

Title: Consultation Impact Assessment on Enfranchisement Valuation Rates IA No: MHCLG-26166 RPC Reference No: RPC-MHCLG-26166-IA(1) Lead department or agency: MHCLG Other departments or agencies:	Impact Assessment (IA)			
	Date: 13/5/26			
	Stage: Development/Options			
	Source of intervention: Domestic			
	Type of measure: Secondary Legislation			
	Contact for enquiries: Helen Keen/ Jenny Frew (jobshare.keen-frew@communities.gov.uk)			
Summary: Intervention and Options				RPC Opinion: Green (Fit for Purpose)

Cost of Preferred (or more likely) Option (in 2025 prices)			
Total Net Present Social Value	Business Net Present Value	Net cost to business per year	Business Impact Target Status
-£8.1m*	-£8.1m	£0.9m	Qualifying provision

What is the problem under consideration? Why is government action or intervention necessary? The valuation rates are discount rates used in the determination of the premium for lease extensions, freehold acquisitions, and ground rent buy outs. Capitalisation rates are negotiated: leaseholders often employ valuers, which is a misallocation of resources if the rates can be determined costlessly; there is also an inequality of arms and an asymmetry of information in the negotiation. Though the deferment rate is effectively fixed by legal precedent, it is liable to change unexpectedly should a successful case be made in the Senior Courts, creating the potential for future instability. The Government will address these market failures and other problems through legislative prescription of the rates, providing for certainty and stability.

What are the policy objectives of the action or intervention and the intended effects? The Secretary of State (SoS) will prescribe the rates that reasonably find the present value of the ground rent and reversion; the rates will determine the term and reversion elements of the enfranchisement premium. Enfranchisement premiums will be calculable in advance and across a reasonable horizon, and will remain stable between reviews, enabling easier financial planning by prospective parties to enfranchisement transactions. The use of valuers for negotiating rates and lawyers for disputing them will fall, reducing transaction costs. Success will be indicated by a reduction or elimination of the use of valuers and lawyers for rate-related work and a reduction or elimination of associated costs.

What policy options have been considered, including any alternatives to regulation? Please justify preferred option (further details in Evidence Base) Only legislative prescription can provide certain and stable rates and achieve the outcomes described above, and for that reason a power was taken in the LFRA 2024 to prescribe the rates in secondary legislation. In addition to achieving the outcomes above, that power must be exercised in order that the Standard Valuation Method – which determines the premium for lease extensions, freehold acquisitions and ground rent buyouts, and through which the Government is reforming leasehold valuation – can work and be commenced. The Government set out its reasons for reforming leasehold valuation in the LFRB IA. As such, doing nothing is not an effective option and there are no non-statutory alternatives. The SoS will prescribe rates that reasonably find the present value of the ground rent and reversion. The options considered, therefore, are about how best to do that, and there are options for consultees to propose alternatives. There are no preferred options. The SoS will prescribe the rates that reasonably find the present value regardless of the price of enfranchisement and resultant transfers modelled in this IA.

Is this measure likely to impact on international trade and investment?					No			
Are any of these organisations in scope?					Micro Yes	Small Yes	Medium Yes	Large Yes
What is the CO ₂ equivalent change in greenhouse gas emissions? (Million tonnes CO ₂ equivalent)					Traded: 0		Non-traded: 0	

Will the policy be reviewed? It will be reviewed, see para 148 onwards. If applicable, set review date: tbc

I have read the Impact Assessment and I am satisfied that, given the available evidence, it represents a reasonable view of the likely costs, benefits and impact of the leading options.



Signed by the responsible Minister:

Matthew Pennycook Date:

6 July 2026

Summary: Analysis & Evidence

Policy Option 1

Description:

FULL ECONOMIC ASSESSMENT

Price Base Year 2025	PV Base Year 2027	Time Period Years 10	Net Benefit (Present Value (PV)) (£m)		
			Low: -3.6	High: -14.3	Best Estimate: -8.1

COSTS (£m)	Total Transition (Constant Price) Years		Average Annual (excl. Transition) (Constant Price)	Total Cost (Present Value)
Low	3.6	10	-	3.6
High	14.3		-	14.3
Best Estimate	8.1		-	8.1

Description and scale of key monetised costs by 'main affected groups'

Familiarisation costs are estimated at £8.1m over the 10-year appraisal period, split across freeholders, legal professionals and valuers. The IA sets out how a representative premium would change in two case study lease extensions for a range of rates from 1%-10%. It also illustrates the aggregate annual costs for all lease extensions across this range for a ten-year appraisal period. This is not included in the summary boxes above/ below or for the EANDCB because the rates are not yet set. Whether freeholders or leaseholders will bear any cost (in the form of a transfer) will depend on the prescribed rate(s). This would not affect the NPV as it is a transfer.

Other key non-monetised costs by 'main affected groups'

Non-monetised costs (in the form of a transfer) come from changes to the prescription of the capitalisation rate. The IA illustrates the effect of prescribing different capitalisation rates by using scenarios, i.e. for given leases with given ground rents, how a range of rates would change the term values. Whether freeholders or leaseholders bear this cost (transfer) will depend on the distribution of capitalisation rates in the counterfactual, the number of rates prescribed, and the choice of the prescribed rate(s). Impacts of prescribing the capitalisation rate(s) at the aggregate level is non-monetised at this stage, we are collecting information on this through consultation. This would not affect the NPV as it is a transfer.

BENEFITS (£m)	Total Transition (Constant Price) Years		Average Annual (excl. Transition) (Constant Price)	Total Benefit (Present Value)
Low	-		-	-
High	-		-	-
Best Estimate	-		-	-

Description and scale of key monetised benefits by 'main affected groups'

As above, monetised benefits (in the form of a transfer), may come from the prescription of the deferment rate. Whether freeholders or leaseholders benefit will depend on the prescribed rate. This would not affect the NPV as it is a transfer.

Other key non-monetised benefits by 'main affected groups'

Non-monetised benefits come from certainty and stability and a reduction in valuer and legal costs.

*The LFRA IA previously quantified the benefits of efficiency savings associated with valuation reform in relation to demand for valuer services. This was quantified as £418m total (2019 prices, 2025 PV), which means that only 1.9% of these efficiency savings would have to be due to the prescription of rates specifically for the NPV of this IA to turn positive (although noting the different price base and present value year between this IA and the LFRA IA means these are not directly comparable). The LFRA IA also had an NPV of £107.3m (2019 prices, 2025 PV). Alternatively, switching value analysis within this IA suggests that £22 additional benefits per lease extension would be required to turn the NPV positive.

The LFRA IA also assessed there would be benefits arising from reduced disputes between leaseholders and freeholders attributed to the prescription of rates. Reduced disputes will reduce legal costs or the need to challenge rates through the Tribunal system.

As above, there will be non-monetised benefits (in the form of a transfer) from prescription of the capitalisation rate(s). Whether freeholders or leaseholders benefit depends on the prescribed rate(s). This would not affect the NPV as it is a transfer.

Key assumptions/sensitivities/risks**Discount rate (%)**

3.5%

One key assumption comes from the assumed rates in the counterfactual. For the deferment rate, if it would otherwise have changed across the appraisal period in the absence of prescription then the impacts of the prescribed rate would differ from those shown. Another key assumption relates to the number of lease extensions for flats across the appraisal period. To mitigate this we have conducted sensitivity analysis.

BUSINESS ASSESSMENT (Option 1)

Direct impact on business (Equivalent Annual) £m:				Score for Business Impact Target (qualifying provisions only) £m:
Costs:	£0.9m	Benefits:	Net: £0.9m	

Problem Under Consideration and Rationale for Intervention

Background: Summary

- 1) This Impact Assessment should be read in conjunction with consultation paper [reference] which provides further background.
- 2) The Leasehold and Freehold Reform Act (“LFRA”) 2024 prescribes a Standard Valuation Method to determine the price the leaseholder will pay to extend their lease, buy their freehold, or buy out their ground rent, i.e. to enfranchise. The price (or premium) is composed of two elements – the term value and the reversion value – and both are calculated using discount rates called the capitalisation rate and deferment rate respectively:
 - a. The **term value** is the value of the freeholder’s right to receive ground rent for the remaining term of the lease. The capitalisation rate is applied to the rent to find the present value (as a capital sum) of the right to collect the rent over the remaining term of the lease.
 - b. The **reversion value** is the value of the freeholder’s right to vacant possession at the end of the lease. This is found by using the deferment rate to discount the value of the property over the unexpired term of the lease. The value to be discounted differs by the type of claim. It is:
 - i. For freehold acquisitions: the value of the vacant freehold (the freehold vacant possession value, “FHVP”) of a house or block of flats that would have otherwise reverted to the freeholder at the end of the lease.
 - ii. For lease extensions: the value of a 990-year lease granted at a peppercorn ground rent, deferred until the end of the term of the qualifying tenant’s lease.
- 3) The premium is the sum of the two, plus other compensation, if relevant.¹ Where there is no ground rent the term value will be zero; where only the ground rent is being bought out, the reversion value will be zero.
- 4) Since both the term value and reversion value measure the value receivable by the freeholder in future (the rent and reversion respectively), the capitalisation and deferment rates are used to find the present value of future receipts (income, capital), and are as such discount rates.

¹ “Other compensation” under the LFRA 2024 is addressed in Schedule 5 and could, for instance, include the devaluation of other property held by the landlord affected by the claim.

- 5) LFRA 2024 provides the SoS with powers to prescribe the deferment and capitalisation rate.² The application of the rates will be in accordance with the formulae set out in the Act.
- 6) The Government is consulting on the setting of the rates, and this Impact Assessment accompanies that consultation. The consultation seeks views on options for the deferment and capitalisation rates used in the Standard Valuation Method. The purpose of this Impact Assessment is to assess the impact on leaseholders, freeholders, and others, of the options for the prescription of the valuation rates that are set out in the consultation.

Market Failures and Other Problems

- 7) As assessed in the 2023 Impact Assessment to the Leasehold and Freehold Reform Bill³ (“LFRB IA”), the Government considers that there may be market failures under the current system of determining valuation rates.
- 8) Presently, the deferment rate is established by a decision by the Upper Tribunal (Lands Chamber) called “*Sportelli*”⁴ (although minor deviations are possible by valuer negotiation) and capitalisation rates are determined by valuer negotiation.
- 9) An asymmetry of information results from the leasehold system being highly complex: freeholders tend to be well versed in the system whereas leaseholders usually are not, and this may be to the disbenefit of leaseholders unless they employ their own valuers.
- 10) However, the employment of valuers can be costly and may represent a misallocation of resources if a similarly appropriate rate can be achieved by other means which are costless to market participants.
- 11) In addition, there is often an inequality of arms between freeholders and leaseholders: the former are often financially better able to bring disputes.⁵ In some cases freeholders may also have an incentive to dispute valuations beyond one individual transaction, since if they achieve a more favourable rate it may apply across the block, whereas for the leaseholder there is a one-off benefit.
- 12) Finally, though the deferment rate has been effectively fixed by *Sportelli* since 2007, there is a chance it could change unexpectedly as a result of a successful case being progressed in the Upper Tribunal and the senior courts. There is therefore the potential for future instability, making it difficult for leaseholders to plan across a reasonable horizon.

² On the powers see LFRA Schedule 4 paras 27(8), 28(7), and 39(1).

³ Leasehold and Freehold Reform Bill Impact Assessment, IA No: DLUHC-5311, 31 October 2023, paragraph 6. <https://publications.parliament.uk/pa/bills/cbill/58-04/0013/LeaseholdandFreeholdReformBillImpactAssessment.pdf>.

An Addendum to the Impact Assessment was published 14 April 2025,

https://assets.publishing.service.gov.uk/media/67f7dc008b9b26024aef3040/250404_LFRA_IA_Addendum_final_version_.pdf.

⁴ Earl Cadogan v Sportelli and others [2007] 1 EGLR 153 (Lands Tribunal)

⁵ Leasehold home ownership: buying your freehold or extending your lease. Report on options to reduce the price payable. (2020), see paragraphs 1.71 and 3.45 onwards.

