

BRIEFING PAPER WRITTEN EVIDENCE TO THE PUBLIC BILL COMMITTEE: LEASEHOLD AND FREEHOLD REFORM BILL 2023

BusinessLDN

1. BusinessLDN is a business campaigning group with a mission to make London the best city in the world to do business, for the benefit of the whole UK. We convene and mobilise business leaders to tackle the key challenges facing our capital. We are made up of over 170 leading employers across a wide range of sectors including strong representation from the built environment.

General comments about the Bill

2. We support the Bill's overarching aims to modernise what is a complex system for all parties. The Bill's proposals for banning the sale of leasehold houses and apportioning legal costs are welcome and will support the Government's objective of creating a fairer and more transparent system.
3. There are, however, aspects of the proposed legislation which could have significant implications for both the delivery of new homes in London and the regeneration of the capital's high streets and town centres.
4. The abolition of 'marriage value' (Part 1, clauses 9-11 and Schedule 2) and increasing the threshold for the collective enfranchisement of buildings (Part 1, clause 3) are key areas of concern. If introduced as currently set out in the Bill, these reforms could result in significant levels of disinvestment in London's commercial and residential markets.
5. We have addressed our concerns and suggested amendments in more detail below. For further information, please contact Stephanie Pollitt, Programme Director, Housing on stephanie.pollitt@businessldn.co.uk or Gloria Liu, Public Affairs Manager on gloria.liu@businessldn.co.uk.

Leasehold and Freehold Reform Bill – Specific clauses

Part 1, clause 3: Change of non-residential limit on collective enfranchisement claims

6. The clause states that the non-residential threshold for leaseholders to exercise their rights to collectively enfranchise or manage the freehold of their building should be raised from 25% to 50%. This is an arbitrary figure with no evidence to qualify the change and could lead to profound changes in how mixed-use developments are delivered, particularly in London.
7. Increasing the threshold would potentially put large swathes of commercial property into the hands of inexperienced groups of leaseholders. Whilst managing large blocks of residential units comes with its own challenges, not least meeting the requirements for fire safety and security, leaseholders with no previous commercial experience may struggle to service and meet the expectations of commercial tenants.

8. The likely consequence of this reform would see either a reduction in the number of new homes being delivered as developers adjust the composition of their mixed-use developments; or more homes being delivered for rent rather than for sale to ensure that long-term owners retain the development rights and stewardship of the commercial element of their buildings.
9. Additionally, the policy could see less investment in high streets and town centres, discouraging property owners from investing in both new and existing developments. This is of particular concern for London which could see large-scale regeneration schemes such as King's Cross becoming harder to deliver.
10. The fragmentation of London's high streets and town centres is already a challenge and the uncertainty and risk over ownership will only further exacerbate this problem impacting owners' ability to preserve quality and curate a mix of occupiers needed to ensure their areas are vibrant places to visit.
11. **Amendment:** We would suggest the removal of clause 3 and all associated clauses. "Change of non-residential limit on collective enfranchisement claims In section 4(1)(b) of the LRHUDA 1993 (non-residential limit on collective enfranchisement claims), for "25 per cent." substitute "50%".

Part 1, clause 11: Enfranchisement or extension: new method for calculating price payable.

12. The reforms as laid out will effectively see leaseholders realising 100% of the 'marriage value' rather than being split equally between leaseholder and freeholder. Whilst it is Government's intention that owner-occupiers benefit from this change, 62% of all leasehold flats in the UK are in the private rented sector¹ and so will likely benefit investors rather than leaseholders.
13. **Amendment:** We would suggest the removal of clause 11; "Enfranchisement or extension: new method for calculating price payable"
14. These reforms are patchwork at best and provide little evidence to support their objectives. We would urge Government to consider at Committee stage who the key beneficiaries of these changes will be to ensure that the reforms do not adversely impact those seeking to deliver the homes and large-scale regeneration projects needed in London.

¹ *Impact of proposed changes to Leasehold Reform legislation, Andrew Hunt, Quod. August 2023*