

# BPF IPD Annual Lease Review



2005

# Contents

## **BPF/IPD ANNUAL LEASE REVIEW DISK**

The 2004/2005 Annual Lease Review is again available in electronic format and is provided free to British Property Federation members on request. It offers a more in-depth reporting on lease structures than is currently supplied within the hard copy of the report, including analysis by property size, detailed type and regional breakdown.

The disk has been designed as a flexible analytical tool, with a comprehensive charting capacity, giving you the ability to undertake your own detailed lease analyses. In addition, the information can be incorporated within your own report and presentations.

For further information about the availability and use of the disk version, contact Richard Gwilliam at IPD on 020 7643 9239 or [richard.gwilliam@ipdindex.co.uk](mailto:richard.gwilliam@ipdindex.co.uk)

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## Executive Summary

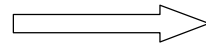
- The eighth edition of the BPF/IPD Annual Lease Review now draws upon detailed evidence of over 91,000 tenancies. It encompasses full analysis of lease lengths, break clauses, review cycles, rent free periods and income profiles. The analysis has been extended to incorporate the 9,500 new leases granted in 2004-05.
- The average length of all lettings fell from 6.8 years in 2003 to 6.4 years in 2004/05, measured on an equally weighted basis and including the first break where applicable. If licences and short leases of 4 years or less are excluded, then the average length of new leases (again including break clauses) was virtually unchanged at 9.2 years.
- The average length of all new leases weighted by rent (including first break where applicable) rose slightly to 12.4 years in 2004/05. This increase, which goes against the trend seen over the last few years, is largely due to a major sale and leaseback deal in the retail sector with an unusually long lease contract.
- Shorter leases have become more and more frequent, with nearly two thirds of leases granted in 2004/05 being for 5 years or less. Correspondingly, only 6% of leases agreed in 2004/05 were for more than 15 years, although these leases accounted for a quarter of the total rent passing.
- Average lease lengths have shortened in new lets across all three sectors. Offices and industrials have seen the average lease length halve from 13.3-13.5 years in 1995, to around 7 years in 2004/05, measured on an equally weighted basis and excluding short leases. In the retail sector the equally weighted average fell from 17.1 years to 11.2 years over the same period.
- Predictably, prime space commands longer leases than poorer grade space. The average equally weighted length of new leases on prime properties was 9.4 years in 2004/05, against 6.8 and 4.5 years for secondary and tertiary space respectively.
- In the office sector, professional service companies and Government agencies typically signed longer leases than financial services, or IT occupiers in 2004/05, measured on a rent-weighted basis. In the industrial sector, retailers generally agreed longer leases than manufacturers and distribution companies.
- Even when licences and short leases of less than four years are excluded, the effective term of leases that contain break clauses is just 4.5 years. Two fifths of leases 6-10 years in length (from start to expiry) contain a break clause.
- In 2004-05 42% of new lets included a rent-free period. The average rent-free period was just under six months on an equal-weighted basis. In the weaker Central London and South East office markets, the average rent-free period was 9 months.
- The 5-year cycle still remains predominantly the most favoured rent review period, accounting for almost 60% (by rent passing) of review frequencies. However, as only around a third of leases are over five years in length, the impact of these is reduced.

Expanded database analysis and headline short-term results

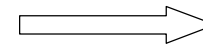
## Headline Average Lease Lengths For All Property - Alternative Analysis Methods

To enable reliable and consistent long term comparison using IPD's most up-to date database, BPF/IPD base their analysis on all leases excluding those under 4 years and licences. Lease length is also taken to be length to expiry or *break if there is one*. Consequently, BPF/IPD lease length figures may differ from other figures available. We have therefore included headline average lease lengths using alternative bases, and highlight the differences here.

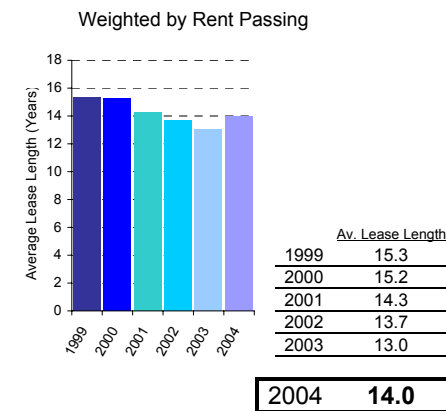
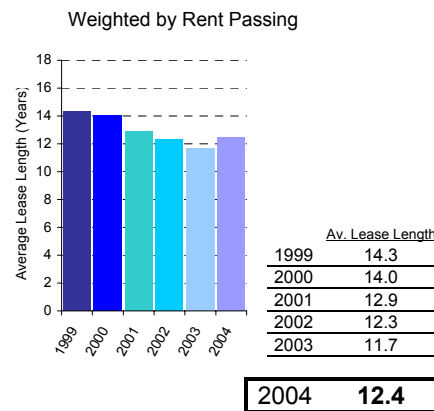
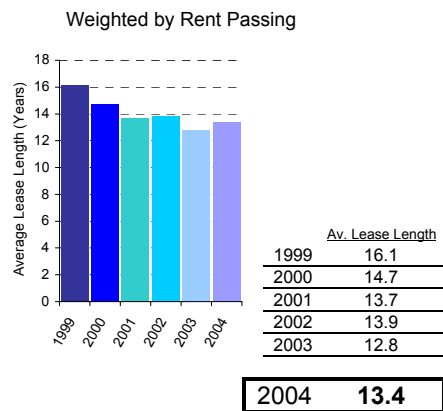
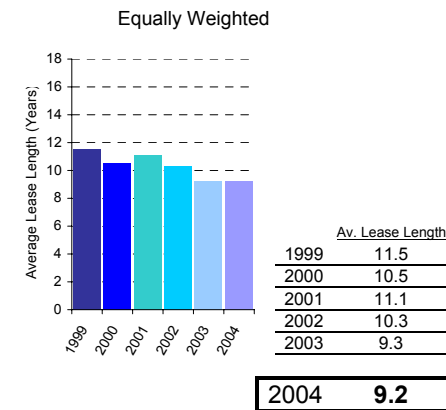
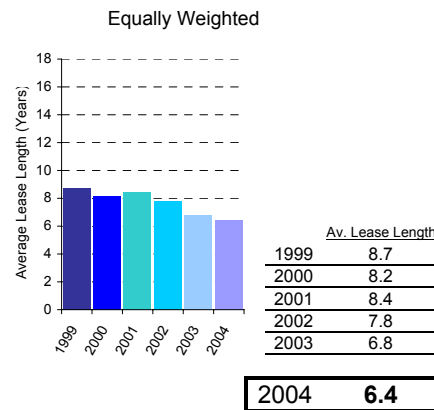
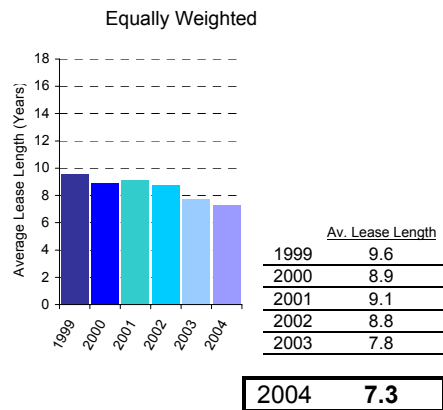
### Full Lease Term on All Leases (Ignoring any Breaks)



### Taking Breaks into Account (Period to Expiry or First Break)

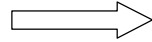


### Excluding Short Leases (Period to Expiry or First Break on all Leases Excluding Those Under 4 years and Licenses) **BPF/IPD Basis**

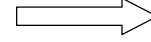


# Headline Average Lease Lengths By Sector - Alternative Analysis Methods

**Full Lease Term on All Leases**  
(Ignoring any Breaks)

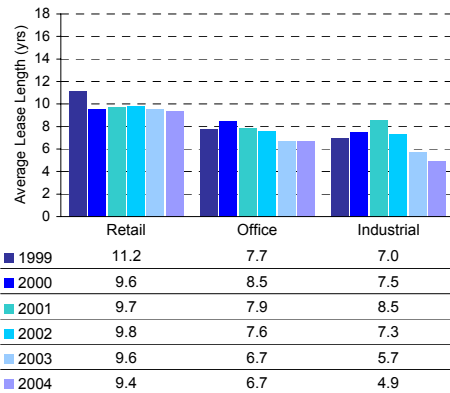


**Taking Breaks into Account**  
(Period to Expiry or First Break)

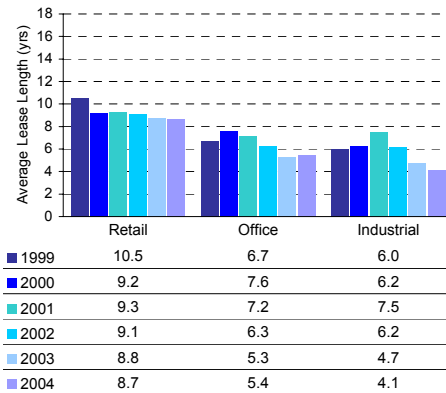


**Excluding Short Leases**  
(Period to Expiry or First Break on all Leases  
Excluding Those Under 4 years and Licenses)  
**BPF/IPD Basis**

