefit.
- e) **It delivers material, well-targeted benefits.** We estimate that between 770,000–900,000 households will benefit immediately from the new £250 cap, and 2.5m over the lifetime of the policy.

142. Together, these considerations form the basis for the selection of £250 a year as a balanced, proportionate and effective cap level, which improves market functioning and consumer outcomes while remaining deliverable at scale and avoiding unnecessary disruption to freeholders and investors.

#### **Consideration of changing the cap over time**

143. The government considered whether the cash cap should increase over time. From the perspective of freeholders and investors, an uprated cap, particularly one linked to

inflation, would reduce the value transfer associated with the reforms and in particular support those investors who use ground rent income to match inflation-linked liabilities.

144. However, such an approach provides limited justification from the leaseholder perspective. Up-rating the cap would create upward pressure on ground rents without delivering corresponding consumer benefit, weakening the policy's ability to ensure rents remain reasonable, affordable and proportionate, thereby undermining delivery of Objective 5a. In particular, linking the cap to inflation risks exposing leaseholders to substantial increases during periods of high inflation. This would reintroduce volatility in affordability and erode the clarity and predictability that underpin the proportionality rationale for a fixed cash cap. Such an approach would not deliver the improvements in affordability envisaged under Objective 5a, nor would it support a coherent pathway toward the end of the anachronism of ground rents and the two-tier under Objective 5b. Over the length of a lease, often several decades or more, the compounding effect of up-rating could recreate a varied and inconsistent ground rent landscape, increasing rather than reducing the disparities between leases granted before and after the GRA came into force.

145. The government also assessed the broader implications of an up-rated cap. Any form of up-rating would introduce additional complexity, making it harder for leaseholders to understand whether demands are lawful, and reducing transparency for prospective purchasers assessing long-term liabilities. These effects run counter to the objectives of improving confidence in leasehold transactions, and reducing barriers to buying, selling or mortgaging leasehold properties.

146. For these reasons, the government concludes that up-rating the cap over time would dilute progress towards achieving both Objectives 5a and 5b. A fixed cap therefore remains the more effective and proportionate approach.

### **Ending the two-tier ground rent system**

147. A cap that remained static in value would address affordability issues and bring rents down in real terms, but legacy terms would remain. To satisfy Objective 5B, government's preferred policy option must include a mechanism to ultimately eliminate ground rents, which would otherwise take hundreds of years for all existing ground rents to expire per the terms of the lease. As set out above, moving to a peppercorn ground rent immediately (**Option 1**) carries unacceptably high risks of unintended consequences for freeholders, leaseholders and the wider housing market. Therefore, for other options, we have considered moving to a peppercorn after a period of time, with the cap in place in the interim.

### **Determining the length of the transitional period**

148. A future move from the £250 cap to a peppercorn ground rent is attractive from both a leaseholder and wider housing market perspective. Eliminating the two-tier system

between older and new leases would support an improved and modernised property market.

149. In line with the objectives, the length of the transitional period must ensure that ground rents become reasonable, affordable and proportionate in a measurable and timebound way (Objective 5a), while also supporting the long-term transition away from legacy ground rents and reducing the two-tier ground rent system (Objective 5b). Introducing a peppercorn cap after a transitional period would achieve the eventual reduction in ground rents, while mitigating the more acute impacts associated with an immediate shift to a peppercorn. Although such a transition to a peppercorn would increase the cumulative impact on freeholders and investors beyond the initial £250 cap, the time period would enable forward planning and management to mitigate some of the most acute effects.

150. On the other hand, a delay in implementing a peppercorn cap would be undesirable to leaseholders. The longer the transitional period, the less meaningful these reforms will be for consumers. The average age of a first-time buyer is 34<sup>37</sup>, which means that a leaseholder purchasing a flat today could expect to pay ground rent well into their 80s if the transitional period were 50 years and they remained in the same home.<sup>38</sup> A very long transitional period would undermine the objectives, as the reforms would not deliver meaningful improvements within the timescale relevant to typical leaseholder tenure, especially for first-time buyers and mortgaged households. Even a 20-year transitional period represents a long horizon from a leaseholder perspective. Purchasers with mortgages, which leaseholders are more likely to have, typically move house within 10 years<sup>39</sup>, and even among owner-occupiers as a whole, the average tenure length is 17.2 years<sup>40</sup>. By contrast, the average tenure for leaseholder owner-occupiers is consistently lower. These distributional considerations weigh against a very long transitional period.

151. Ultimately, any length of transitional period involves trade-offs. To mitigate risks, the most important consideration in determining the length of the transitional period is how much value it leaves with freeholders. Present day financial value has the greatest impact on investors and freeholders and is also the most significant factor shaping their behaviours. This value is influenced both by the length of the transitional period and what happens to ground rents in the interim. A longer transitional period, while helpful to freeholders, simultaneously prolongs the period during which leaseholders must continue paying ground rents and extends the lifespan of a market structure that the government considers unsatisfactory. A transitional period must mitigate risks without unduly delaying consumer benefits.

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<sup>37</sup> EHS 2023-4

<sup>38</sup> *ibid*

<sup>39</sup> *ibid*

<sup>40</sup> *ibid*

152. Against this backdrop, analysis of transitional period lengths demonstrates that shorter periods materially increase the impacts on freeholders, while longer periods do not proportionately reduce them, and therefore do not benefit freeholders to the same degree. Compared to a 40-year period, a 20-year period is estimated to increase impacts by 12-13 percentage points, while extending the transitional period to 60 years provides only modest additional relief, as set out in **Table 4.2**, below.

*Table 4.2 Estimated impacts of alternative transitional periods*

Transitional period	Estimated value transfer from freeholders to leaseholders	Value transfer (2025 prices, 2028 PV)
20 years	-68% to -73%	£12.4bn – £15.1bn
40 years	-55% to -61%	£10.0bn – 12.7bn
60 years	-50% to -57%	£9.1bn – £11.9bn

153. The length of the transitional period should factor in the diversity of financial arrangements across the sector. Those who have invested in ground rents have often done so because of the need to match assets with long-term liabilities. Some investors have lent against future ground rent income with repayment terms spanning decades. The longer any transitional period, the more likely those liabilities will have been met at the point at which the peppercorn cap is implemented. In addition, some institutional investors use ground rents to match liabilities associated with closed pension schemes, many of which will have significantly fewer beneficiaries drawing pensions by the end of a 40-year period. These dynamics strengthen the case for a transitional period that is both realistic in terms of investor behaviour and timebound in progressing toward the eventual elimination of ground rents.

154. In addition, the government also notes that a fixed £250 ground rent will steadily decline in real terms over time, while the potential administrative and market costs associated with ground rents, such as ongoing collection, will not diminish. Given the duration during which ground rents are payable, in some cases the cost of collecting them could eventually exceed the revenue received – meaning that, while freeholders may choose not to collect them, the ground rent lease terms would persist. This reinforces the need for a definitive end point at which ground rents are reduced to a peppercorn cap. This supports the relevant and timebound elements of the objectives by demonstrating that an indefinite continuation of capped ground rents is neither economically justified nor aligned with modern consumer expectations.

155. Having considered all interests and the objectives, the **government concludes that a transitional period is appropriate, and that 40 years represents a balanced, achievable and realistic timeline.** It delivers measurable and timebound

progress toward the eventual peppercorn cap end state (Objective 5b), while avoiding disproportionate impacts on freeholders and maintaining stability across the housing and lending markets.

Table 4.3: Options Assessment – Summary of Monetised Impacts (2025 Prices, 2028 PV)

Policy Option		Peppercorn	Level of Cap			£250 cap, changing to peppercorn in ...		
			£250	£500	0.1%	20 years	40 years	60 years
Value transfer (over whole lease)	Billions	£18.3 – £20.7	£8.7 – £11.4	£4.5 – £7.1	£8.1 – £10.8	£12.4 – £15.1	£10.0 – 12.7bn	£9.1 – £11.9
	Freeholders' loss	-100%	-47% to -55%	-24% to -34%	-44% to -52%	-68% to -73%	-55% to -61%	-50% to -57%
	Freeholders retain	0%	45% to 53%	66% to 76%	48% to 56%	27% to 32%	39% to 45%	43% to 50%
10-year appraisal period	Billions	£5.4 – £6.1	£1.6 – £2.3	£0.1 – £0.7	£1.3 – £2.1	£1.6 – £2.3	£1.6 – £2.3	£1.6 – £2.3
Leasehold dwellings benefitting	Day 1	3.8m	770,000 – 900,000	30,000 – 130,000	570,000 – 680,000	770,000 – 900,000		
	Over policy lifetime		2.5m	2.4m	2.5m	3.8m		
Regional distribution of leasehold dwellings benefitting on day 1	North	1.2m	130,000 – 140,000	2,000 – 6,000	220,000 – 230,000	130,000 – 140,000		
	Midlands	630,000	160,000 – 180,000	7,000 – 30,000	210,000 – 230,000	160,000 – 180,000		
	London/South	1.8m	490,000 – 590,000	20,000 – 90,000	150,000 – 220,000	490,000 – 590,000		

Note: Day 1 caseload impacts have been rounded to the nearest 10,000 and relate to England only. As such, the sum of regional impacts might not add up perfectly to the national impact.

## 4.6 Preferred option and implementation plan

### 4.6.1 Summary

**Preferred option: The government will set the ground rent cap at £250 per year. The cap will remain at £250 fixed in cash terms for 40 years after which ground rents will change to a peppercorn.**

156. The government's preferred option caps ground rents at £250, before moving to a peppercorn 40 years after the cap is introduced. Ground rents would not be permitted to rise above this level, but lower ground rents would be permitted to rise in line with the terms of the lease until they hit the cap, before a peppercorn was introduced.

