Evaluating the proposed ban on upwards-only rent reviews

Knight Frank

What a ban on upwards-only rent reviews could mean for commercial real estate

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MARKET VIEW

SIMON AUSTEN
Head of Commercial Consultancy

Much is made by the Government in its supporting rationale about the power imbalance between owners and occupiers. However, during the past 20 years or more, for owners, rent reviews have fallen well short of their intended purpose; namely in periods of rental growth to revise the income stream upwards to reflect prevailing market conditions. This is depicted in graph form later in this paper. The current 'net effective rent' market review mechanism is not fit for purpose. The calculation heavily discounts the prevailing headline rents for rental incentives at each review date, even though these incentives have already been enjoyed by the occupier at the outset of the lease.

Whilst the response to the proposed ban is nuanced, and stances vary on its potential impact, it does present the industry with an opportunity to move on from an unnecessarily complicated and outdated mechanism. Indexation or fixed uplift leases will have their supporters, but these should be carefully considered alongside alternative new up/down market rent review mechanisms that may both allay the Government's criticisms, but at the same time provide the owner with an opportunity to realise a stronger rental return on investment (when market conditions are supportive) that is so critical to the deployment of capital into commercial developments going forwards. This promises to be a long-running debate, and one that will reward a careful consideration of all the options.

BY WILLIAM MATTHEWS, HEAD OF COMMERCIAL INSIGHT

In early July, the Government published the English Devolution and Community Empowerment Bill, which included a proposal to ban the use of upwards-only rent reviews (UORRs) in all future commercial property leases. This took the property industry by surprise, as there had been no recent consultation on this issue.

The impact assessment that sits behind the Government's proposal sets out three aims:

- To help mitigate the risk that businesses pay unnecessarily high rents during economic downturns
- To reduce the 'supernormal' profits made by landlords, which have caused property price and rent inflation
- To avoid the above higher property costs being passed on to consumers

In particular, the bill highlights the 'blight' of vacant retail units and suggests that lower rents would enhance high streets and town centres, and even lead to increased investment.

The Government has considered five different options for implementation, ranging from 'do nothing' to one that includes additional legislation to rebalance power between landlords and occupiers. The Government's preferred option, the second highest of the five in terms of extent of market intervention, stops short of enacting this legislation, but explicitly seeks to eliminate any possible loopholes.

This paper offers an objective, impartial view on the wide-reaching impacts of the proposal, should it be enacted. In reviewing the proposals a few key points have become clear:

1. The impact would be highly nuanced, not just between landlords and occupiers, but across geography, property sector, and asset quality.
2. Real estate is a complex ecosystem, meaning the possibility of unforeseen effects and unintended consequences is high, as we show.
3. Despite the ambition to reduce retail vacancy, and improve investment in the high street, it is highly unlikely that this sector would be one of beneficiaries of the proposal.

JUMP TO:

The quick take

What's the likelihood of a ban on UORRs happening?

Despite the lack of prior consultation, this has been mooted a number of times in the more distant past. The impact assessment paper highlights that previous self controlling mechanisms have been ineffective and the intent is very clear and is consistent with the Government's aim to rebalance the power in favour of tenants.

What is the likely timeline if the proposed ban does happen?

The proposed legislation is at an early stage. Similar major reform bills, such as the Renter's Rights Bill, have taken circa 10 months to become law. Delays are likely with this bill – it must still pass a second parliamentary reading currently scheduled for 2nd September, and stakeholder consultation and lobbying could slow progress.

Could it signal an end to the long rent-free periods, currently ingrained in some parts of the market for some time?

Potentially. Rent free periods may increase if tenants are to be incentivised to sign up to indexation. If up/down RRs are to be agreed by owners, long rent-free periods may well have to be the pressure release valve. The impact on rent frees will be nuanced across sector and geography.

Would the ban lead to a period of deal stagnation, where occupiers wait it out in the hope of securing more friendly terms?

As with investment market transactions, there is a risk of stagnation, albeit one that is lessening as the impact of the potential change becomes clearer. Equally, parties may wish to expedite transactions in order to be able to preserve the UORR mechanism, before it's too late.

Could the ban create a two-tier market between prime and secondary assets?

Yes, owners of prime assets may take a more robust approach and insist on indexation or fixed rents due to sustained occupier demand, whereas owners of secondary assets may be more willing to agree to open market upwards-and-downwards reviews (or turnover reviews in some sectors) as well as flexible terms, or breaks as part of the overall incentive package to stay competitive.