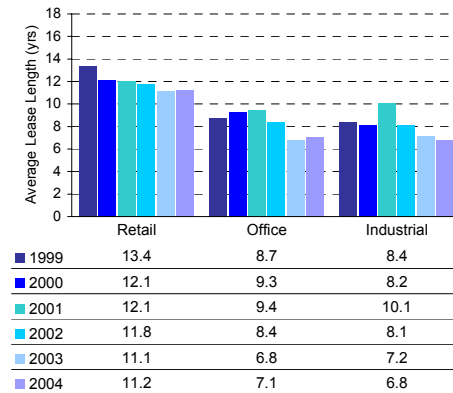
Equally Weighted



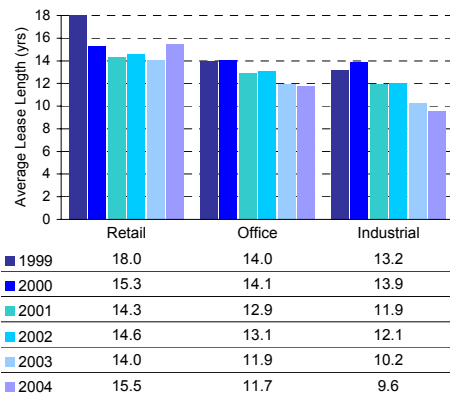
Equally Weighted



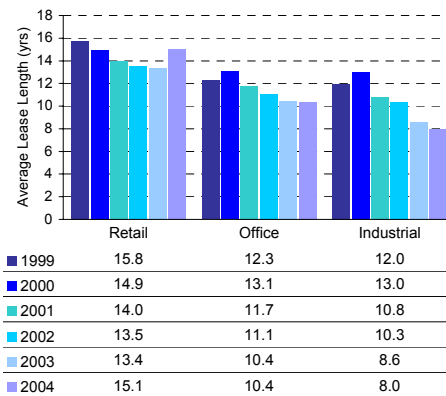
Equally Weighted



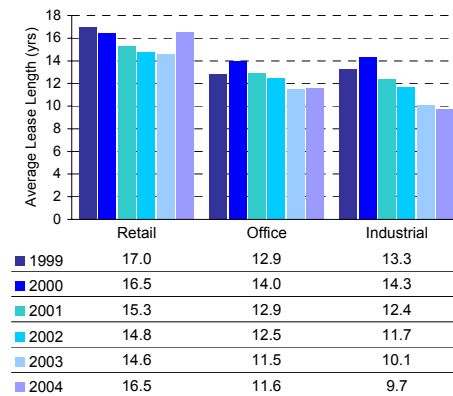
Weighted by Rent Passing



Weighted by Rent Passing



Weighted by Rent Passing



## Lease Length Distribution - Including All Short Leases and Licences

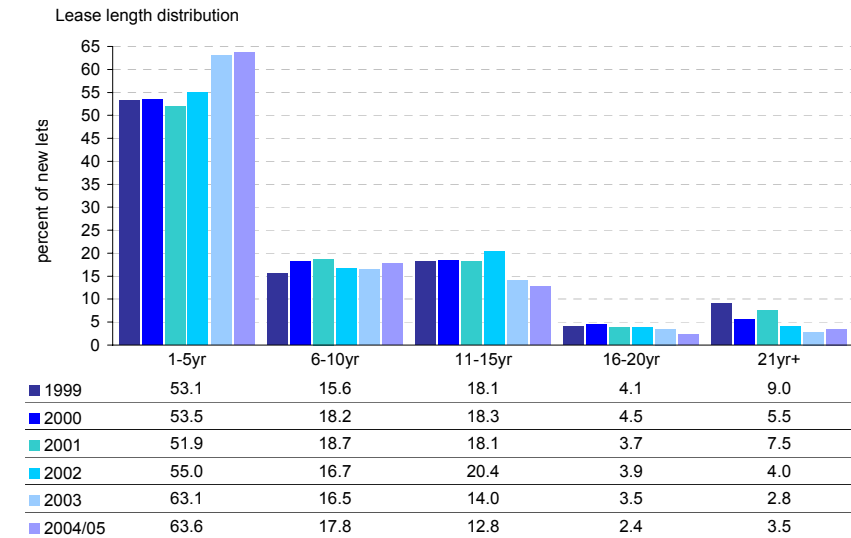
To permit short term analysis of lease length changes, we have included extra tables, drawn from IPD's archived databases, for the last 6 years, which include short leases (those less than 4 years) and licences.

Such short leases and licences have had to be excluded from the main BPF/IPD longer term analyses to achieve consistency in the use of a single database over the full ten year period reported.

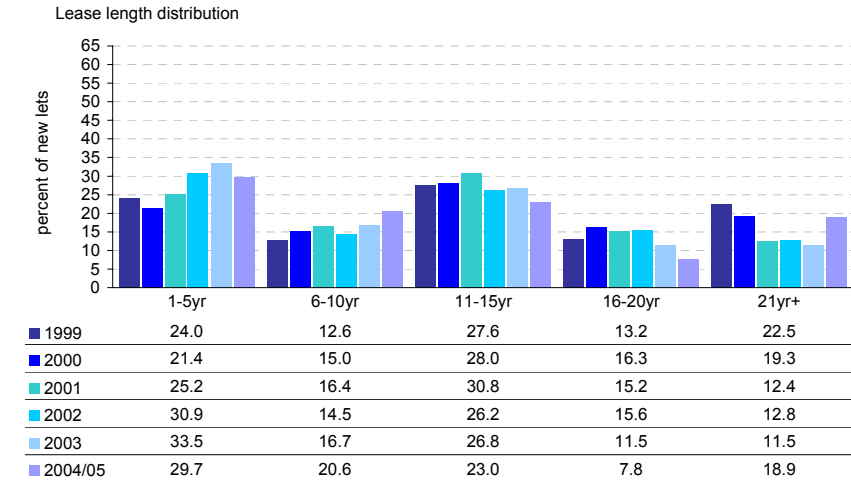
These new results are presented, as with the rest of the BPF/IPD report, on both equally weighted (top table and chart) and rent weighted bases (below). The results confirm the continuing move away from longer leases, while the differences between equal and rent weighting give an indication of the shorter lease terms which can be negotiated on smaller units.

These charts demonstrate this clearly, with nearly two thirds of the number of new lettings being for 5 years or less, whilst only a third of all rent flows from these leases. Conversely, only 6% of new lettings are over 15 years in length, though these account for just over a quarter of the rent.

### Tenancies equally weighted



### Tenancies weighted by rent passing



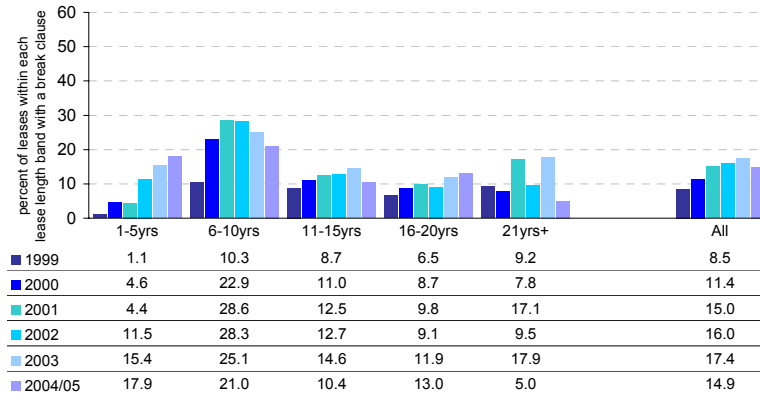
## Proportion of Leases with Break Clauses - By Lease Length Band

We have included some analysis this year on how the length of lease affects the likelihood of a break clause existing. The analysis is based on all leases granted in each of the last five years (including short leases and licences), with the lease length being defined for these purposes as the time from lease start to expiry, ignoring any breaks. We have presented the number of leases with a break clause expressed as a percentage of all leases within each lease length band.

The results illustrate how break clauses are most likely to occur in leases of length 6-10 years. Conversely, shorter leases (five years or less) have been least likely to have a break clause, although most recently those leases over 20 years in length have had the lowest occurrence of breaks. There was a lower incidence of break clauses overall in new leases granted in 2004/05 compared to those granted in 2003.

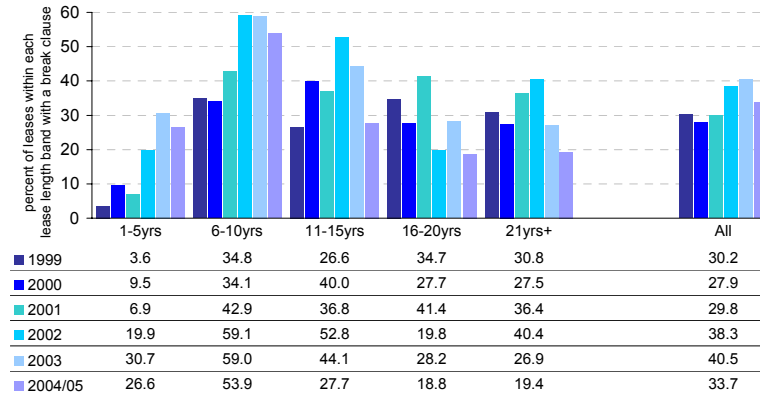
### Retail

Leases with Break Clauses



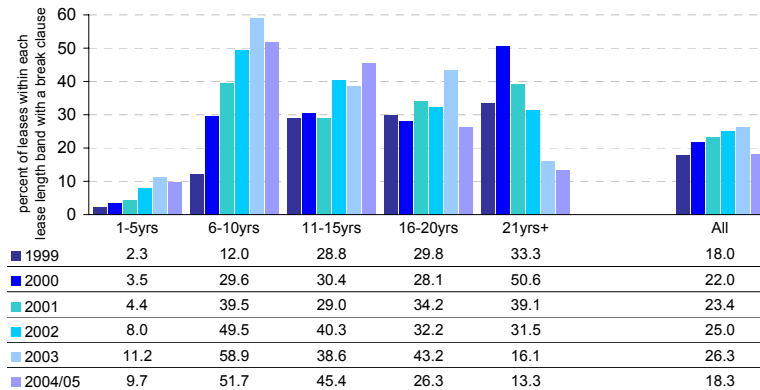
### Office

Leases with Break Clauses



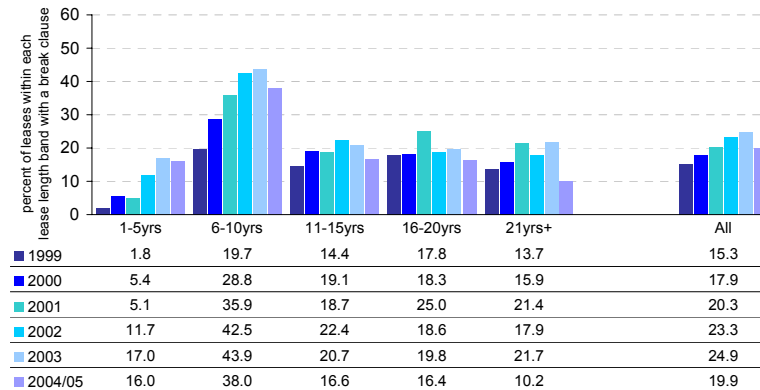
### Industrial

Leases with Break Clauses



### All Property

Leases with Break Clauses



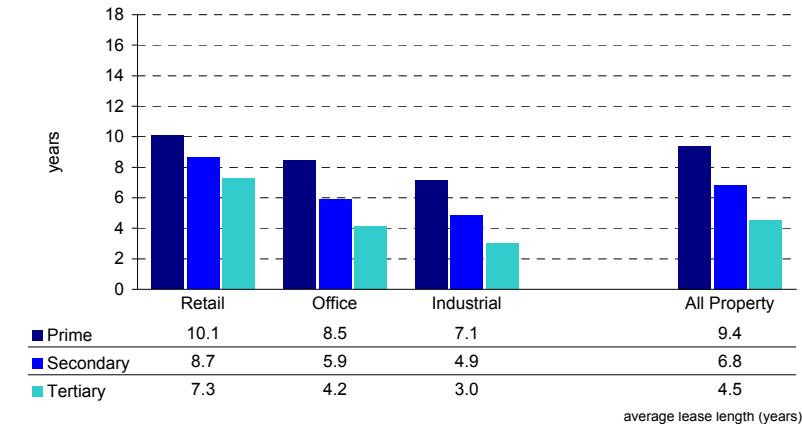
## Analysis of Leases by Different Grades of Property

We have included some analysis this year on how the length of lease differs depending on the grade of property, i.e. prime, secondary, and tertiary. The analysis is based on all leases (including short leases and licences), and considers both the average lease length, and the distribution.

There is a distinct pattern, whereby tenants occupying the best (prime) properties have longer leases, being around twice the length of leases granted to the tenants of less attractive 'tertiary' properties.

