

The Impact of the Upward-Only Rent Reviews Ban on the UK's Industrial and Logistics Sector

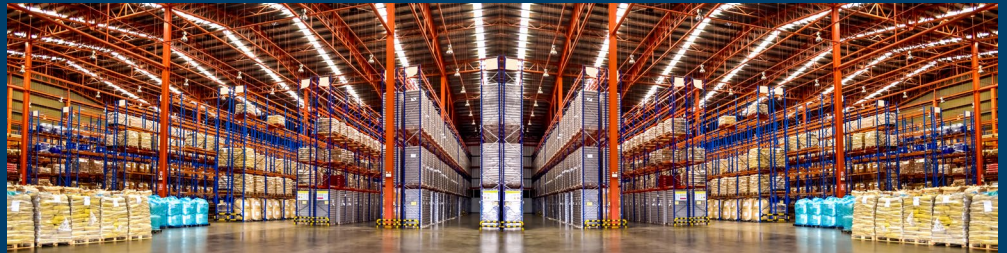


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Understanding Upward-Only Rent Reviews and the Proposed Ban



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On 10 July 2025, the UK Government introduced the *English Devolution and Community Empowerment Bill*, designed to transfer more powers to local authorities. Embedded within it is a proposal with significant ramifications: Schedule 31, which seeks to ban upward-only rent reviews (UORRs) in new commercial leases. While the intention is to support small businesses by enabling rents to reflect market downturns, the implications for the industrial and logistics sector—covering warehouses, distribution hubs and data centres—could be considerable.

UORRs are clauses that prevent rents from decreasing at review intervals, typically every three to five years, regardless of market conditions. Within the industrial and logistics sector, these provisions have provided predictable income for landlords and institutional investors—often critical for securing development finance. However, critics of UORRs argue that they impose undue pressure on tenants during economic downturns by preventing rental adjustments in line with falling values, making such leases less flexible and, at times, unsustainable.

Under the new proposals, any rent review clause that operates on an upward-only basis will be deemed void in new leases. This includes index-linked reviews (such as RPI or CPI), open market assessments, and turnover-based mechanisms. Notably, the legislation gives tenants the right to trigger reviews even if the lease does not expressly allow it, and prohibits landlords from using put options to maintain upward-only outcomes. Call options—where tenants initiate new leases—are excluded, despite similar effects. The ban will not apply retrospectively, so existing leases will remain unaffected, potentially creating a dual market with divergent rental structures. Legal guidance, including from BCLP, confirms the rules will apply across all commercial property types, including logistics, and extend to renewals under the 1954 Act, though not to leases arising from pre-existing agreements for lease.

Industrial and Logistics Lease Structuring Shifts

In response, the sector may see changes to lease structuring. To offset the loss of UORRs, landlords could well favour fixed stepped rents—pre-agreed increases providing a degree of income certainty—or shorter lease terms offering reduced security of tenure. Gowling WLG predicts stepped rents could become the new standard. To mitigate the risk of downward reviews, initial rents may also be inflated. For example, a warehouse previously marketed at £10 per square foot may now be offered at £11, as suggested by global law firm Herbert Smith Freehills Kramer, increasing occupation costs—particularly for smaller operators in secondary locations.

Shorter leases, typically around five years, are already becoming more common, allowing for more frequent market-based adjustments. Landlords may increasingly look to structure agreements outside the Landlord and Tenant Act 1954 to preserve flexibility at lease expiry, while still demanding higher or stepped rents. However, such strategies may erode the protections the government aims to provide, and ultimately result in greater overall rental commitments for occupiers.



Nuanced Impacts on Tenants

For industrial and logistics tenants, the implications are nuanced. On one hand, the reform introduces the possibility of rent reductions in weaker markets—a flexibility previously unavailable. On the other, inflation is rarely negative, meaning that index-linked or upward-only provisions have historically guaranteed regular increases. As Mishcon de Reya observes, index-linked reviews “effectively guarantee an upwards-only rent, unless inflation is negative (which would be very unusual).” As such, tenants have often faced rising rents, even in stagnant or declining markets.

Evidence suggests that many industrial occupiers—particularly SMEs, third-party logistics providers and regional operators—have paid more under index-linked leases than they would under open market conditions. For businesses with tight margins, this has placed pressure on cash flow and reduced agility. The inability to benefit from lower rents during recessions has been particularly problematic in weaker submarkets where rent burdens exceed market reality.

By contrast, in several European countries—such as Germany and the Netherlands—UORRs are not commonly

used. Lease terms there tend to align more closely with supply and demand trends, offering tenants greater adaptability. Research from INREV and the Urban Land Institute indicates that such flexibility can lower business failure rates and promote long-term leasing stability. However, these markets also feature shorter leases and different investment models, suggesting that the UK’s institutional landlord base may struggle to adapt as quickly.

Tenants may also face higher starting rents as landlords seek to price in the risk of potential declines. Legal commentators expect this risk to be reflected in initial quoting rents or stepped rent structures. In practice, the theoretical benefit of eliminating UORRs could be outweighed by increased upfront costs—particularly in long-term leases or less prime locations.

Although tenants will have the ability to initiate rent reviews, there is no assurance that landlords will agree to meaningful reductions without comparable evidence. In a sector already shifting towards short leases and built-in rent escalations, the frequency of actual downward adjustments may remain limited unless market conditions deteriorate significantly.

Potential Consequences for Asset Valuation

UORRs have historically contributed to capital stability by ensuring reliable income. Their removal introduces greater volatility, which could lower valuations, particularly for logistics properties with new leases. Logistics Matters notes that this may lead to demands for higher returns from investors, potentially slowing development. In this context, landlords may need to invest more heavily in high-quality, energy-efficient, or adaptable assets to stay competitive—especially in prime logistics corridors.

Mixed Responses to the Policy

The Government argues that UORRs contribute to unaffordable rents and rising business failures, and that their removal will offer relief during downturns—particularly with growing energy and labour costs. However, the response from industry has been critical. The British Property Federation (BPF) has condemned the lack of consultation. Chief Executive Officer Melanie Leech described the measure as “interference in long-established commercial leasing arrangements without any prior consultation or warning,” warning that it could undermine investor confidence and destabilise the financial models underpinning logistics infrastructure.

This is not the first time UORRs have come under scrutiny. Similar proposals were floated in the late 1990s and early 2000s, but were ultimately dropped due to considerations related to over investment stability. A 2005 report by Reading University emphasised the importance of predictable rental income in maintaining market confidence. The sudden reintroduction of this policy has taken many by surprise and spurred discussions on the policy landscape’s role in shaping the property sector.

What’s Ahead for the Sector

Whether the ban delivers its intended outcome remains uncertain. The market has already been shifting towards shorter, fixed rent leases—particularly in logistics, where flexibility is paramount. UORRs have been less prevalent in recent agreements. As the reform does not apply retrospectively, a fragmented market may emerge, with newer leases operating under different principles from older ones—potentially undermining the policy’s aim of improving affordability. More significant drivers of rental levels, such as land values and demand from e-commerce, may ultimately prove more influential than lease mechanics.

The bill is still in its early stages, with a second reading in the House of Lords expected in September 2025. As parliamentary scrutiny intensifies, particular focus will likely fall on unintended consequences—especially those linked to financing and investment viability. A potential consultation on rent collars, which could prevent rents from falling below a certain threshold, may add further complexity. For now, stakeholders across the industrial and logistics landscape—developers, landlords, investors, and tenants—would be well advised to remain actively engaged and prepared for a shifting future.

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