Would the proposal impact investment market transactions?

Some investors may take the time to seek additional clarity over the proposals, temporarily slowing activity. However, we expect this phase to be relatively short-lived.

Would the ban automatically encourage the industry to replace UORRs with indexation-based income streams?

Not automatically, but alternative approaches such as indexation may grow in appeal as landlords seek income stability. This helps manage valuation risk by linking rents to inflation and would align with European norms. However, the absence of collars means that rents could still remain flat in a low inflationary environment. CPI/RPI do not always correlate with specific construction inflation in isolation, whereas rents often do.

Would the proposal impact investment values?

Potentially – investors may seek higher return criteria to compensate for lower or less certain rental prospects, implying higher yields, all else equal. However, this might be mitigated by calculations that show a lack of UORRs would have had a minimal impact on rental levels over the past 30 years.

The occupier perspective

BY LEE ELLIOTT, GLOBAL HEAD OF OCCUPIER INSIGHT

AN UNNOTICED PROPOSAL

Despite the proposed legislation's potential to reshape the relationship between owners and occupiers, the measure has attracted surprisingly little attention from occupiers to date.

FROM UPWARDS-ONLY TO BIDIRECTIONAL REVIEWS

Proponents argue that this bidirectional approach would rein in excessive rent hikes and preserve occupiers' cash flows if asset values decline. As the proposal takes shape, occupiers face a blend of potential rewards and risks. Below, we outline the main advantages tenants might secure, followed by the unintended challenges they should consider.

POTENTIAL UPSIDES

Automatic Downside Protection
In a downturn, rents would adjust downward automatically, preventing companies from being saddled with payments far above market levels.

International Alignment and Competitiveness
Bringing leases into line with most European and North American markets simplifies cross-border portfolio management for multinational occupiers.

Better Fit with Business Planning Cycles
Tenants can negotiate review frequencies and mechanisms, such as three-year fixed rent terms or five-year index-linked steps, that dovetail precisely with business plans, product roadmaps, funding rounds or annual budgeting, improving alignment between occupancy costs and operational/strategic milestones.

Improved Transparency and Benchmarking
Open-market and index-linked reviews require precise benchmarking data, granting tenants access to the same indices and comparables as landlords. This transparency empowers occupiers to challenge unreasonable valuations and benchmark their leases against local market trends.

COUNTERINTUITIVE DRAWBACKS

While downward reviews sound tenant-friendly, several unintended consequences may catch occupiers unawares:

Reduced Up Front Incentives
Landlords are far more likely to pull back on rent-free periods, fit-out contributions and other sweeteners. They'll need to offset the risk of future rent falls by minimising any initial outlay.

Complex Review Mechanisms
To manage volatility, lease documents may adopt hybrid formulas combining open market comparables, index-linked uplifts and fixed steps. However, there would likely be much conjecture about the most appropriate index to utilise. Such complexity could also increase professional fees and administrative burdens.

Shorter Leases and Break Clauses
With upwards-only security gone, many landlords will resist long-term commitments, favouring three to five-year leases with aggressive break rights. While this grants flexibility, frequent relocations and repeated fit-out costs can disrupt operations. Dilapidations and reinstatements will also be key occupier considerations in this environment.

Reduced Development & Supply Constraints
Developers and their lenders have long relied on upwards-only clauses to underwrite project returns. Removing that certainty may make new projects - and refurbishments - harder to finance. This would slow the delivery of fresh stock and could exacerbate shortages in growth markets, ironically driving rents up over time due to constrained supply.

Ultimately, different property sectors have different conventions and drivers, meaning that the proposed changes would impact in different ways.

We analyse the impact on specific sectors later in this overview.

MARKET VIEW

RICHARD PROCTOR
Head of Occupier Strategy & Solutions, UK

While the draft legislation to replace UORRs appears to level the playing field for occupiers by adjusting rents downward when values fall - in practice, landlords are likely to innovate new pricing structures: embedding risk premiums into higher headline rents, reverting to short term index linked arrangements or reducing tenant incentives - effectively preserving returns through alternative mechanisms.

Even if occupiers benefit from more transparent benchmarking and downside protection, the broader economic ramifications could be severe: changing commercial real estate yields risks destabilising institutional investors, particularly pension funds, which depend on predictable income streams to meet future liabilities. The potential for complex lease structures, shorter terms, and diminished capital supply suggests systemic knock-on effects on retirement savings and corporate funding may well outweigh any isolated relief for tenants.

