

Written evidence submitted by WPI Strategy (EDCEB49)

Proposed ban on upward only rent reviews in the English Devolution Bill:

How the measure needs to be focused on Government's intent to help small businesses, and to avoid unintended consequences for pension funds, regeneration projects and community investment.

Summary

A proposed ban on upward-only rent reviews (UORR) in commercial property leases is included in the English Devolution and Community Empowerment Bill. The aim is to help small businesses manage rising fixed costs when market conditions decline. **We support that.**

As currently drafted, however, the ban has unintended consequences in areas HM Government did not consider in its impact assessment. This analysis by a **former HM Treasury and House of Lords economist** shows the ban would curtail investment in larger developments, including data centres and regeneration schemes, which are paid for in part via modest upward-rent mechanisms as the development matures over the long term. Impacts would be substantial:

- We predict a **fall in larger affected commercial property values of around 15 per cent** after the ban, which would weaken investor confidence, making many mixed-use and town-centre regeneration schemes financially unviable, reducing local authority revenues and slowing delivery of new homes as well as commercial space.
- UK pensions hold around £96bn of investment in UK commercial property, of which **over a third is in schemes for public sector workers**. The ban will reduce income to savers as leases renew and stop pensions investing further in UK property.
- The overall result would be to deflect vital investment away from communities: we expect the impact could, conservatively, be up to **£2bn less invested each year**.
- The economic impact of this would be substantial: £2bn less investment **will take around £4.2bn of growth out of the economy every year**, but bigger impacts will arise from issues like slowing data centre rollout.

We recommend a very simple fix: focus the ban on leases for small businesses, as the policy intended, using the existing official definition of fewer than 50 employees. Voluntary sector organisations could also be covered. In England and Wales, **99% of businesses are small, meaning almost all would be covered by the ban**, while ensuring unintended consequences for investment in larger community and regeneration developments are avoided.

Transparency and our declaration of interest:

WPI Strategy is a policy and research consultancy with no direct commercial interest in the UORR ban and we do not work for landlords. We do have clients investing in commercial property, however, including from the pension fund and affordable housing sectors, and in datacentres. The UORR ban would have a small impact on current investment holdings but would prevent future investment. Our interest is therefore to promote continued investment in communities which we see as under clear threat from an untargeted UORR ban.

2. Background

A proposal to outlaw upward-only rent review (UORR) clauses is included in the current English Devolution and Community Empowerment Bill. It applies to new and renewed commercial leases in England and Wales.

Government explicitly frames the UORR ban as a measure to **help small businesses**. The official press release announcing the ban, for example, said, “This will help keep small businesses running,”ⁱ and the explanatory notes to the Bill carrying the ban say, “Stakeholders report that UORR clauses are artificially inflating commercial rents and ultimately pricing out small businesses from town centres.”ⁱⁱ

The evidence presented in this report, however, shows that a UORR ban would hardly impact small businesses at all. It will in reality affect critical community investments, including by pension funds and local authorities, which rely on long-term rental repayment mechanisms.

Some small businesses are undoubtedly in tenancies with UORRs, and we support a ban for them, as well as voluntary sector organisations, to help with rising fixed costs.

The problem is that as currently drafted, the ban is on all commercial real estate (CRE), which will include investments by pensions, local authorities and others, who provide long term capital in return for modest long-term rises in rental income.

Targeting the ban to avoid unintended consequences

There are around **5.1 million** businesses in England and Wales, 99% of which are defined as small (50 employees or less).ⁱⁱⁱ The official impact assessment for the ban on UORR clauses,^{iv} however, says the number of tenants of commercial property with a current UORR lease is only **24,800**. The absolute maximum the assessment says could be affected in future, in the wholly unrealistic scenario that all rented commercial properties adopt a UORR lease, is only “between 0.9 and 1.2m.”