157. As set out in the options analysis at **Section 4.5**, the £250 cap, when implemented, immediately achieves Objective 5a (ensure that ground rents are reasonable, affordable and proportionate). The change to a peppercorn cap after 40 years satisfies Objective 5b (end the anachronism of ground rents and the current two-tier ground rent system).

158. An immediate peppercorn cap satisfies both Objectives 5a and 5b most effectively. However, as set out in the options analysis, this carries an unacceptably high risk of adverse effects as a result of freeholder insolvencies, and the government considers that it does not strike a fair balance between the interests of leaseholders, freeholders and investors. As evident from Objective 5b, a peppercorn cap is already required for leases granted after the commencement of the GRA. A change to a peppercorn cap after 40 years will bring older leases in line with new leases and will therefore satisfy Objective 5b.

159. This option will be achieved through amending the GRA through the Bill.

### **SMART objectives analysis for the preferred option**

160. This section tests the preferred option against the two SMART policy objectives set out at **Section 4.4**.

### **Objective 5a – Ensure that ground rents are reasonable, affordable and proportionate**

161. **Specific:** The preferred option introduces a statutory £250 cap on ground rents, fixed in cash terms for 40 years, after which all capped ground rents change to a peppercorn. Ground rents already below £250 may rise in line with lease terms until reaching the cap, after which they are capped. This directly addresses the detriments arising from high and escalating ground rents and ensures that no leaseholder pays more than the capped amount. The cap applies to older long residential leases granted before the GRA came into force (subject to exceptions).

162. **Measurable:** Success will be tracked through indicators set out in the overarching **Monitoring and Evaluation Plan (see Section 4.7.13)**. Indicative measures include:

- The cessation of the vast majority of ground rents above £250 a year;
- reduced affordability pressures linked to ground rents;
- increased consumer confidence in and satisfaction with leasehold ownership;
- changes in leasehold transaction volumes and mortgage accessibility where high ground rents previously acted as barriers; and
- enforcement activity by Trading Standards and outcomes from tribunal proceedings.

163. **Achievable:** The measure will be implemented through the Bill, providing a clear legislative route. Pre-legislative scrutiny of the draft Bill provides an opportunity to ensure practical deliverability. It is simple and deliverable, without the need for complex calculations or valuation of individual properties

164. Enforcement bodies already have operational experience applying the GRA regime, meaning the administrative framework, enforcement mechanisms and guidance are familiar. We will monitor additional enforcement volume.

165. **Realistic:** The approach is realistic and proportionate. A £250 cap is approximately equivalent to 0.1% of the value of the average flat, ensuring ground rents remain affordable while still allowing some value to be retained by freeholders (estimated 39-45% of total ground rent value over the lifetime of the policy). Evidence from modelling and stakeholder engagement confirms that this level targets known harms with affordability, mortgageability and transactions effectively, without generating the insolvency risks associated with an immediate shift to a peppercorn cap.

166. **Timebound:** The draft Bill has been published for pre-legislative scrutiny. Following Royal Assent of the Bill, secondary legislation will need to be made, after which the cap will come into force, with implementation expected in 2028. Ground rents will remain capped at £250 for 40 years from the commencement date, after which all affected ground rents will convert to a peppercorn. Progress will be monitored regularly throughout the implementation and transitional phases as part of the programme-wide evaluation (see **Section 4.7.13**).

167. **Overall fit: Strong.** The option directly meets **Objective 5a**, ensuring all ground rents are reasonable, affordable and proportionate.

### **Objective 5b – End the anachronism of ground rents and the current two-tier ground rent system**

168. **Specific:** The preferred option delivers implementation of a peppercorn cap, with all capped ground rents changing to a peppercorn after 40 years. This eliminates financial ground rents in the long term and aligns older leases with the peppercorn cap already applied to new leases under the GRA. The measure therefore removes

the structural two-tier system between older and new leases and supports the wider modernisation of the residential property market.

169. **Measurable:** Because Objective 5b is about reaching an end-state – the removal of financial ground rents – success is ultimately binary: whether all affected ground rents become a peppercorn after the transitional period of 40 years. The main metric will therefore be the proportion of legacy (pre-GRA) leases that are subject to a peppercorn ground rent after 40 years.
170. During the transitional period, progress can be tracked through trends in ground rent levels and their distribution, and changes in the cost gap between legacy and new peppercorn ground rents.
171. **Achievable:** The implementation of a peppercorn cap will be delivered through the Bill. The government has established administrative and enforcement structures under the GRA, which provides a proven operational basis for this reform. A 40-year transitional period gives freeholders and investors the time to adjust and allows them to plan for the removal of financial ground rents, supporting a manageable and deliverable shift to a peppercorn cap.
172. **Realistic:** The implementation of a peppercorn cap after 40 years is realistic given market conditions and stakeholder feedback. While an immediate peppercorn cap would meet Objective 5b more quickly, evidence shows this would result in very high levels of value transfer from freeholders/investors to leaseholders, creating significant risks of freeholder insolvency and associated impacts on building safety and associated leaseholder outcomes. The 40-year transitional period retains sufficient value in ground rents to support system stability, while still delivering full elimination of financial ground rents. This balances proportionality and protection of leaseholders with the need to manage transition risks responsibly.
173. **Timebound:** The transitional period is clearly defined: the £250 cap applies from commencement of the measures and remains fixed for 40 years, after which all affected ground rents will become a peppercorn. This provides a clearly defined timetable for implementation and monitoring, allowing progress to be assessed at key points during the transitional period and at the final convergence to a peppercorn cap.
174. **Overall fit: Strong.** While not doing this immediately, the preferred option ultimately satisfies **Objective 5b** by reducing the disparity between the two systems as ground rents become cheaper in real terms, before guaranteeing the eventual abolition of financial ground rents and ending the two-tier system between older and new leases.

## Exemptions

175. The government further considered a number of related questions on whether there should be exemptions from a ground rent cap and leases which might need to be treated differently. However, we are clear that any exemption must not undermine the strategic benefits of these reforms and must be limited in scope.

- **Specific financial or social arrangements:** The GRA includes certain exemptions where the amount of ground rent as set out in a lease is permitted (instead of a peppercorn cap). These exemptions (business leases, community-led housing and home finance plans) allow for certain financial or social arrangements that rely on ground rent being charged to continue. In addition, as with the GRA, this will not affect the rent that shared owners pay on the share of their property that is owned by their landlord. The draft Bill mirrors these exemptions to ensure those arrangements are not disrupted.
- **Leases granted for no premium:** Leases where people pay a rent on a long-term basis (analogous to a long-term rental) will be exempt from this policy. This is because they are not regulated leases under the GRA. Under these leases, the sole payment for the home is the ground rent, and therefore capping this ground rent would be unjustified. This also applies to lease extensions for houses under the Leasehold Reform Act 1967 under which 'modern ground rent' is payable for 50 years.
- **Negotiated (quid pro quo) leases:** There are examples of leases where the leaseholder agrees to pay a higher ground rent in exchange for a lower premium – for instance, if a leaseholder negotiated a £10,000 reduction in the purchase price in return for £250 extra ground rent payment per year. Provision for such leases was included in the LFRA and was determined to be lawful in judicial review proceedings in 2025. The government is considering whether the Bill on introduction should contain provision on this type of lease. We would welcome evidence on this as part of the pre-legislative scrutiny process. Such an exemption must not undermine the strategic benefits of these reforms and therefore must be limited to genuine cases where leaseholders have actively chosen to pay higher ground rents.
- **Intermediate leases:** The draft Bill includes provisions relating to intermediate leases. These concern situations where homeowners pay ground rent to an intermediate landlord who then passes this ground rent on to a superior landlord or freeholder. These provisions will reduce the obligations of intermediate landlords to pay ground rent when their income from ground rent is reduced. This will avoid unnecessary disruption to existing arrangements and is particularly important in retirement housing where many providers use intermediate landlords to provide services. These proposals will not affect the way the cap affects ordinary residential leaseholders.

## Enforcement

176. Enforcement of the provisions will be applied in the same way as under the GRA. Local weights and measures authorities (Trading Standards) and district councils

which are not weights and measures authorities will be responsible for enforcement. Leaseholders can also approach the First-tier Tribunal in England or the Lease Valuation Tribunal in Wales to recover any wrongfully paid ground rent. Drawing on a successful enforcement model will help ensure effective application of the policy, while achieving parity with newer leases as set out in Objective 5b.

## **Implementation**

177. The government intends to enact these proposals through primary legislation and, subject to this process, aim to implement them in 2028.
178. Given the widespread and recognised harms of ground rents, the consensus on the need for reform, and precedent set by the GRA and its successful implementation, the government does not consider it necessary to trial or pilot the cap before implementing it.

## 4.7 NPSV: monetised and non-monetised costs and benefits

### 4.7.1 Impact Assessment Approach

179. The main monetised impact presented in this chapter concerns the transfer from freeholders to leaseholders resulting from a cap on ground rents. We approximate the change in asset values by calculating the PV of the stream of ground rents (above the proposed caps) for the remainder of the lease term. We present this estimated impact for each option alongside the expected change in cash flow between leaseholders and freeholders over the 10-year appraisal period. For the presentation of total costs and benefits across all the reforms in the impact assessment over a 10-year appraisal period, the expected change in cash flow over the 10-year appraisal period is used (to do both would involve double counting). We have also monetised the potential housing market benefits of the preferred options from fewer transactions falling through due to problems related to ground rents. The assumptions underpinning these calculations are presented in **Section 4.7.12** and in the **Technical Annex**.

180. While we have monetised the main costs and benefits, there are other benefits and costs that have not been monetised. They have been outlined below.

181. An updated impact assessment will be published alongside the Bill on introduction, reflecting evidence from stakeholder feedback as well as insights gained through pre-legislative scrutiny of the draft Bill.