Occupiers should view the proposals cautiously, ensuring reforms deliver genuine market alignment rather than simply shifting costs elsewhere.

The capital markets perspective

BY VICTORIA ORMOND CFA, HEAD OF CAPITAL MARKETS INSIGHT

SHIFTING RISK AND RETURNS: ASSESSING AN INVESTMENT MARKET WITHOUT UORRS

The UK is relatively unusual in its reliance on UORRs, and some sectors, such as retail, have already largely evolved away from them.

However, in sectors such as prime London offices, where leases have been shortening but are still often treated as bond-like income, UORRs could have a more acute impact on their risk/return profiles, particularly at points of market stress.

This is particularly relevant for liability-matching investors, such as pension funds, which depend on secure, predictable cash flows. We could see an increase in CPI-linked (we have rarely seen material deflation over a sustained period) or fixed-uplift leases as a result.

Looking to other markets without UORRs is helpful to assess potential long-term implications. For example, the immediate aftermath of Ireland's 2010 ban on UORRs saw the creation of a two-tier market of legacy and new leases, with caps and collars commonly adopted, albeit these are to be banned under the proposal here.

In the short term, if the bill materially advances or is enacted, market impacts are likely to be sharper as investors reassess pricing and risk.

A global perspective offers a more pragmatic assessment. Domestically, UORRs may be cited as a key to the attraction of global pension capital to UK Commercial Real Estate. However, there is evidence that their appeal may be overstated: since 2020, the most active markets for international pension capital investment (excluding the UK) have been Australia, the United States and Japan. Notably, none of these countries include upwards-only rent review clauses in their typical leasing arrangements.

MARKET VIEW

GAVIN SPREYER
Partner, Commercial Valuations

The ability to rebase rents through the adoption of upwards and downwards reviews could be seen to represent a more equitable landlord and occupier relationship, leading to longer term lease commitments and greater certainty over the longevity of occupation.

Conversely, UORRs currently underpin the investment market offering security of base rents and growth over the life of the leases. The change in circumstances will undoubtedly lead to a degree of uncertainty both prior to implementation and following the introduction of the legislation, not to mention the possibility of a two-tier investment market developing as it did in Ireland.

Subject to how the legislation is introduced, certain investors may also be unable to match annuity income requirements if longer term leases with fixed or indexed leases (with collars) are prohibited. Additionally, if the legislation goes further and bans indexed leases (as it might, given the implication of ever-increasing rents), development and refurbishment may be deferred or cancelled or rents inflated to compensate for any corresponding change in investment value due to the higher return criteria based on shorter term secure income.

Whilst the proposed legislation appears on face value more equitable and to aid longer term tenant occupation, the market must also be prepared for potential challenges. The changes could have implications on value at least in the short-medium term and may have the unintended consequence of making UK real estate investment less attractive to investors, contradicting the Government's economic policy for growth.

LISA ATTENBOROUGH
Head of Debt Advisory

For commercial real estate lending, as a base case scenario, lenders will often assume that there are no upward rent reviews. With this in mind, we don't see the proposed ban creating a huge issue for lending appetite or terms.

Lenders scrutinise market rents as part of their risk analysis, but they also focus on the credit quality of the occupier, term of the lease, quality of the underlying real estate etc. - the upward-only rent reviews are a small part of a much bigger jigsaw.

A downward rent review could prompt lenders to offer lower leverage, to ensure that interest coverage ratios (ICRs) are maintained at required levels in the event of a downward rent review. However, this can be mitigated by structuring the facility in a smarter way to ensure that the borrower's strategic objectives are still being met.

Global lease comparisons

BY JUDITH FISCHER, PARTNER, EUROPEAN INSIGHT

We have consulted with Knight Frank colleagues in Ireland, Spain, Germany, France and the US for their perspectives.

IRELAND

The shift from upwards-only to upwards-and-downwards rent reviews reflects a broader move towards market-responsive leasing, improving conditions for tenants but reducing perceived income security for property investors. This has resulted in a dual market of legacy upwards-only leases and modern flexible leases that continues to influence commercial property values and leasing strategies in Ireland.

UORRs (pre-2010 leases)

Prior to the Land and Conveyancing Law Reform Act 2009, Irish commercial leases typically included upwards-only rent review clauses, meaning that rents could either increase or remain static at the review date, but never decrease, regardless of market conditions.