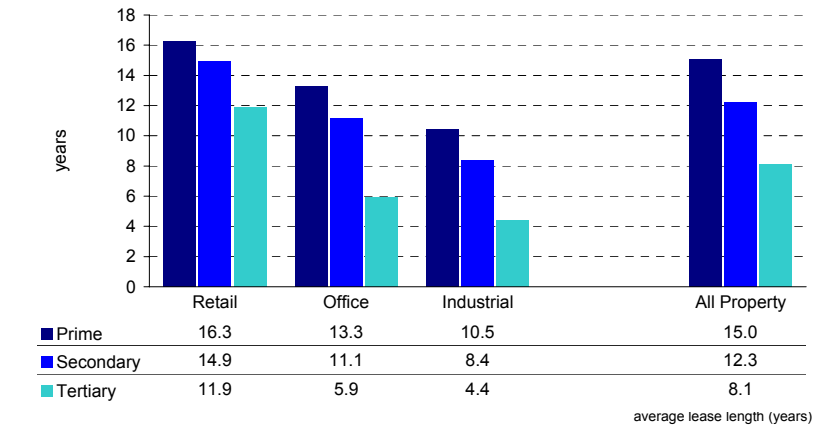
### Tenancies equally weighted

Average lease lengths by sector

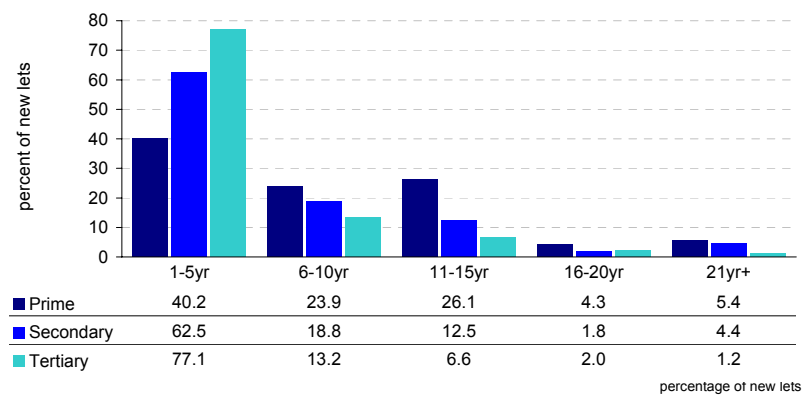


### Tenancies weighted by rent passing

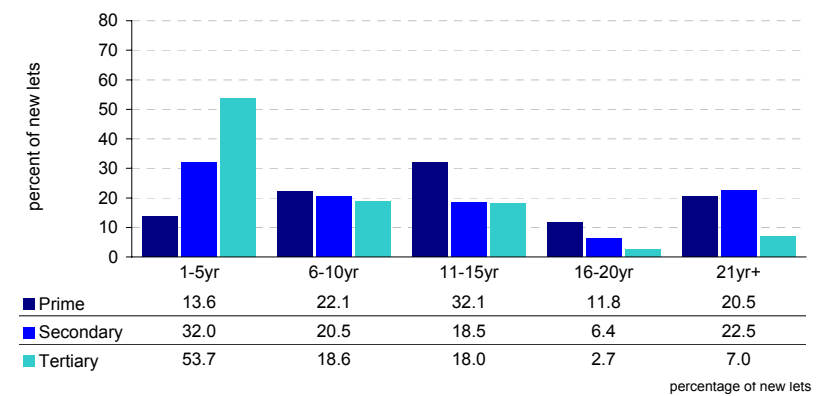
Average lease lengths by sector



Lease length distribution



Lease length distribution



## Analysis of Leases by Different Types of Occupier

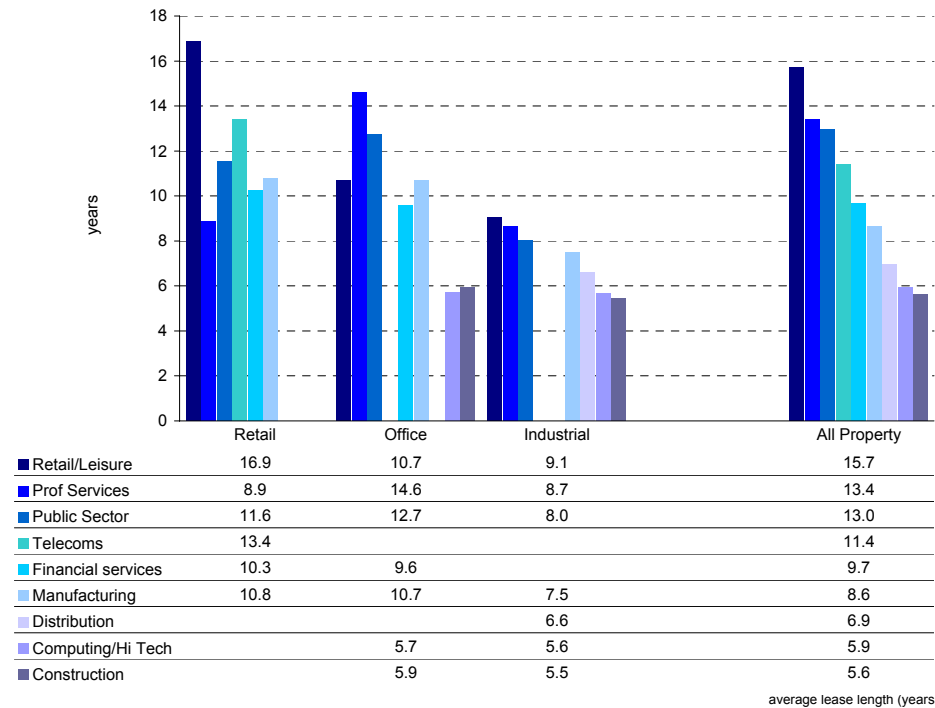
This year, for the first time, we have included analysis on the new leases granted to companies depending on the type of business. We have looked at the average lease length, and the distribution, of all leases granted in 2004/05 (including all short leases and licences) on a rent-weighted basis.

The results dramatically illustrate how the type of business affects the length of lease granted. Businesses in the 'tertiary' business sector, dominated by service-centred businesses, have the longest leases, with Retail and Leisure businesses having the longest average lease length of almost 16 years. The leases granted to Professional Services and Public Sector/Charities are the next longest. At the other end of the scale, businesses in the 'secondary' business sectors, including Manufacturing, Construction and Distribution, have the shortest leases. The lowest average lease length is that of the construction category, at 5.6 years. Hi-Tech and Computing firms also have short leases, with an average of 5.9 years, perhaps reflecting the rapidly changing nature of their business.

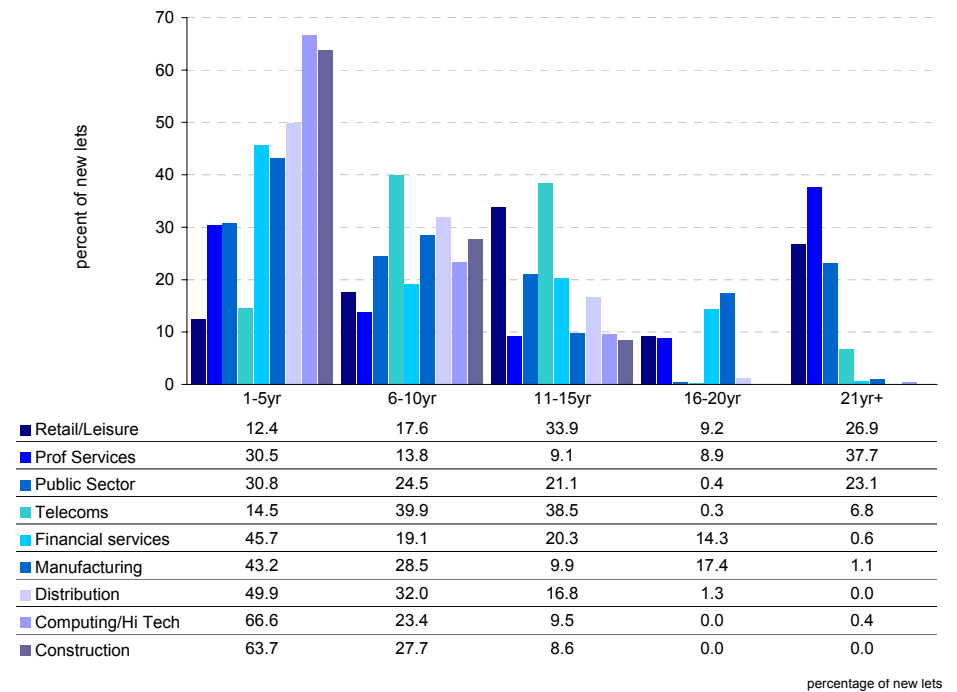
The distribution of the leases tells a similar story - two thirds of the new leases granted to construction and Hi-Tech/Computing businesses are 5 years or less in length, compared to only 12% of Retail and Leisure businesses. Conversely, nearly 40% of new Professional Services leases are over 20 years long. Almost no leases granted to Construction, Computing/Hi-Tech, or Distribution businesses are over 15 years in length.

### Tenancies weighted by rent passing

Average lease lengths

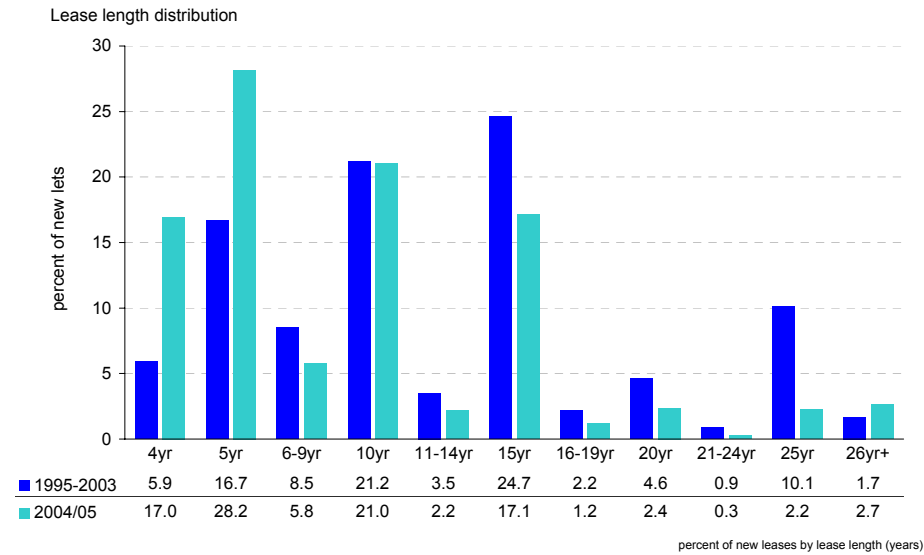


Lease length distribution (all property)