182. All figures are presented in 2025 prices, with a PV year of 2028, discounted in line with standard Green Book guidance (at a rate of 3.5%, declining after 30 years). Impacts assume a 2028 implementation year. All monetised figures cover both England and Wales, however the main source of evidence used to estimate the impact of the reforms (the EHS) is not available for Wales. The impact in Wales has been estimated using alternative data sources where possible, though there remains a higher level of uncertainty for figures concerning Wales. Modelling approach details are set out in the **Technical Annex**.

### 4.7.2 Costs and benefits to households and businesses calculations

183. **Table 4.4** presents the breakdown of costs and benefits associated with the ground rents reform.

184. The NPSV of the policy over the appraisal period (including transfers which net off) is calculated as £76.5m (£34.3m - £118.2m). The EANDCB is £95.6m to £145.3m and the EANDCH is -£102.5m to -£151.3m.

Table 4.4: Costs and benefits to households and businesses (10-year appraisal period)

Impact	Groups impacted	Direct/indirect
<b>Benefits</b>		
Savings to leaseholders from reduction in ground rent payments  £1,564.0m - £2,347.0m reduction in ground rent payments over the 10-year appraisal period (transfer) <sup>(1) (2) (3)</sup>  Note the reduction in ground rent payments over the lifetime of the lease / asset value impact is £10.0bn - £12.7bn (transfer) <sup>(2) (3)</sup>	Leaseholders  <i>This monetised benefit represents a transfer. There will be an equal cost to freeholders and the overall impact on the NPSV will be zero.</i>	Direct
Improved mortgageability and saleability  Of which, from fewer transaction fall-throughs (£80m)	Buyers and sellers	Direct
Consumer confidence and wellbeing	Leaseholders	Direct
Increased certainty and reduced risk of disputes and consumer liability	Leaseholders	Direct
Reduced complexity	Conveyancers, valuers, property and managing agents	Direct
Reduced risk of consumer dispute and professional liability	Conveyancers, valuers and managing agents	Direct
<b>Costs</b>		
£1,564.0m - £2,347.0m reduction in ground rent payments over the 10-year appraisal period (transfer) <sup>(1) (2) (3)</sup>  Note the reduction in ground rent payments over the lifetime of the lease / asset value impact is £10.0bn - £12.7bn (transfer) <sup>(2) (3)</sup>	Freeholders  <i>This monetised cost represents a transfer. There will be an equal benefit to leaseholders and the overall impact on the NPSV will be zero.</i>	Direct
Familiarisation costs (£3.5m)	Leaseholders, freeholders, managing agents, legal professionals, lenders, valuers and insurers	Direct
Compliance costs	Freeholders and managing agents, institutional investors, legal professionals, lenders, surveyors and valuers	Direct
Freeholder insolvency spillovers	Leaseholders	Direct
Individual business spillovers	Freeholders	Direct
Insolvency risk for individual businesses	Freeholders	Direct
Reduced investor demand	Investors	Indirect
<b>Total benefits</b> <sup>(1) (3)</sup>	<b>£1,644.0m - £2,427.0m</b>	
<b>Total costs</b> <sup>(1) (3)</sup>	<b>£1,567.5m - £2,350.5m</b>	
<b>NPSV</b> <sup>(2)</sup>	<b>£76.5m (£34.3m to £118.2m)</b>	
<b>EANDCB</b> <sup>(1) (3)</sup>	<b>£95.6m - £145.3m</b>	
<b>EANDCH</b> <sup>(1) (3)</sup>	<b>-£102.5m - -£151.3m</b>	

Notes:

- (1) For consistency with the other impacts in this table, the summary metrics use ground rents transfer value relating to the reduction of ground rent payments over a ten-year appraisal period. The lifetime asset value impact estimated to be £10.0bn - £12.7bn.
- (2) A transfer is a redistribution of resources between two groups, where one group's loss is another group's gain. Transfers therefore net out in the NPSV.
- (3) The range shown here reflects two different adjustment methods to the underlying EHS data on ground rents. Further sensitivity analysis around other modelling assumptions are set out in the impact assessment.

#### 4.7.3 Costs and benefits to households' calculations

##### Benefits

185. **Savings to leaseholders from the ground rent cap (direct)** - Leaseholders who would have otherwise paid ground rent to their freeholder will benefit from a transfer over the lifetime of the policy. As per Table 2, we estimate this benefit to leaseholders will total £10.0bn - £12.7bn over the lifetime of the policy (2025 prices, 2028 PV).

186. The modelling approach underpinning this is detailed in the **Technical Annex**. It remains broadly unchanged from the December 2023 *Ground Rent Consultation Impact Assessment*<sup>41</sup> in approach: transfers are calculated as the expected change in the discounted and deflated cash flow of ground rent from leaseholders to freeholders over the lifetime of the policy. To achieve this, the leasehold population is segmented into distinct groups based on region, property type, and ground rent type (i.e. high or low in value, fixed or escalating over time etc). The modelling assumptions this requires are detailed in the **Technical Annex**, and **Section 4.7.12** presents extensive sensitivity analysis around our estimates. Notable changes in data and assumptions relative to the *Ground Rent Consultation Impact Assessment* are as follows:

- Routine changes such as updating the price year to 2025 and the PV basis to 2028, updating data, such as Gross Domestic Product (GDP) deflators, inflation forecasts, His Majesty's Land Registry (HMLR) data on lease lengths, and using the latest data from the EHS.
- Incorporating consultation feedback into the modelling assumptions. This includes consideration of the prevalence of variable ground rents and frequency of review, which increases the estimate of the impact of the transfer from freeholders to leaseholders.
- Improvements to the accuracy of the underlying data. The analysis uses estimates of ground rents from the EHS. As noted in the impact assessment for the ground rent consultation, and in the latest EHS leasehold experience fact

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<sup>41</sup> [Consultation Impact Assessment - Modern leasehold restricting ground rents for existing leases](#)

sheet, there are limitations to this information. To address this, the department has carried out an extensive exercise to verify a sample of self-reported ground rents in the EHS sample by checking against lease documents registered to the same address via HMLR. As a result of this work our overall estimate of ground rents paid in England has reduced, although the median ground rent is less affected. The most notable reduction occurs in the top 20% of ground rents.

187. Although this is a monetised benefit, it represents a transfer. This means (i) there will be an equal cost to freeholders and (ii) the overall impact on the NPSV will be zero.

188. **Consumer confidence and wellbeing (direct)** - Clear, capped ground-rent liabilities are expected to improve leaseholders' sense of security by removing uncertainty about future costs. This should reduce stress and anxiety, strengthen confidence in long-term affordability and planning. A single statutory maximum also makes liabilities easier to understand, enabling leaseholders to engage more confidently with lenders and conveyancers and reducing the likelihood of stressful delays or failed transactions linked to complex ground-rent terms. *Note:* A minority of leaseholders may face costs if a freeholder becomes insolvent and cannot meet statutory or contractual obligations (e.g. certain building-safety or management functions). The incidence and scale vary by freeholder business model and are not monetised here (see **paras. 200 – 204**).

189. **Improved mortgageability and saleability (direct)** - A single statutory maximum gives leaseholders clearer, capped ground-rent liabilities, which in turn makes it easier for lenders to assess affordability and approve mortgages. For leaseholders of affected leases, this should mean significant time cost saving as a result of faster transactions, lower costs (due to fewer rounds of legal/valuation queries), and a reduced risk of lending refusals or fall-throughs where high, complex or escalating terms previously triggered pauses. We estimate that the latter will save buyers and sellers around £80m (£40m-£120m) across the ten-year appraisal period from a reduction in transactions that fall-through (see below for details).

190. In addition, buyers will gain confidence in the long-term affordability of the home, while sellers benefit from stronger buyer demand and less need to discount to overcome ground-rent concerns. Overall, leaseholders are more likely to have access to a wider pool of lenders, complete sales more quickly, and achieve values that are not undermined by contractual complexity related to ground rent.

191. We have conducted analysis that looks at the specific channel of mortgage-related fall-throughs, potentially attributable to high ground rents. This analysis is outlined in the **Technical Annex**. It finds that a reasonable estimate for the number of additional

transactions per year due to the ground rent cap is around 5,000 to 15,000<sup>42</sup>. Assuming there are around 1.1m residential property transactions per year<sup>43</sup>, this represents a 0.5% to 1.4% increase above current levels and would save buyers and sellers £80m (£40m-£120m). For this channel we expect this to be a potential overestimate, but this does not account for wider chain related issues that are discussed below.

### *Wider chain impacts*

192. For this specific channel (mortgage-related fall-throughs attributable to high ground rents), we consider our assessment to be an overestimate. Not all leaseholders with ground rents of £250 or more will necessarily face mortgage-related issues – this will be dictated by the combination of property value and ground rent for individual leaseholders.

193. That said, we are not explicitly accounting for wider chain impacts in the above. According to the Ground Rent consultation impact assessment: *“Research shows that selling leasehold properties takes longer than freehold equivalents, and that delays increase stress and the likelihood of fall-throughs. Leasehold transactions are estimated to account for 20% of annual transactions across England and Wales (approximately 260,000 transactions) and research further indicates that delays to leasehold sales within broader chains of transactions can directly affect 520,000 home movers a year.”*<sup>44</sup> This means there are likely additional fall-throughs prevented as a result of addressing mortgage-related fall-throughs attributable to high ground rents for leaseholders.

194. In this context, an increase in transactions should, in theory, support additional housing supply, since the supply of new homes is related to the overall level of demand and transactions. We have not quantified this at this stage. These impacts would also mitigate potential negative impacts arising from uncertain business conditions or reduced investment. The GRA banned the use of financial ground rents for new leases, so the viability of new homes is unlikely to be affected by the cap.