Upwards-and-downwards rent reviews (post-2010 leases)

The Land and Conveyancing Law Reform Act 2009, which came into effect on 28 February 2010, fundamentally changed this landscape. Section 132 of the Act prohibits upwards-only rent review clauses in leases of business premises entered into after that date. Under the post-2010 regime, leases must permit rent to be reviewed both upwards and downwards, based on open market rental value. This has several implications:

- For tenants, it offers greater fairness and financial sustainability, as rents can decrease during market downturns.
- For landlords and investors, it introduces greater income uncertainty, which can result in more conservative valuations and affect borrowing capacity.
- For the market, it encourages more transparent and competitive pricing, aligning Irish lease practice with international norms.

SPAIN

In Spain, most lease agreements are indexed to the Consumer Price Index (CPI), with rent reviews generally carried out on an annual basis. Legally, both increases and decreases in rent are allowed, depending on the evolution of the index.

However, in practice, particularly in the commercial sector, it is possible for contracts to include negotiated clauses that prevent rents from decreasing, even when the CPI is negative. These indexation mechanisms typically follow one of these three formats:

- Fully open: allows for both increases and decreases based on the actual CPI.
- Positive only (0% floor): only increases are applied; if the CPI is negative, the rent remains unchanged.
- 0% floor and CAP: sets a minimum adjustment of 0% and a maximum cap (usually between 3% and 6%) on annual rent increases.

GERMANY

In Germany, commercial leases are usually linked to CPI. It is quite common to agree on a cap for indexation, for instance limiting rent increases to a maximum of 10%, even if the CPI goes up further.

Another approach that is often used is to have indexation kick in only after the first three years of the lease. However, it is not typical to combine both a cap and a deferral of the first adjustment in the same contract.

In theory, rents linked to CPI in Germany could also decrease if the index drops. While it is legally possible to include a floor that prevents rents from going down, this isn't standard practice and is rarely seen in most lease agreements.

FRANCE

Under French legislation, the compulsory lease length is nine years, with break options agreed in advance at three-year intervals (e.g., 3/6/9 or 6/9 structures).

Annual rent indexation is usually based on indices such as the ICP, GDP, or ICC (Construction Cost Index).

Increasingly, service provision contracts have greater flexibility, allowing shorter lease terms (under three years) and enabling payment not just for the space itself, but also for a broader range of services.

UNITED STATES

Most commonly, leases in the US have an initial term of 5-10 years with a possible renewal option, with 10-year leases having two to three fixed uplifts over the period, pre-agreed at the outset. Operating expenses and taxes are set at a base level and increased annually at an agreed index. Alternatively, there can be fixed percentage increases in lieu of expense pass-throughs.

The removal of UORR would align England & Wales more closely to current US practice and remove a level of complexity for US occupiers. Whilst a significant shift for the UK, this could provide more clarity to a US occupier entering the market for the first time.

MARKET VIEW

Assessing the impact on Scotland

ANDREW HILL
Lease Advisory Partner, Knight Frank Scotland

Perhaps the most important point from a Scottish perspective is that, as part of the English Devolution and Community Empowerment Bill, the proposals only apply to England and Wales. So, there is no immediate direct interest for owners of Scottish commercial properties or tenants thereof.

Of course, it is possible this could change if the Scottish Government decides to follow suit. But it is worth noting that there are already important differences between the property regimes north and south of the border, not least in terms of the rating systems. Even so, many in the Scottish property market will be watching what happens in the months ahead, as the debate around the issue develops.

One of the main motivations behind the legislation seems to be to address the challenges faced by the high street. It has long been recognised that bricks-and-mortar retail would benefit from support, but as we saw during the 2008 financial crisis and Covid-19 pandemic, there is precedent for landlords and occupiers working together during tough times, with rents naturally rebasing.

In the wake of that experience, a range of alternative leasing models were created to help rents better reflect the health of the sector. Reviews can track the retail or consumer price indices to track inflation, be aligned with the occupier's turnover, or agreements can be made on a short-term basis, for instance.

Although they are used by some landlords and occupiers, these lease structures have not proven particularly popular. A major reason is that there is simply not the level of demand there once was for retail space. In Scotland, requirements are concentrated on prime locations such as George Street in Edinburgh and Glasgow's Buchanan Street, with tertiary, high street, and secondary, shopping centres struggling. In fact, the situation likely has little to do with landlords or the terms they offer – no property owner wants its asset to sit vacant.

