

Leasehold Reform Proposals in England and Wales: The unconsidered financial implications of reducing the premium in lease extensions

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Leaseholds are finite assets sold at a discount to its freehold value. The government intends to make it easier and cheaper for lessees to renew their lease or purchase the freehold interest. We analyse the potential financial implications of leasehold reform from changing the extended lease length and eliminating the marriage value payment beyond the distribution of a premium reduction. Lessees who extend a short lease will benefit from a premium reduction and from the increase in the extended leasehold value from a long to a very long lease. We argue that lessees' who do not extend also benefit from the capitalisation of the premium reduction into short leasehold prices. We find that there will be regional variations in the increase in the short leasehold stock value, decreases in housing affordability and in how financial gains are distributed among different lessee types. Some of these outcomes contradict current government policy. We also find that owning a freehold share does not protect against selling at a price discount.

Keywords: *leasehold reform, marriage value payment, capitalised leasehold prices*