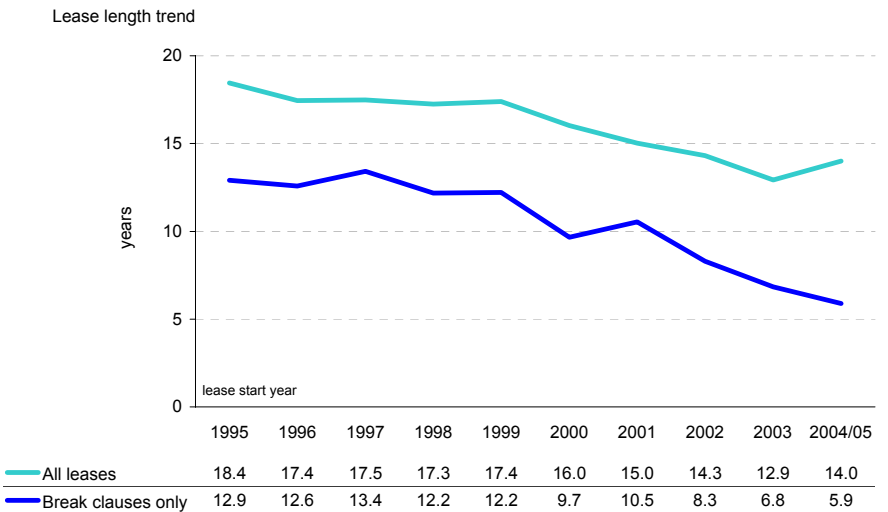
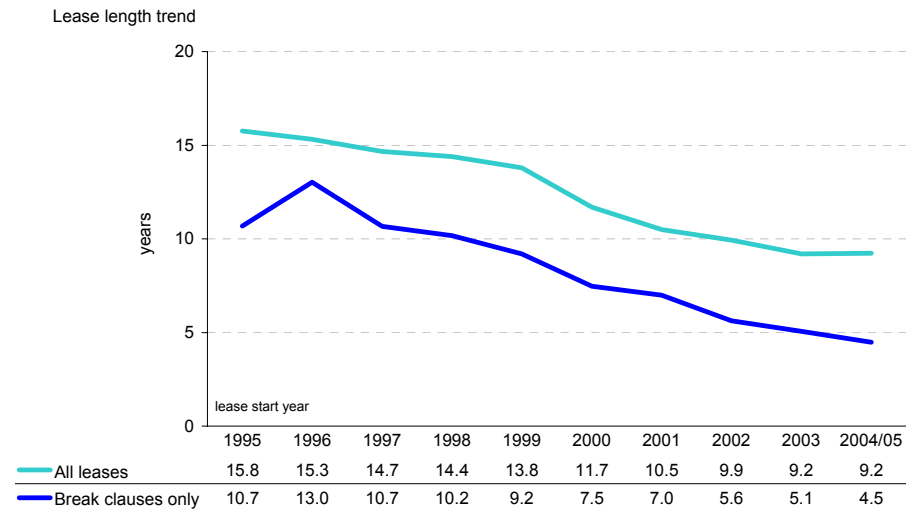
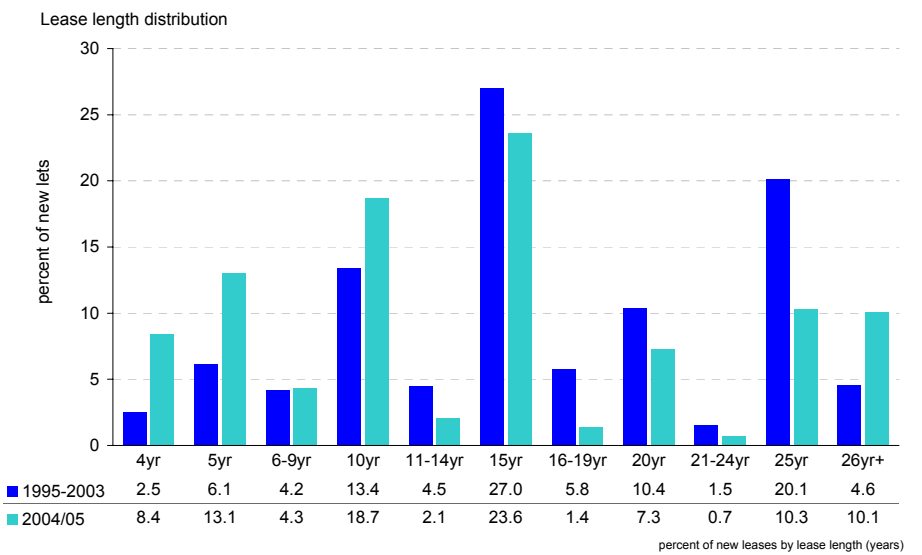


Headline long-term results

### Tenancies equally weighted

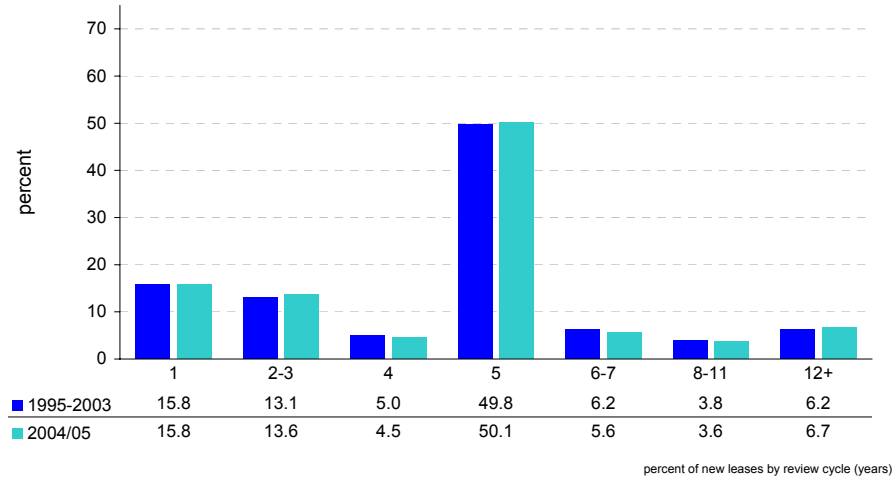


### Tenancies weighted by rent passing

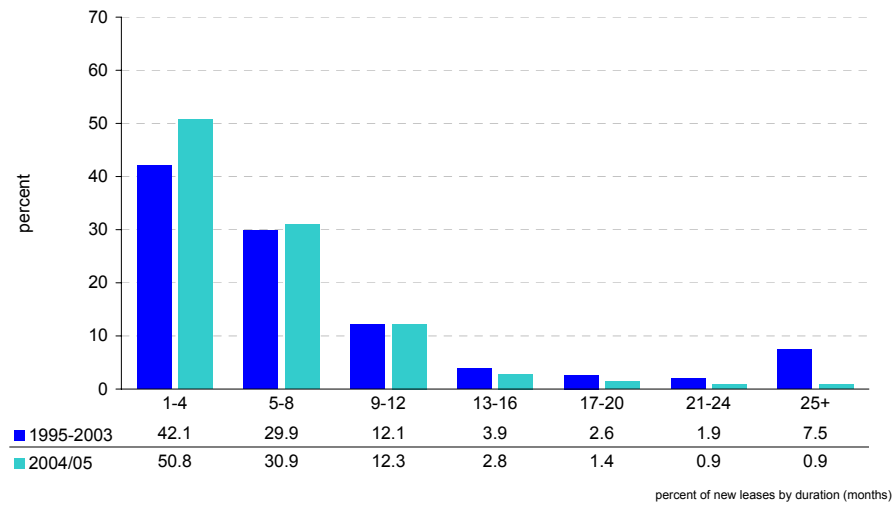


## Tenancies equally weighted

Distribution of review cycles

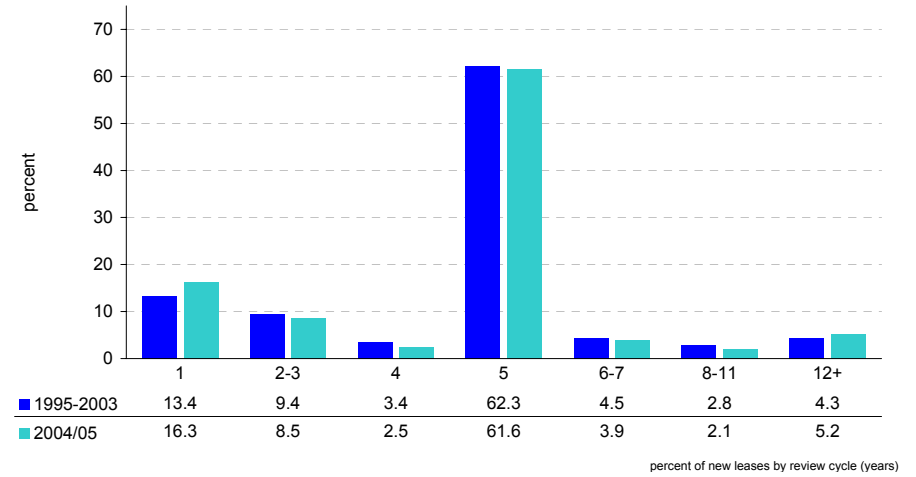


Distribution of rent free periods (where included)

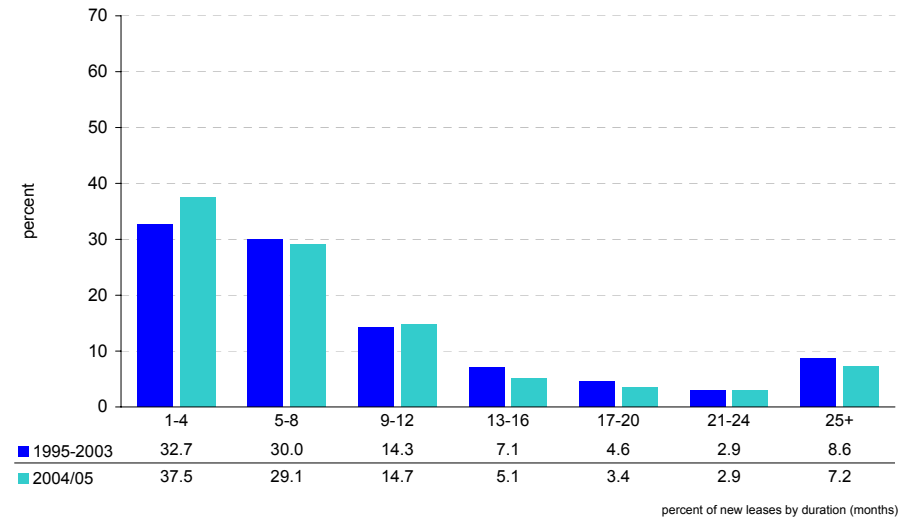


## Tenancies weighted by rent passing

Distribution of review cycles

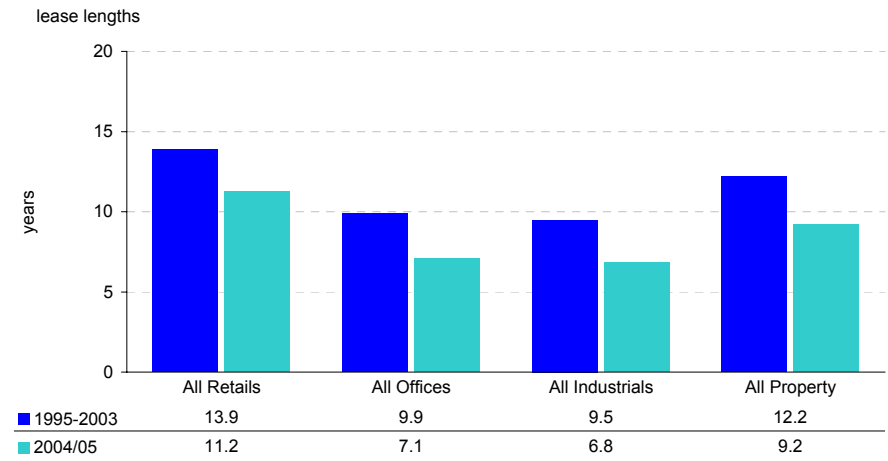


Distribution of rent free periods (where included)



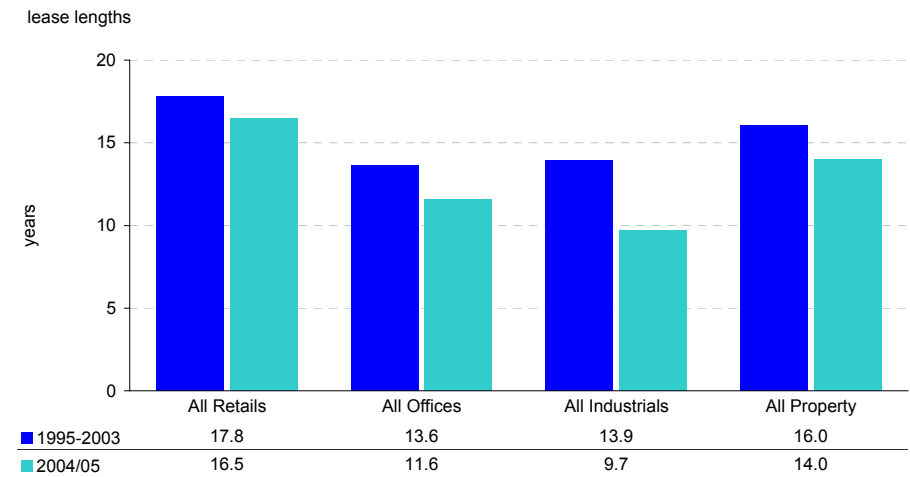
## Changes in Lease Lengths

### Tenancies equally weighted



average lease length (years)