One of the unintended consequences could be that the proposed legislation makes Scottish commercial property more attractive than other parts of the country, with greater certainty over potential returns.

The office perspective

BY SHABAB QADAR & CHRIS DUNN, LONDON OFFICES INSIGHT, & DARREN MANSFIELD, UK CITIES INSIGHT

For decades, these lease provisions have offered landlords the assurance that rents can rise or, at worst, remain flat even as markets falter. This feature has underpinned the appeal of UK offices for global investors seeking steady, bond-like cash flows in a volatile world.

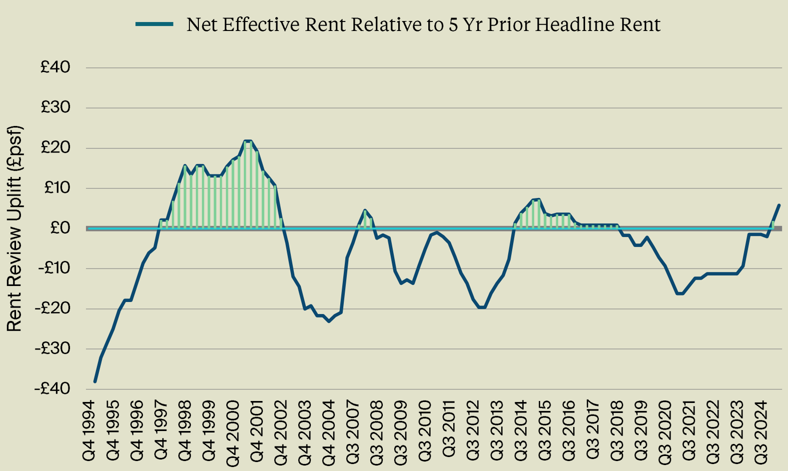
However, landlords may also find new opportunities in a shifting environment. The use of fixed or stepped rents could still allow for predictable income streams without relying on contested market reviews. Whilst a move to indexation, as seen on the continent and the US, could be a beneficial move in terms of removing an adversarial element of the customer journey through real estate. Those who can adapt quickly may also differentiate themselves in a more occupier-friendly market.

The UK office market has weathered structural shocks before. The leasehold reforms of the 1990s dented landlord confidence and forced investors to price in regulatory risk. As an example, during the global financial crisis office rents tumbled, but upwards-only reviews shielded landlords from the worst of the damage, preserving London's reputation as a safe haven for sovereign wealth funds and Asian insurers. More recently, the pandemic accelerated remote working and eroded tenant demand for long leases, further undermining the stability of income flows. In fact, these shocks have resulted in very little uplift at review in the City Core over the last 20 years, as demonstrated in the chart below.

Unintended consequences could include a shift toward outside the Act leases that grant landlords more control and cut occupiers' statutory protections, plus rental inflation as landlords seek value capture through the new legislation.

In summary, a ban on UORRs would mark a significant shift in office leasing norms. While it would introduce new challenges for landlords, it could also prompt innovation and would require greater collaboration between negotiating parties.

London City Core rent reviews show little uplift following market shocks



Source: Knight Frank

MARKET VIEW

JAMES THISTLE
Head of London Lease Advisory

It is clear that changing one part of the commercial bargain (i.e. banning the 'upwards-only' element) is likely to be met with a more holistic reconsideration of the other key parts.

In London office leases, typically the parties agree a headline rent at the outset of a lease, along with a rent-free period. At first rent review, to achieve an uplift, owners must prove that current market 'net effective rents' (i.e. those which factor in net inducements into their calculation) are higher than where headline rents (i.e. the now passing rent) were five years prior. The very nature of this mechanism provides occupiers with a high level of protection from meaningful uplifts and, in many points in the market, from uplifts generally.

It is therefore very possible that owners seek to rebalance this nuance, in response to upwards-and-downwards rent reviews, in one of the following ways:-

1. A significant reduction in, or complete eradication of, rent-free incentives – to avoid rents being 'bought up' from day one and as such benchmarking genuine rental performance over the five-year period as opposed to firstly having to overcome comparing a headline with net effective impact.
2. A move to 'headline rent reviews' whereby incentives remain at the outset to continue to provide occupiers with free cashflow to assist fitting out, but the rent review in year five acknowledges that they have already had an incentive and doesn't therefore 'double count' by also assuming a notional one.
3. The market moves to a higher market rent (upwards/downwards) or indexation (if this is permitted under the legislation).