Government Intervention

- 13) The LFRA 2024 reforms leasehold valuation and establishes a Standard Valuation Method for determining the price of extensions and acquisitions; the Government's objectives in reforming leasehold valuation were set out in the LFRB IA.
- 14) The Standard Valuation Method requires the valuation rates to be prescribed: without their prescription it cannot be commenced.
- 15) Therefore, in order for the Government to commence its leasehold valuation reforms, the rates must be prescribed.

Impacts

- 16) The impacts of the options considered on leaseholders, freeholders and others is set out in the 'Economic Case'.
- 17) The prescription of the deferment and capitalisation rates may result in transfers between leaseholders and freeholders, with the direction and magnitude of the transfers depending on the rates prescribed. The SoS will prescribe rate(s) that reasonably find the present value of the rent and reversion. In the case of the deferment rate, the SoS may prescribe at rates other than the prevailing *Sportelli* rates: if so, a reduction in the rate would benefit freeholders and cost leaseholders, and an increase in the rate would benefit leaseholders and cost freeholders. In the case of the capitalisation rate, transfers may be induced as a result of simplification since the market uses many rates, prescription could provide for fewer; such transfers are likely to occur in both directions. It is important to note that the SoS, in prescribing the rate(s) that reasonably find the present values, will therefore not have regard to the price of enfranchisement and resultant transfers when making their decision.
- 18) Since valuers will no longer be required to negotiate rates, and since legal disputes over rates will be less common, we expect leaseholders and freeholders to benefit from reduced process costs; and that especially valuers and to a lesser extent solicitors will be impacted by a reduction in demand for their services.
- 19) Below is further background on the deferment and capitalisation rates, before the Policy Objective and Options Considered are set out.

Background: Deferment Rates (Used to Discount the Reversion)

- 20) Currently, different deferment rates are used for flats and houses. These rates have remained fixed since a Lands Tribunal decision in 2006 known as *Sportelli*. The case involved several properties in Prime Central London ("PCL") and the decision applied to

leases with over 20 years remaining. This has resulted in different deferment rates being set at 4.75% for houses and 5% for flats. The Tribunal in *Sportelli* set a different deferment rate for flats than for houses because it reasoned that flats are subject to greater management complexities and risks, such as service charge disputes and communal repairs.

21) The Tribunal determined the rates following 11 days of hearing evidence and expert opinion. The Tribunal's rates were the aggregate of three components:

- a. The risk-free rate: the return on an investment with zero risk, proxied by the yield on government securities (gilts). The Tribunal took a five-year average of index linked gilts and adopted 2.25%.
- b. Risk premium: the additional return (on top of the baseline from risk-free rate) that an investor would receive from a "riskier" investment, specific to property investment, with risks including volatility, illiquidity, obsolescence and depreciation. The Tribunal adopted the baseline of 4.5% for houses (and added 0.25% to this for flats).
- c. Real house price growth rate: the expected long-term increase in residential property values after adjusting for inflation. The Tribunal considered factors that might affect growth in future and adopted 2%.

22) The deferment rates were then calculated as risk-free rate + risk premium – real growth rate, with an addition to the risk premium for flats:

Property type	Risk-free rate (%)	Risk premium (%)	Real growth rate (%)	Deferment rate (%)
Houses	2.25	4.5	-2.0	4.75
Flats	2.25	4.5 + 0.25	-2.0	5.00

23) The Tribunal's intention was to establish a benchmark deferment rate to inform enfranchisement valuation, providing a constant, stable rate. It suggested that divergence from the rates on a case-by-case basis was only appropriate where evidence warranted it, mostly likely for properties outside of PCL.⁶ It should be noted, however, that where the Standard Valuation Method is compulsory, the LFRA 2024 will not allow any divergence from the rates that have been prescribed.⁷

24) Currently, where a lease has an unexpired term of under 20 years, then the rates in *Sportelli* may not be used in the same way, or at all. Where the lease has between 10-20 years

⁶ As confirmed by the Court of Appeal judgment in *Sportelli* [2008] 1 WLR 2142, Carnwath LJ at para 102, the Tribunal envisaged evidence being provided for areas outside of PCL. For instance, in *Zuckerman v Calthorpe Estates Trustees* [2009] UKUT 235 (LC) a rate of 6% was adopted. The Tribunal considered factors such as a higher risk of obsolescence and lower long-term growth than in PCL and so increased the risk premium on these factors.

⁷ LFRA 2024, schedule 4, paragraphs 27–39. The Law Commission also noted consultation responses describing this potential effect, see *Leasehold home ownership: buying your freehold or extending your lease – Report on Options to Reduce the Price Payable* (Law Com No 387, 2020), para 6.73(4).

unexpired, the Upper Tribunal considered cases where it adjusted *Sportelli* depending on the remaining term. Terms between 5-10 years were not before the Tribunal and different approaches may be required e.g. net rental yields.⁸

25) Where the unexpired term is under five years, *Sportelli* is not used. Instead, different adjustments are made using the net rental yield appropriate to the property, an end allowance to reflect the owner's lack of control during the period of reversion, and the element of real growth.⁹ Under the LFRA 2024, it will not be possible to prescribe rates for leases with unexpired terms of fewer than five years.

26) The Tribunal noted the circumstances when a full review of the deferment rates in *Sportelli* might be required, for instance if there was a clear trend of change showing in some of the components used in *Sportelli*.¹⁰ There has not yet been a successful challenge to the national application of *Sportelli*, although this has remained a possibility.¹¹ Commentators continue to suggest that the components making up *Sportelli* have since changed.¹² The Law Commission reported that consultees had a range of views about how the deferment rate could have changed, based on their assessment of the market, and their valuation approach. Suggestions for new rates ranged from 2.25% to 9.75% or higher.¹³

Background: Capitalisation Rates (Used to Discount the Ground Rent)

27) Under current legislation for flats, when leaseholders extend a lease using the statutory route, they extinguish all future ground rent payments that are required under the current lease, in exchange for a lump sum payment. The rights presently differ between leasehold flats and houses, although under the LFRA 2024, the terms will be aligned. In a freehold acquisition, where leaseholders have not already extended their leases, they would buy out any ground rent due to the freeholder.

28) In future, for both flats and houses, having compensated the freeholder with a premium for extending a lease, or for buying out the ground rent, leaseholders will then only be required to pay a peppercorn rent, which in practice means a rent of zero financial value.

29) The capitalisation rate is intended to reflect the “quality” of the income stream from the recipient's point of view and the rate adopted in an enfranchisement calculation may currently vary depending on the facts of the case. When considering the appropriate capitalisation rate to use, valuers look at market evidence about how investors are investing their money and the returns that they receive from those investments to arrive at a rate that is appropriate for the particular income stream that they are valuing.

⁸ Anthony Radevsky and Damian Greenish, *Hague on Leasehold Enfranchisement* (7th edn, Sweet & Maxwell 2020), ch 9 para 47.

⁹ Law Com No 387, para 2.61; Radevsky & Greenish, *Hague*, ch 9, para 48.

¹⁰ See *Sportelli*, para 122.

¹¹ For example, see *Llangewydd Court Ground Rent Estate v Ralph* UKUT 0251 (LC)

¹² For example, Law Com No 387, para 6.80.

¹³ Law Com No 387, para 2.70.

- 30) In 2007, the Lands Tribunal set out the key factors it thought valuers should take into consideration when adopting a capitalisation rate.¹⁴ These were:
- a) the remaining length of the lease term;
 - b) the security of recovery;
 - c) the size of the ground rent (a larger ground rent being more attractive);
 - d) whether there was provision for review of the ground rent; and
 - e) if there were such provision, the nature of it.
- 31) Despite this approach, the Law Commission noted that the rate adopted can also be influenced by the differing opinions of valuers, with disputes settled by negotiation in which the parties aim for the best outcome for their clients.¹⁵ It is further influenced by extraneous factors, such as the parties' relative bargaining powers to pursue the most advantageous result, which can be to the detriment of leaseholders. These are factors that will be removed from the process as a result of the provisions in the LFRA 2024 which require rates to be prescribed in secondary legislation.
- 32) The government understands that historically, ground rents that are high and/or escalating may have attracted a lower capitalisation rate, whereas low and fixed ground rents may have attracted rates at the upper end of a range. The Law Commission noted that under previous custom and practice, this range typically fell between 5% and 8%, although it also noted consultation responses that suggested there could be wider points on a range at 3% and 10%.¹⁶
- 33) The Department has undertaken a limited research exercise into recorded Tribunal decisions mentioning capitalisation rates.¹⁷ Whilst it is noted that the majority of enfranchisement claims are negotiated outside of the Tribunal, such cases do record some agreements, and determinations about the rate. Overall, the analysis identified a range of rates adopted between 4.5% and 9.00%. A majority of the cases (88% in the case of the First-tier Tribunal) reported a capitalisation rate of between 6.00% and 7.00%, although cases differed as to the specific ground rent terms and review mechanisms. The mean and median of this dataset were around 6.5%. There were notable outliers for several cases where the rents might ordinarily be considered "more valuable", but the Tribunal adopted a rate in excess of 8%. Please see the Technical Annex for full details of this exercise.

Policy Objective

Government Objective

¹⁴ *Nicholson and others v Goff* [2007] 1 EGLR 83

¹⁵ Law Com No 387, paras 6.46-6.50.

¹⁶ Law Com No 387, paras 2.70, 6.63 and 6.70(1).

¹⁷ The website for the First-tier Tribunal had decisions available for the period from December 2018 to the date of access (September 2025) for residential property decisions regarding leasehold enfranchisement and extension: Residential property tribunal decisions – GOV.UK. The website for the Leasehold Valuation Tribunal had decisions available for the period 2012 to the date of access (September 2025): Decisions – Leasehold Valuation Tribunal.

- 34) Prescribing the rates will make the enfranchisement process simpler and reduce each party's professional costs for valuation. Prescribing the rates will enable leaseholders and freeholders to have a clearer idea of their costs at the outset. It will reduce the potential for dispute and provide certainty for leaseholders, freeholders and professionals as to what to expect from this part of the enfranchisement process.
- 35) The purpose of the capitalisation and deferment rates, as set out in the LFRA 2024, is to calculate the present value of future receipts and income streams stretching into the future. Therefore, whilst the new enfranchisement measures as a whole will make enfranchisement cheaper and easier, it is not intended to use prescribed rates in and of themselves as a means of further reducing premiums for leaseholders, or to provide compensation to freeholders for the loss of income through other reforms to the valuation process. The government's aim is to set rates that reasonably find the present value of the "reversion" and "term" elements of the premium. In doing so, the government aims to set rates in a way that provides simplicity, certainty and stability for those involved in enfranchisement claims. The government aims to set rates in a way that avoids the need for case-by-case professional valuation advice and significantly reduces the scope for disputes. The government intends to avoid fluctuations and short-term changes in rates, creating instability that could adversely impact either party. Through implementation of the reformed valuation regime under the LFRA 2024, the government aims to ensure sufficient compensation is paid by enfranchising leaseholders to freeholders to reflect their legitimate property interests.
- 36) As noted above, the deferment rates for flats and houses have effectively been prescribed since the decision of the Lands Tribunal in *Sportelli* although in a limited number of cases, sufficient evidence has justified departures from these rates.
- 37) The capitalisation rate adopted in an enfranchisement valuation currently depends on the facts of the case, and different valuers will have different views on the appropriate rate. Valuers look at market evidence about how investors generally are investing their money and the returns that they receive from those investments to arrive at a rate that is appropriate for the particular income stream that they are valuing.
- 38) A range of rates could be reasonably argued to be capable of finding the present value. It is within the context of this background that government must decide on the appropriate rate(s).
- 39) The deferment and capitalisation rates set will be used for up to 10 years and will apply within the context of the new Standard Valuation Method. This, along with the fact that the tenant is not in the market and the appropriate rates to be applied would ordinarily differ to a greater extent than can be catered for by prescription, means, to a degree, these rates will reflect a hypothetical market in which enfranchisement is undertaken under the terms set out by the LFRA 2024.

40) The government’s intention is therefore to use the accompanying consultation to assist in determining what values would be appropriate.