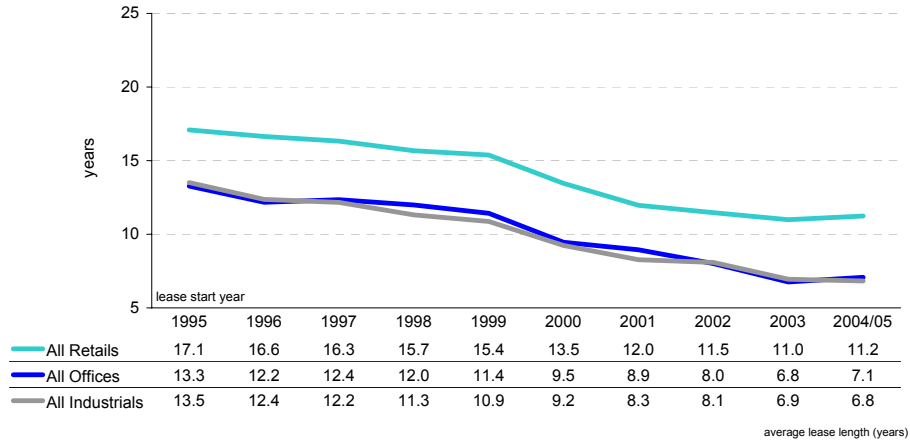
### Tenancies weighted by rent passing



average lease length (years)

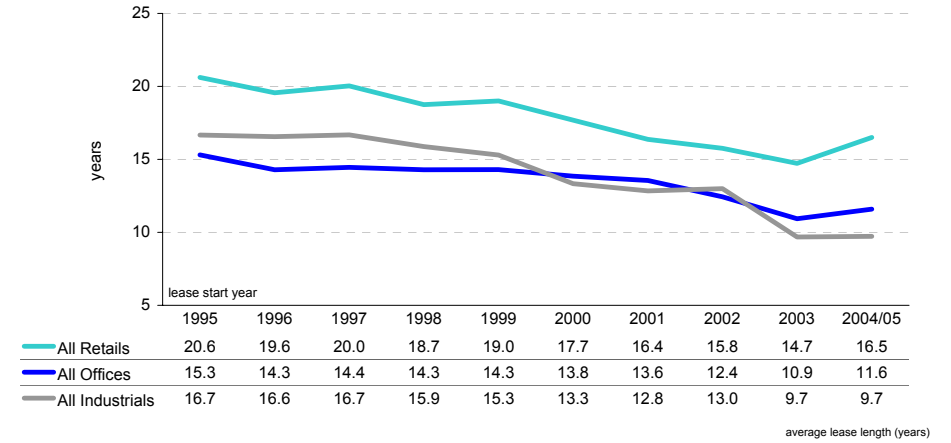
## Tenancies equally weighted

lease lengths by sector

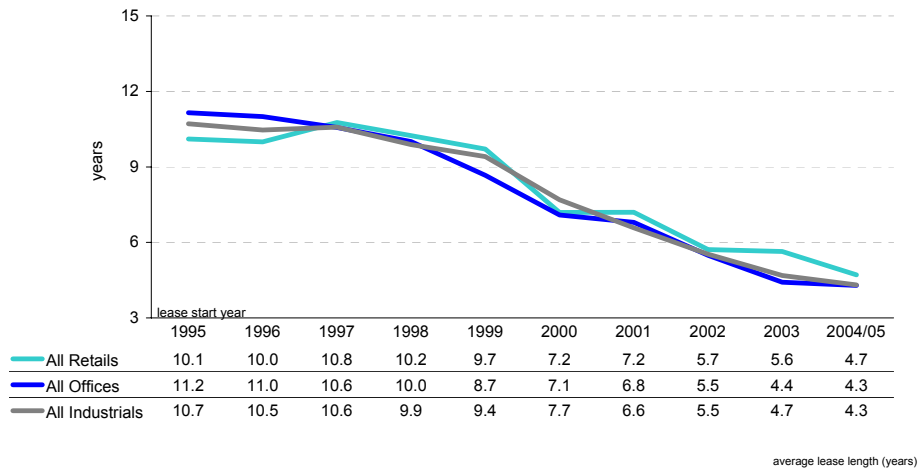


## Tenancies weighted by rent passing

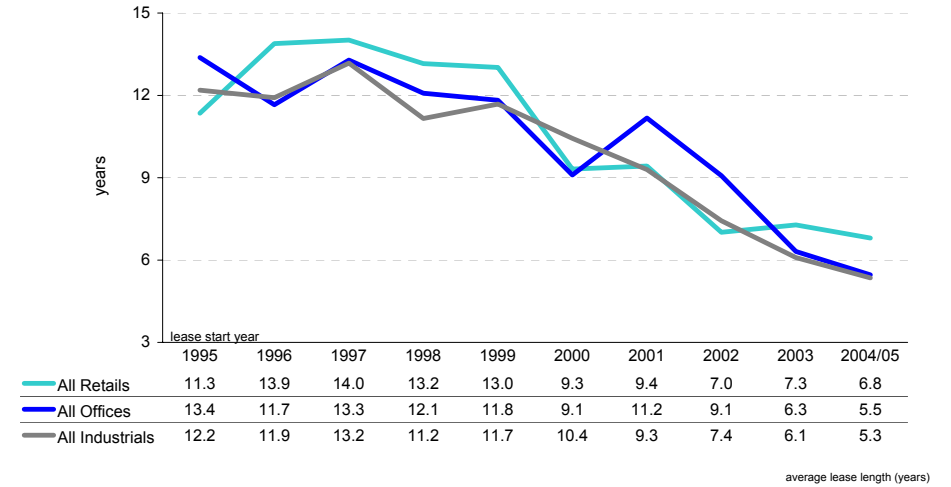
lease lengths by sector



lease lengths by sector - period to first break



lease lengths by sector - period to first break



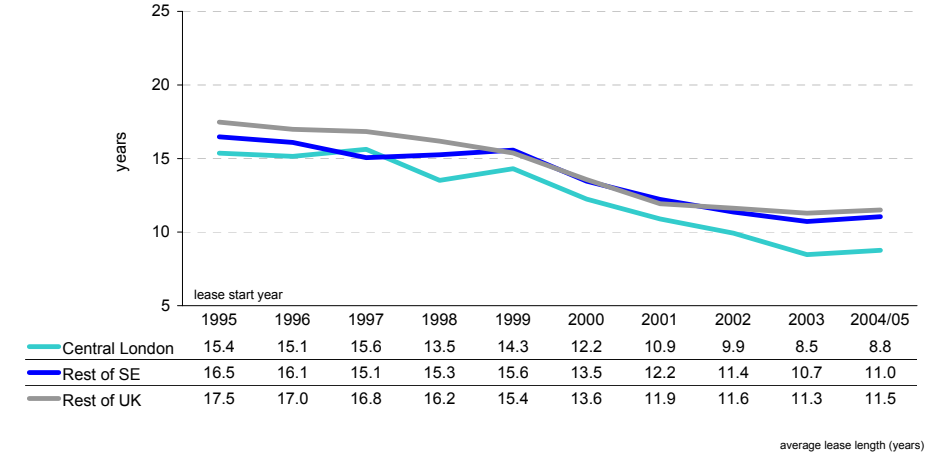
### All Sectors : leases with break clauses as a percent of total sample

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004/05
All Retail	6.7	7.0	7.1	4.6	8.5	11.5	15.6	16.9	19.0	16.5
All Offices	26.1	27.6	29.0	24.8	30.4	29.0	32.2	43.3	47.0	42.6
All Industrials	21.4	22.5	19.2	20.0	18.2	22.5	24.8	34.5	42.3	37.9

