

# Ground Rent Policy

## 1 Purpose

This policy sets out Metropolitan Thames Valley Housing's (MTVH) approach to tackling ground rents and must be read in conjunction with:

- Service Charge Policy
- Individual leases and head leases

## 2 Scope

This policy outlines our approach to setting ground rent, how we will change ground rents for existing homeowners and how we will calculate ground rents for new build homes.

The policy and accompanying procedures apply to:

- All shared owners and leaseholders as defined in this policy

### Our Commitment

We will provide homes people can afford and will have a consistent approach to ground rent and ensure that ground rents for new builds are not classified as onerous. Our Development Team will be responsible for setting initial ground rents for new build properties.

Our Home Ownership Team will be responsible for reviewing, processing and authorising variations to existing leases.

Where leases have already been granted to homeowners, we will consider requests to vary the lease terms as set out in this policy.

## 3 Our Approach

### 3.1 Definitions

Term	Definition
<b>Ground Rent</b>	Ground rent is rent that is paid by the owner of a flat or house to the owner of the land. The ground rent is set out in the lease.
<b>Homeowner</b>	For the purpose of this policy, a homeowner is a person who has purchased a home in one of the following tenures: <ul style="list-style-type: none"> <li>• Shared ownership</li> <li>• Leasehold property</li> </ul>
<b>Freeholder</b>	A person or company who is the owner of a property-and the land it stands on.
<b>Leaseholder</b>	A person who is registered or entitled to be registered as having a leasehold interest in the property at the Land Registry.
<b>Superior Landlord</b>	A person or company who is entitled to the reversion of our lease when it expires.

<b>Shared Owner</b>	A person who owns a percentage of their property. Shared owners pay ground rent on the share they do not own and have a lease agreement with us.
<b>Onerous Ground Rent</b>	<p>Onerous ground rent is a term used to describe high ground rents or those that impact the value of the leasehold property. Onerous ground rents are typically those over £250 per year outside London or £1000 inside London, those which represent at least 0.1% of the property value, or ground rents which double over time.</p> <p>Where ground rents are over £250 outside of London or £1000 inside of London, the tenure of the property would also be classed as an Assured Tenancy according to the Housing Act 1988. The implications of this are that Landlords are able to obtain mandatory grounds for possession for failure to pay ground rent and this lessens the security of the property.</p>

### 3.2 Background

Ground rent is a charge leaseholders/shared owners pay to their landlord under the terms of their lease. The ground rent varies from property to property and depending on the lease type, the ground rent may increase with time. This increase varies, for example, it could be calculated by adding inflation, at the landlord's discretion or it might double after set periods of time. MTVH also pays ground rent to superior landlords where MTVH is not the freeholder.

### 3.3 Government Consultation

The UK Government intends to review the leasehold system including how ground rents are set and to develop a redress scheme for leaseholders with onerous ground rents.

The Government is putting pressure on developers to help leaseholders with onerous ground rents and they have implemented a **Public Pledge for Leaseholders** signed by some freeholders. This pledge is a commitment not to implement onerous ground rents for new developments and also to vary existing leases with onerous ground rents.

### 3.4 Existing Remedies

Eligible leaseholders are able to extend their lease under the Leasehold Reform, Housing and Urban Development Act 1993 (as amended) in return for a premium. The valuer will calculate a premium for a lease extension taking into account the loss of ground rent. The lease extension requires that ground rents are reduced to a very small cash payment (peppercorn).

Shared owners are not eligible to extend their lease using the above legislation, but we offer informal lease extensions to leaseholders and shared owners to extend their lease and at that time reduces ground rent to a peppercorn. We will continue to pass on to homeowners the cost of ground rents levied by superior landlords.

Leaseholders of houses may be eligible to purchase the freehold title of the home providing the criteria of The Leasehold Reform Act 1967 (as amended) is met. By purchasing the freehold title, the lease is extinguished, and ground rents are no longer payable.

### 3.5 New Build Properties in Development

We will not assume ground rent income higher than £150 per annum per property when bidding on all new opportunities including S106 purchased from developers unless approved by our Executive

Committee. We will try and negotiate a peppercorn ground rent where possible with developers of S106 schemes and/or where we are not the freeholder, so we do not pass on ground rents to our leaseholders and shared owners.

Where we have an approved scheme prior to the adoption of this policy which assumes a capitalised value for ground rent, we will continue with it as long as the ground rent is not onerous as described in this policy.

We will not include doubling clauses in any new build leases. We will include proposals for ground rents and freehold ownership in any approval papers when bidding on-sites for the appropriate group (e.g., Investment Panel) to approve the approach.

We will not pass on the ground rent to shared owners before they have stair-cased to 100%. We will review this policy once legislation is enacted on ground rents.

### **3.6 Varying Lease Terms**

Where a ground rent meets any of the three criteria below we will consider varying it:

- Ground rent exceeding £250 outside London or £1000 in London
- The lease enables ground rent to double higher than the amount set
- The ground rent exceeds 0.1% of the value of the property

We will not vary ground rent provisions to meet the above criteria where they relate to paying ground rents levied by superior landlords. Any ground rent charged to MTVH by a superior landlord will remain payable by the homeowner.

We will aim for our ground rents from superior landlords/freeholders to be set at a maximum of £150 per annum per property for new developments, to be in line with good practice. For new developments, where we are the freeholder and landlord, ground rents will be set at peppercorn when granting new leases.

Where erroneous ground rents clauses exist in lease granted by MTVH (where we are the freeholder), we will vary the homeowner's lease to reduce the ground rent demand to peppercorn per annum and where applicable introduce a Consumer Price Index (CPI) increase on the per annum charge capped to 0.1% of Property Value. We may also vary other provisions of the lease to standardise the lease, for example changing payment dates for service charges.

We will support and vary leases where ground rents do not meet mortgage regulations e.g., doubling of ground rents. All costs incurred by MTVH for varying the terms of leases will be met by the homeowner and must adopt our standard Deed of Variation. However, where there is already a Deed of Variation being undertaken, for example a lease extension, we will incorporate the variation of these clauses as part of that process, to try and reduce legal costs for the homeowner. Where we are not the freeholder, we will support the leaseholder with obtaining a peppercorn ground rent during any variations in their lease.

## **4 Background legislation**

This policy has been developed to deliver compliance with the following legislation:

- Law of Property Act 1925
- Commonhold and Leasehold Reform Act 2002
- The Leasehold Reform, Housing and Urban Development Act 1993
- The Leasehold Reform Act 1967 (as amended)
- Housing Act 1988

Once legislation is enacted on ground rents we will review this policy.

## 5 Our commitment to Equality, Diversity, and Inclusion

In implementing this policy we will not discriminate against any colleague, customer, or stakeholder on the grounds of their sex, sexual orientation, gender reassignment status, ethnic origin, age, religious belief, disability, marital status, and pregnancy/maternity.

An Equality Impact Assessment has been completed for this Policy and is retained by the Policy Team.

## 6 Key Policy Information

Policy Owner	Customer Services Directorate
Author	Deborah Viljoen
Approved by	Customer Services SLT
Effective from	July 2023
Approach to review	This Policy & associated Procedures will be reviewed as required by the owner for changes in legislation, regulation, and operational need. Any amendments will be appropriately consulted on and signed off before being clearly communicated to customers and colleagues. Next expected review is 5 years from the 'Effective date' of this document.
This is a controlled document maintained and accessible via MTVH's intranet, The Hub. When viewed outside of the intranet, this document should be checked against the master copy held by MTVH to verify that it is the current version, or it shall be considered uncontrolled.	