MARKET VIEW

London's office market: Preparing for a new leasing landscape

PHILIP HOBLEY
Head of London Offices

The potential removal of UORRs could mark a significant shift in the market dynamic.

It is important to recognise that the market has already been evolving. Over the past decade, average lease lengths have been shortening as occupiers seek greater flexibility. However,15-year leases remain common for large scale pre-lets, and 10 years is still the market norm for 10,000 sq ft + lettings. That said, options and break clauses have become more common across larger space takes to provide occupiers with a greater degree of flexibility.

Against this backdrop, landlords have already been adapting to a more occupier-focused environment. The question now is whether further structural change is necessary or whether it risks adding complexity to an already nuanced market.

If rents are allowed to move both up and down, landlords will need to manage an additional layer of income volatility. Occupiers adjusting to hybrid working patterns and recalibrating their space needs would welcome the flexibility. Landlords, however, could face shorter leases and tougher negotiations. The likely result is a sharper polarisation in the market. Prime best-in-class buildings in core business districts will remain in strong demand, offering resilience and rental growth. Secondary assets in weaker locations may face growing challenges to attract and retain occupiers.

The impact could also extend to the development pipeline. For new schemes, the loss of guaranteed UORRs would introduce greater uncertainty around long term income, making it harder for developers and investors to underwrite projects. Combined with elevated construction costs and stricter sustainability standards, this could further constrain the delivery of new space, particularly speculative developments. The risk is a market with even more limited supply of the best quality offices, intensifying competition for prime assets and widening the gap with older stock.

Index-linked reviews may not offer sufficient growth prospects to compensate the rising cost of development, particularly at a point where we are forecasting rental growth to outstrip CPI and other indexes through to the end of the decade.

At this critical juncture, consultation between Government and the property industry will be vital. Any changes to rent review mechanisms must balance the needs of occupiers with the need to maintain investor confidence and the flow of capital into London's office market. Indeed, there is risk of a pause in activity, which would be detrimental to the Government's growth agenda and UK plc.

For landlords, the next phase will demand agility and a proactive approach. Success will depend on anticipating occupier needs, investing in the right locations and assets, and embracing active asset management to protect income and drive long term value.

The retail perspective

BY STEPHEN SPRINGHAM, HEAD OF UK MARKETS INSIGHT

THE 'TRODDEN PATH' VIEW FROM RETAIL

Retail has been singled out as one of the driving forces behind the proposal to scrap UORRs and, by implicit extension, one of the key beneficiaries if the move comes to pass. If the latter notion is questionable, the former is significantly time-lagging. All the same, the retail market provides an interesting blueprint as to what the landlord–tenant relationship might look like in a post UORR world.

Historically, retail became synonymous with UORRs, retail occupiers continually calling them out as an inequitable and unfair constraint to them doing business. The balance of power lay firmly with landlords; retailers were at the mercy of an ever-spiralling cost base over which they had very limited control. There was a constant chorus of discontent from retailers in opposition to long (25 year) leases, subject to UORR.

The operative word here is 'historically'. The retail market has evolved significantly over the last 20 years, as much by default as by design, with the market undergoing deep-seated structural change. The relationship between landlords and retail tenants has moved on considerably as part of this process of change, as have lease agreements.

In essence, UORRs are a legacy issue in retail, rather than the status quo. Very few leases agreed in recent years or going forward contain UORR obligations. Tenants have sought far greater flexibility generally, and in the midst of this, more rigid bastions such as UORRs have gradually fallen by the wayside.

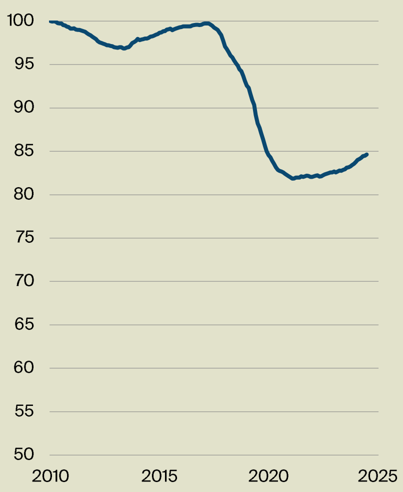
In this regard, the proposed changes in legislation are likely to have minimal impact on the retail sector, insofar as they only apply to new leases, rather than existing ones. So, any notion that the change in legislation will benefit the retail sector and 'breathe new life into the high street' is woefully misguided. Twenty years ago, it would have made a positive difference, but not now. Government intervention is late - and now needless.