There is no data on the size of company within the 24,800 organisations with a UORR lease, but it is very obviously a vastly smaller number than the actual population of small businesses. While some small businesses could undoubtedly have UORR leases, the reality is that many of this 24,800 are larger developments funded by long-term investors, such as pension funds.

Such developments are often very capital intensive and as such, employ a modest UORR mechanism over a long lease (which can be over 20 years) to attract and repay long-term investors seeking a relatively lower-risk, long-term return. This model is critical to the commercial property sector and underpins a great deal of jobs and growth.

For larger enterprises, rent typically accounts for a much smaller proportion of costs, so affordability is much less of an issue than for small businesses.

Removing UORRs across the board would weaken this model and destroy investor confidence, reduce property values, and ultimately deflect billions away from vital investment in UK commercial property, regeneration and critical future infrastructure such as data centres.

The Government impact assessment included none of these considerations.

This short paper provides an overview of analysis of the impacts of the UORR ban, showing some very major unintended consequences which were surely not Government's intent. It recommends the UORR ban is focused on small business in order to ensure the vast majority of commercial tenants will not receive an UORR, while protecting essential long-term property investments.

3. Independent impact assessment



This impact assessment was prepared by Martin Beck, Chief Economist at WPI Strategy. He is a former HM Treasury economist of over 10 years, ex-Chief Economist of the EY Item Club, and former economist at the House of Lords.

a) Summary of findings

We agree with HM Government that **removing UORRs would provide help to small firms** struggling with fixed costs, although the coverage of those issues is uncertain: there are many *vacant* properties typically occupied by small businesses in areas of *falling* rents, which is helping to keep rents from rising, even where UORR clauses are in place.

The ban is, however, much more likely to impact on property occupied by larger businesses, for which rent is not as big a cost as it is for small firms, and modest UORRs are typically used to attract critical investment in property projects. In this context, the ban **would have far more negative consequences**. Funding for these schemes often requires an upward rent mechanism to attract capital from long-term investors, such as pension funds. Removing the ability to finance commercial development in this way would be very damaging:

- While HM Government's impact assessment estimates the ban on UORRs could cause a 3.8% fall in rental income, recent independent research (see below) shows incomes falling by up to 11% and the ban more likely to affect larger property.
- This would cause declining commercial property valuations and we expect a **fall of around 15%**, resulting in a losses across the sector. The reason for this fall is first, lower rental income, but second and more importantly, higher yields reflecting increased risk and reduced income predictability.
- This will weaken investor confidence in the commercial property market, leading to lower investment and less construction, so reduced revenues and delivery capacity, including for local authorities. Some property projects will simply become unviable because investors will have to underwrite higher exit yields for large commercial leases due to the revised structure with less income predictability.
- There is a significant refinancing wall over the next 1–3 years, and lower valuations will make refinancing more difficult, putting additional pressure on bank and private lenders' balance sheets. It will further reduce lenders' appetite for commercial real estate, increasing the cost of financing and reducing growth.
- Pension funds currently hold around £101bn of UK property, 96 per cent of which is commercial; and around £36bn of that is held in schemes for **public sector workers**. A ban on UORR means all new and renewed leases providing reduced income, so funds could divert billions out of UK property.
- Lower property values and weaker investor confidence would make many mixed-use and town-centre regeneration schemes financially unviable, reducing local authority revenues and slowing delivery of new homes as well as office and retail space.

- We predict some quite substantial growth impacts from the above. We expect, very conservatively, around **£2bn less investment** in commercial UK property, which would deliver an impact of over **£4bn every year in reduced growth**.