195. On top of this, there are wider benefits associated with preventing fall-throughs, including:

- a. **Opportunity cost** – purchasing a property has significant additional non-monetary time costs (e.g. search time, travel, time off work to view properties). This time could have been used for other productive ends, which has not been considered in this analysis; and

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<sup>42</sup> See the technical annex for full details

<sup>43</sup> Calculated in February 2026 using the 2020-21 to 2024-25 average for England and Wales, Table 1: [Monthly property transactions completed in the UK with value of £40,000 or above - GOV.UK](#)

<sup>44</sup> [Consultation Impact Assessment - Modern leasehold restricting ground rents for existing leases](#)

- b. **Effects of housing market inefficiencies** – long-term sale difficulties (i.e. where sales fail over multiple attempts) are likely to have much more significant negative impacts on individuals than one-off isolated sale failures. Families may become stuck in a property which may not meet their needs (either in terms of location or design). This can mean missing employment opportunities, longer commutes, or living in an overcrowded property.

196. While these wider benefits have not been monetised in this impact assessment, we plan to examine them further ahead of publishing a final impact assessment for the Bill as introduced.

197. **Increased certainty and reduced risk of disputes and consumer liability (direct)** – The cap will provide transparency and clarity over leaseholders' current and future ground rent liabilities. This will in turn benefit conveyancers, valuers, property and managing agents when valuing property, securing finance, and undertaking other tasks crucial to progressing property sales (professional sector benefits are set out in further detail at **paras. 205 and 206**).

198. **Interaction with LFRA provisions:** Our preferred option will reduce enfranchisement premiums for most leaseholders paying ground rent. The LFRA contains provisions which will cap ground rents for the purposes of calculating enfranchisement premiums at 0.1% of property value.<sup>45</sup> The caps on ground rent will influence the calculation of the Term, which is one part of the overall premium. To some degree the caps will overlap for those leaseholders who would have enfranchised during the appraisal period. For example:

- a. Those leaseholders who would have enfranchised with counterfactual ground rents above 0.1% of the freehold vacant possession value, but lower than £250, would have no additional benefit for the first 40 years of the Term calculation. However, if the lease is longer than 40 years those leaseholders would additionally benefit from their Term calculation taking into account £0 ground rent from year 40 to the end of their remaining lease.
- b. However, those enfranchising with ground rents below 0.1% of FHVP but above £250 would additionally benefit from the £250 cap in the Term calculation for the first 40 years in addition to the benefit of £0 ground rent being applied from year 40 onwards.
- c. Those leaseholders that would not have enfranchised during the appraisal period would not have benefitted from the 0.1% cap at all, and for this group the £250 cap impacts are all additional.

199. This draft impact assessment does not quantify this interaction at this stage, but due to this overlap it would be an overestimate to sum the impacts across the two impact

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<sup>45</sup> [Addendum to Leasehold and Freehold Reform Act 2024 Impact Assessment](#), 2025

assessments. In addition, the figures are based on different price bases, modelling assumptions and input data.

## Costs

200. **Freeholder insolvency spillovers (direct)** - In some cases, if a freeholder becomes insolvent (e.g. where they cannot fund remediation or ongoing obligations), leaseholders may face disruption to building management functions, administrative burdens, uncertainty over insurance and/or management, or the need to engage alternative short term arrangements and longer term solutions such as freehold or right to manage arrangements. The incidence and scale vary by building and freeholder model, so this is not monetised here. (See also **paras.200-204**).

### *4.7.4 Costs and benefits to businesses calculations*

#### **Freeholders and investors**

201. **Loss of ground rent income (direct)** - Freeholders who would have otherwise collected ground rent from leaseholders will see a loss of income over the lifetime of the policy. As per **Table 4.3**, we estimate this will total £10.0bn - £12.7bn (2025 prices, 2028 PV). Although this is a monetised cost, it represents a transfer, meaning (i) there will be an equal benefit to leaseholders and (ii) the overall impact on the NPSV will be zero. The methodology underpinning this is set out in the **Technical Annex. Section 4.7.12** presents extensive sensitivity testing around our transfer estimate. The initial reduction in cashflow is felt directly by freeholders, but the economic effect is then transmitted onwards to any investors whose exposure to ground rent is indirect. Institutional investors holding ground-rent-backed assets will experience reductions in the long-term value of their holdings. The largest investments in ground rents directly are in pensions insurance; we estimate that less than 10% of identified ground rent investment is in retail schemes open to the public. We have not monetised the losses in asset value that individual institutional investors may experience as a result of the preferred option, although, as set out above, we expect £10.0bn - £12.7bn worth of ground rent assets in total to be lost in transfer to leaseholders. The significance of the losses for individual investors will depend on portfolio characteristics on a case-by-case basis, including average ground rent levels, escalation structures, and exposure across different asset classes. Individual ground rent funds will see the biggest losses, as will investors with high average ground rents in their portfolios or reliance on escalators. However, those with an average ground rent below the cap will retain significant value. Overall, our preferred option leaves between 39% to 45% of the total value in ground rents with freeholders, which will be reflected in investment values.

202. **Individual business spillovers (direct)** - Freeholders and investors may see additional costs relating to business management and operational pressure in light of the direct loss of ground rent income. The cap restricts the ability of those freeholders

and investors heavily dependent on ground rent income to rely on this to support liquidity or cross-subsidise operations. This may create strategic uncertainty, particularly for smaller or highly leveraged freeholders, and could result in retrenchment, reductions in investment, or changes to their approach to portfolio management. For portfolios where debt is secured against future income streams, the cap may require renegotiation of loan covenants. These impacts are not monetised, as they vary between investors and depend on the structure of individual portfolios.

**203. Reduced investor demand (indirect)** - A fixed cap reduces the long-term income profile of ground-rent-backed assets, potentially lowering market demand for investors seeking to exit investments. Freehold/ground rent market trading activity may decline as some investors reallocate capital to asset classes with more predictable, inflation-linked returns. This effect is not monetised due to variation across investors and product types.

**204. Insolvency risk for individual businesses (direct)** - The long-anticipated nature of ground rent reform, together with clear advance notice before commencement, clarity of the financial value of the cap, and long transition to a peppercorn is expected to mitigate the risk of sudden financial shocks for freeholders. Nonetheless, intervention in ground rent terms creates a risk that some freeholders find it more difficult to meet ongoing obligations, particularly where they rely heavily on ground rent income to fund other liabilities, including debt service, building safety related expenditure, or operational costs. In a minority of cases, this, may cause insolvency. We have not monetised the insolvency risks, as the effect of the reforms will vary significantly between freeholders based on the level of ground rent charged, escalation formulas, and the composition of the wider portfolio.

**205.** As set out above, government acknowledges that the cap may create financial pressure for certain freeholders and could, in some cases, contribute to insolvency where the freeholder is unable to fund statutory or contractual obligations. If a freeholder does become insolvent and goes on to liquidate, the freehold interest will escheat, though the leasehold interests will remain. This may in some cases result in costs or administrative burdens falling on leaseholders or local regulators, for example where alternative arrangements must be found for building management. This is because leaseholders do not have the right to do works to the common parts of the building without obtaining a Right to Manage (RTM). They may face additional costs for remediation (though they will be able to access the service charge account/collect service charges if an RTM is formed and, in some cases, such as for cladding remediation, can apply for government funding). These risks exist under the baseline but may be exacerbated by the intervention. Government will carefully monitor the effect of the reforms, including any emerging evidence of freeholder impact.

**Property professionals** (including valuers, property and managing agents, conveyancers)

## Benefits

206. **Reduced complexity (direct)** - Under the baseline, professionals routinely interpret diverse ground rent mechanisms, including “doubblers” and inflation linked clauses, that the CMA has flagged as problematic and, in some cases, linked to difficulties selling or remortgaging. The preferred option’s single statutory maximum removes much of this complexity. Although below cap rents may continue to uplift under existing escalation terms until they reach the ceiling, the simplification benefit is expected to increase as more leases are drawn into the cap over time. This may materialise differently for different types of property professional:

- **Conveyancers:** Less time may be spent reviewing bespoke escalation clauses and explaining liabilities to clients. There may also be fewer lender queries and where “doubblers” or RPI linked terms had previously raised mortgageability concerns, supporting clearer reports on title and quicker exchanges.
- **Valuers:** A uniform cap reduces valuation uncertainty where complex ground rent terms previously depressed marketability or triggered lender caution.
- **Property and managing agents:** Standardised ground rent rules may simplify billing templates and leaseholder communications, and over time might lower complaint driven casework tied to unclear or unfair terms.

207. **Reduced risk of consumer dispute and professional liability (direct)** - CMA findings link complicated, escalating ground-rent terms to consumer detriment, including barriers to selling or remortgaging and potential mis-selling. A single statutory maximum is expected to streamline advice on future liabilities and limit the use of terms the CMA has challenged, lowering the likelihood of complaints and negligence claims against conveyancers, valuers and managing agents.

208. Additional costs are primarily familiarisation and compliance costs as set out below.

### *4.7.5 Administrative, familiarisation and compliance costs for preferred option*

#### **Minimising administrative burdens of complying with the regulation**

209. The approach we are taking, of a flat cash cap set in legislation, minimises the compliance costs to business. The cap will take effect at one point and will not change until a peppercorn is introduced, as such the preferred option does not create significantly greater administrative burden relative to a flat £250 cap in perpetuity. Setting a financial limit means businesses will not have to calculate the cap based on property prices or indexes, and there is no ambiguity as to whether a ground rent is higher or lower than the cap. As the cap is static, the majority of the burdens and administrative costs to business occur only once rather than on an ongoing basis. We expect the burdens to be minimal and have set these out below.

210. As part of work on the wider reforms included in the draft Bill, we will work with industry and consumer groups to ensure that developers, lenders and property professionals are preparing for the cap. Once the final Bill is underway, we will start to engage consumers directly to make them aware of the cap.

### **Familiarisation, implementation and compliance costs**

211. Leaseholders, freeholders, managing agents, legal professionals, lenders, valuers and insurers could incur time costs to familiarise themselves with, understand and comply with the regulations. Where appropriate, familiarisation costs have been monetised and are estimated below.