Any lobbying from the retail sector now focuses squarely on business rate reform, rather than the 'old news' of UORR. Any expectation that this will stymie rental growth and bring high street rents to a more affordable level rides roughshod over what has happened over the last 20 years, which have already seen massive rebasing in rents (by -8% between 2008 and 2013 and by a further -22% between 2017 – 2022).

In short, retail has moved on significantly from rigid UORR leases. They have been replaced by a multitude of other options, bringing a suite of alternatives into play. In general, leases have reduced significantly in length (25 years to 10 or just five), with multiple break options (landlord/tenant/mutual). Nearly all leases on unit shops these days are five year leases with no review. 10 year leases typically have a break at five, effectively allowing the tenant to reset the rent and negate the simultaneous review. Landlords and tenants will invariably agree fixed or index-linked uplifts anyway, rather than open market reviews.

Retail rental growth

2010=100



Source: MSCI/Knight Frank Insight

There are also a whole host of potential variations of terms that go beyond lease length, e.g. turnover rents or TOC (total operating costs) deals, bringing negotiations not just on rent but service charges, business rates and even insurance into play - tenants effectively recognising that there are many more occupational cost levers to pull than just negotiating on rent.

If retail is a blueprint for other sectors in the event of the UORR bill being passed, the message is that landlord–tenant relationships will be less rigid and the former will see less certainty than they may have become accustomed to. More uncertainty, far more complexity, but the trade off is far greater flexibility and transparency - and that may ultimately be mutually beneficial for both landlords and tenants.

Twenty years ago, retail lobbied hard against UORR leases, and this may only be becoming a reality now. Hopefully, we won't have to wait 20 years for the reform to business rates the retail sector is clamouring for now – and so desperately needs. If any Government is predisposed to bringing about positive change to leasing structures and easing burdens on high street retailers, business rate reform should surely be the obvious place to start?

The industrial perspective

BY CLAIRE WILLIAMS, HEAD OF UK AND EUROPEAN INDUSTRIAL & LOGISTICS INSIGHT

KEY IMPACT
The main impacts will be felt in secondary markets rather than prime, where rental growth has underperformed and downside risks associated with a fall in rental values can't be mitigated through the use of an UORR. Modelling the impacts of removing the upwards-only clause on average or prime rents/rental growth shows little to no impact. However, it is the weaker performing markets or secondary stock/locations where the impacts are greater.

RENT REVIEW STRUCTURES AND MARKET DYNAMICS

In the industrial market, the two main rent review mechanisms are Open Market Rent Reviews (OMRRs) and index-linked reviews, typically with cap-and-collar protections. Hybrid "higher of" models are also common. While upwards-only clauses are standard in OMRRs, recent years of rental growth have rendered them largely redundant in practice.

With index-linked reviews, even if collars were no longer enforceable, actual rental reductions are unlikely due to the low risk of sustained deflation across typical five-year review cycles.

Historically, landlords preferred OMRRs during high-growth periods, while tenants favoured indexation with the cap and collar giving greater certainty around future rents. Now, with rental growth forecast to slow to 3.3% CAGR (vs. 6.7% previously) and inflation expected to ease, landlord appetite for OMRRs is waning anyway.

We could see preferences shift further in this direction, with landlords leaning towards indexation (due to greater security), and tenants increasingly open to OMRRs due to the slower rental growth environment.

OCCUPIER MARKET IMPLICATIONS

Uncertainty around the legislation is likely to extend occupier decision-making timelines and dampen leasing activity in the short term. However, this could also lead to more 'sticky' tenants, with rents unable to be over-inflated when the market moves.

Lease negotiations may stall as both parties await clarity, with upwards-only clauses becoming a key negotiating point for lease discussions currently underway. Tenure decisions in terms of lease length will continue to reflect operational needs (rather than review structure): tenants investing in their premises typically seek long leases, while 3PLs often match lease terms to short-term contract durations.

> "Historically, landlords preferred OMRRs during high-growth periods, while tenants favoured indexation with the cap and collar giving greater certainty around future rents. Now, with rental growth forecast to slow... and inflation expected to ease, landlord appetite for OMRRs is waning anyway."

INVESTMENT MARKET IMPACT

In the near term, investors may pause acquisitions pending legislative clarity, leading to lower transaction volumes. In open market value structured leases in the short term, however, we may see an uptick in investors focussing on indexed reviews.