Policymakers can still deliver this policy without such unintended harm simply by limiting the ban to leases for the **99% of businesses that are small**, using the existing official definition.^v

b) How commercial real estate underpins the UK economy

At the end of 2023, the UK CRE market was worth £949bn^{vi}, equivalent to around a tenth of total national capital stock.^{vii} Annual investment inflows to CRE reached £50bn in 2024, close to 2 per cent of GDP.^{viii} In the first half of 2025, transaction volumes totalled £21.9bn, underlining the sector's importance to overall economic activity and jobs.^{ix}

UK pension funds are deeply entwined with this market. They collectively hold around £101bn in UK real-estate assets,^x 96% of which is in commercial property,^{xi} making them owners of more than a tenth of the entire CRE market in the UK. Around £36bn of this exposure sits in public-sector schemes, mainly for local-government workers.^{xii}

Movements in CRE values therefore have real consequences for savers. Falling rents or asset values erode the returns backing pension funds, and can force funds to sell properties to meet liabilities. A **fall in commercial property values could wipe out substantial amounts from public-sector pension holdings**, yet the Government's own impact assessment makes no reference to the potential losses to pension funds from lower property valuations.

This omission matters. If a ban on upward-only rent reviews makes UK real estate less attractive to long-term investors, it would cut directly against ministers' ambitions to channel more pension capital into productive UK assets. Under the Mansion House Accord, agreed in May 2025, pension providers committed up to £50bn for investment in private markets by 2030, half of it intended for UK projects, including property.^{xiii} Discouraging investment in commercial real estate would therefore risk undermining one of the Government's flagship initiatives to unlock pension savings for national growth.

c) Why upward-only rent reviews are used

Ministers have explicitly justified the use of the proposed UORR ban as protection for small businesses against rising fixed costs from rents when market conditions are falling. We have not been made aware of any clear evidence of the exposure of the small business market to UORR leases, and indeed have seen evidence of high rates of empty property in areas of falling rents, but we **support HM Government's goal** to help small businesses in this way. Combined with help to limit business rates rises, these measures could help protect against rising fixed costs.

Our investigations indicate that UORRs clauses, typically applied across long leases, are more likely to be used with larger property. While Peel Hunt estimates around 20 per cent of leases still use UORRs,^{xiv} most of these are in respect of larger property where predictable income

streams were needed to attract long-term capital investors, such as pension funds and insurers, who must price investment risk accurately.

Recent analysis of the impact of the UORR ban, by credit rating agency KBRA, suggests investors will see cash-flow volatility, impacts on property valuations, loan performance and refinancing risk, plus a ripple-through to commercial mortgage-backed securities too, where falling rental income weakens debt-service coverage, pressures credit ratings, and complicates refinancing at maturity.^{xv}

This is not to say that UORR are not used by landlords of property for small businesses, which we acknowledge and again, support HM Government's *intent* for this ban to help small firms.

Economic impact of a ban

The Government's impact assessment of banning UORRs suggests a 3.8% reduction in landlord income, equivalent to £27 million per year and £61 million in present-value terms over ten years.^{xvi} Independent analysis indicates much larger impacts, however. Peel Hunt estimates retail income could fall by a mid-range of 6% for retail and 11% for office, following a ban.^{xvii}

Falling rental income would directly reduce property values. Because values are a function of net operating income (NOI) and yield, a 10 per cent drop in NOI implies a roughly equivalent decline in values if yields remain constant. If yields rise, as investors seek compensation for more risk, losses deepen further, as we illustrate in the table below:

Table 1: Fall in property values under different rental income and yield assumptions

Assumption	Rent income change	Yield change	Property value impact
Case 1	-10%	none	-10%
Case 2	-10%	+25bps	-15%

Our view is a 10% fall in NOI, combined with a modest 0.25 percentage-point rise in yields, **could cut property values by around 15 per cent.**

The change in yields comes from rental income being less predictable, and the income return riskier. To make up for that extra risk when funding large properties and projects, investors will demand a higher return, meaning higher yields and lower property values.

More volatile rents could also impair refinancing by raising financing costs and pressuring commercial mortgage-backed securities markets.^{xviii} We expect UK lenders to have around 10–15% exposure to commercial property, so a fall in values would put further pressure on their balance sheets and could impact loan-to-value ratios in lending. The UK is already facing high borrowing costs, so any further deterioration in property values would make refinancing significantly more difficult.