percent of leases with break clauses

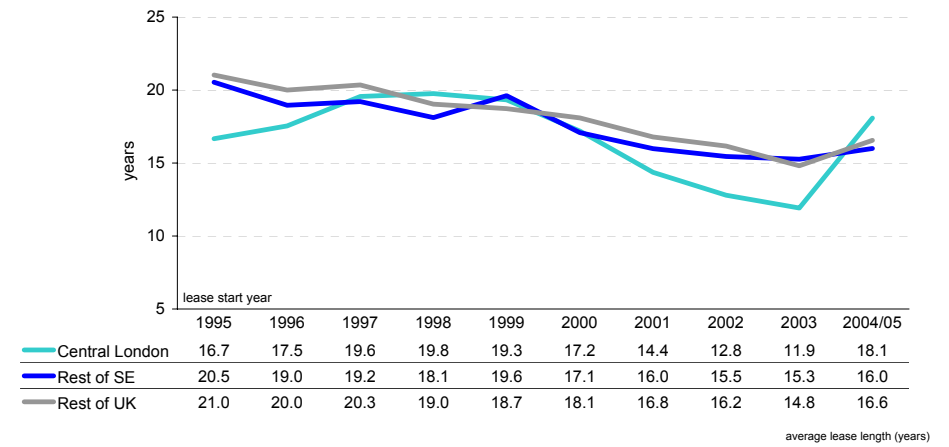
## Tenancies equally weighted

Retail lease lengths by region

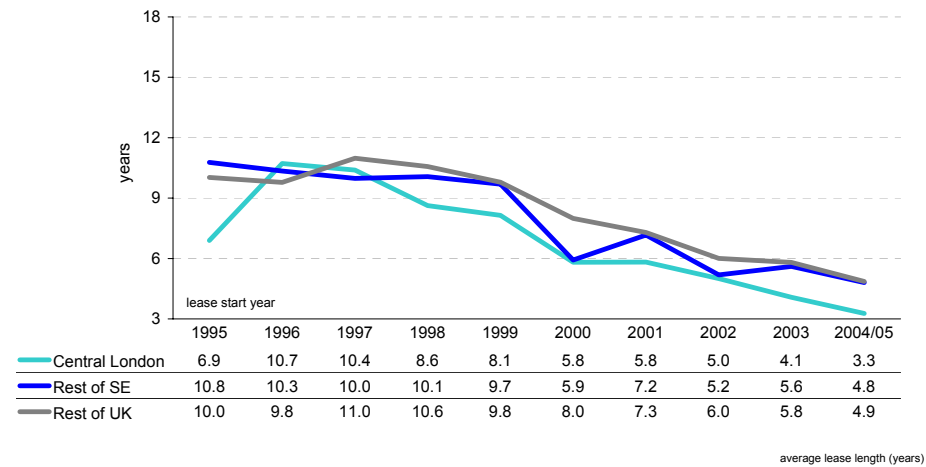


## Tenancies weighted by rent passing

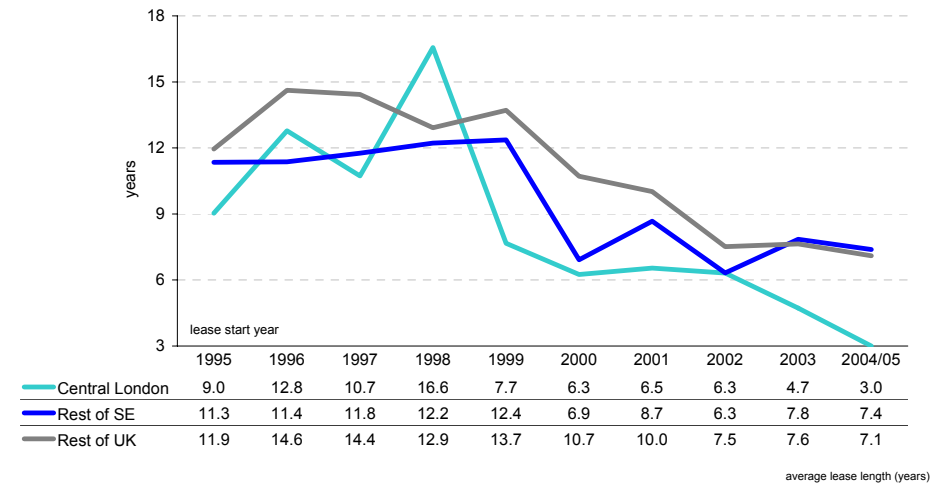
Retail lease lengths by region



Retail lease lengths by region - period to first break



Retail lease length by region - period to first break



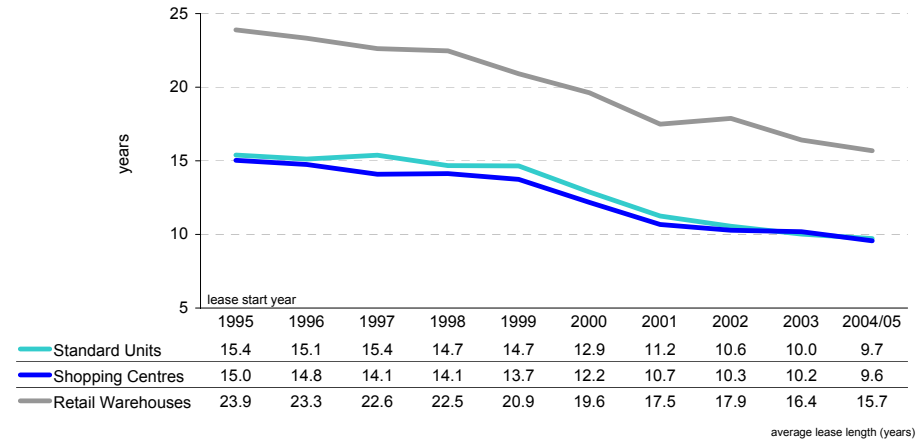
Retails by region : leases with break clauses as a percent of total sample

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004/05
Central London	6.3	9.0	3.0	9.7	6.7	21.9	13.3	20.2	27.2	30.3
Rest of SE	6.5	6.9	5.8	3.6	4.8	8.8	12.9	15.7	16.9	11.5
Rest of UK	6.9	6.9	7.9	5.1	10.3	12.3	17.1	17.2	19.5	17.7

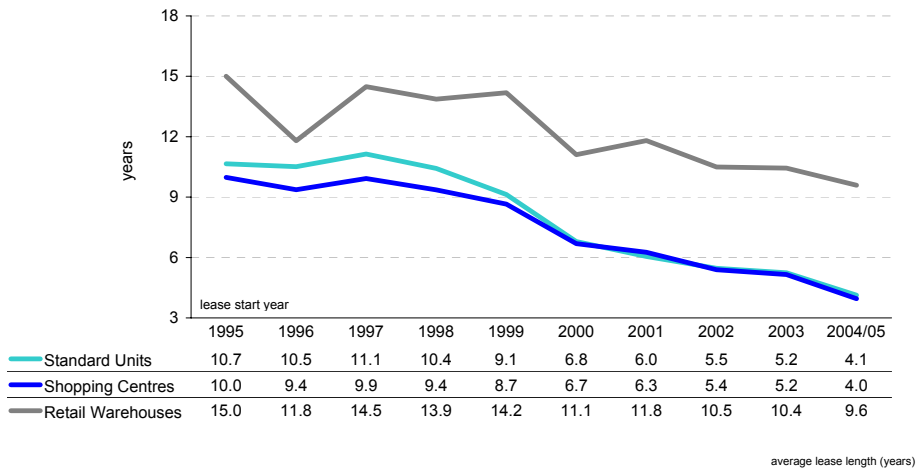
percent of leases with break clauses

## Tenancies equally weighted

Retail lease lengths by type

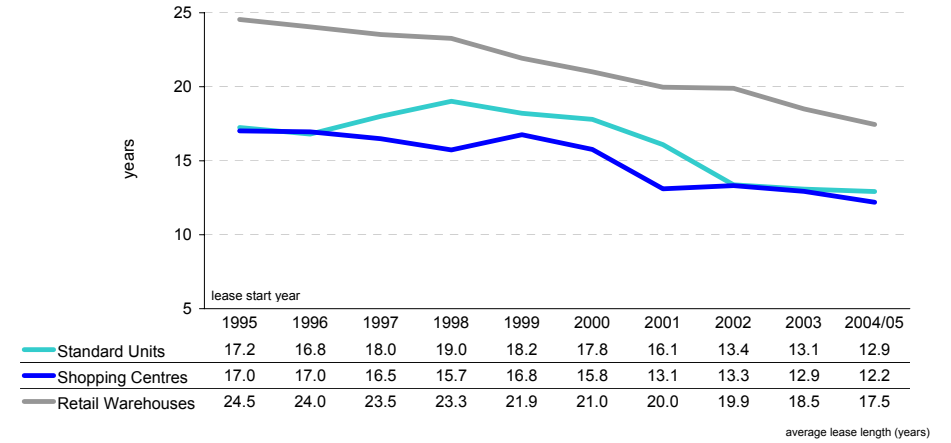


Retail lease lengths by type - period to first break

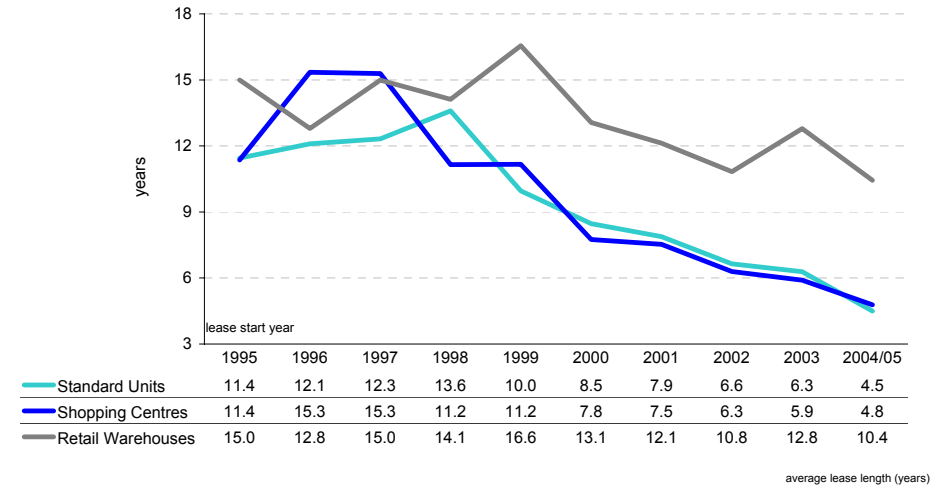


## Tenancies weighted by rent passing

Retail lease lengths by type



Retail lease lengths by type - period to first break



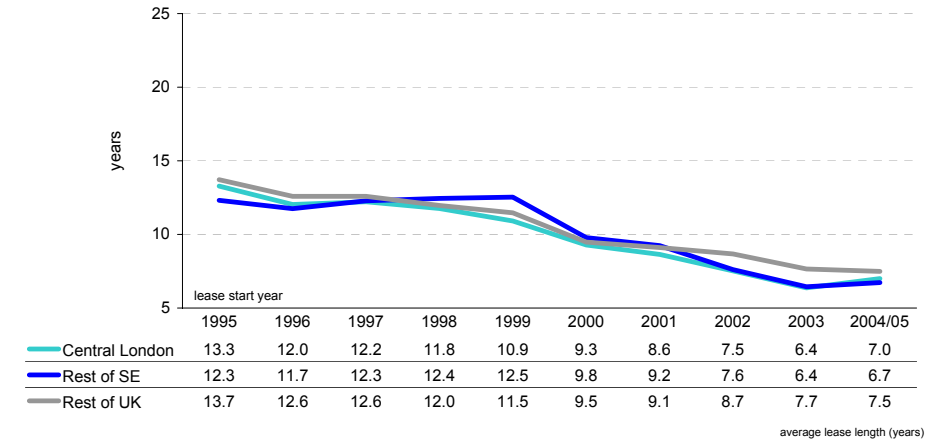
Retails by type : leases with break clauses as a percent of total sample

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004/05
Standard Units	6.3	9.3	10.0	7.8	8.5	17.1	19.4	20.1	25.7	22.8
Shopping Centres	9.1	7.2	7.6	4.1	8.8	9.8	13.3	17.6	18.2	16.1
Retail Warehouses	0.7	4.4	2.8	2.4	7.8	8.8	18.0	7.8	11.7	12.2