212. When the new regulations are introduced, stakeholders will face some initial implementation costs. These may be incurred as familiarisation costs, for example:

- The time cost of reading and understanding the new legislation.
- Costs of disseminating information through training materials and briefings.

213. There will also be 'day-one' compliance requirements and changes to business practices, including getting agreement to changes, testing and implementing them. For example, for freeholders<sup>46</sup> this may be:

- Lease identification: reviews to confirm which leases are in scope.
- System updates (if required): e.g. customer portals, or accounting settings to recognise the statutory cap.
- Rent collection adjustments (where relevant): updating standing orders/direct debits and demand schedules.
- Document refresh: updating standard packs, and any internal guidance or training.
- Public facing information: refreshing websites or notices to reflect the cap.
- Stakeholder communications: notifying customers and handling queries during the initial implementation period.

214. Where it is expected that substantive familiarisation and/or implementation costs will fall on a group, this has been estimated based on the time and cost of reading the legislation:

- Familiarisation costs can be monetised by calculating the total time individuals spend reading the new policy and valuing time using a representative wage (either the average wage for their group or a wage at which they would be able to employ someone to do it for them). All wage data is from the 2025 Annual Survey of Hours and Earnings (ASHE).

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<sup>46</sup> Not all freeholders will undertake all activities; the scale and duration will depend on portfolio size, existing systems, and current ground rent practices.

- We have produced an estimate based on the draft Bill – taking the total word count of clauses and Schedules relating to *Ground Rent Reform* (c.4k). Taking an average reading pace of 100 words per minute<sup>47</sup>, gives a reading time of 0.6 hours. We add an assumption of 30 minutes for other time costs (e.g. finding, acquiring, understanding, communication, etc.), leading to a total familiarisation time of 1.1 hours. For a low estimate of the reading time, we apply 25% reduction (0.8 hours) and for a high estimate we apply a 25% uplift (1.4 hours).
- As per other sections of this impact assessment, all costs are presented in 2025 prices. We uprate the wage estimates by 1.3 to reflect non-wage costs, in line with previous impact assessment approaches. We assume familiarisation costs are transitory, one-off costs occurring in the first year of implementation. For new entrants into the sector, the familiarisation cost is assumed to be minimal as the new regulations replace the existing framework.
- Unless otherwise stated, familiarisation costs are calculated by multiplying a standard familiarisation time of 1.1 hours by the relevant representative wage, adjusted to 2025 price levels and inclusive of non-wage cost factors. This per-unit cost is then scaled by the applicable group size.
- No economies of scale are assumed, and costs may be lower if firms or trade bodies share guidance or training.
- The year of implementation of the reforms, and thus the year in which familiarisation costs are shouldered, has not been confirmed and is subject to consultation. For this analysis, we assume this to be 2028.

215. Taken together, the total familiarisation cost across this reform is estimated to be approximately £3.5m. The breakdown of this total by affected group is set out below and summarised in **Table 4.5**

### **Familiarisation and implementation costs (direct)**

216. Table **4.5** summarises the costs of familiarisation and implementation by group, which are set out in more detail below.

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<sup>47</sup> Using Microsoft Word, we determined the Flesch Reading Ease score of the draft Bill to be 38.9 and the Flesch-Kincaid Grade level to be 13.6. These measures are consistent with ‘difficult’ and ‘technical’ reading material. Therefore, a slower-than-average reading speed of 100 words per minute has been used in line with previous government impact assessment approaches.

Table 4.5: Breakdown of monetised familiarisation and implementation by group (over the 10-year appraisal period)

Group	Cost
Freeholders	£2.5m
Managing agents	£145k
Legal professionals	£408k
Lenders	£25k
Valuers	£414k
Building and home insurers	£16k
<b>Total</b>	<b>£3.5m</b>

### Leaseholders

217. While the onus will be on freeholders and managing agents to comply with, and implement, the cap, leaseholders who pay more than £250 in ground rent at the point of implementation should be familiar with the cap on their ground rents. Communications and guidance issued by the government, LEASE, mortgage brokers, or stakeholder or campaign groups will play a key role in educating leaseholders and a basic level of awareness about the cap will likely be sufficient for most leaseholders to understand their rights and identify prohibited payments. In these cases, the burden to leaseholders is not equivalent to full familiarisation with the relevant parts of the draft Bill.

218. In cases of non-compliance, where the freeholder continues to charge a ground rent above the cap, leaseholders will need a fuller understanding of their rights in order to challenge the charge and approach the tribunal if necessary. In these cases, familiarisation costs may be non-negligible on a case-by-case basis, but we have not monetised these due to insufficient evidence to support reliable modelling and the scale of non-compliance is uncertain.

### Freeholders

219. Freeholders will need to comply with the cap on ground rents. It is assumed that those that charge leaseholders more than £250 in annual ground rents will need to familiarise themselves with the requirements arising from legislation. There is no data about the number of freeholders that charge ground rents at or above a given amount. As a proxy for this, we multiply the estimated number of landlords, c426k (c240k – c613k) – by the percentage of leasehold dwellings in England that are expected to benefit from the cap immediately (770,000<sup>48</sup> out of 4.8m dwellings<sup>49</sup>, 16%) – giving an estimate of 68k (38k – 98k) freeholders. This is an estimate that is

<sup>48</sup> The estimated number of leasehold dwellings impacted on day 1 per the adjustment method AA1, as outlined in the Technical Annex.

<sup>49</sup> [Leasehold dwellings, 2023 to 2024 - GOV.UK](#)

subject to significant uncertainty<sup>50</sup> and actual costs may be lower if landlords rely on economies of scale, trade bodies or managing agents for support. This is likely to be an overestimate: evidence suggests that escalating leases are more likely to be owned by larger investors with portfolios of multiple leases – see **paragraphs 268 and 269**. On the other hand, it is likely that multiple individuals at larger investment firms will need to familiarise themselves with the regulation and, over the appraisal period, the cap will apply to additional leases not captured in the 770,000, as ground rents with escalation clauses meet the cap. We therefore consider this to be a reasonable and proportionate approach.

220. We do not have data for the average wage of a freeholder. As a proxy, we use the mean hourly wage for property, housing and estate managers per ASHE data (£25.12) and multiply this by the reading time, applying the 1.3 wage uplift gives a central cost estimate of £36.57 (£27.43 - £45.72) per freeholder. Assuming a group size of 68k (38k – 98k) freeholders yields a total cost of £2.5m (£1.0m - £4.5m).

### *Managing agents*

221. Where appointed by the freeholder, managing agents will be responsible for implementing the cap in practice and dealing with leaseholders' queries. Not all managing agents will need to familiarise themselves with the reform, but we assume that those employed by freeholders charging ground rents at or above £250 will. As with freeholders, there is no direct data on the number of managing agents responsible for leases affected by the cap. To estimate this number, we apply the same methodology as for our estimate of the number of freeholders that need to be familiar with the legislation – by multiplying the England and Wales group size by the percentage of leasehold dwellings in England that are expected to benefit from the cap immediately (16%).

222. Earlier in this impact assessment, the number of managing agents in England and Wales is estimated to be around 25k using data from The Property Institute (TPI), The Property Ombudsman (TPO) and the Property Redress Scheme (PRS). Taking c16% yields an estimate of 3,975 individuals. We use the mean hourly wage for property, housing and estate managers per ASHE data (£25.12). Applying the wage uplift gives

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<sup>50</sup> We have been able to partially identify the number of unique landlords and we have been able to identify the number of freeholds titles owned per company. Classifying anything other than a “private individual” as a freeholder company, there are 114,151 freeholder companies owning 453,567 unique freehold titles – an average of 3.97 titles per company. This figure for ‘unique’ freehold titles ensures that each freehold titles is only counted once, as there are instances (6,478) where multiple companies own a freehold title.

We cannot do the same calculation for private individuals as the data is anonymised. It is unlikely individuals have the same average number of freehold titles as companies, especially given there are companies with as many as 20,000 freehold titles. Due to the uncertainty on this, we construct low and high scenarios for the number of landlords, which vary the assumption of the average number of freehold titles per private individual. Using the average of the two, an estimate in the central case is created. More detail can be found in the Leasehold and Reform Impact Assessment: pg. 68: [LeaseholdandFreeholdReformBillImpactAssessment.pdf](#).

a cost per managing agent of £36.57. Assuming a group size of 3,975 yields a total cost of £145k.

### *Legal professionals*

223. Legal professionals will need to familiarise themselves with the legislation, which changes the legal framework governing lease terms. They must understand these changes to advise clients accurately, help ensure compliance, and apply the new requirements when reviewing, drafting or varying lease documentation.

224. Per other chapters in this impact assessment, we assume that there are approximately 8k lawyers in the sector.<sup>51</sup> We use the mean hourly wage for legal professionals per ASHE data (£34.80). Applying the 1.3 wage uplift yields a cost of £50.67 per legal professional. Multiplying this per-person cost by the group size gives a total cost of £408k.

### *Lenders*

225. Lenders provide mortgages for leaseholder properties and, as part of agreeing to offer finance to prospective buyers (or those re-mortgaging), they will take into account whether the level of ground rent payable is below a specific threshold, and whether the lease includes high or escalating ground rent terms. Lenders will therefore want to understand the mechanics, timing and compliance requirements of the ground rent cap.

226. UK Finance have a membership figure of 120 firms, and we assume that all are active in leasehold lending. We assume – with a high degree of uncertainty - that 5 employees per firm will need to be familiar with the legislation immediately. This gives a total group size of 600. To account for uncertainty, we adjust by 50% to produce a low estimate of 300 and a high estimate of 900. The mean hourly wage for lenders is assumed to be the financial accounts managers wage from ASHE data (£27.53). Applying the 1.3 wage uplift yields a cost of £40.08 (£30.06 - £50.10) per individual. Multiplying this by 600 (300 – 900) produces total cost of £25k (£9k - £46k).