Tenants could also lose out, as a ban could exacerbate the trend for shorter leases being signed outside the Landlord and Tenant Act (which does not apply to leases of less than six months). Such leases offer no protection against unfair termination and no right of renewal.^{xxix}

The overall result of all the above would be that vital **investment is steered out of** our communities: we expect this could be around £1.5 - £2 bn less overall each year.^{xxx} The growth impact of that would, conservatively, be to take **£4.2bn GVA out of the economy each year**.^{xxxi}

Risks for regeneration and development

A fall in commercial property value triggered by a ban on UORRs is likely to harm local regeneration and development schemes via several channels:

- **Developer confidence weakens:** When commercial property values decline, expected returns fall, so some regeneration/investment schemes will become financially unviable.
- **Financing becomes harder:** lower valuations reduce borrowing capacity or increase required equity. If lenders fear further value falls, they demand higher risk premiums.
- **Mixed-use/regeneration projects are less viable:** Many regeneration schemes depend on the commercial component (offices, retail, etc.) to cross-subsidise residential or public spaces. If rental income falls and yields rise, the commercial revenue/cash flow part weakens, undermining the viability of the whole scheme.
- **Local authorities suffer a financial hit:** many local authorities own commercial property or invest in regeneration and use property valuation gains to fund other elements, such as infrastructure. If values fall, local government revenues drop and debt or balance sheet health worsens, reducing capacity to invest in regeneration.
- **Weaker spillovers from regeneration:** Regeneration tends to generate spillover benefits (e.g. improved amenities, transport and perception of an area) which feed into nearby property values. If values are falling generally, these spillovers are less powerful, so the uplift from a regeneration project is smaller.
- **Critical future infrastructure:** data centre rollout depends at least in part on UORR to attract investors to fund the up-front construction costs. It is critical for growth that this is maintained; a 300MW unit, for example, drives over £3.8bn in growth over a 10-year period.^{xxii}

These risks are far from theoretical. The fall in commercial property values during the recession of 2008-09 saw a large amount of regeneration shelved or cancelled altogether.^{xxiii}

Evidence from local authority and housing association bodies show that developer contributions to social and affordable housing are highly dependent on market conditions; in weaker markets, contributions fall to keep schemes viable.^{xxiv}

In practice, the ban on UORRs would mean fewer new shops, offices, and homes in regeneration areas - and more commercial units remaining empty for longer. The Government's impact assessment makes no reference to these second-order consequences.

d) Weak evidence for policy decisions

The justification for banning UORRs rests on at least two core arguments, plus an official impact assessment, none of which stand up under scrutiny:

Impact assessment:

As noted above, the official impact assessment for the UORR ban we would suggest was inadequate. We suspect this is the result of the measure being introduced suddenly by ministers at the time, with no consultation with business, so an assessment was hastily arranged which considered none of the aspects covered here. **We would urge government to conduct a full assessment on the economic impacts.**

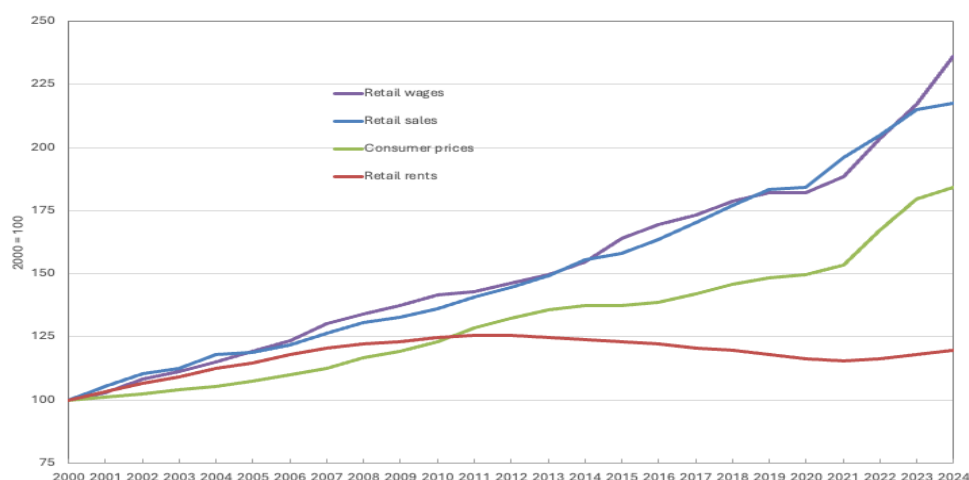
Rents justification:

