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The Leasehold and Freehold Reform Act 2024

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The Leasehold and Freehold Reform Act 2024 (the Act) has officially received royal assent and became law on 24 May 2024. While there is currently no commencement date, we consider below what changes the Act will bring about and what consequences it will have for both freeholders and leaseholders.

The aim of the Act is ultimately to improve the rights of residential long leaseholders by giving them greater autonomy in managing their properties, and without some of the previous restrictions when extending their lease or buying a freehold.

The Act will certainly provide greater security for leaseholders, as the main change is that it is now easier and cheaper for leaseholders to extend their lease or buy the freehold. The Act has increased the standard lease extension from 50 years for houses and 90 years for flats to 990 years for houses and flats. This will ensure that leaseholders remain in their properties for longer periods and will provide good security to lenders without additional upfront costs being incurred. The Act also seeks to ban the sale of new leasehold houses (with certain exemptions) so that every new house will be marketed as freehold. Further, when exercising rights to extend a lease or buy a freehold, leaseholders will no longer be required to pay freeholder's costs, which was a deterrent for some. The Act will also provide leaseholders greater flexibility: there is no longer a requirement to own property for two years before seeking to extend a lease or buy the freehold.

In terms of property management, the Act seeks to make the process of challenging costs much easier. The Act will ban the presumption that leaseholders will pay freeholder's costs when challenging service charges. Freeholders and managing agents will now be required to issue service charge invoices in a standardised format, which will assist leaseholders in understanding and challenging any sums. Excessive buildings insurance commissions for both freeholders and managing agents will be stopped. While managing agents already belong to a redress scheme, those freeholders who manage their own properties will now be required to belong to such a scheme. Redress will now also be available to freehold homeowners on private and mixed tenure estates (so that they too can see what charges are being made and be able to challenge the same).

The Act has also changed the requirement for leaseholders to take over management of their property; historically, leaseholders were prevented from doing so if more than 25% of the freehold was commercial, which has now been changed to 50%.

The changes will be welcomed by leaseholders who seek to challenge their freeholder for high charges. It will also allow interested leaseholders the opportunity to extend leases or to buy the freehold without the threat of reimbursement of high costs on the part of the freeholder.

For freeholders, it means greater scrutiny to the charges raised and potentially more frequent challenges. It may also mean that more mixed-use properties become available for purchase by leaseholders, now that 50% of properties may be commercial. The requirement for a redress scheme may also see some freeholders instruct managing agents to run their buildings instead but at a cost. Freeholders will, however, be pleased that ground rents have not been abolished or capped at £250, which was threatened in the original drafting of the bill for the Act.

Should you want to discuss any of the above, our Real Estate Litigation team is always happy to help.

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