### *Valuers*

227. It is assumed that valuers will familiarise themselves with the legislation because changes to ground rent rules affect valuation methodologies, mortgage security assessments, enfranchisement calculations and the overall marketability of affected properties. We use the mean hourly wage for estimators, valuers and assessors per ASHE data (£23.03). Applying the wage uplift gives a total cost per valuer of £33.53.

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<sup>51</sup> Per data from the Law Society. Solicitors in England and Wales must register with the Solicitors Regulation Authority. Following this registration, the Law Society will then ask them to provide their speciality (this is not mandatory but in the interests of solicitors to do so – so we assume that they do). The relevant speciality for this sector is ‘landlord and tenant – residential’ and searching for individuals “within 1 mile” of England and Wales separately yields 8,057 results.

228. The Royal Institution of Chartered Surveyors (RICS) website shows 12,352 entries for 'registered valuer' in the United Kingdom. While this analysis focuses specifically on England and Wales, we adopt this UK-wide figure as a proxy for the number of valuers in England and Wales. This is because valuers are not required to register with RICS, meaning the actual number is likely higher, and because reliable data specific to England and Wales is not readily available. Multiplying the cost per value by the number of register valuers yields a total cost of £414k.

### *Insurers*

229. Insurers will need to familiarise themselves with the legislation as the cap affects the legal and financial structure of leasehold interests, with implications for underwriting, valuation and policy design.

230. According to analysis by the Financial Conduct Authority (FCA) in 2022<sup>52</sup>, 17 insurers constitute the majority of insurers active in the multi-occupancy buildings insurance market. We assume that 20<sup>53</sup> employees at each insurer firm will need to familiarise themselves with the policy, giving a group size of 340. This is multiplied by the ASHE mean hourly wage for insurance underwriters (£31.43), as this provides a proxy for individuals working in the insurance sector. Applying the 1.3 wage uplift yields a cost of £45.76 per individual. Multiplying this by 340 gives a total cost of £16k.

### **Compliance costs (direct)**

231. For most groups, recurring compliance costs are likely to be minimal because the cap is a static regulatory change (over the appraisal period). Once the requirements are understood, ongoing administrative burdens will be limited. Most activities required under the reforms, such as checking ground rent terms for new transactions or updating professional practices, will be absorbed into standard processes and do not represent additional cost. Nevertheless, there may be relatively small compliance costs for some groups.

232. In line with the approach taken elsewhere in this impact assessment, and given the expected small magnitude, limited evidence at consultation stage, and proportionality, these administrative costs are not monetised at this point.

### *Freeholders and managing agents*

233. Freeholders and their appointed managing agents will maintain compliance through initial portfolio sweeps to identify leases at or over the £250 cap, including in the future where escalation clauses bring leases into scope, and establishing controls in

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<sup>52</sup> [Report on insurance for multi-occupancy buildings](#)

<sup>53</sup> This is taken from an impact assessment conducted by the FCA as part of a consultation: CP23/8: Multi-occupancy building insurance [CP23/8: Multi-occupancy building insurance](#).

billing and accounting systems that prevent over cap demands from being issued. In practice this means updating rent demand templates, ensuring invoicing software acknowledges the cap and maintaining clear communication channels.

234. Light-touch staff training will ensure that operational teams can recognise noncompliant terms and respond efficiently to leaseholder queries. While the bulk of this can be done once, regular review will help ensure compliance, corresponding with routine rent demand cycles and when portfolios change (e.g. acquisitions/disposals of freeholds).

#### *Institutional investors*

235. For people who only invest in ground rent portfolios (e.g. pension funds, investment funds) rather than run the day-to-day billing, the ongoing administrative compliance cost is minimal to near-zero. They are likely to rely on the freeholder/asset manager to stay within the £250 cap.

236. Any effects on returns, valuations, loan covenants, or cashflows are financial impacts, not administrative compliance costs, and are considered qualitatively in **Section 4.7.4**.

#### *Legal professionals*

237. Solicitors and conveyancers will need to make updates to due diligence checklists and standard templates to reflect the £250 cap. For each lease interaction, they will need to check the lease's ground rent and any review clause to confirm the amount does not exceed £250, either immediately or after any scheduled increases. We expect that many firms will add a simple template or system rule so an over-cap figure cannot be inserted by mistake. Training may be required to help identify non-compliance quickly.

238. Once such processes are established, we expect that these steps sit within normal workload routines, so ongoing administrative costs are expected to be low.

#### *Lenders*

239. Lenders will need to update their lending policy and guidance to reflect the £250 ground rent cap. For each case, they will need to identify the current and future ground rent flows and gain assurance from the conveyancer that the ground rent will remain in the cap, before they can release a loan. Once embedded in normal product governance, these checks should operate as business as usual, and the ongoing administrative cost is low.

240. Broader effects on pricing, eligibility or risk appetite are treated in the wider impact analysis, not as administrative burden.

#### *Surveyors and valuers*

241. Surveyors/valuers will need to make updates to valuation models and assumptions so that the cap is correctly reflected wherever ground rent cashflows are relevant (e.g. enfranchisement and lease extension work). Over time, we expect for these adjustments to be incorporated into standard templates and methodology reviews consistent with professional practice.

### *Leaseholders*

242. Leaseholders are not expected to bear routine compliance obligations. A basic level of awareness should be sufficient for most leaseholders to understand rights and identify prohibited payments. In the instance of noncompliance (e.g. disputes), some leaseholders may need to undertake more detailed familiarisation, but such instances are case specific.

#### *4.7.6 Equivalent Annual Net Direct Cost to Business (EANDCB) and Households (EANDCH)*

243. The EANDCB is calculated using the direct costs and benefits that have been monetised for freeholders, leaseholders (and those buying and selling leasehold properties) who are businesses, managing agents, lenders, legal professionals, insurers and valuers. The EANDCB does not include any estimates of the likely degree of cost pass-through to tenants from the proposed legislation given this would be an indirect impact, focusing only on the direct additional costs that businesses are likely to incur. The EANDCH is calculated using the direct costs and benefits that have been monetised for leaseholders and those buying and selling leasehold properties.

244. The benefits and costs to homeowner leaseholders are included in the EANDCH and not in the EANDCB.

245. 45.3% of leasehold properties (both houses and flats) in England are in the PRS (40.6%) or are owned by housing associations (4.7%).<sup>54</sup> The measures within the package of reforms will affect property types differently (for example, properties owned by housing associations generally have lower ground rents) but as a simplifying assumption, and for the purposes of estimating EANDCB only, we apply the same 45.3% to monetised leaseholder impacts across the package. Similarly, we allocate 53.7% of monetised leaseholder impacts to the EANDCH, as this is the percentage of leasehold dwellings in England are owned by owner-occupiers. The remaining 1.0% of leasehold dwellings in England are owned by local authorities.

246. London has the highest proportion of leasehold dwellings in the PRS or owned by housing associations (54.7%, of which 51.2% are operated in the PRS and 3.5% by housing associations) relative to the England average.<sup>55</sup> Per **Table 4.3**, we estimate that around 63%-65% of leasehold dwellings in England that benefit from the cap

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<sup>54</sup> MHCLG leasehold dwellings, 2023 to 2024. Table 1: [Leasehold dwellings, 2023 to 2024 - GOV.UK](#)

<sup>55</sup> MHCLG leasehold dwellings, 2023 to 2024. Annex table 2: [Leasehold dwellings, 2023 to 2024 - GOV.UK](#)

immediately are in London and the South. Together, this suggests that the true share of benefits accruing to leaseholders who are businesses is likely higher than 45.3%, and therefore this assumption should be considered a conservative one for the purposes of estimating EANDCB.

247. The direct impacts that have been monetised in this annex are:

Table 4.6 Monetised direct impacts

Direct Impact	Cost or Benefit	Group	EANDCB or EANDCH?
Reduction in ground rent payments	Benefit	Leaseholders	EANDCB (45%) and EANDCH (54%)
Fewer transaction fall-throughs	Benefit	Buyers and sellers of leasehold properties	EANDCB (45%) and EANDCH (54%)
Loss of ground rent income	Cost	Freeholders	EANDCB
Familiarisation and implementation costs	Cost	Freeholders, managing agents, lenders, legal professionals, insurers and valuers	EANDCB

248. The EANDCB for the reform is £95.6m to £145.3m (2025 prices, 2028 PV). This is the expected cost to the business groups in **Table 4.6**, above, of the ground rent cap over the ten-year period. The EANDCH is -£102.5m to -£151.3m (2025 prices, 2028 PV). This is the expected cost to leaseholders, and buyers and sellers of leasehold properties, that are not businesses.

Table 4.7 EANDCB and EANDCH for ground rent reform

Metric	Central	Without PRS and housing association assumption (i.e. all leaseholders are households)
EANDCB	£95.6m to £145.3m	£182.1m to £273.1m
EANDCH	-£102.5m to -£151.3m	-£191.0m to -£282.0m

#### 4.7.7 Impact on small and micro businesses

249. Introducing a cap on ground rents will affect freeholders and intermediate landlords, some of which are small or micro businesses. However, it is only leasehold properties with an annual ground rent obligation over £250 in annual ground rents that will be immediately impacted. In modelling familiarisation costs above, we are using a proxy for how many freeholders charge at or above the cap, 68k (38k – 98k), which is subject to a large degree of uncertainty<sup>56</sup>. Evidence suggests that escalating leases are more likely to be owned by larger investors with portfolios of multiple leases;

<sup>56</sup> See freeholder’s familiarisation costs section, above, for details about this modelling estimate.

therefore, SMBs are less likely to be impacted. Furthermore, the 40-year transitional period to a peppercorn gives businesses time to mitigate impacts. However, for small freeholders, particularly those without diversified income streams, the loss of ground rent income over £250 could create acute financial pressures and may prompt some to exit the market.

