**Activity 3: Ground rent clauses**

A ground rent clause is a provision in a lease agreement that requires the leaseholder to make regular payments, known as ground rent, to the freeholder. This payment is for the use of the land on which the leasehold property sits. The clause will typically specify the amount to be paid, the frequency of payments and any conditions for potential increases in the rent during the term of the lease.

**An example of a ground rent clause**

The Leaseholder shall pay to the Freeholder an annual ground rent of £250, payable in advance on the 1st of January each year. The ground rent will be subject to review every 10 years and may increase in accordance with the Retail Price Index (RPI) or by a maximum of 10%, whichever is lower. If the Leaseholder fails to make payment within 30 days of the due date, interest at a rate of 4% above the base rate of the Bank of England shall accrue on the outstanding amount until full payment is made.

**Did you know?**

The **Retail Price Index (RPI)** is a measure of inflation that tracks the changes in the cost of goods and services over time in the UK. The **Bank of England base rate** is the interest rate set by the central bank, which influences the cost of borrowing and the returns on savings across the economy.

So how much will the leaseholder pay over a ten-year period? Over ten years, the leaseholder will pay a total of £2,525 in ground rent. This includes an initial annual rent of £250 for each of the first nine years, and a 10% increase applied in the tenth year, bringing the ground rent to £275 in the final year. Here are the steps:

1. The annual ground rent starts at **£250**.
2. For the first nine years, the leaseholder pays **£250** each year, which totals **£2,250**.
3. In the tenth year, the ground rent increases by 10%, so the rent becomes **£275**.
4. Adding the increased ground rent for the tenth year gives a total of **£2,525** over the ten years.

Now read the clauses given and answer the questions.

**Ground rent clause 1**

The Leaseholder shall pay to the Freeholder an annual ground rent of £300, payable in advance on the 1st of July each year. The rent will be reviewed every 5 years and may increase in line with the Retail Price Index (RPI), capped at 12%. Late payments beyond 60 days will incur interest at a rate of 3% above the Bank of England base rate.

**Question:** What would the ground rent be after five years if the RPI increased by 5%?

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**Ground rent clause 2**

The Leaseholder shall pay an annual ground rent of £200, payable quarterly, starting from the 1st of April each year. Rent reviews will occur every 8 years and may increase by up to 15%, depending on market conditions. Payments late by over 45 days will accumulate interest at 5% above the base rate.

**Question:** How much is each quarterly payment of ground rent?

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**Ground rent clause 3**

The Leaseholder shall pay to the Freeholder an annual ground rent of £400, payable in advance on the 1st of October each year. The ground rent will be reviewed every 6 years, with potential increases up to 8%, or the Retail Price Index (RPI) whichever is lower. If payment is delayed beyond 30 days, interest will accrue at a rate of 6% above the Bank of England base rate.

**Question:** What would the rent be after six years if the RPI increased by 7%?

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**Ground rent clause 4**

The Leaseholder shall pay an annual ground rent of £275, payable on the 1st of February. Rent reviews will take place every 12 years and may increase by up to 20% based on market inflation. Any overdue payment by 30 days will be charged 4% interest above the Bank of England base rate.

**Question:** If the rent increases by the maximum 20% after 12 years, what will the new ground rent be?

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