Outcomes

- 41) Following the prescription of rates:
- a. The Standard Valuation Method will provide for the present value of the rent and reversion receivable by the freeholder in future in the term value and reversion value respectively.
 - b. The enfranchisement market will have been provided with certainty and stability: the enfranchisement premium will be knowable in advance, and the premium will remain stable between review periods.
 - c. Significantly fewer leaseholders and freeholders will need to employ valuers to determine the rates, so that transaction costs will be reduced; leaseholders will not be at risk of accepting inferior rates for want of employing valuers.
 - d. Far fewer leaseholders and freeholders will end up in legal disputes over rates, again reducing transaction costs.

Options Under Consideration

Do Nothing and Non-Legislative Options

42) It is necessary for the powers taken in the LFRA 2024 to prescribe the valuation rates to be exercised in order for the Standard Valuation Method to work and to be able to be commenced. As such, doing nothing would prevent the Government from commencing its leasehold valuation reforms. Likewise, there is no non-statutory alternative: the Act requires the rates to be prescribed in secondary legislation. The Government wishes to commence the Standard Valuation Method and as such reform leasehold valuation for the reasons set out in the LFRB IA. Furthermore, the market is now anticipating the Government prescribing the rates.

Options Not Considered:

43) Two approaches are not considered further:

Approach	Reason
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Rates by Region	The LFRA 2024 does not permit the Secretary of State to prescribe different rates for different geographical regions.
Rates by Leaseholder or Freeholder Identity	The Government has considered whether rates should differ for “types” of leaseholders or freeholders. The Standard Valuation Method was never intended to apply differently according to the category of leaseholders or freeholders. ¹⁸ To promote a fair leasehold system, the government believes that the same rates should apply to all leaseholders regardless of whether they are, for example, resident leaseholders or buy-to-let landlords, and regardless of the nature of their freeholder e.g. a private individual, a charity, a company or a group of enfranchised leaseholders. Seeking to apply the rates by “types” of leaseholders or freeholders would create a multi-tier system from the leaseholder’s perspective. It would not promote the aims of the legislation if a leaseholder were to be disadvantaged simply because their freeholder happens to be a charity, or another type of organisation.

Deferment Rate(s) Legislative Options

44) The Government is considering the following approaches to prescribing deferment rates:

- **Option 1:** Continuing the rates set in *Sportelli*
- **Option 2:** Update *Sportelli*
- **Option 3:** Alternative Approaches

Option 1: Continuing the rates set in *Sportelli*

45) The Government considers that there might be good reasons for maintaining the deferment rates for flats and houses at the rates that were determined in *Sportelli*; that is 4.75% for houses and 5% for flats. These rates are well understood, were produced following extensive investigation, evidence and a consensus view of several experts that has not been successfully challenged. Having been in place for a significant period, without successful challenge at a national level, they can reasonably be considered to be the prevailing market rates with which to calculate enfranchisement premiums.

¹⁸ This is a point recently upheld by the High Court in a judgment on judicial review claims in respect of some of the enfranchisement measures in the LFRA 2024. See *ARC Time Freehold Income Authorised Fund & Ors, R (on the application of) v The Secretary of State for Housing, Communities and Local Government* [2025] EWHC 2751 (Admin), see paragraphs 334 and 335.

- 46) Some responses to the Law Commission’s consultation recommended this approach.¹⁹ Some of the written evidence sent by stakeholders to Parliament about the Leasehold and Freehold Reform Bill (as it was) also suggested considering the use of the rates in *Sportelli*.²⁰
- 47) The government therefore believes the rates set in *Sportelli* provide a starting point and prescribing the deferment rates at these values would provide, for most enfranchisement cases, continuity and simplicity through the use of the prevailing rates.
- 48) Where the Standard Valuation Method applies, it will not permit any divergence from the prescribed rates. If the rates were set at the levels in *Sportelli*, there will be a minority of cases affected where, currently, sufficient evidence could be provided to argue for a different rate. This, for instance, could be where currently there is evidence of differences in regional price growth, or about the specific property’s risk of obsolescence.²¹

Option 2: Update *Sportelli*

- 49) In *Sportelli*, the Tribunal noted that the deferment rate could be treated as stable over time unless a trend movement in at least one component of the formula could be identified.²²
- 50) Due to the passage of time, the government believes it is important that consideration is now given to reviewing whether different rates than those in *Sportelli* should be set, based on independent analysis of more recent market evidence.
- 51) The government therefore sought an independent actuarial estimation from the Government Actuary’s Department (“GAD”)²³ in relation to the following two exercises:
- a) To re-estimate each component of the *Sportelli* formula exactly as it had been in 2007 (GAD were constrained to update the data in the formula only “mechanistically”²⁴) (Exercise 1).
 - b) To estimate each component of the formula with updated data and using its judgment, to reflect current economic conditions (Exercise 2).

¹⁹ Law Com No 387, para 6.73(2).

²⁰ Written evidence submitted by Household Services Limited to the Leasehold and Freehold Reform Bill Public Bill Committee (LFRB04); Written evidence submitted by Jones Lang LaSalle (JLL) to the Leasehold and Freehold Reform Bill Public Bill Committee (LFRB35).

²¹ For example, *Zuckerman v Calthorpe Estates Trustees* [2009] UKUT 235 (LC). Regional variation is not permitted under the Secretary of State’s powers. Obsolescence, in the context of leasehold enfranchisement valuation, refers to the risk that a building or part of it will, over time, become economically outdated (whether due to physical deterioration, functional inadequacy, technological change, or a combination of these factors) such that the cost of repair, renewal, or modernisation would be disproportionate to the value such works would create.

²² *Sportelli*, para 122.

²³ GAD is a UK non-ministerial department providing expert actuarial analysis, financial modelling, and advice to the public sector.

²⁴ Meaning the updating of the *Sportelli* formula with today’s numbers, without changing how the formula was originally designed or judged to work.

- 52) In the first exercise, GAD found that it could not update all the components “mechanistically” to be consistent with *Sportelli*, and so, the approach in Exercise 1 introduced inconsistencies to the results. It produced a deferment rate for September 2025 of 1.61%. GAD did not recommend using this approach in isolation to set a new rate and proposed that further scope for judgment was required.
- 53) In the second exercise, GAD reconsidered some of the data and methodology used for the components of the *Sportelli* formula. It produced a deferment rate of 6.05% for houses and 6.3% for flats, as of September 2025. Different approaches also produced different rates of 5.05% and 5.85% for houses. GAD stated that these rates do not represent upper and lower boundaries, meaning that higher or lower rates may be possible. It is likely, however, that if the exercises were repeated at a future point, that they would produce different results depending on how the economic data affects the components; potentially higher or lower values in future.
- 54) For further specific detail on each approach GAD took, please see GAD’s report to the government shown in the appendix to the consultation document.
- 55) In presenting Option 2, we are asking consultees which approaches should be taken, if their preference is to update *Sportelli*. For the avoidance of doubt, Option 2 is not consulting specifically on the rates that GAD produced, given that these could change if the analysis is undertaken again in future.

Option 3: Alternative Approaches

- 56) The government is aware that there could be many alternatives to determining the deferment rate, such as re-running *Sportelli* in different variations, or considering different factors. We discuss some of these below.
- 57) An alternative re-run of *Sportelli* could include setting a single combined deferment rate for houses and flats, on the basis this could add simplicity to the valuation regime. There are however likely to be continuing differences in management issues in flats compared with houses and this would complicate seeking to identify a single deferment rate for both types of property. Flats are likely to still present increased risks, such as from service charge challenges, as flats are more likely than houses to have such charges. The implementation of the LFRA 2024 may affect this further, as it sets out measures to increase service charge transparency and remove barriers for leaseholders to challenge their landlord.²⁵
- 58) An alternative factor could be to consider lease length. Presently, different approaches are taken where leases have an unexpired term of fewer than 20 years. An alternative could be to prescribe rates for shorter leases, down to five years unexpired (noting that the LFRA 2024 will not permit rates to be prescribed for leases at five years or fewer remaining). Such an approach could re-introduce some complexity into the amended valuation scheme,

²⁵ See sections 53-58 and 62-63 of the LFRA 2024.

which had been made simpler by applying the Standard Valuation Method across all leases in excess of five years.

59) An alternative factor could be to consider some limited property-specific variations. Whilst case-specific negotiation to differ from a prescribed rate will not be permitted under the LFRA 2024, it may be possible to prescribe rates that consider, at a general level, property specific factors such as an increased risk of obsolescence. There is likely to be some technical difficulty in seeking to prescribe a rate at a national level for property-specific factors. If it were possible to prescribe such rates, their use in practice would likely require a valuer's opinion to determine whether the rate applies to the property. It is very likely to require additional costs and to encourage disputes from freeholders. The potential reduction in reversion value from achieving the rate may be offset with the costs from delay and disputes.

60) GAD noted that there could be different approaches per component of the rate, such as:

- a) **Risk free rate:** using different spot yield data, or different averaging and smoothing periods.
- b) **Real growth rate:** alternative data sources or assessing the bearing of wider trends (population growth, climate change).
- c) **Risk premium:** use the Capital Asset Pricing Model (CAPM), which would use the equity market to estimate a component of the deferment rate. It would estimate the risk premium for freehold reversions using the risk premium on the stock of a company or companies that had substantial investments in freehold reversions.²⁶ Alternatively, using the credit spread of UK residential property (the difference between an asset and a benchmark gilt of a similar maturity) as a proxy for the movement of the risk premium.

61) The government is aware that there could also be alternatives outside of the *Sportelli* approach. Some alternatives were discussed in *Sportelli*, although the Tribunal ultimately discounted them. These included:

- a) Determination by reference to rack rental yields (a yield based on the annual rental value of the property).²⁷ The Law Commission reported that some consultees favoured this approach.²⁸

²⁶ The Tribunal in *Sportelli* rejected CAPM, because equities and freehold reversions are characteristically different, such as in liquidity. GAD noted that CAPM-based assumptions looked ahead for a shorter period than its chosen approach.

²⁷ The Tribunal rejected rack rental yields because the approach was short-term in outlook, did not consider certain elements the Tribunal thought might be important to the deferment rate (e.g. terms of control and opportunity to deal), and, at the time, appeared to operate in the opposite direction to what a long term deferment should do with market fluctuations. See *Sportelli*, paras 60-61.

²⁸ Law Com No 387, para 4.15.

b) Evidence from analysis of market sales of long-term residential reversions.²⁹

62) The Law Commission reported responses proposing tracking another rate in the market (such as a long-term interest rate equivalent to the term of the lease) and that the prescribed rate should be based on “long-term property and financial evidence”.³⁰

63) The consultation asks for views on other approaches the government should consider.

Capitalisation Rate(s) Options

64) The LFRA 2024 permits the Secretary of State to prescribe the “applicable capitalisation rate” for the formulae that are used to determine the term value.³¹ The formulae apply to different types of leases depending on whether and how the ground rent escalates over the lifetime of the lease. The formulae address ground rents with:

- a) no increases;
- b) fixed increases;
- c) increases by other means, e.g. with inflation.

65) Before turning to the specific options, it is important to consider how the impact of the 0.1% cap on ground rent may affect the value of enfranchisement ground rent income streams. In its Valuation Report, the Law Commission stated that if ground rents were capped at 0.1% of FHVP, then the need for, as well as the possible range of, different rates reduce.³²

66) Under the Standard Valuation Method, with some exceptions, the ground rent used in the valuation calculation will be capped at 0.1% of the FHVP.³³ The government agrees with the Law Commission that this may affect the range and number of rates. The cap will reduce the difference between the different ground rent income streams, given that most will not be able to breach the cap. It is noted, however, that the 0.1% cap will not apply to all rents that fall within the Standard Valuation Method, depending on the property value or whether the exceptions to the cap apply.³⁴

67) There will be other provisions and legislation which might affect some of the factors previously considered in the adoption of a capitalisation rate. These are discussed below.

²⁹ The Tribunal rejected the use of evidence from market sales for several reasons: a difference between real-world market and the statutory “no-Act world”; the circular influence of Tribunal decisions; and the inclusion of factors in the market price that are excluded (“hope value”). See *Sportelli*, paras 63-67.

³⁰ Law Com No 387, para 6.84.