The argument for removing UORRs is they prevent rents from reflecting real market conditions, so present an ever-rising fixed cost. In reality, commercial rents have already lagged well behind inflation and wage growth. For example, retail rents rose only 2.3% in 2024, while inflation averaged 2.5%, implying a real-terms fall.^{xxv}

Over the past decade, CBRE data show retail rents down 10% and values down over 30%.^{xxvi} Meanwhile, consumer prices rose nearly 40%, retail sales by just over 40%, and average wages 50% (Figure 1).^{xxvii} Knight Frank data also show UK retail rents are now actually back to levels last seen in the early 2000s.^{xxviii} (See Figure 1, below.)

For these reasons, we judge the claim that UORRs drive excessive rent growth as unfounded.

Figure 1: UK retail rents have significantly lagged prices, wages and retail sales



Source: Office for National Statistics and Knight Frank

The lesson of banning UORRs in Ireland

Ministers have claimed, during the passage of the Bill, that when Ireland banned UORRs for new leases in 2010, there was no real impact on the commercial property market, so the same will be seen in the England and Wales context now.

We would see this as in need of much more investigation. Ireland's ban came at a time when commercial rents had just begun to recover from a bottoming-out after the global financial crisis, so the risk of an UORR ban was much lower than the present proposal.^{xxix} Any potential negative impact on property valuations was mitigated by market recovery and growth after the crash: rents were rising, so the downward risk did not materialise. However, it did create a two-tier system, with older leases with UORRs valued at a premium due to income stability, but newer leases without them required higher yields to offset higher risk. The market also moved towards more upward CPI-linked leases and more short-term leases without rent reviews to compensate for the loss of downside protection. Furthermore, Ireland's reforms included floors on rent reductions and no tenant-initiated rent reviews, which the current proposal allows.

Introducing a similar measure today, in a market characterised by high borrowing costs, tight credit conditions and weak confidence, would be far riskier.

4. Recommendations

Banning upward-only rent reviews beyond their stated aim to support small business would have major unintended consequences, reducing pension returns and local authority incomes, as well as deterring critical investment and slowing regeneration. We therefore suggest:

1) HM Government should simply focus the policy on its intended small business target, by explicitly writing that into the draft legislation. Our proposal is to use the current Government and HMRC definition of small businesses for ease: defined as a company with not more than 50 employees. There are also revenue / turnover limits which will change, but are currently either "not more than £15 million turnover, or a balance sheet total of not more than £7.5 million."^{xxx}

(HM Government may wish to add charity and voluntary organisations are included also.)

And, if needed, to provide justification for this:

2) Conduct a fuller impact assessment with a view to understanding and mitigating the impacts, set out in this briefing, on:

- larger commercial property values
- residential property in mixed use development
- urban and community regeneration and redevelopment schemes
- commercial property held by pension schemes
- investment in datacentres (and other critical infrastructure), and
- future investment levels in commercial property in England & Wales.

