

The Rt Hon Christopher Pincher MP  
Minister of State  
Ministry of Housing, Communities and Local Government  
Fry Building  
2 Marsham Street  
London  
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9 March 2020

Dear Christopher,

### **Leasehold reform**

Many congratulations on your recent appointment as Minister of State for Housing. The Housing, Communities and Local Government Committee looks forward to building a productive relationship with you over the coming months and years.

As you will be aware, in March 2019 our predecessor Committee published a report into Leasehold Reform, highlighting significant concerns around onerous and escalating ground rents, high service charges and one-off bills, unfair permission charges, alleged mis-selling of leasehold properties by developers, imbalanced dispute mechanisms, inadequate advice services, and unreasonable costs to enfranchise or extend leases.

The Committee called on the Competition and Markets Authority (CMA) to undertake an investigation into mis-selling in the leasehold sector and consider whether onerous ground rent terms constituted 'unfair terms' that would be unenforceable in practice. The CMA agreed to undertake an investigation and consequently published its findings on 28 February 2020.

The CMA made similar findings to our predecessor Committee. They too noted significant concerns around levels of ground rent and about the sales processes adopted for long leasehold houses. We support the CMA's intention to open enforcement cases using their consumer law enforcement powers to pursue these concerns.

In particular, a significant area of agreement between the CMA and the Committee concerned escalating ground rents in existing leases.

Much attention has already been paid to leasehold properties with ground rents that double more frequently than 20 years, which the CMA estimated to affect approximately 13,000 homes. Many freeholders and developers, including Taylor Wimpey, recognised that these clauses were unreasonable and offered to convert leases to an escalating mechanism based on the Retail Price Index (RPI). Indeed, the Government's [Public Pledge for Leaseholders](#) committed freeholders to offer to amend any doubling ground rent clauses to "one linked to RPI".

However, the CMA's report highlighted "*significant reservations about Retail Price Index (RPI) linked increases to ground rent*" which, it said, are complex, uncertain and potentially equivalent to a 20-year doubling clause (if RPI increases at an average of 3.7%).

Concerns around RPI were also highlighted by the Committee. Our predecessors said ([para 106](#)):

*We are not convinced of the merits of the voluntary developer- and freeholder-led schemes that offer to convert leases with doubling ground rents to RPI-based review mechanisms,*

*which have been supported by the Government. RPI-reviews may still see ground rents rise above 0.1% of a property's value, which many lenders consider to be onerous. Most require RPI reviews across the entire length of the lease, as opposed to a defined initial period, while others demand high fees in exchange for removing onerous terms. These offers are not good value when compared to the Government's proposed cap for ground rents on new leasehold properties.*

The Committee called on the Government to introduce legislation to limit existing ground rents should be limited to 0.1% of the present value of a property, up to a maximum of £250 per year. They said ground rents should not be permitted to increase above £250 over time, by RPI or any other mechanism. Our legal advice was that this would be compatible with human rights legislation.

In light of the CMA's findings, alongside those of our predecessor Committee's report in 2019, the Committee now calls on the Government to disassociate itself from its [Public Pledge for Leaseholders](#) and encourage freeholders and developers to convert leases such that they never increase above 0.1% of the property value or £250.

If freeholders and developers refuse to do so voluntarily, they should be forced to do so through the upcoming legislation announced in the Queen's Speech, which the Committee awaits with a keen interest.

Yours sincerely,

Clive Betts MP  
Chair, Communities and Local Government Committee