³¹ See LFRA 2024, schedule 4, paragraphs 35-39.

³² Law Com No 387, footnote 141, page 137.

³³ See LFRA 2024, schedule 4, part 3, paragraph 5.

³⁴ There is an exception to the 0.1% cap for leases granted with no premium, or where the premium was lower, and the rent was higher, than each would otherwise have been, and the reduction in the value of the premium was broadly equivalent to, or greater than, the capitalised value of the extra rent. See LFRA 2024, schedule 4, paragraph 26(9).

- 68) Currently, in certain cases where there is an intermediate lease, different capitalisation rates may be used based upon the value of the intermediate lease.³⁵ Provisions in the LFRA 2024 will in future treat intermediate leases as merged with the superior interest(s) upon an enfranchisement and so there will be no need for specific approaches to rates that reflect intermediate leases.³⁶
- 69) Since 27 December 2025, provisions in the Renters' Rights Act 2025 mean that leaseholders are no longer subject to the "assured tenancy trap", through which a freeholder could seek possession of a lease for relatively modest ground rent arrears.³⁷ This may affect the risk of recovery of ground rents. The government has announced changes to the law on forfeiture which can be triggered for ground rent arrears.³⁸ Once in force these could affect the risk of recovery.
- 70) Furthermore, on 27 January 2026, the government announced its intention to introduce a legislative cap on ground rent at £250 p.a., changing to a peppercorn after 40 years. The proposal is currently in a draft Bill and not yet before Parliament in a format where it could be enacted. Should such provisions be enacted by Parliament, we expect them to also affect the attractiveness, to freeholders and investors, of high or escalating ground rents, thereby altering the range and need for differing capitalisation rates that might be applied to such ground rents in enfranchisement premium valuation calculations.
- 71) When considering future changes to the legislative and valuation landscape, and factoring in both the 0.1% cap and the £250 cap, there may be some circumstances where only one cap need be applied (for instance, if the general cap brings the rent below the threshold of 0.1% of the FHVP); and in other cases, there may be some circumstances where both caps are to apply (for example, for properties where the FHVP is below £250,000, the 0.1% cap would also apply). The government wishes to consider further the future interaction between the two caps (i.e. 0.1% and £250) on capitalisation rates.
- 72) In summary, the government considers that the effect of many of these changes, individually, and collectively, would be to adjust the range of capitalisation rates.
- 73) The government is assuming that, with the LFRA 2024's 0.1% cap (at least) in force, the range of capitalisation rates could still lie within the current typical range of 5% to 8%³⁹, but this is subject to the evidence received in response to this consultation. In providing the options listed below, we ask for views on what the appropriate range of rates could be for each option, as well as what the preferred rate(s) would be. We wish to understand what

³⁵ See Law Com No 387, para 13.125.

³⁶ See LFRA 2024, schedule 4, paragraph 17(2).

³⁷ Section 31 of the Renters' Rights Act 2025 will exclude long leases from being considered assured tenancies under the Housing Act 1988, thereby removing the ability of landlords to use the Ground 8 repossession route where ground rent arrears exceeded £250 nationally and £1000 in London.

³⁸ The government has announced its intention to abolish the right to forfeit a long residential lease for breach of covenant. In its place, the government will introduce a statutory lease enforcement scheme. This modern framework will ensure that breaches can still be addressed, but in a way that is fairer and more proportionate.

³⁹ Law Com No 387, paras 2.70, 6.63; Leasehold and Freehold Reform Bill IA (2023), Annex 10, para 253.

factors have influenced consultees' responses and what impacts the chosen option and preferred rates would have.

74) In consulting on prescribing the appropriate capitalisation rate(s), the government has considered the following approaches:

- a) **Option 1:** A single Capitalisation rate.
- b) **Option 2:** Three Capitalisation rates, by rent review type.
- c) **Option 3:** Alternative Approaches.

Option 1: A single Capitalisation Rate

75) Setting a single capitalisation rate that applied to all the three term formulae would provide the most simplicity for leaseholders and freeholders. It would leave no scope for confusion, disagreement or any external influence over what rate should apply. It would reflect that the 0.1% cap, and other provisions, reduce the value distinctions between different ground rent streams.

76) It is possible that a single rate might create a broad spectrum of winners and losers, given that only one rate is being set for all rent review types. This impact will depend on several factors including the value of the rate chosen, how it differs to current rates, and whether the 0.1% cap would apply to the ground rent. The impacts of the value chosen (in terms of the change in the term value), should be balanced against the benefits of setting one simple indisputable rate. Through the consultation, we are seeking to identify what point would strike a fair balance between freeholders and leaseholders.

Option 2: Three Capitalisation rates, by rent review type

77) The government has heard views expressed by freeholders indicating that they interpret the provisions of the LFRA 2024 as permitting a different rate to be prescribed for each rent review formula (as described above at para 64).

78) The government is consulting on an option of prescribing a different capitalisation rate for each rent review type (three in total). The option could provide a level of simplicity for leaseholders and freeholders, because, compared to the current position, there is only one rate to choose from for the relevant type of rent review. It might create winners and losers from the change in the term value if the rate chosen for the particular type of ground rent review is different compared to current rates, even after taking account of the 0.1% cap.

79) Under this option, the process of determining, or even agreeing, the relevant rate between enfranchisement parties, might allow disputes to arise if the lease terms are unclear, or through error. In such cases, leaseholders could be pressured into agreeing to a potentially incorrect rate to avoid the costs and delay of seeking a determination by the Tribunal.

Option 3: Alternative Approaches

- 80) There could be further approaches or factors to setting the rates. The Law Commission noted that some of the responses proposed adopting specific values on a range between 5% and 8%, with some other responses between 3% and 10%, or tracking some other rate in the market e.g. an appropriate gilt rate related to the length of the lease.⁴⁰
- 81) Whilst the 0.1% cap is assumed to reduce the difference between rent streams, some of the current factors considered in adopting the rate (see para 30 above), could still have an influence on the capitalisation rates and alternative approaches could look at the extent to which these factors still have a relevance. There will also be cases where the 0.1% cap does not apply, either because of the property value, or because of the exceptions to the 0.1% cap (as discussed in paragraph 66), which could then have a bearing on the rates in those cases.
- 82) The government is interested in hearing what other factors consultees consider could be relevant in the approach to, and value of the prescribed rate(s).

Summary and Preferred Option with Description of Implementation Plan

- 83) We have not provided a preferred option for either type of rate. Instead, we have provided different options for consultation.
- 84) The prescription of any rate(s) will: provide a degree of certainty and stability, enabling both parties to know the price of enfranchisement prior to the transaction and across a reasonable horizon between reviews; reduce or eliminate the requirement for valuers and associated costs; reduce or eliminate legal disputes over rates and associated costs; therefore eliminate or reduce the problems of asymmetric information and inequality of arms.
- 85) The government's aim is to set rates that reasonably find the present value of the ground rent and reversion.
- 86) The SoS will need to prescribe the values in secondary legislation that will be laid in Parliament. The government intends that the rates will be brought into force as part of a package with the LFRA 2024's enfranchisement measures. For instance, at the same time as the new requirements for 990-year lease extensions, and that each party bears their own non-litigation costs, and the new valuation method including 0.1% cap on ground rent used in the premium calculation. This is because the LFRA 2024's enfranchisement measures are largely dependent on each other to operate effectively.

⁴⁰ Law Com No 387, para 6.70. Other responses included differing rates depending on the type of rent review and considering regional rates, the latter of which are not possible under the Secretary of State's powers.

- 87) The enfranchisement provisions in the LFRA 2024, including prescribing the valuation rates, can only be commenced after a small number of fixes in primary legislation have received Royal Assent. The fixes will form part of the next substantive Commonhold and Leasehold Bill. The timing of this is still to be confirmed. The provisions would commence as soon as possible after Royal Assent.
- 88) The government will include rates in its consideration of transitional arrangements more generally for the enfranchisement provisions in LFRA 2024 as a whole. This will involve the publication of notifications and guidance about the timeframe for the implementation of the LFRA enfranchisement provisions, and how this may affect claims.
- 89) The government anticipates that commencement of these provisions will require a clear “cut-off” point, whereby claims made after that date will progress under the LFRA’s new enfranchisement measures and valuation method, and those claims made before that date (even if they complete after that date) can only be undertaken under the pre-existing law.
- 90) Once commenced, enfranchisement practitioners (solicitors, conveyancers, valuers) will apply the rates, as prescribed, when determining statutory enfranchisement claims. It is likely there will be fewer disputes under the LFRA 2024’s enfranchisement valuation measures for claims that clearly fall within the Standard Valuation Method, than previously. This is because the prescription of rates removes a key area where disputes have tended to happen. Where disputes do arise, for instance where the law is not correctly followed, these can continue to be taken to the appropriate Tribunal, either the First-tier Tribunal (Property Chamber) in England or the Leasehold Valuation Tribunal in Wales, for which there is existing provision, amended by the LFRA 2024.⁴¹
- 91) It would not be appropriate or necessary for there to be piloting, trialling, or experimentation given that the rates must be used as prescribed in order that the Standard Valuation Method can operate for all relevant enfranchisement claims. The government will continue to work with key stakeholders ahead of implementation to ensure implementation issues are fully considered.

Economic Case

Methodology

- 92) This Impact Assessment sets out the impacts of prescribing deferment and capitalisation rates in secondary legislation for enfranchising leaseholders of houses and flats.

⁴¹ Sections 40 to 43 of the LFRA moving jurisdiction of (almost) all leasehold enfranchisement disputes to the First-tier Tribunal (Property Chamber) and providing affected leaseholders with a clear fast track to bringing claims forward, making enfranchisement simpler and more affordable as each side will bear their own litigation costs, in accordance with existing Tribunal rules.

- 93) Some impacts are in the form of transfers between leaseholders and freeholders *relative to the counterfactual, i.e. the prevailing rates*. While these transfers may result from the decision of the SoS, it is important to note that the SoS will determine the rates without regard to changes in the price of enfranchisement. This is because the Act requires the SoS to prescribe rates that find the present value.
- 94) Impacts have been monetised where possible and proportionate, alongside qualitative analysis, using a 10-year appraisal period (2027 – 2036).⁴² Costs and benefits are shown in 2025 prices and discounted at 3.5% using a 2027 present value. Based on the timetables set out above, we assume that the commencement date for the enfranchisement measures in the LFRA 2024 (including prescribing the valuation rates in secondary legislation) will be in 2027. This scenario is compared against a counterfactual ‘Do Nothing’ scenario, in which existing arrangements continue.
- 95) Modelling assumptions and approach are set out in the Technical Annex accompanying this Impact Assessment. Going forward, MHCLG welcome additional evidence or insights from individuals or organisations that could help refine assumptions or improve the robustness of the analysis. An updated Impact Assessment will be published to accompany a final policy decision which will reflect emerging evidence from the consultation.

NPSV: Monetised and Non-Monetised Costs and Benefits

- 96) The main impacts presented concern the transfers between freeholders and leaseholders. Where a transfer occurs, this will benefit one group and cost the other, and therefore does not impact the Net Present Social Value (NPSV).
- 97) Familiarisation costs associated with prescription have been monetised, which produce an NPSV of -£8.1m over the 10-year appraisal period (2027 PV, 2025 prices). We present switching value analysis in the sensitivity section to consider how large the value of non-monetised benefits would need to be for the net present value to equal zero.
- 98) Table 1 sets out the costs and benefits associated with prescribing the deferment and capitalisation rates. Where monetised, these are presented in 2025 prices with a present value base year of 2027 over a ten-year appraisal period. The provisional Equivalent Annualised Net Direct Cost to Business (EANDCB) constructed for this consultation IA is £0.9m, reflecting familiarisation costs alone. Following consultation, the collection of necessary data and the selection of a preferred option, we will refine this EANDCB metric to account for any business impact arising from the prescription of the capitalisation and deferment rates.

⁴² Despite the 10-year appraisal period, the full length of remaining leases (sometimes hundreds of years) is accounted for within the reversion calculation itself.