October 2025

Endnotes:

ⁱ MHCLG press release, 10 July 2025: <https://www.gov.uk/government/news/landmark-devolution-bill-brings-new-dawn-of-regional-power#:~:text=Banning%20Upward%20Only%20Rent%20Reviews,and%20cause%20shops%20to%20shut.>

ⁱⁱ Explanatory notes for English Devolution and Community Empowerment Bill, Clause 116, 10 July 2025:

<https://publications.parliament.uk/pa/bills/cbill/59-01/0283/en/240283en.pdf>

ⁱⁱⁱ Dept of Business & Trade, October 2025: <https://www.gov.uk/government/statistics/business-population-estimates-2025/business-population-estimates-for-the-uk-and-regions-2025-statistical-release>

^{iv} See official impact assessment here: https://publications.parliament.uk/pa/bills/cbill/59-01/0283/hcb283_ia.pdf

^v Using the above definition, 99% of all businesses in England and Wales are small businesses. See Dept of Business & Trade, October 2025: <https://www.gov.uk/government/statistics/business-population-estimates-2025/business-population-estimates-for-the-uk-and-regions-2025-statistical-release>

^{vi} Investment Property Forum, 'The size and structure of the UK property market', March 2025.

<https://www.ipf.org.uk/resourceLibrary/the-size---structure-of-the-uk-property-market-year-end-2023--march-2025--report.html>

^{vii} Office for National Statistics, 'Capital stocks and fixed capital consumption', 29 November 2024.

<https://www.ons.gov.uk/economy/nationalaccounts/uksectoraccounts/datasets/capitalstocksconsumptionoffixedcapital>

^{viii} BNP Paribas Real Estate, 'Total UK CRE investment volumes reach £50bn in 2024', 28 January 2025.

<https://www.realestate.bnpparibas.co.uk/news/total-uk-cre-investment-volumes-reach-ps50bn-2024>

^{ix} CBRE, 'UK Real Estate Investment Figures Q2 2025', 29 July 2025. <https://www.cbre.co.uk/insights/figures/uk-real-estate-investment-figures-q2-2025>

^x Pensions Policy Institute, 'Pension scheme assets – how they are invested and how and why they change over time', September 2024. <https://www.cbre.co.uk/insights/figures/uk-real-estate-investment-figures-q2-2025>

^{xi} Office for National Statistics, 'Capital stocks and fixed capital consumption', 29 November 2024.

<https://www.ons.gov.uk/economy/nationalaccounts/uksectoraccounts/datasets/capitalstocksconsumptionoffixedcapital>

^{xii} BNP Paribas Real Estate, 'Total UK CRE investment volumes reach £50bn in 2024', 28 January 2025.

<https://www.realestate.bnpparibas.co.uk/news/total-uk-cre-investment-volumes-reach-ps50bn-2024>

^{xiii} HM Treasury, 'Pension schemes back British growth', 13 May 2025. <https://www.gov.uk/government/news/pension-schemes-back-british-growth>

^{xiv} Peel Hunt, 'Sector Outlook', 15 July 2025.

^{xv} KBRA, 'Breaking the Ratchet: Assessing the Proposed Ban on Upwards-Only Rent Reviews (October 2025). Requires registration to view, but a media report with link to the report is here: https://finance.yahoo.com/news/kbra-releases-research-breaking-ratchet-210000007.html?guccounter=1&guce_referrer=aHR0cHM6Ly93d3cuZ29vZ2x1LnNvbS8&guce_referrer_sig=AQAAAFs1GqE9xWmve6cTBbg4xEHtUmrtuHRoK4r5u3yNcMAPYMBw_tpxWn3RZB-uHjhaoykuMhEz5Vd1dJ6NkGzWZg7ZhxD2wvJrVHXmIuJUCZKvKJmeIS5FSxYG3hF1iuMIMQZBs20GVTm6d8iYU2y7VOjcCdD48W37dHv2qH3snP

^{xvi} Ministry of Housing, Communities and Local Government, 'English Devolution and Community Empowerment Bill: Final Stage Impact Assessment', 30 June 2025. https://publications.parliament.uk/pa/bills/cbill/59-01/0283/hcb283_ia.pdf

^{xvii} Peel Hunt, 'Sector Outlook', 15 July 2025.