250. Other SMBs who may be affected include lenders, managing agents (appointed by freeholders), property agents. The preferred option of a flat cash cap transitioning to peppercorn is a more manageable and proportionate change for smaller operators allowing them to adapt over time and is not expected to create significant administrative burdens that will impact SMBs disproportionately

#### *Exemptions and mitigations*

251. As the impacts on SMBs are not assessed to be disproportionate, introducing an exemption for SMBs would not be justified. Exempting SMBs on the sole basis that they are SMBs would undermine the policy's core objective to end the anachronism of ground rents and the current two-tier ground rent system.

252. There are no specific mitigations for SMBs, but our chosen option reduces the regulatory burden as the cap will take effect at one point and will not change until a peppercorn is introduced. Setting a financial limit means businesses will not have to calculate the cap based on property prices or indexes, and there is no ambiguity as to whether a ground rent is higher or lower than the cap. As the cap is static, the majority of the burdens and administrative costs to business occur only as a one off, rather than on an ongoing basis.

#### *4.7.8 Business environment*

253. Successive governments have signalled action on ground rents since at least 2017, and there has been increasing government intervention in the leasehold market to give leaseholders greater protection and security in their own homes, including rights to take over the property or its management, and protection from unfair charges. This has signalled to the market the direction of travel; at the time of the 2023 government consultation, it was clear that a proportion of the market had already reacted to signals from the previous government to reform ground rents. We are aware there may be some short-term domestic disruption once the cap comes into effect/is legislated for, with freeholders and investors who benefitted from high average ground rents income needing to adjust their financial models to compensate for this.

254. The significance of the losses for investors will depend on individual portfolios characteristics, as noted previously. Individual ground rent funds and investors with high average ground rents in their portfolios risk seeing the biggest losses. However, those with an average ground rent of below the cap will retain significant value and

our preferred option leaves between 39% to 45% of the total value in ground rents with freeholders. Over the medium term, businesses will benefit from the wider housing market benefits that our preferred option will bring, via fewer fall-throughs and resulting benefits in the chain, smoother and faster transactions.

255. These reforms will also necessarily have effects on existing contractual arrangements and investments; and many freeholders and investors have argued that this policy represents an infringement of A1P1 property rights under the ECHR. Some organisations have indicated legal challenge on this basis. Freeholders and investors have also suggested that this could impact investor confidence in the UK market. These changes will affect some wider business incentives and behaviour as it will restrict investment in ground rent funds.

256. Overall, given these changes were long signalled and it is a relatively niche area of business investment, we do not believe there are significant impacts on the wider business or investment environment.

#### *4.7.9 Trade implications*

##### International trade obligations

257. The cap is domestic in scope and only applies to existing leasehold properties in England and Wales. We do not believe that it conflicts with the UK's international trade obligations nor imposes discriminatory barriers or restrictions on foreign investors or service providers. However, it should be noted that foreign governments and foreign investors have investments in ground rent funds and will be impacted. As set out in previous sections, the extent to which they will be affected depends on the type of ground rent assets they hold. They may also benefit from the positive housing market effects arising from greater clarity and fewer fall-throughs.

##### Regulatory environment

258. The ground rent cap and transition to a peppercorn will bring existing ground rents into line with new leasehold properties, thereby ending the two-tier system. This is a simplification of the current system.

#### *4.7.10 Environmental implications*

259. While our assessment is based on limited evidence, no adverse effects on environmental outcomes have been identified. We have not identified any impacts on natural capital, ecosystem services, or decarbonisation objectives

#### *4.7.11 Wider impacts*

##### Distributional impacts

260. The ground rent cap operates uniformly across England and Wales. Modelling suggests the majority of leaseholders benefiting on day one of the policy reside in London and the South. This largely follows the distribution of leasehold stock across

the country. It also reflects the variation of ground rent terms across regions. In addition, high ground rents represent a heavier burden as a proportion of income for leaseholders at the bottom of the income distribution relative to those at the top. All leaseholders that pay ground rents with more than 40 years remaining on their lease will benefit over the lifetime of the policy as the cap changes to a peppercorn after 40 years. Overall, this intervention is redistributive. It transfers wealth from freeholders, a wealthier group in general, to leaseholders.

### Equality impacts

261. The ground rent cap primarily affects existing leaseholders who currently pay ground rents to freeholders. Individuals from all protected groups under the Equality Act 2010 are present within the leaseholder population (not just those leaseholders who pay a ground rent) and therefore all groups will be represented among those directly affected by the reforms. The best available demographic data comes from the EHS (2023–24), and key findings are outlined in the main **impact assessment, Section 2.6.3**. We do not have an equivalent data set for Wales.

262. Some protected groups, particularly younger people, single, widowed or divorced households, LGBT+ individuals, and ethnic minorities, are overrepresented among leaseholders. By capping ground rents, these groups are therefore likely to benefit correspondingly, though all leaseholders will gain depending on circumstance, including the level of ground rent set in their lease before the cap.

263. We know that some individuals may hold investments that are directly or indirectly linked to ground rent income streams, such as shares in ground rent funds or certain income-focused investment vehicles. The department does not hold demographic data on the protected characteristics of these investors, and most exposure is intermediated through pension funds or diversified products where individual holdings cannot be easily identified. Any impacts on these investors arise from changes to the financial returns associated with ground rent obligations rather than from differential treatment of people with protected characteristics. While some older individuals may have exposure through pension savings, we have not identified evidence that older investors, as a group, would experience disproportionate impacts compared with other investors holding similar financial portfolios. In the round, the reforms are assessed to impose proportionate impacts on investment returns in light of the wider benefits to leaseholders and the structural objective of reducing reliance on ground rent income over time.

264. With regard to equalities impacts on freeholders, the department does not hold data on the protected characteristics of individual freeholders. The number of individual freeholders to whom the Equality Act 2010 would apply is comparatively small relative to the millions of leaseholders and estate homeowners who stand to benefit. We have not identified evidence of disproportionate impacts, positive or negative, on

freeholders with specific protected characteristics. Any impacts arise from changes to property rights and income streams rather than from differential treatment of particular groups and are assessed to be proportionate and justified in light of the wider benefits of reform.

#### *4.7.12 Risks, assumptions and sensitivities*

265. We have set out our approach to estimating both the value transfer from freeholders to leaseholders arising from the cap and the benefits associated with improved transactions in the **Technical Annex**, as well as key assumptions. This section presents sensitivity analysis around these key assumptions, to account for uncertainties in our modelling. Broadly these are broken down into the following:

##### a. Ground Rent Data

###### **i. Sample Adjustment**

266. As set out in the **Technical Annex**, we have carried out an extensive verification exercise on our EHS ground rent data, which resulted in an adjustment of our underlying sample. Alternative adjustment approaches were explored – see Table 2 in the **Technical Annex** for details of these options. Each represents a potential response to uncertainties in our underlying data. The impact of these different approaches on overall transfer value is presented in **Table 4.8** below.

Table 4.8: Ground rent sample adjustment sensitivities

Sensitivity		Total transfer from freeholders to leaseholders over remaining lease term (£bn)	Asset Value Transfer (%)
<b>Core scenario</b>	Peppercorn	18.3 – 20.7	-100%
	£250 cap to peppercorn	10.0 – 12.7	-55% to -61%
<b>EHS unadjusted</b> – modelling based on pre-verification ground rent data	Peppercorn	41.2	-100%
	£250 cap to peppercorn	33.0	-80%
<b>EHS semi-adjusted</b> (corresponds to AA4 in the <b>Technical Annex</b> ) – remove those respondents found to be a freeholder or a shared-owner, however for leave unadjusted those respondents reporting a ground rent above £500 for whom we could not verify	Peppercorn	24.3	-100%
	£250 cap to peppercorn	16.5	-68%
<b>Sample trim (£2k)</b> – remove any respondent with reported ground rent above £2k	Peppercorn	22.1	-100%
	£250 cap to peppercorn	14.0	-64%
<b>Sample trim (£500)</b> - remove any respondent with reported ground rent above £500	Peppercorn	17.2	-100%
	£250 cap to peppercorn	9.2	-53%

267. The transfer value depends on further assumptions applied to our ground rent sample – Table 4.9 sets some of these out. Using median ground rents in our modelling, for example, decreases the value transfer (see the Technical Annex for a comparison of mean and median ground rents across the distribution). Using England ground rent averages, instead of regional ones, slightly increases the value transfer. On the other hand, collapsing the 80/20 split while maintaining regionally specific averages, brings the value transfer down.

Table 4.9: Testing approaches to applying ground rent averages

Sensitivity		Total transfer from freeholders to leaseholders over remaining lease term (£bn)	Asset Value Transfer (%)
<b>Core scenario</b>	Peppercorn	18.3 – 20.7	-100%
	£250 cap to peppercorn	10.0 – 12.7	-55% to -61%
<b>Median ground rents</b> – model median ground rents for each regional group (maintaining the 80/20 split for low and high ground rents respectively)	Peppercorn	15.6 - 16.0	-100%
	£250 cap to peppercorn	8.8 - 9.1	-55% to -58%
<b>England averages</b> – model England-level mean ground rents for all leaseholders (maintaining the 80/20 split)	Peppercorn	18.2 - 21.2	-100%
	£250 cap to peppercorn	10.1 - 13.3	-55% to -62%
<b>Averages from full distribution</b> – model mean ground rents for each regional group for the full distribution (i.e. do not split sample 80/20)	Peppercorn	15.5 - 19.0	-100%
	£250 cap to peppercorn	5.3 - 8.0	-34% to -42%

268. In addition, the following table, **Table 4.10**, applies simple adjustments to the average ground rents (both from the EHS and the Welsh government) underpinning the core scenario. This accounts for wider uncertainty given the survey-based nature of our data.