Table 1: Costs and Benefits to Households and Businesses

Impact	Groups Impacted	Direct/Indirect
Benefits		
Benefit from change to the deferment rate (transfer)	Leaseholders/Freeholders	Direct
Benefit from change to the capitalisation rate (transfer)	Leaseholders/Freeholders	Direct
Reduction in valuer and legal costs	Leaseholders/Freeholders	Indirect
Other benefits of certainty and stability	Leaseholders/Freeholders	Direct
Costs		
Costs from change to the deferment rate (transfer)	Leaseholders/Freeholders	Direct
Costs from change to the capitalisation rate (transfer)	Leaseholders/Freeholders	Direct
Familiarisation costs (£8.1m)	Freeholders, Legal Professionals, Valuers	Direct

Monetised Benefits:

Benefits Resulting From the Choice of Deferment Rate(s) (Direct, Transfer)

- 99) Any deferment rate prescription that benefits leaseholders relative to the counterfactual will cost freeholders by the same amount; any prescription that benefits freeholders will cost leaseholders by the same amount.
- 100) The deferment rate discounts the reversion receivable by the freeholder in the future: as such, a lower deferment rate increases the reversion value payable by the leaseholder and increases the revenue of the freeholder, and vice versa. The deferment rate is presently determined by the *Sportelli* precedent and is 4.75% for houses and 5% for flats. As such, we assume these as our baseline rates.
- 101) The *Sportelli* rates were estimated to be those that found the present value at the time, but it is possible that those rates have changed since. Therefore, the SoS could consider prescribing rates other than *Sportelli*.
- 102) Currently, minor deviations from the *Sportelli* rates are possible, for example where the risk of obsolescence is considered to be higher or the real property price growth rate lower, which may more often be the case outside of PCL. If the prescribed rate(s) do not allow for these deviations, then some small transfers will be induced in these cases: if the present deviations are positive, then the transfers resulting from this simplification will be

from leaseholder to freeholder. We do not have sufficient data on the prevalence of these deviations to model these “simplification impacts”.

103) Table 2 illustrates the impact of changes in the deferment rate on the reversion value for a 990 year lease extension for a flat with an extended lease value of £250,000 under two scenarios: a longer lease (100 years remaining) and a shorter lease (80 years remaining). It shows that what might be considered small changes in the deferment rate cause large changes on the reversion value because of the long time periods (the lease length) over which the discount rate is being applied.

104) When there are 100 years remaining on the lease, a one percentage point reduction in the deferment rate from 5% to 4% causes a 160% increase in the reversion value, a cost of over £3,000 to the leaseholder and an equivalent benefit to the freeholder. A one percentage point increase in the deferment rate from 5% to 6% causes a 61% reduction in the reversion value, a benefit of £1,200 to the leaseholder and an equivalent cost to the freeholder.

105) When there are 80 years remaining on the lease, a one percentage point reduction in the deferment rate to 4% causes a 115% increase in the reversion value, a cost of £5,800 to the leaseholder and an equivalent benefit to the freeholder. A one percentage point increase in the deferment rate to 6% causes a 53% reduction in the reversion value, a benefit of £2,700 to the leaseholder and an equivalent cost to the freeholder.

106) Though the reversion value is absolutely greater when the lease is shorter, the proportionate change resulting from a change in the deferment rate is greater when the lease is longer because of the longer time period over which the discount rate is being applied.

Table 2: Deferment Rate and Reversion Value for Given Flat⁴³

a.) 100 Years Remaining; Extended Lease Value £250,000

		Deferment Rate (%)								
		3.00	3.50	4.00	4.50	5.00 <i>Baseline</i>	5.50	6.00	6.50	7.00
Reversion value		£13,008	£8,015	£4,950	£3,064	£1,901	£1,182	£737	£460	£288
Change From 5% Baseline	£	£11,107	£6,114	£3,049	£1,163	£0	-£719	-£1,164	-£1,441	-£1,613
	%	584%	322%	160%	61%	0%	-38%	-61%	-76%	-85%

b.) 80 Years Remaining; Extended Lease Value £250,000

		Deferment Rate (%)								
		3.00	3.50	4.00	4.50	5.00 <i>Baseline</i>	5.50	6.00	6.50	7.00

⁴³ The reversion value is calculated by deferring the extended lease value by the years remaining on the current lease, as per the LFRA Sch 5 Part 5 s28 (2) and (3).

Reversion value		£23,494	£15,948	£10,846	£7,390	£5,044	£3,449	£2,363	£1,622	£1,115
Change From 5% Baseline	£	£18,450	£10,904	£5,802	£2,346	£0	£-1,595	£-2,681	£-3,423	£-3,929
	%	366%	216%	115%	47%	0%	-32%	-53%	-68%	-78%

107) For illustrative purposes, we have also estimated the impact of changing the deferment rate across total annual lease extensions for flats (which represents the largest affected group) in Table 3 below.

108) Costs and benefits are shown over a 10 year appraisal period, in 2025 prices and discounted at 3.5% using a 2027 present value. Further details are provided in the Technical Annex. A negative figure implies a transfer from leaseholders to freeholders (i.e. the value of aggregate premiums across the stock of leases increases relative to the baseline) and vice versa. For example, at 3% leaseholders would in aggregate pay £6.3bn *more* in premiums to freeholders, all else equal, over the next 10 years. At 6%, they would pay £1.1bn *less*.

Table 3: Deferment Rates and Transfers Over 10-Year Appraisal Period for Lease Extensions in Flats, £bns (2027 PV, 2025 Prices)

Transfer (£bn)	Deferment Rate (%)								
	3.00	3.50	4.00	4.50	5.00 <i>Baseline</i>	5.50	6.00	6.50	7.00
Flats	£-6.3	£-3.8	£-2.1	£-0.9	£0	£0.6	£1.1	£1.4	£1.7

109) The impact of rates ranging from 1% to 10% can be found in Annex 1.

110) Depending on which option is chosen to set the deferment rate, outcomes are likely to differ in the following ways:

- i. **Option 1: Continuing the rates set in *Sportelli*:** if the *Sportelli* rates are maintained the main impact will be zero but some simplification impacts will be realised.
- ii. **Option 2: Update *Sportelli*:** if a re-estimation of *Sportelli* yielding different rates is prescribed, then there will be main impacts, and transfers induced relative to the counterfactual. Impacts resulting from simplification will be the same as in Option 1.
- iii. **Option 3: Alternative Approaches:** if any alternative approach yielding different rates to *Sportelli* is chosen, there will be main impacts and transfers induced relative to the counterfactual. Under Option 3 respondents may recommend any alternative, such as prescribing the same rate for flats and houses (which would increase the simplification impacts) or providing for property-specific obsolescence adjustments (which would decrease them).

Non-Monetised Benefits

Benefits Resulting from the Choice of Capitalisation Rates (Direct, Transfer)

- 111) Any capitalisation rate prescription that benefits leaseholders relative to the counterfactual will cost freeholders by the same amount; any prescription that benefits freeholders will cost leaseholders by the same amount.
- 112) The capitalisation rate discounts the ground rent receivable by the freeholder in the future. As such, a lower capitalisation rate increases the term value payable by the leaseholder and increases the revenue of the freeholder and vice versa. In the current market, the capitalisation rate largely results from negotiation between leaseholders and freeholders, sometimes with and sometimes without valuers.
- 113) Currently, valuers use different rates for different ground rents. Prescription is likely to result in less variation, and as such some transfers will be induced as a result of this simplification – we call these “simplification impacts”. Assuming the rate(s) are set neither entirely below nor entirely above the range of prevailing rates, transfers will be induced in both directions. To model such impacts in aggregate for any given prescription, we would need to know the existing distribution of ground rents and rates. The department does not have sufficient data on the existing distribution of rates currently set in the market, however, we are collecting this data in the consultation.
- 114) For these reasons, the impact of setting the capitalisation rate on the population of enfranchising leaseholders and their freeholders is non-monetised at this stage. However, Table 4 below provides an illustration of impact on a leaseholder/freeholder at the individual level under three scenarios, and supposing that the SoS prescribes a single capitalisation rate at 7%; each lease began with 120 years remaining and is being valued at 100 years remaining:⁴⁴
- i. Scenario 1: here, the leaseholder pays a low ground rent of £50 per year that is fixed over time. Suppose in the current market the capitalisation rate applied would be 9%, then any “simplification impact” of a prescribed rate at 7% would be to transfer £158 from leaseholder to freeholder.
 - ii. Scenario 2: here, the leaseholder pays a variable ground rent, starting at £150 per year with stepped increases over time. Suppose in the current market the capitalisation rate applied would be 6%, then any “simplification impact” of a prescribed rate at 7% would be to transfer £454 from freeholder to leaseholder.
 - iii. Scenario 3: here, the leaseholder pays a variable ground rent that increases with inflation and which is capped at 0.1% of the property value following commencement of measures in the LFRA. Suppose in the absence of the 0.1% cap the capitalisation rate applied in the market would have been 4%, but in the presence of the 0.1% cap it would have been 7%,

⁴⁴ Both the prevailing rates and prescribed rate used here are entirely illustrative and do not indicate either our understanding of the existing distribution nor any likely rate to be prescribe

then the impact of a prescribed rate at 7% would be zero, since the term value would have been £3,603 in the market and under prescription.

Table 4 : Capitalisation Rate and Term Value

FHVP = £252,525; Term Remaining = 100 Years Scenario 1: Fixed Rent Below 0.1% FHVP Ground Rent = £50						
Rate	4%	5%	6%	7%	8%	9%
	£1,225	£992	£831	£713	£625	£555
Scenario 2: Escalating Rent Below 0.1% FHVP Ground Rent = £150, rising by £25 every 20 years, four reviews remaining.						
Rate	4%	5%	6%	7%	8%	9%
	£3,981	£3,195	£3,060	£2,606	£2,265	£2,002
Scenario 3: RPI Rent Review With 0.1 % Cap Applied RPI at Start of Lease = 192.2; RPI at Time of Valuation = 404.5 Ground Rent = £200, would have risen to £421 at next review but instead capped at £252.52 for remainder of lease.						
Rate	4%	5%	6%	7%	8%	9%
	£6,188	£5,012	£4,196	£3,603	£3,155	£2,805

- 115) As noted above, other leasehold reforms, will affect the ground rent to be capitalised in the term value, such as the 0.1% ground rent cap at enfranchisement or the £250 ground rent cap. This may change the rates that valuers would apply in the market absent of any prescription. The consultation seeks opinions on this.

Options

Option 1: A single Capitalisation Rate

- 116) Under this option “simplification impacts” will be maximised, but so will certainty and simplicity, with no possible cause for valuers or disputes.

Option 2: Three Capitalisation rates, differing by rent review type

- 117) Under this option “simplification impacts” will be reduced by comparison to Option 1, though the process will still be significantly simpler, and the cause for valuers or disputes significantly reduced. It would be possible to prescribe in such a way that impacts in our three scenarios would be zero; however, since the market is more complex than our three scenarios, in actuality these impacts will not be zero. On the other hand, it is possible that the reduced certainty and simplicity may give cause for valuers to be employed to

determine which was the appropriate rate to apply in a small number of cases, inducing costs to freeholders and leaseholders.

Option 3: Alternative Approaches

- 118) Respondents may recommend any alternative: generally, the more types of rental stream and rates that are provided for, the lower simplification impacts will be. However, this will increase the risk of undermining the objectives of certainty, simplicity, and reducing valuer and dispute costs.

Benefits resulting from reduction in valuation and legal costs (Indirect, Benefit)

- 119) The LFRA IA quantified the efficiency savings to both leaseholders and freeholders arising from enfranchisement reform. This came in the form of reduced valuer services, resulting from a more transparent and navigable valuation process, and thus reduced costs for both leaseholders and freeholders.⁴⁵
- 120) This benefit is quantified as £209m to freeholders and £209m to leaseholders over a 10-year appraisal period from 2025 – 2034 (2019 prices, 2025 PV). These benefits are considered across valuation reforms (e.g. they also encompass the abolition of marriage value). As such, only a portion of these benefits will be attributable to the prescription of rates. In our sensitivities section, we present switching value analysis to demonstrate what portion of these benefits would have to be solely attributable to engender a positive NPSV. However, the underlying analysis would need to be updated to reflect the latest data on valuer services, and the price base year would also have to be updated.
- 121) The LFRA IA also assessed there would be benefits arising from reduced disputes between leaseholders and freeholders attributed to the prescription of rates.⁴⁶ Reduced disputes will reduce legal costs or the need to challenge rates through the Tribunal system
- 122) The extent to which these benefits are felt depends on the approach taken to prescription. If, for example, multiple rates are prescribed under the capitalisation rate, this would not be as simple to understand and apply as a single rate would be (see paragraphs 117, 118 above).