^{xviii} KBRA, 'Breaking the Ratchet: Assessing the Proposed Ban on Upwards-Only Rent Reviews', 2 October 2025.

<https://www.kbra.com/publications/LfdwGBcv/breaking-the-ratchet-assessing-the-proposed-ban-on-upwards-only-rent-reviews>

^{xix} CoStar News, 'The upwards-only rent review ban under the spotlight', 7 October 2025.

<https://www.costar.com/article/1943881560/the-upwards-only-rent-review-ban-under-the-spotlight>

^{xx} To get to this number, we take last year's CRE investment (£50bn), then in line with the above research expect 20% of leases to be UORRs, so £10bn, and assume elasticity of investment on the price of commercial property is 1-1.5, so a 15% fall in prices would reduce investment by £1.5-2bn. Elasticity of 1-1.5 is consistent with evidence on the sensitivity of UK housebuilding to house prices, which provides a reasonable proxy for commercial property in the absence of data. For example, the 2004 Barker Review of Housing Supply quotes an elasticity of 1.2.

^{xxi} Calculated using research which shows, "a fall of £1 in the value added of commercial construction is associated with a fall in value added for the economy as a whole of £2.09." (IPF, The Role of Commercial Property in the UK Economy, March 2013, p.9.) <https://www.ipf.org.uk/static/uploaded/bcedcb8b-56b4-43e9-8583759d5f3430ad.pdf>

^{xxii} Microsoft, 'How Datacentres can Power Regional Growth and Opportunity Across the UK.' October 2025: <https://static1.squarespace.com/static/6363e5f35ce88928f09e6a5e/t/68efbfc447b44574bb753524/1760542660694/WPI+Datacentre+Report+-+Digital.pdf>

^{xxiii} All Party Urban Development Group, 'Regeneration and the recession: Unlocking the money', September 2014.

<https://www.centreforcities.org/wp-content/uploads/2014/09/09-06-30-Regeneration-and-the-recession.pdf>

^{xxiv} Written evidence submitted by the Northern Housing Consortium to the Communities and Local Government Committee on Land Value Capture, April 2025. <https://committees.parliament.uk/writtenevidence/87750/pdf/>

^{xxv} Knight Frank, 'The Retail Note | Lesson #1: Know your structural drivers', 6 June 2025.

<https://www.knightfrank.co.uk/research/article/2025/6/the-retail-note---060625>

^{xxvi} CBRE, 'Retail's resilience: Prime assets lead the way', 1 May 2025. <https://www.cbre.co.uk/insights/articles/retails-resilience-prime-assets-lead-the-way>

^{xxvii} Office for National Statistics, 'Consumer price inflation time series', 17 September 2025,

<https://www.ons.gov.uk/economy/inflationandpriceindices/datasets/consumerpriceindices>; Office for National Statistics, 'EARN03: Average weekly earnings by industry', 16 September 2025.

<https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/earningsandworkinghours/datasets/averageweeklyearningsbyindustryyearn03>; and Office for National Statistics, 'Retail Sales Index', 19 September 2025.

<https://www.ons.gov.uk/businessindustryandtrade/retailindustry/datasets/retailsalesindexreferencetables>

^{xxviii} Knight Frank, 'Retail Renaissance 2025', <https://www.knightfrank.co.uk/site-assets/research/report-pdfs/retail-renaissance/cmre25-003-retail-insights-compendium.pdf>

^{xxix} University of the Built Environment, 'What the UK can learn from Ireland's ban on upwards-only rent reviews', 4 August 2025. <https://www.ube.ac.uk/whats-happening/articles/upwards-only-rent-reviews-ban-discussion/>

^{xxx} See HM Government guidance: <https://www.gov.uk/government/publications/life-of-a-company-annual-requirements/life-of-a-company-part-1-accounts>