Table 4.10: Applying percentage changes to adjusted ground rent averages

Sensitivity		Total transfer from freeholders to leaseholders over remaining lease term (£bn)	Asset Value Transfer (%)
<b>Core scenario</b>	Peppercorn	18.3 – 20.7	-100%
	£250 cap to peppercorn	10.0 – 12.7	-55% to -61%
<b>25% lower</b> - this assumes ground rent averages are 25% lower.	Peppercorn	13.7 – 15.6	-100%
	£250 cap to peppercorn	6.6 – 8.6	-48% to -55%
<b>25% higher</b> - this assumes ground rent averages are 25% higher.	Peppercorn	22.8 – 25.9	-100%
	£250 cap to peppercorn	13.5 – 17.0	-59% to -65%

## b. Variable Ground Rents

269. A key modelling assumption is the proportion of variable leases in the population. Data are currently limited in this area. For the purposes of modelling ground rent in the consultation impact assessment, we used intel from the CMA that roughly 18% of all leases relate to new-build properties since 2000, and so are likely to pay higher ground rents that escalate over time as compared to the rest of the leasehold stock.<sup>57</sup> The CMA identifies these new-builds as “modern long lease properties with annual ground rents typically at several hundred pounds and usually increasing over the term of the lease.” As such, we assume all leases granted on new builds since 2000 have variable terms with high levels of ground rent, which equates to 18% of the stock.

270. The government received feedback from certain freeholders via the Ground Rent Consultation that this assumption was too conservative, citing evidence from their own portfolios. In response, we have adjusted our assumption to reflect a greater share of escalating leases in the population: 50% overall, made up of 18% that are high in value and escalating, and 32% which are low in value and escalating (for full details, see the **Technical Annex**). This strikes a balance between reflecting the consultation feedback and recognising the fact that escalating leases are likely to be overrepresented in large freeholders’ portfolios. The remaining 50% of leases are made up of 23% not paying ground rent (as per the EHS<sup>58</sup>), and 27% paying a low and fixed ground rent.

<sup>57</sup> CMA (2020), paragraph 69, [Leasehold housing](#)

<sup>58</sup> [English Housing Survey 2023 to 2024: leasehold experience - fact sheet](#)

271. In the sensitivities in **Table 4.11** below, we flex these assumptions. Decreasing the proportion of variable leases in the stock decreases the value transfer, while the inverse is true. The overall asset value transfer remains stable, however.

Table 4.11 Testing variable ground rent assumptions

Sensitivity		Total transfer from freeholders to leaseholders over remaining lease term (£bn)	Asset Value Transfer (%)
<b>Core scenario</b> – 18% high and variable; 32% low and variable; 50% fixed; 23% pay no ground rent	Peppercorn	18.3 – 20.7	-100%
	£250 cap to peppercorn	10.0 – 12.7	-55% to -61%
<b>Fewer variable leases</b> – assume 18% high and variable; 59% fixed; 23% pay no ground rent	Peppercorn	15.4 - 18.0	-100%
	£250 cap to peppercorn	8.7 - 11.5	-56% to -64%
<b>More variable leases</b> – assume 18% high and variable; 40% low and variable; 19% fixed; 23% pay no ground rent	Peppercorn	19.0 – 21.4	-100%
	£250 cap to peppercorn	10.3 – 13.1	-54% to – 61%

### c. Rent Reviews

272. In the ground rent consultation impact assessment, we assumed ground rent reviews took place every 10 years and at the same point for all leaseholders. However, some consultation responses suggested this did not reflect the actual distribution of lease review periods and evidence suggests that ground rent review periods vary widely from annual, 5 years, 10 years or more. We now assume all variable ground rents are reviewed annually. While there is still a large amount of uncertainty as to an average period across all leases, it will be the case that a different cohort of leaseholders will experience ground rent increases in each year, as cohort-specific review periods are surpassed. Therefore, we judge this to be a proportionate modelling approach to reflecting ground rent increases across the caseload. In **Table 4.12**, we show the impact of instead assuming 10-year or 25-year review periods for all variable leases. Assuming 10-year review periods for all variable leases reduces the value transfer, though modelling a 25-year review period has a more notable effect.

Table 4.12 Impact assuming 10-year and 25-year review periods

Sensitivity		Total transfer from freeholders to leaseholders over remaining lease term (£bn)	Asset Value Transfer (%)
<b>Core scenario</b>	Peppercorn	18.3 – 20.7	-100%
	£250 cap to peppercorn	10.0 – 12.7	-55% to -61%
<b>10 years</b> – all variable ground rents are reviewed and increase with inflation every 10 years	Peppercorn	16.7 - 19.0	-100%
	£250 cap to peppercorn	8.7 - 11.2	-52% to -59%
<b>25 years</b> – all variable ground rents are reviewed and increase with inflation every 25 years	Peppercorn	14.8 - 16.8	-100%
	£250 cap to peppercorn	7.1 - 9.3	-48% to -55%

#### 4.7.13 Monitoring and evaluation plan

273. Monitoring and evaluation of the ground rent cap will be delivered through the programme level evaluation framework for the full package of leasehold and commonhold reforms. In line with the Better Regulation Framework, this will allow the evaluation to reflect interdependencies and cumulative impacts, as the ground rent cap cannot be meaningfully assessed as a standalone measure. The cap may interact with wider reforms, including the GRA, LFRA measures on enfranchisement costs and service charge transparency, and other measures set out in this draft Bill. The different reforms overlap to shape overall incentives for developers, freeholders, lenders and consumers. Evaluating the cap in isolation would not capture cross policy effects, behavioural responses, or transition dynamics, such as shifts in freeholder income models, pre ban developer tenure choices, or risk assessments by lenders and valuers.

274. This annex should therefore be read alongside the overarching monitoring and evaluation plan in the main **impact assessment (Section 2.6.4)**, which covers greater detail including design and questions, data strategy and governance and reporting arrangements. A unified M&E approach provides a proportionate and coherent assessment of how the reforms collectively affect market functioning, consumer outcomes and long-term tenure resilience.

*Proposed Key Performance Indicators (KPIs) for assessing reform outcomes*

275. The indicators set out below are illustrative only and are intended to give an early sense of the metrics that we expect could support future programme-wide monitoring and evaluation of the reforms.

276. The draft indicators outlined in **Table 4.13** may change as the overarching policy, implementation planning, and evaluation design mature, and will be confirmed at the relevant scoping phase of the evaluation. They are not designed to serve as a standalone evaluation framework for this annex, as monitoring and evaluation will take place at the level of the entire leasehold and commonhold reform programme. The proposed indicators should also not be read as placing new expectations for reporting on organisations such as HM Land Registry, or the tribunal services, at this time. Government will work collaboratively with stakeholders and delivery partners to shape a future monitoring arrangements in line with their responsibilities and operational capacity.

Table 4.13 – Draft indicators for assessing the reforms to ground rent

Draft indicator	Description & purpose	Data Source(s)
Reduction in the number of ground rents above £250 a year	Following the implementation of the cap, we would expect to see no ground rents exceeding £250 - unless they were subject to an exemption. This measure assesses whether the cap is operating as intended.	<ul style="list-style-type: none"> <li>• EHS reported data on ground rents (noting the known issues with self-reporting)</li> <li>• Administrative data from freeholders/ managing agents.</li> <li>• Consumer group feedback</li> </ul>
Reduced affordability pressures linked to ground rents	Assesses whether households experience reduced financial strain related to ground rent payments following implementation of the cap.	<ul style="list-style-type: none"> <li>• EHS affordability indicators</li> <li>• Consumer surveys</li> <li>• Lender affordability assessments and criteria.</li> </ul>
Increased consumer confidence and satisfaction with leasehold ownership	Measures leaseholder sentiment on predictability, fairness and transparency of costs, linked to consumer confidence outcomes.	<ul style="list-style-type: none"> <li>• Leaseholder surveys, including the EHS</li> <li>• LEASE data</li> </ul>
Changes in leasehold transaction volumes and mortgage accessibility	Monitors improvements in market functioning where ground rents previously acted as barriers to lending and saleability.	<ul style="list-style-type: none"> <li>• UK Finance lender data</li> <li>• HMLR transaction data</li> <li>• Conveyancing industry data.</li> </ul>
Enforcement activity by Trading Standards and tribunal volumes	Indicates whether non-compliance is appropriately detected, challenged and resolved, and supports understanding of burden	<ul style="list-style-type: none"> <li>• Trading Standards enforcement records</li> <li>• First-tier Tribunal (Property Chamber) in England and Leasehold</li> </ul>

	on enforcement bodies during rollout.	Valuation Tribunal data in Wales.
Proportion of legacy (pre-GRA) leases that have transitioned to a peppercorn after 40 years (long-term, outside of the scope of the planned evaluation).	This is the core KPI for Objective 5b, but is tied to the transitional period, so will not be fully measurable until implementation in 40 years. It tracks whether the end-state (removal of financial ground rents) has been achieved across the legacy stock.	<ul style="list-style-type: none"> <li>• Leasehold survey data including the EHS</li> <li>• Administrative data from freeholders</li> </ul>
Trends in ground rent levels and their distribution during the transitional period. (Long-term, running beyond the timeline of the planned evaluation).	Provides a time-series view of how ground rents converge toward the cap and eventually the peppercorn, supporting monitoring of transitional impacts.	<ul style="list-style-type: none"> <li>• EHS</li> <li>• Data from managing agents and freeholders.</li> </ul>
Changes in the gap on ground rent spend between legacy capped rents and peppercorn rents in new leases. (Long-term, running beyond the timeline of the planned evaluation)	Monitors narrowing of the two-tier system over time, assessing progress toward long-term market alignment.	<ul style="list-style-type: none"> <li>• EHS</li> <li>• Data from managing agents and freeholders.</li> <li>• Survey of conveyancers/valuers</li> <li>• Professional body datasets.</li> </ul>