Other benefits of certainty and stability

- 123) Once the rates are prescribed in legislation, both leaseholders and freeholders will have certainty about the price of enfranchisement before the transaction is begun. Since the rate will also be stable between review periods, they will also have certainty about the price across a reasonable horizon. This will allow better financial planning for both, perhaps

⁴⁵ Leasehold and Freehold Reform Bill Impact Assessment.pdf, Annex 2, pg. 32, para 147.

⁴⁶ See IA, Leasehold and Freehold Reform Bill, Annex 2 page 102, para 9.

especially for leaseholders, for whom enfranchisement activity is often a significant financial undertaking. In addition, this legislative certainty and stability will overcome the asymmetry of information that exists between leaseholders and freeholders, and the inequality of arms. We note that there will be “simplification impacts” from reducing the range of capitalisation rates in use by prescription compared to the market, but simplification is also an objective, since it mitigates against the asymmetry of information and inequality of arms and enables transactions without valuers.

Monetised Costs

Costs resulting from the choice of Deferment rate(s) (Direct, Transfer)

- 124) Any deferment rate prescription that benefits leaseholders relative to the counterfactual will cost freeholders by the same amount; any prescription that benefits freeholders will cost leaseholders by the same amount.

Familiarisation costs (Direct)

- 125) All legal professionals and valuers working in this area, acting for leaseholders and freeholders, will need to familiarise themselves with the prescribed rates. It is anticipated that freeholders will also wish to familiarise themselves with the rates ahead of actually receiving an enfranchisement claim in which the rates would feature. It is assumed that leaseholders would only familiarise themselves with relevant legislation when they have a dispute or issue they might want to challenge, or before they decide to enfranchise, therefore there is not expected to be an extra familiarisation cost to leaseholders.⁴⁷ The ensuing familiarisation costs measure the cost of time in reading and understanding the new policy and the implications of reform.
- 126) 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).
- 127) The new legislation will not take long for individuals to understand or become familiar with, even accounting for the selection of different options. We estimate there will be approximately one page worth of legislation to read, and have produced an estimated word count of this based on taking an average word count of one page in the Leasehold and

⁴⁷ It is unlikely that many leaseholders will proactively read the statutory instrument prescribing the rates, and would only familiarise themselves with the rates at the same juncture in the process that they would have done under existing legislation (if at all). There is not expected to be any extra familiarisation cost to leaseholders that they would not have incurred in the counterfactual case. The most likely circumstance is that leaseholders will not familiarise themselves with the rates and instead rely on professional services, who will have already incurred a familiarisation cost as part of their business.

Freehold Reform Act⁴⁸ (c. 300). Taking an average reading pace of 100 words per minute⁴⁹, produces a reading time of 0.05 hours. An assumption of 30 minutes is then added for other time costs (e.g., finding, acquiring, understanding, communication, etc.), leading to a total familiarisation time of 0.55 hours.

128) Wage estimates are uprated by 1.3 to reflect non-wage costs. Familiarisation costs are assumed to be 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.

129) Familiarisation costs are calculated by multiplying a familiarisation time of 0.55 hours by the relevant representative wage, then the cost in 2025 prices and applying an adjustment to reflect non-wage costs. This per unit familiarisation cost is then multiplied by the relevant group size. Taken together, the total familiarisation cost across this reform is £8.1m (2027 PV, 2025 prices). The breakdown of this total by type of affected group is set out below.

Table 5: Familiarisation costs by group across the 10-year appraisal period (2027 PV, 2025 prices)

Group impacted	Group size	ASHE wage	Per unit reading cost	Value
Freeholders	426k	£25.12	£17.96	£7.7m
Legal professionals	8 ⁵⁰	£34.80	£24.88	£0.2m
Valuers	16k ⁵¹	£23.03	£16.47	£0.3m
Total				£8.1m

130) No economies of scale are assumed, and costs may be lower if firms or trade bodies share guidance or training. No pass through costs are assumed.⁵²

131) Costs are assumed to be transitory, one-off costs occurring in the first year of implementation. The implementation of the prescribed rates, and thus the year in which familiarisation costs are shouldered, is assumed to be in 2027.

⁴⁸ Leasehold and Freehold Reform Act

⁴⁹ Using Microsoft Word, we determined the Flesch Reading Ease score of the latest draft to be 44.0, and the Flesch-Kincaid Grade level to be 12.3. 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 IA approaches.

⁵⁰ As per data from the Law Society, it is assumed there are approximately 8,000 lawyers in this sector. Once admitted to the roll of solicitors, lawyers automatically can become a member of the Law Society, which then provides a register of members. The Law Society asks its members to provide their speciality (this is not mandatory but in the interests of the lawyers to do so, so we assume they do). The relevant speciality for this sector is 'landlord and tenant – residential.' . As lawyers are not mandated to name their speciality, there is a large degree of uncertainty regarding this number, particularly as lawyers in other areas (such as residential conveyancers) may occasionally do work that would cross-over with this area.

⁵¹ In Jan 2026 the Royal Institute for Chartered Surveyors (RICS) website shows 15,736 entries for 'registered valuer', valuers are not mandated to register with RICS however, so this is likely to be an underestimate.

⁵² Where freeholders wish to familiarise themselves with the prescribed rates prior to any enfranchisement under the LFRA, we expect they would likely absorb this cost.

- 132) A low and high sensitivity scenario is estimated for each group, by applying a 25% increase and decrease to wage costs. For freeholders due to the uncertainty of the group estimate, the low and high estimate is also varied by the group size.⁵³

Non-Monetised Costs:

Costs resulting from the choice of Capitalisation rate(s) (Direct, Transfer)

- 133) Any capitalisation rate prescription that benefits leaseholders relative to the counterfactual will cost freeholders by the same amount; any prescription that benefits freeholders will cost leaseholders by the same amount.

Risks, Assumptions and Sensitivities

- 134) A full set of modelling assumptions is presented in the Technical Annex that accompanies this impact assessment.
- a. **Sportelli Assumption:** In our counterfactual we assume the *Sportelli* deferment rates would have prevailed across the 10-year appraisal period. If in fact a case in the Upper Tribunal would have overturned them at some point over the period, then the impacts of the prescribed rate(s) would differ from those shown here.
 - b. **Sensitivity applied to the number of lease extensions for flats across the appraisal period:** A key assumption on any overall transfer impacts is the number of flat lease extensions per year, which we assume to be flat over the 10-year appraisal period. Table 1 presents the transfer between freeholders and leaseholders arising from changes in the deferment rate, while flexing our central assumption on the number of flat lease extensions taking place each year (c.36.3k). The table below shows the impacts of applying a 25% adjustment: for the lower estimate we reduce our estimate of annual lease extensions by a quarter (to c.27.2k), and for the upper we increase it by a quarter (to c.45.4k).

⁵³ In the low scenario we assume c.240k freeholders and in the high scenario we assume c.613k freeholders. To get to these estimates, we have been able to partially identify the number of unique landlords and we have been able to identify the number of freehold 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 title 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: Leasehold and Freehold Reform Bill: Impact Assessment (UK Parliament, Impact Assessment No. IA No: DLUHC050; Bill 13, Session 2023–24)pg. 68, Available at: <<https://publications.parliament.uk/pa/bills/cbill/58-04/0013/LeaseholdandFreeholdReformBillImpactAssessment.pdf>>.

Table 2: Sensitivity: Deferment Rates and Transfers Over 10-Year Appraisal period for Lease Extensions in Flats, £bns (2027 PV, 2025 Prices)

Scenario (£bn)	Deferment Rate (%)								
	3.00	3.50	4.00	4.50	5.00	5.50	6.00	6.50	7.00
Lower Estimate	-£4.7	-£2.8	-£1.5	-£0.6	-	+£0.5	+£0.8	+£1.1	+£1.3
Central Estimate	-£6.3	-£3.8	-£2.1	-£0.9	-	+£0.6	+£1.1	+£1.4	+£1.7
Upper Estimate	-£7.8	-£4.7	-£2.6	-£1.1	-	+£0.8	+£1.3	+1.8	+£2.1

c. **Switching value analysis:** We have conducted switching analysis to consider how large the value of non-monetised benefits would need to be for the net present value to equal 0. We have done this under two different approaches:

- i. Estimating the **benefits needed per lease extension** to offset the overall cost: this estimate is calculated by dividing the total familiarisation cost (£8.1m) by the number of lease extensions over the 10-year appraisal period (c.36k multiplied by 10, giving an estimate of 360k), giving an estimated £22 benefits per lease extension needed to offset the overall cost over the appraisal period.
- ii. Alternatively, we can estimate **what proportion of efficiency savings, particularly around demand for valuer services**, stated in the LFRA would be needed to offset the overall cost. As stated above, the LFRA quantified the benefits of efficiency savings associated with valuation reform, particularly around demand for valuer services. This was quantified as £418m total (2019 prices, 2025 PV). Given that (i) only a portion of these benefits will be attributed to the prescription of rates and (ii) we expect that familiarisation costs of this secondary legislation will cost stakeholders £8.1m (2025 prices, 2027 PV), only 1.9% of the efficiency savings stated in the LFRA would have to be due to the prescription of rates specifically for the NPV of this IA to turn positive. The LFRA IA also had an NPV of £107.3m (2019 prices, 2025 PV). This is not a perfect comparison due to difference in price base year, however adjusting the efficiency saving benefits to 2025 prices will only reduce the percentage necessary to ensure a positive NPV.

Impact on Small and Micro Businesses

135) The prescription of the rates may transfer value towards or away from freeholders; prescription will likely reduce the demand for valuers, and, by reducing disputes, for solicitors. Familiarisation costs will be borne by each.

136) Freeholders with small portfolios may be small or micro businesses (SMBs)⁵⁴: the LFRA IA contains analysis of the composition of freeholders⁵⁵. Many firms of valuers and

⁵⁴ LFRB IA Para 220

⁵⁵ LFRB IA Para 211 Onward

solicitors are likely to be SMBs⁵⁶. SMBs may suffer disproportionately from costs or a reduction in demand.

137) Exempting SMBs from the prescribed rates would undermine the objectives of the LFRA 2024: if prescription is to transfer value from freeholders, exempting small freeholders from prescription would disbenefit their leaseholders and create a complex, two-tier enfranchisement market. As noted in paragraph 43, the government believes that the same rates should apply to all leaseholders regardless of the nature of their freeholder. It is also not practically possible to exempt valuer or solicitor SMBs from prescription.

138) However, as part of the wider implementation of the LFRA 2024, we will support SMBs by working with industry bodies and the Leasehold Advisory Service (LEASE), raising awareness, providing guidance and ensuring the reforms (including the prescription of rates) can be easily understood.

Wider Impacts

Equalities Impact

139) We have undertaken an equalities assessment of the potential impacts from the range of options to prescribe the deferment and capitalisation rates. Ignoring potential transfers, prescription makes enfranchisement easier for all parties and reduces process costs. Both leaseholders and freeholders will therefore benefit; leaseholders are more likely to have protected characteristics than the general population (younger, LGBTQ+ identity, single/ widowed/ divorced) – we do not have similar data on freeholders⁵⁷. However, this is coincidental and not a consequence of policy design. We cannot know about transfers until the rates are set.

Geographical Distribution of Leasehold Tenure

140) As noted above, it is not possible to vary rates by location, and there will be circumstances where a rate reflecting local or property specific factors may no longer be possible. The impact on leaseholders and freeholders may therefore differ by location, depending on how the rates are set.

