

## **Leasehold and Freehold Reform Act 2024 – Q&A**

### **What is the leasehold reform Act. What is the status of the proposed law and when will it be enacted?**

The Leasehold and Freehold Reform Act (the “Act”) received Royal Assent on 24 May 2024. The Act seeks to reform various aspects of the law relating to leasehold property, and addresses matters like a tenant’s right to manage properties, ground rents, lease extension, and enfranchisement. These reforms are of wide application.

Although the Act received Royal Assent, it is not yet in force. A piece of secondary legislation will be required to bring the Act into force, and it is not clear when this might happen.

### **How is it relevant to Annington ?**

Annington’s leases are not “ground rents”, and therefore we consider that we are outside the scope of most of the Act. The Act was rushed through in the “wash up” on 24 May 2024, the last day before the election, and as a result it appears that there was insufficient time to tidy up some of the drafting. There is a potential loophole created by the Act which could affect Annington in limited circumstances, as discussed further below.

### **How might the Act impact enfranchisement value?**

The Act includes a new mechanism to calculate compensation payable to a landlord when the landlord is subject to a claim for enfranchisement of a lease. This mechanism only applies to ground rents, which Annington’s leases are not.

Where a lessee is a party to a lease which is not at a ground rent, it is possible that they could seek to restructure their interests in a way to create a ground rent, in order to take advantage of the loophole created by the Act and to reduce the compensation payable on enfranchisement.

### **What protection does Annington have, why is Annington not impacted?**

Annington’s leases include contractual provisions which prevent the MOD from restructuring their leases in a way which would entitle those leases to benefit from the new compensation formula prescribed by the Act.

### **Why might there still be an issue and what impact would it have?**

It is possible that a Court might interpret Annington’s leases as permitting the MOD to restructure their leases. If this finding was made, the leases could be capable of being restructured in a way which reduced the compensation payable to Annington.

### **How likely is it that the MOD will be able to do this?**

It is a possible outcome, however, we believe the contractual provisions in the leases are effective and view our claim as a precautionary measure.

### **Why is Annington bringing the claim now?**

If a claim had not been brought within 3 months of the date of Royal Assent (i.e. by 23 August 2024), Annington may have lost the right to bring a claim at all. In that event, if the Court found subsequently that the MOD could restructure its leases to take advantage of the new compensation mechanism, Annington would be prevented from challenging the compensation mechanism itself. Annington has therefore brought the claim now as a protective measure, to ensure that its ability to challenge the compensation mechanism is preserved if ever required.

### **Process - What happens next in relation to the claim.**

The Department for Housing, Communities, and Local Government will need to respond to the claim. Following that, the Court will decide whether the claim can proceed. We understand that a range of other claimants have also issued claims in respect of concerns with the Act. This is likely to be a protracted process.

### **What would the level of compensation be if the leases are successfully restructured?**

It is not possible to say, as this would depend on (a) the features of the restructure, and (b) the capitalisation rates set by the Government if / when the Act is brought into force. We would expect the compensation to be lower than the amount that would otherwise be payable absent a restructure.

### **If the MOD was to use the law to seek to reduce the amount payable below market value under the new law, would there be any basis to contest that?**

Yes. Annington would assert that such an attempt breached its rights under Article 1, Protocol 1 of the European Convention on Human Rights, and would challenge the calculation of compensation on that basis.

### **How does this affect the existing enfranchisement case & settlement discussions?**

The claim is with the Department for Housing, Communities and Local Government and is separate to Annington's ongoing litigation with the Ministry of Defence with respect to the latter's attempts to enfranchise the Married Quarters Estate.