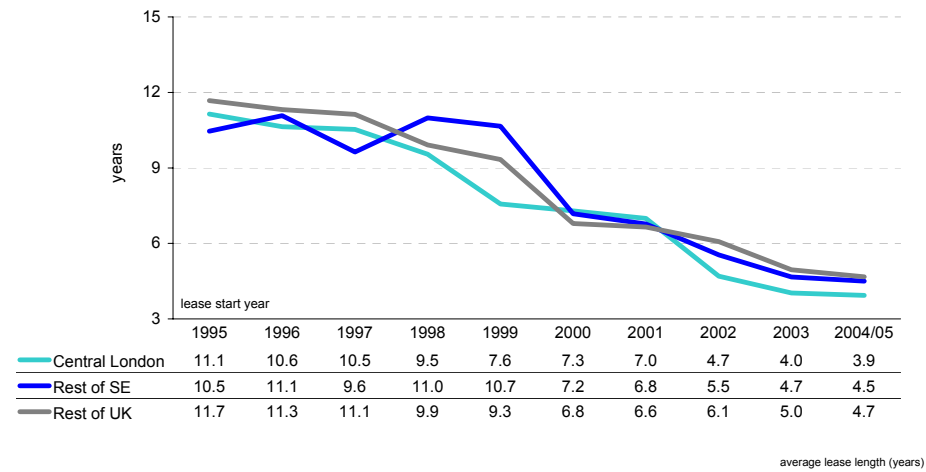
percent of leases with break clauses

## Tenancies equally weighted

Office lease lengths by region

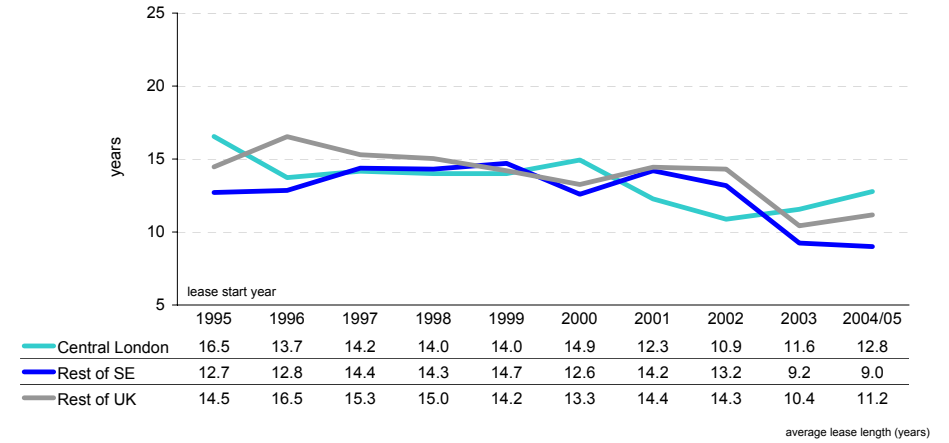


Office lease lengths by region - period to first break

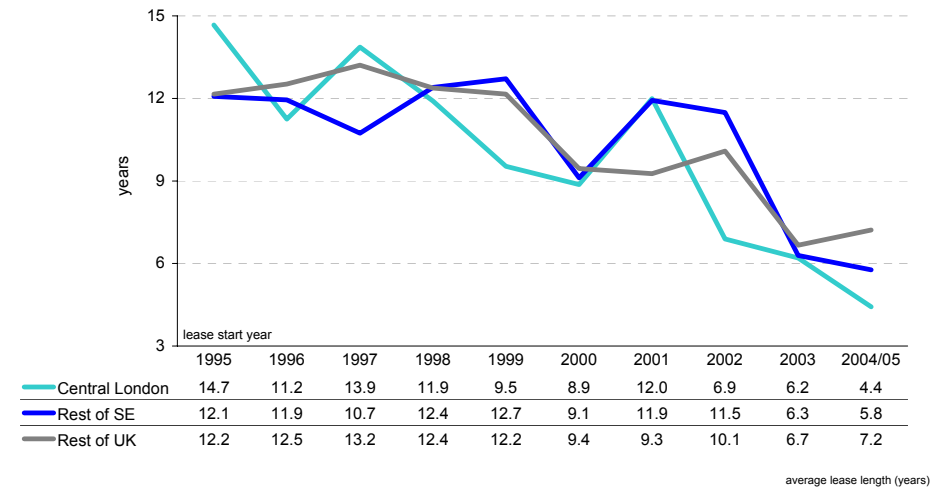


## Tenancies weighted by rent passing

Office lease lengths by region



Office lease lengths by region - period to first break



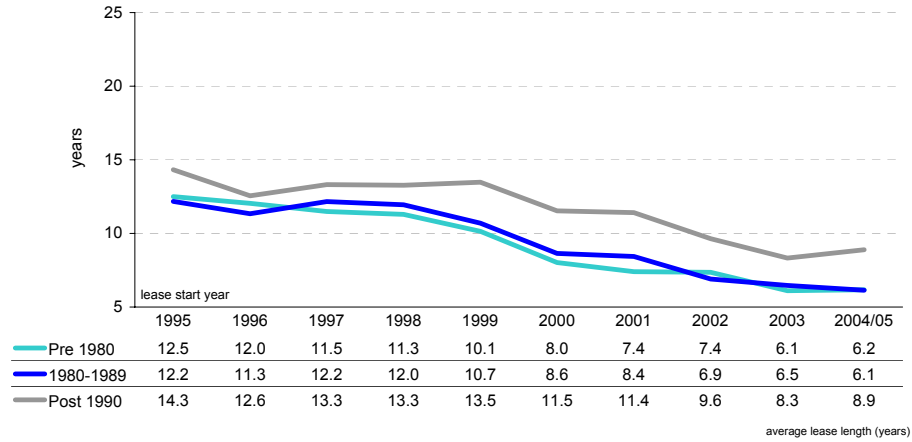
### Offices by region : leases with break clauses as a percent of total sample

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004/05
Central London	16.8	22.1	31.7	23.8	34.3	24.6	27.8	37.4	48.1	41.5
Rest of SE	44.4	36.1	24.6	24.3	30.6	34.5	31.0	48.7	50.9	43.5
Rest of UK	28.2	31.2	27.9	26.6	24.3	31.7	38.0	46.4	42.4	43.8

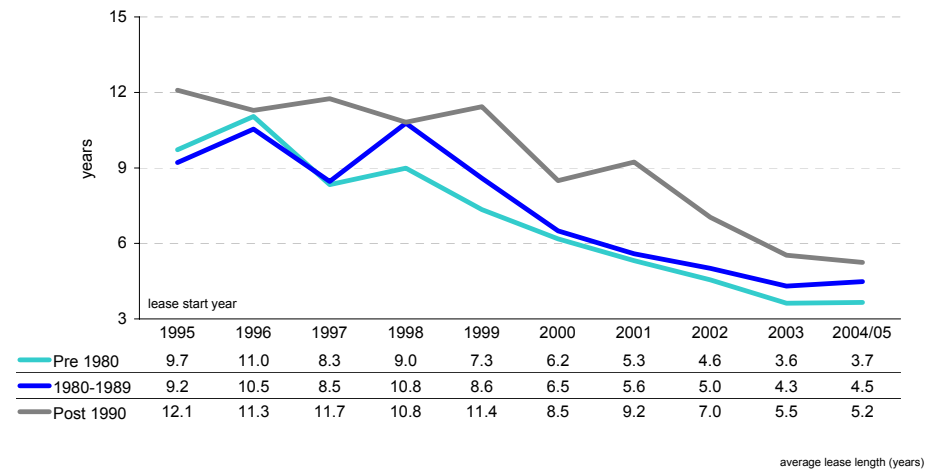
percent of leases with break clauses

## Tenancies equally weighted

Office lease lengths by age (date of construction)

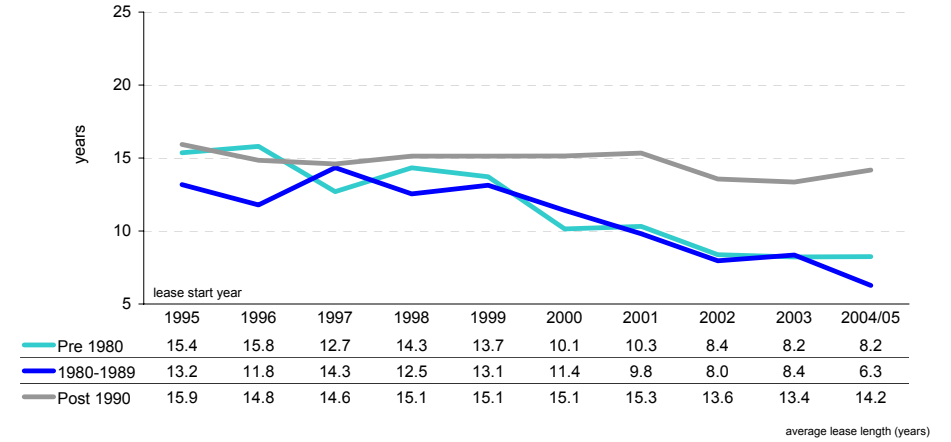


Office lease length by age - period to first break

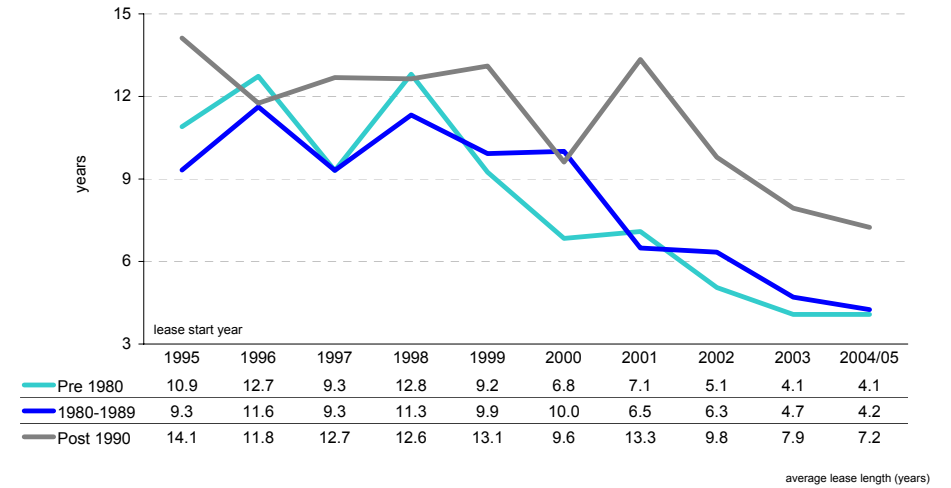


## Tenancies weighted by rent passing

Office lease lengths by age (date of construction)



Office lease lengths by age - period to first break



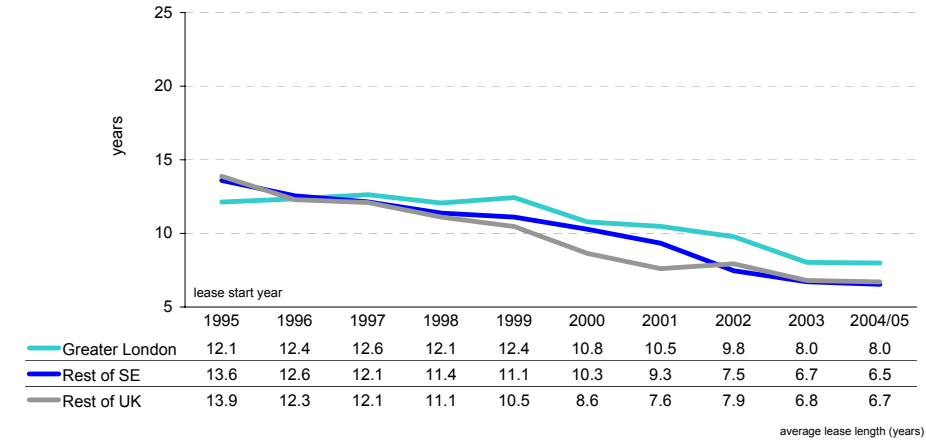
Offices by age: leases with break clauses as a percent of total sample

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004/05
Pre 1980	16.7	18.0	20.2	20.7	35.1	25.0	28.6	42.5	43.4	37.1
1980-1989	28.4	31.3	21.3	26.6	30.2	40.0	39.2	44.1	52.8	51.5
Post 1990	34.2	38.4	36.6	26.3	28.3	28.5	33.9	44.7	50.2	44.1