141) As set out in the IA for the Leasehold and Freehold Reform Bill, there is a geographic distribution in the location of leasehold flats and houses in England. In 2023-24 there were an estimated 4.83 million leasehold dwellings in England, with particular concentrations in London and the North West (representing 38% and 26% of leasehold dwellings respectively). Other regions in England have between 8% (East Midlands) and 17% (South West).⁵⁸ Research commissioned by the Welsh government (2021) estimated that 16.3%

⁵⁶ LFRB IA Para 223

⁵⁷ LFRB IA Para 267-270

⁵⁸ Leasehold dwellings, 2023 to 2024 - GOV.UK

(approximately 235,000 dwellings) of housing in Wales is leasehold⁵⁹. This is also distributed unevenly across Welsh local authorities, being focused on more urban areas such as Cardiff but also – as in the North West of England – in some formerly traditional industrial areas.

- 142) This reform more directly impacts those leaseholders who enfranchise. We do not have regional data on enfranchisement, however it follows that the impact of prescribed rates will be concentrated in those locations with higher proportions of leasehold properties. Again, this is coincidental and not a consequence of policy design.

Environmental Impact

- 143) In line with the Environment Act 2021, we have assessed that the prescription of rates will not have any environmental effects. It does not affect environmental protection or enhancement.

Wider Incentives and Behaviours including Innovation

- 144) The prescribed rates are one component of the LFRA 2024's wider reforms to enfranchisement (which also encompasses the introduction of 990-year leases, the 0.1% cap, and reforms to who pays the process ('non-litigation' costs). A simpler enfranchisement valuation process could incentivise leaseholders to extend their lease, buy their freehold, or pay off their ground rent liability sooner than they may have been expecting. This may cause an initial surge in enfranchisement cases, and may encourage innovation, such as the use of more automated processes or AI in the future.

Impact on Competition and Services Provided by Public and Private Organisations

- 145) The main impact of prescribed rates will be to reduce the volume of work valuers are required to do for each enfranchisement claim. In addition to private sector valuers, this may impact in-house valuers employed by local authorities or registered providers of affordable housing where the same are freeholders. There may be more valuers available to compete for work on other types of property valuation as a result. However, if the wider reforms to enfranchisement under the LFRA drive an initial surge in enfranchisement cases this may mitigate the impact of prescribing rates in the short term with higher demand.

Supply Side Impacts

- 146) We do not yet know whether prescription will transfer value towards or away from freeholders, if either. Whilst the LFRA 2024 IA did transfer value from freeholders, it did not anticipate any impact on supply.⁶⁰ We do not expect the prescription of rates to have any

⁵⁹ Research into the Sale and Use of Leaseholds in Wales

⁶⁰ LFRB IA Para 122

effect on the supply of dwellings. It will continue to be possible for developers to construct viable residential and mixed-use buildings.

Trade and Investment Implications

147) As deferment and capitalisation rates are one of the determinants of the amount leaseholders pay to enfranchise, they have the potential to influence future investment decisions in the residential property market. We do not yet know whether prescription will transfer value towards or away from freeholders. However, the government's objective is to prescribe the rates that reasonably find the present value of the rent and reversion. The government has announced its intention to ban leasehold for flats and introduce commonhold as the default tenure in future, which will likely have implications for developer confidence and investment; more information can be found in the impact assessment for the Draft Commonhold and Leasehold Reform Bill⁶¹. We do not anticipate any implications for international trade.

Monitoring and Evaluation

10-Yearly Review of the Rates

148) The government is required by primary legislation to review the rates every 10 years although this can be undertaken sooner at government's discretion. It is important that the rates are set with a view to delivering longer term stability in the market, therefore early review would need to be clearly justified. The government will maintain regular communication with stakeholders in the leasehold market to understand the impact of the reform programme including the impact of prescribed rates.

A Programme-Wide Approach to Evaluation

149) We are committed to robustly monitoring and evaluating the leasehold and commonhold reform programme. We will conduct the evaluation in line with MHCLG's evaluation strategy⁶² and publish findings in a timely manner. The evaluation will cover legislative and non-legislative interventions across the full leasehold and commonhold reform programme, including the Leasehold Reform (Ground Rent) Act, the Leasehold and Freehold Reform Act (LFRA), and the draft Commonhold and Leasehold Reform Bill. Given the interconnected nature of these reforms, we will evaluate outcomes at programme level. The programme-wide evaluation will comprise of:

- a **process evaluation** to assess the introduction and implementation of the reforms;
- an **impact evaluation** to assess outcomes for key stakeholder groups, including current and future leaseholders, commonholders and freeholders, as well as impacts on the residential property market and wider economy; and

⁶¹ Draft Commonhold and Leasehold Reform Bill - GOV.UK, Impact Assessment Annex 1 "Reforming the commonhold framework and prohibiting the use of leasehold for new flats".

⁶² DLUHC evaluation strategy - GOV.UK

- a **value-for-money evaluation** to assess the economic costs and benefits of the reforms across stakeholders and wider society.

150) The programme-wide evaluation is expected to be delivered in phases aligned to the implementation of measures. Regular re-scoping will be undertaken to reflect behavioural adjustment, emerging evidence and learning during and after implementation. Within this framework, the evaluation will consider the prescription of deferment and capitalisation rates within the Standard Valuation Method. The timing of this evaluation phase will align with the implementation of the enfranchisement provisions in the LFRA 2024, including the prescription of valuation rates. These provisions can only be commenced once a small number of technical fixes in primary legislation have received Royal Assent, which the Government intends to include in the substantive Commonhold and Leasehold Bill. The timing of this Bill is yet to be confirmed, but commencement would follow as soon as practicable after Royal Assent.

151) Subject to final scoping, we expect this work to be considered primarily as part of our planned impact evaluation. This is expected to assess how the prescribed rates are functioning in practice and to generate evidence to inform the scheduled ten-year review, while also identifying any issues that may warrant earlier consideration. Evaluation questions will reflect the specific role of prescribed rates within the wider enfranchisement framework. These are expected to include:

- whether the prescribed rates are being applied correctly and consistently across England and Wales and across relevant enfranchisement transaction types;
- whether prescription has reduced the time and cost associated with determining applicable rates, including professional valuation input;
- whether prescription has reduced negotiation and disputes.

152) Process and value for money considerations relating to valuation rates will be addressed through the programme wide evaluation. Evidence from the valuation rates part of the evaluation will feed into programme level process and value for money analysis.

Methodology, Data Collection, Ongoing Monitoring and KPIs

153) In line with HM Treasury's Magenta Book, the approach will be outcome-focused and proportionate to the scale and complexity of the interventions. The evaluation will draw on a mix of quantitative and qualitative evidence to assess both implementation and impacts of the reforms across England and Wales. Data sources will be confirmed through scoping, but we expect to combine new primary data collection, including quantitative and qualitative data, alongside analysis of administrative datasets, such as those held by HMLR and HMCTS, and survey datasets, like the English Housing Survey.

154) Subject to proportionality and data availability, monitoring may include measures such as the frequency of rate-related disputes, reliance on professional valuation input, the

speed and certainty of negotiations, and user understanding and predictability. Structured engagement with stakeholders will complement this monitoring activity.

- 155) The indicators set out below are illustrative and are intended to give an early sense of the metrics that we expect could support future evaluation of the prescription of rates. They are not designed to serve as a standalone evaluation framework and the proposed indicators should also not be read as placing new expectations on organisations at this time.

Prospective Indicator	Data Owner
Share of enfranchisement tribunal cases where the primary issue relates to application of prescribed deferment/capitalisation rates (rate-specific disputes)	HMCTS / Residential Property Tribunal (subject to availability)
Typical time and cost attributable to determining/applying the prescribed rates (separately from other valuation inputs), including use of professional valuation advice	Bespoke – does not yet exist
Proportion of parties who report they could estimate the premium at the outset without specialist input on valuation rates	Bespoke - does not yet exist

Governance

- 156) Governance of the monitoring and evaluation project will be overseen through a programme-level structure that complements and supports day to-day delivery. A cross-functional Monitoring and Evaluation Steering Group is likely to provide strategic oversight, reviewing the monitoring framework, considering KPI performance, and advising on adjustments where evidence indicates. Issues will be escalated through standard departmental risk and mitigation routes.

Assessing Unintended Consequences and External Factors

- 157) We recognise that outcomes will also be influenced by changes to the wider enfranchisement framework and any supporting guidance or tools. Our evaluation of valuation-rates will therefore seek, where possible, to distinguish impacts attributable specifically to the prescription of rates (for example reduced rate negotiation or rate-specific disputes) from those driven by other elements of the reform package (for example eligibility changes or behavioural effects linked to future tenure reforms).
- 158) In interpreting outcomes, the evaluation will take account of external factors that may influence results, including wider economic conditions, legal developments (such as litigation outcomes), interaction with other reforms, and public awareness and understanding, media coverage and feedback from parliamentarians and their constituents. Stakeholders will be involved as key research populations to help identify and

interpret these effects. This approach ensures the programme remains evidence-led and responsive as new data and stakeholder insight emerge.

Annex 1

- 1) Table A1 below illustrates the impact of changes in the deferment rate on the reversion value for a lease extension for a flat with an extended lease value of £250,000 under two scenarios: a longer lease (100 years remaining) and a shorter lease (80 years remaining), for deferment rates of 1% up to 10%. This shows costs to the leaseholder (and benefits to the freeholder) for changes to the deferment rate from the baseline rate of 5%.

Table A1: Deferment Rate and Reversion Value for Given Flat

Deferment Rate (%)	100 years remaining, Extended Lease Value £250,000			80 years remaining, Extended Lease Value £250,000		
	Reversion value (£)	Change		Reversion value (£)	Change	
1.00	£92,428	£90,527	4762%	£112,779	£107,735	2136%
1.50	£56,407	£54,506	2867%	£75,972	£70,928	1406%
2.00	£34,508	£32,607	1715%	£51,277	£46,233	917%
2.50	£21,162	£19,261	1013%	£34,676	£29,632	587%
3.00	£13,008	£11,107	584%	£23,494	£18,450	366%
3.50	£8,015	£6,114	322%	£15,948	£10,904	216%
4.00	£4,950	£3,049	160%	£10,846	£5,802	115%
4.50	£3,064	£1,163	61%	£7,390	£2,346	47%
5.00	£1,901			£5,044		
5.50	£1,182	£-719	-38%	£3,449	£-1,595	-32%
6.00	£737	£-1,164	-61%	£2,363	£-2,681	-53%
6.50	£460	£-1,441	-76%	£1,622	£-3,423	-68%
7.00	£288	£-1,613	-85%	£1,115	£-3,929	-78%
7.50	£181	£-1,720	-90%	£768	£-4,276	-85%
8.00	£114	£-1,787	-94%	£530	£-4,515	-89%
8.50	£72	£-1,830	-96%	£366	£-4,678	-93%
9.00	£45	£-1,856	-98%	£253	£-4,791	-95%
9.50	£29	£-1,873	-98%	£176	£-4,869	-97%
10.00	£18	£-1,883	-99%	£122	£-4,922	-98%

- 2) Table A2 below estimates the impact of changing the deferment rate across total annual lease extensions for flats across the appraisal period, from rates of 1% to 10%. A negative figure implies a transfer from leaseholders to freeholders (i.e. the value of aggregate premiums across the stock of leases increases relative to the baseline) and vice versa.

Table A2: Deferment Rates and Transfers Over 10-Year Appraisal Period for Lease Extensions in Flats, £bns (2027 PV, 2025 Prices)

Deferment rate (%)	Scenario (£bn)		
	Lower	Central	Upper
1.00	-£27.5	-£36.6	-£45.8
1.50	-£17.9	-£23.8	-£29.8

2.00	-£11.6	-£15.5	-£19.4
2.50	-£7.5	-£10.0	-£12.5
3.00	-£4.7	-£6.3	-£7.8
3.50	-£2.8	-£3.8	-£4.7
4.00	-£1.5	-£2.1	-£2.6
4.50	-£0.6	-£0.9	-£1.1
5.00	£0.0	£0.0	£0.0
5.50	£0.5	£0.6	£0.8
6.00	£0.8	£1.1	£1.3
6.50	£1.1	£1.4	£1.8
7.00	£1.3	£1.7	£2.1
7.50	£1.4	£1.9	£2.4
8.00	£1.5	£2.0	£2.6
8.50	£1.6	£2.2	£2.7
9.00	£1.7	£2.3	£2.9
9.50	£1.8	£2.4	£3.0
10.00	£1.8	£2.4	£3.1

- 3) Table A3 shows the term value by capitalisation rates from 3-10% for three illustrative leases; it is assumed the leases began with 120 years remaining and are being valued with 100 years remaining.