The removal of upwards-only clauses could introduce less predictable income streams, increasing perceived risk and financing costs, potentially putting downward pressure on values – but largely depending on exactly how the new legislation would be worded.

Strategically, investors may gravitate toward index-linked leases or fixed uplifts to mitigate income risk. Rent review structure could become a key factor in portfolio risk assessments as well as valuations. There may also be greater focus on long-term leases with strong covenant tenants.

In contrast, active asset management strategies, previously attractive due to strong rental growth potential, could become less appealing, dampening investment into outdated or secondary stock.

Valuations may shift, with yield spreads emerging between assets on legacy terms versus those on new, more flexible leases.

Without upwards-only reviews, secondary assets and/or locations, where rental growth is lower or more volatile, will be seen as riskier; meaning higher yields for secondary locations/assets and widening the yield gap between prime and secondary stock.

DEVELOPMENT OUTLOOK

Rising borrowing costs and greater uncertainty around income predictability will increase the threshold at which development becomes viable, likely leading to reduced supply in the medium term (in turn, this may drive higher rental growth for new, high-quality stock).

Further considerations

UNINTENDED CONSEQUENCES OF BANNING UORRS	
Long-term creation of a two-tier market	Owners of prime assets may take a more robust approach and insist on indexation or fixed rents due to sustained occupier demand, whereas owners of secondary assets may be more willing to agree to open market upwards-and-downwards reviews (or turnover reviews in some sectors) as well as flexible terms, or breaks as part of the overall incentive package to stay competitive.
A confused message for pension funds and insurance companies	The Government, via the Mansion House Compact, is encouraging domestic pension funds and insurance companies to deploy more capital in the UK, including in the real estate sector. However, there is a risk that the ban on UORRs could reduce the attractiveness of real estate, specifically for such institutions, which often view current rental arrangements as one of the key attraction of real estate. The two initiatives would be at odds with each other.
Reduced Up Front Incentives	If they are to concede upwards-and-downwards market rent reviews, landlords are far more likely to pull back on rent-free periods, fit-out contributions and other sweeteners. They'll need to offset the risk of future rent falls by minimising any initial outlay.
Complex Review Mechanisms	To manage volatility, lease documents may adopt hybrid formulas combining open market comparables, index-linked uplifts and fixed steps. However, there would likely be much conjecture about the most appropriate index to utilise. Such complexity could also increase professional fees and administrative burdens.
Shorter Leases and Break Clauses	With upwards-only security gone, many landlords will resist long-term commitments, favouring three to five-year leases with aggressive break rights. While this grants flexibility, frequent relocations and repeated fit-out costs can disrupt operations. Dilapidations and reinstatements will also be key occupier considerations in this environment
Reduced Development & Supply Constraints	Developers and their lenders have long relied on upwards-only clauses to underwrite project returns. Removing that certainty may make new office projects – and indeed office refurbishments - harder to finance. This would slow the delivery of fresh stock and could exacerbate shortages in growth markets, ironically driving rents up over time due to constrained supply.
Mitigated default risk and future unaffordability from high ERV growth periods	UORRs during sharp ERV rises can create unaffordability and occupier stress, increasing default risk and even potentially undermining long-term market sustainability. Both pose risks to investors. Fixed uplifts or CPI-linked leases may offer greater predictability, reducing rent-driven occupier failures and market overheating, potentially even moderating rent driven boom-bust cycles.
Potential Shortfall for Sub-lessors	Occupiers with legacy leases risk being tied to existing UORRs whereas sub-leases granted in the future could be up/down reviews, meaning the occupier is exposed to a higher residual liability.
A risk that overseas demand for UK real estate cools	The bill implies that there will be no impact on international investment into UK commercial real estate, but relies on a faulty assumption that UK commercial real estate investment is *not* higher than average for a G7 country. In fact, the UK consistently sees outsized investment relative to its size, and almost half of this consistently comes from overseas. This year, the UK is the top destination globally for cross-border real estate investment. Overseas investors may view the current longer lease arrangements as less management-intensive than those of the proposal, and this aspect will be an additional consideration over and above those that affect domestic investors.
Heightened appeal of Scottish CRE	As part of the English Devolution and Community Empowerment Bill, the proposals only apply to England and Wales. One unintended consequence could be that the proposed legislation makes Scottish commercial property relatively more attractive than other parts of the country, with greater certainty over potential returns.

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English Devolution and Community Empowerment Bill document

English Devolution and Community Empowerment Bill progress tracker

Knight Frank