Table A3: Capitalisation Rate and Term Value

Cap Rate (%)	FHVP = £252,525; Term Remaining = 100 Years (£)		
	Scenario 1: Fixed Rent Below 0.1% FHVP Ground Rent = £50	Scenario 2: Escalating Rent Below 0.1% FHVP. Ground Rent = £150, rising by £25 every 20 years, four reviews remaining.	Scenario 3: RPI Rent Review With 0.1 % Cap Applied. Ground Rent = £200, would have risen to £421 at next review but instead capped at £252.52 for remainder of lease.
3.00	£1,580	£5,153	£7,980
3.50	£1,383	£4,506	£6,984
4.00	£1,225	£3,981	£6,188
4.50	£1,097	£3,551	£5,543
5.00	£992	£3,195	£5,012
5.50	£905	£3,347	£4,570
6.00	£831	£3,060	£4,196
6.50	£768	£2,816	£3,878
7.00	£713	£2,606	£3,603
7.50	£666	£2,424	£3,365
8.00	£625	£2,265	£3,155
8.50	£588	£2,126	£2,970
9.00	£555	£2,002	£2,805
9.50	£526	£1,891	£2,658
10.00	£500	£1,792	£2,525

Technical Annex

159) The aggregate transfers modelling builds on the analytical approach set out in the Impact Assessment for the LFRA IA⁶³ and its Addendum⁶⁴. Routine modelling updates to the model are set out below:

- I. Updating the price base year to 2025 and the present value basis to 2027.
- II. Updating data on lease lengths⁶⁵, the number of leasehold dwellings⁶⁶ and property prices⁶⁷, as well as using the latest Gross Domestic Product (GDP) deflators⁶⁸ and inflation forecasts⁶⁹.
- III. HMLR have provided MHCLG with updated figures on lease extensions over time (2016/17 to 2024/25). This data is set out below in Table TA1⁷⁰. We have used a central estimate of 36,300 lease extensions in England and Wales over the period 2016/17 - 2024/25 for our modelling. The annual figures remained broadly consistent, with the exception of 2020/21, likely due to COVID-19 lockdowns. As such, that year of data has been removed from the estimates. Various caveats accompany these HM Land Registry lease extension figures.⁷¹ Given this is a key assumption informing any overall transfer impact over the ten year appraisal period, we have carried out sensitivity analysis, applying a 25% adjustment to create a lower and upper estimate.

Table TA1: HMLR Data on the Number of Lease Extension Applications (DFL5)

Financial Year	HMLR Central estimate of number of lease extensions	Lower sensitivity (25% reduction)	Upper sensitivity (25% higher)
2016/17	33,768	25,326	42,210
2017/18	35,028	26,271	43,785
2018/19	39,848	29,886	49,810
2019/20	37,259	27,945	46,574
2020/21	27,971	20,978	34,964
2021/22	33,866	25,399	42,332

⁶³ [LeaseholdandFreeholdReformBillImpactAssessment.pdf](#)

⁶⁴ [250404_LFRA_IA_Addendum_final_version_.pdf](#)

⁶⁵ Analysis of HM Land Registry data has been used to estimate the distribution of remaining time on leases across the stock, filtering out leases granted with less than 21 years. For details of this approach, see the 'Land Registry Title data project outputs – detailed methodology' section of the Leasehold and Freehold Reform Bill Impact Assessment (2023). The same methodology was used here employing 2024 data.

⁶⁶ The 2023/24 Leasehold Dwellings publication from MHCLG, which estimates there are 4.83m leasehold dwellings in England (3.48m flats and 1.35m houses. Leasehold dwellings, 2023 to 2024 - GOV.UK

⁶⁷ Median house prices for administrative geographies - Office for National Statistics

⁶⁸ GDP deflators at market prices, and money GDP December 2025 (Quarterly National Accounts) - GOV.UK

⁶⁹ Economic and fiscal outlook – November 2025 - Office for Budget Responsibility

⁷⁰ The data is based on applications data marked as 'Dispositional First Lease extension of term' using the internal transaction code 'DFL5'. It includes residential and non-residential property.

Transaction Codes are HMLR reporting definitions mainly used to calculate the application fee payable and identify overarching application types. They are selected manually by customers or caseworkers and are considered reasonably accurate (but less robust than register data). There may be some degree of data entry error or incorrect classification which is not quantified.

DFL5 is the category of Tis code meaning 'Extension of a term'. It is noted that DFL5 will also include commercial lease extensions.

⁷¹ Output time may vary significantly due to both internal and external practices. It is not possible to quantify this and there may be periods of higher or lower output by type of application which may distort estimates.

2022/23	36,476	27,357	45,596
2023/24	37,691	28,268	47,113
2024/25	36,435	27,326	45,544
Average all	35,371	26,529	44,214
Average (excluding 2020/21)	36,296	27,222	45,371

Baseline assumptions

We assess the impact of changing the deferment rate from the Sportelli rate on the aggregate sum of reversion payments by those leaseholders we assume enfranchise each year over the 10-year appraisal period (2027 – 2036). Assumptions for the baseline are set out below:

- IV. Relevant LFRA reforms are implemented i.e. marriage value is not payable and the standard statutory lease extension is increased to 990 years.
- V. Existing market arrangements continue. This means when calculating the reversion for lease extensions in flats, the modelling assumes a deferment rate of 5% for flats, as per *Sportelli*.

First-Tier Tribunal Analysis

160) The Department has undertaken analysis of Tribunal decisions published on the .GOV website, mentioning capitalisation rates.⁷² While the majority of enfranchisement claims are negotiated outside of the Tribunal, such cases do record some agreements, and determinations about the rate⁷³. The cases that go to Tribunal may not be representative of the wider population of valuations, but the results are described and presented for illustrative purposes.

161) The dataset was created using AI generated scripts, to extract key information, using data from December 2018 to September 2025.⁷⁴ . Approximately 900 leasehold enfranchisement and extension cases were pulled during this time period, reduced to c. 400 that were found to be relevant to the capitalisation rate. Cases were then manually checked against the original Tribunal decision to ensure the correct information was reported, which resulted in exclusions for certain cases⁷⁵, reducing the total dataset to 341. Additional information was then manually added, such as providing a subjective descriptor for rent review type (e.g. “stepped increases”) where this was identifiable.

162) To quality assure this analysis, the exercise was repeated a second time from the same data source (i.e. the FTT website), but using separate code to scrape information. This resulted in a

⁷² The website for the First-tier Tribunal had decisions available for the period from December 2018 to the date of access (September 2025) for residential property decisions regarding leasehold enfranchisement and extension: Residential property tribunal decisions – GOV.UK.

⁷³ The Tribunal did not decide the capitalisation rate in every case. Sometimes the capitalisation rate, or specifically the term value itself (with the capitalisation rate not always given), had been agreed by parties ahead of the application, or ahead of a hearing.

⁷⁴ The website for the First-tier Tribunal had decisions available for the period from December 2018 to the date of access (September 2025) for residential property decisions regarding leasehold enfranchisement and extension: Residential property tribunal decisions – GOV.UK.

⁷⁵ Exclusions included: claims under section 9(1) of 1967 Act; where intermediate leases were present; cost only claims; duplicates; multiple claims for the same building where the rate differed (e.g., between ground floor and first floor). Certain cases were collapsed to one line where there were additional files of Tribunal corrections or amendments that did not change the capitalisation rate, or multiple claims per building with the same capitalisation rate.

marginally different dataset, which found broadly similar results. Due to risks of double counting, these datasets have not been combined, and we report results based on AI generated code.

- 163) This dataset is subject to uncertainty. First, due to the volume of cases we have utilised AI to extract and process the cases, which contains a margin of error. Second, the manual nature of checking and interpreting both the output and the Tribunal’s original decision in comparison could at times be prone to human error. As such, the results of this analysis should be treated with caution.
- 164) Analysis was then conducted, finding that across the cases there were a range of rates that fell between 4.5% and 9.00%. A breakdown of the frequency of each capitalisation rate can be seen in Table 1. The most common capitalisation rates (together c.88%) in this data set were: 7.00% (37%); 6.00% (30%); and 6.50% (19%). This analysis produced a mean capitalisation rate of 6.6% and a median rate of 6.5%. As stated above, the cases that go to Tribunal may not be representative of the wider population of valuations, but the results are described and presented for illustrative purposes.

Table TA2: Frequency of Capitalisation Rates in the Sample

Rate	Count	% of total
4.5%	2	0.6%
5.00%	12	3.5%
5.25%	1	0.3%
5.50%	1	0.3%
6.00%	103	30.2%
6.15%	2	0.6%
6.25%	2	0.6%
6.35%	1	0.3%
6.40%	1	0.3%
6.50%	65	19.1%
6.75%	1	0.3%
7.00%	126	37.0%
7.50%	9	2.6%
8.00%	11	3.2%
8.32%	1	0.3%
8.50%	2	0.6%
9.00%	1	0.3%
Total	341	100%

- 165) To provide an example of rates falling at the lower and higher ends of the range, and likely explanations for this, below we provide further details:
- a) On the lower end of the range, there were two rates of 4.50%. In one case, the starting ground rent was £100 p.a., with a review every five years at RPI. In the second case, the initial

rent was £200 reviewed every 20 years to the greater of the then passing rent and the sum representing 0.4% of the open market capital value of the property at the review date. The unexpired term remaining was 8.25 years.

b) Rates of 5%-5.50% were applied in fourteen cases. Whilst the starting rents and review types were not always available, some details showed different rent review types and values, for instance: fixed at £5.25 p.a., or £150 p.a.; stepped increases of £100 with starting rents between £100 to £200; a £250 starting rent and increases every 10 years with inflation. Where available, the unexpired term ranged from 8.25 years, to between 61 and 83 years.

c) On the higher end of the range, eleven cases applied a rate of 8.00%, with starting rents that were mostly low and fixed (e.g. between £0.50- £25.00), with a small number of unknown or other review types. Where the unexpired term was available it ranged between 50 and 84 years.

d) There were three cases that produced rates of between 8.31% and 8.50%. In one of the cases, the ground rent was £265 p.a., doubling every 20 years. The Tribunal considered ground rent auction data suggesting a capitalisation rate range of between 7.25% to 10.92%, with a median rate of 8.82%. The Tribunal adopted 8.32%. In a second case, the ground rent started at £125 p.a. and then rose to reach £5000 in the final 25 years of the term.⁷⁶ The Tribunal considered ground rent auction data with a range of 7.66% to 9.5% and adopted 8.5%. In the third case, the ground rent was £450 p.a. doubling every 10 years. The Tribunal added 2.5% to the 6% capitalisation rate proposed by one of the parties, to reflect the “risk” associated with future legislative change from the Leasehold and Freehold Reform Bill (which became the LFRA).

e) One case applied a rate of 9.00% for a £1.00 fixed ground rent with an unexpired term of 959 years.

166) This exercise was replicated for Wales, using the Leasehold Valuation Tribunal website⁷⁷, which between 2012 to September 2025 returned 47 cases that mentioned capitalisation rates. Of these, only 4 were relevant following the same approach to exclusions that were applied to the FTT cases. The capitalisation rate of 6.5% was used in each LVT case, and the rents appeared to be fixed.

⁷⁶ The reviews were as follows: After the first five years, it rises to £200 per annum. For the next five years it rises to £300 per annum. For the next five years it rises to £400 per annum. For the next five years it rises to £500 per annum. For the next 25 years it increases to £2,000 per annum. For the next 25 years it increases to £4,000 per annum. For the remaining 25 years it is £5,000 per annum.

⁷⁷ The website for the Leasehold Valuation Tribunal had decisions available for the period 2012 to the date of access (September 2025): Decisions – Leasehold Valuation Tribunal.