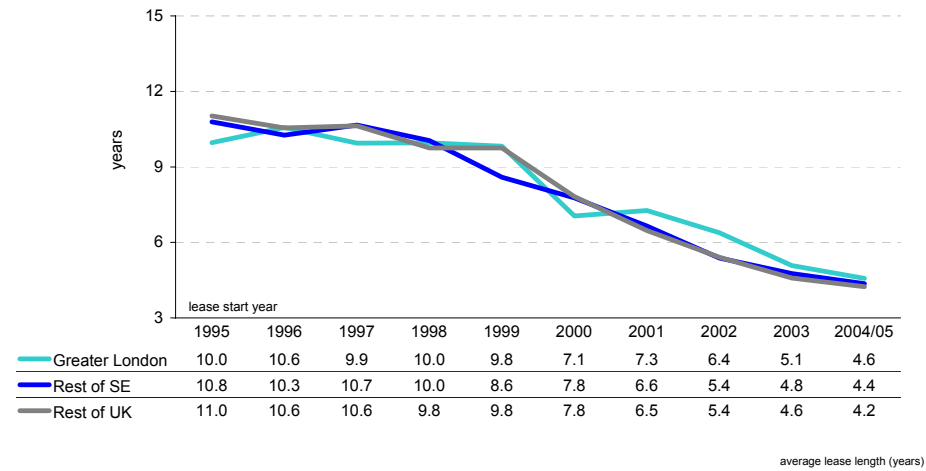
percent of leases with break clauses

## Tenancies equally weighted

Industrial lease lengths by region

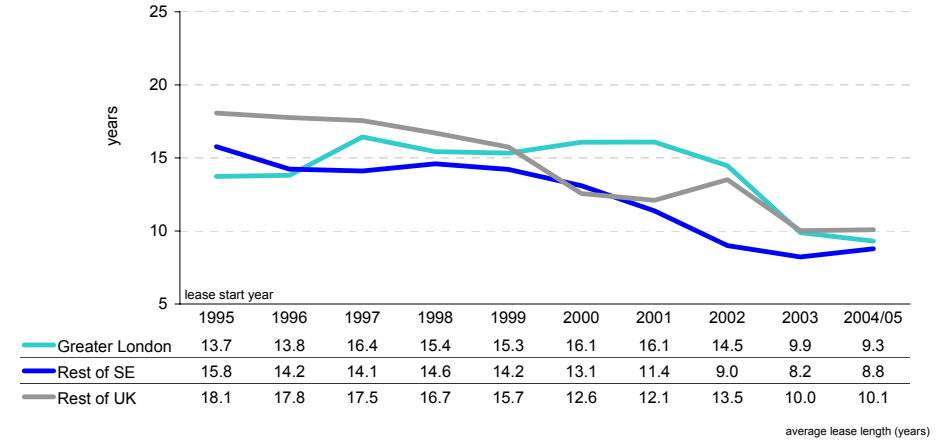


Industrial lease lengths by region - period to first break

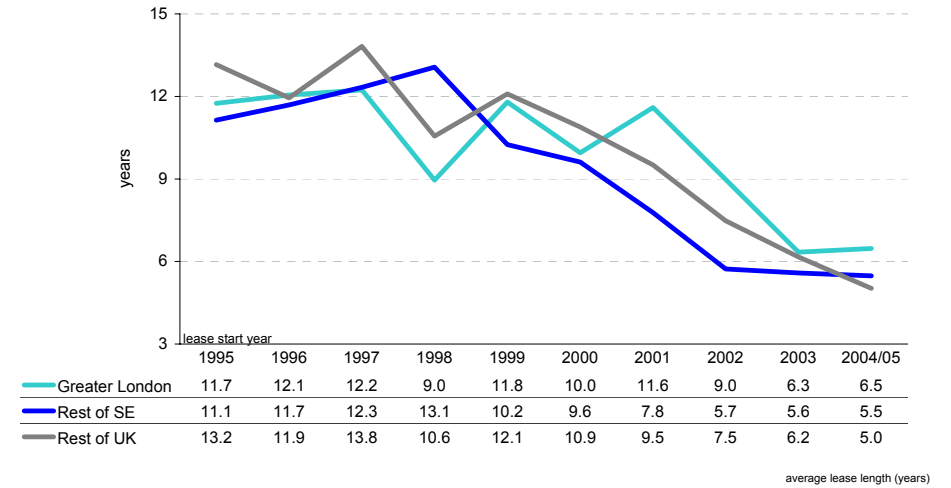


## Tenancies weighted by rent passing

Industrial lease lengths by region



Industrial lease lengths by region - period to first break



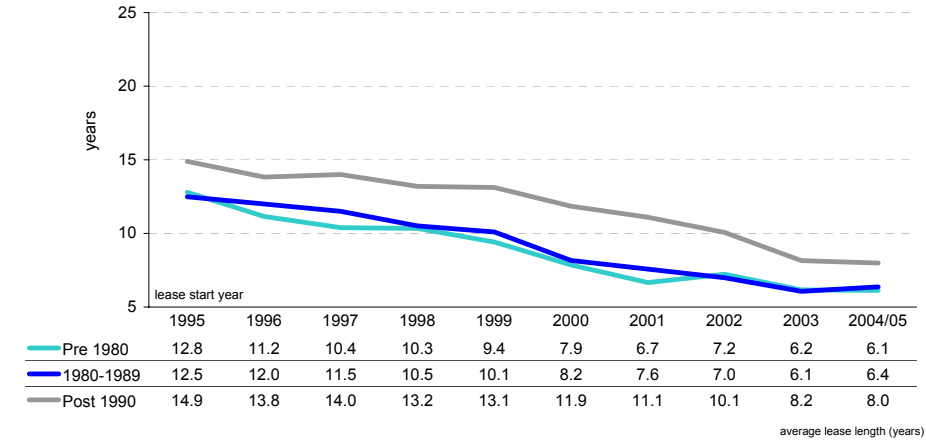
Industrial by region: leases with break clauses as a percent of total sample

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004/05
Greater London	28.8	24.7	16.7	19.2	12.9	28.2	17.8	32.2	41.7	37.6
Rest of SE	24.8	25.7	26.5	26.8	21.8	30.4	33.8	43.6	43.2	43.7
Rest of UK	17.8	20.5	17.4	17.1	17.9	19.0	23.3	32.0	42.1	36.1

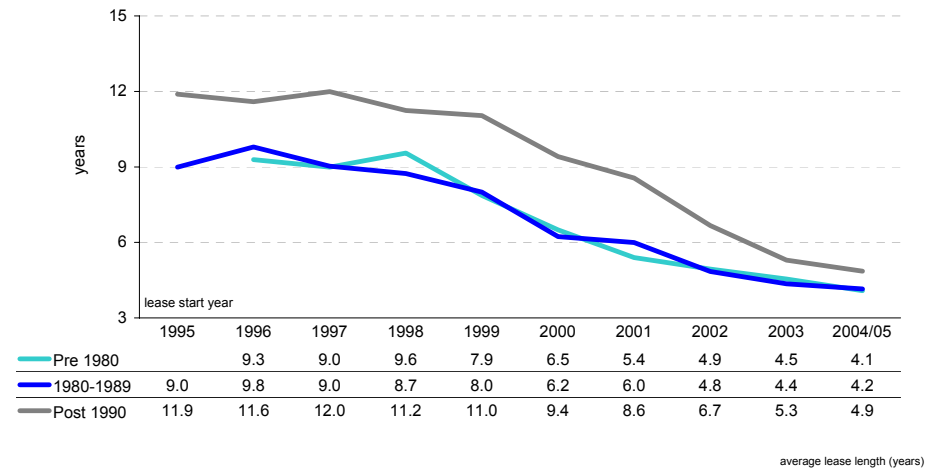
percent of leases with break clauses

## Tenancies equally weighted

Industrial lease lengths by age (date of construction)

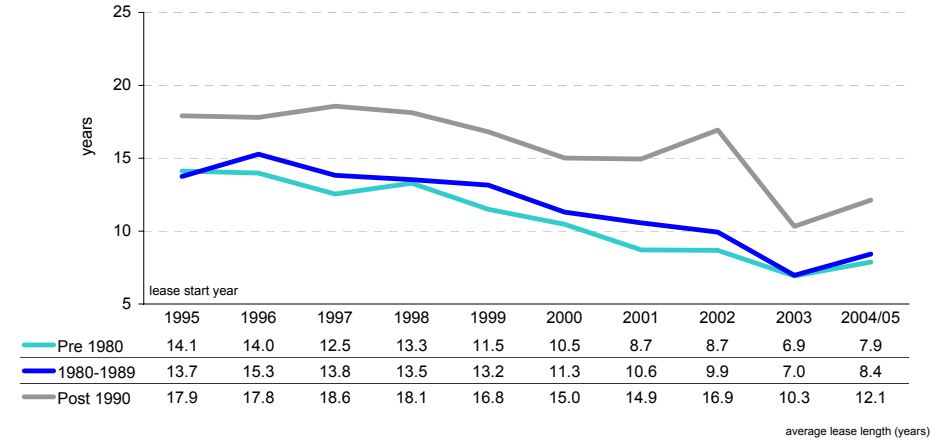


Industrial lease lengths by age - period to first break

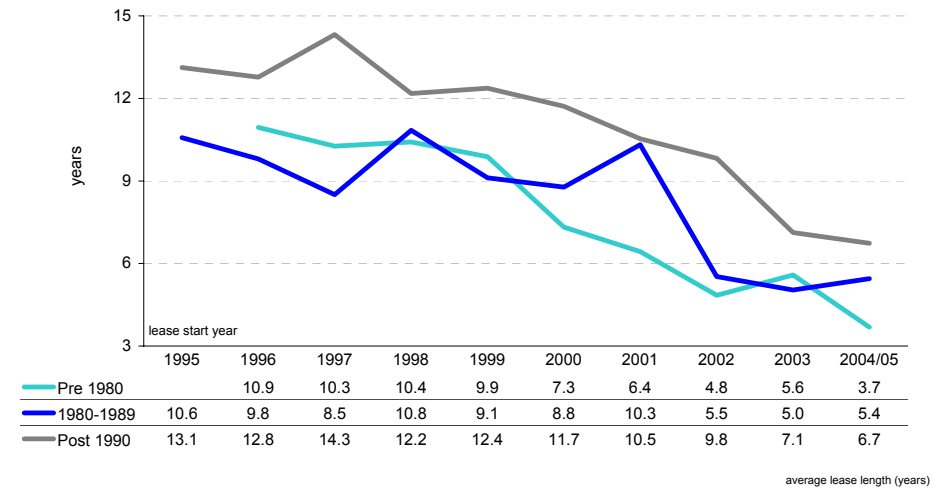


## Tenancies weighted by rent passing

Industrial lease lengths by age (date of construction)



Industrial lease lengths by age - period to first break



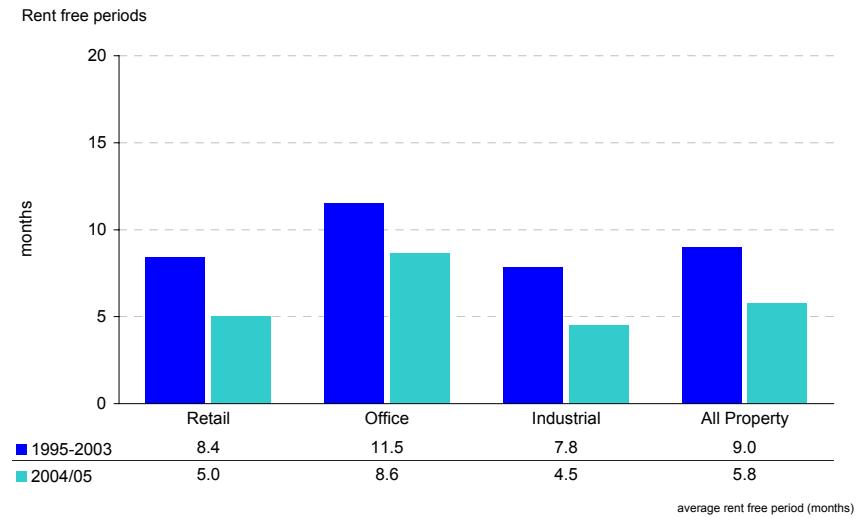
### Industrial by age: leases with break clauses as a percent of total sample

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004/05
Pre 1980	13.1	16.4	14.6	18.6	13.3	16.5	25.3	30.4	43.2	39.7
1980-1989	15.6	21.6	16.7	19.2	18.3	22.3	25.3	36.5	42.4	35.4
Post 1990	30.6	29.9	29.3	24.8	24.9	29.2	26.1	36.3	42.6	39.5

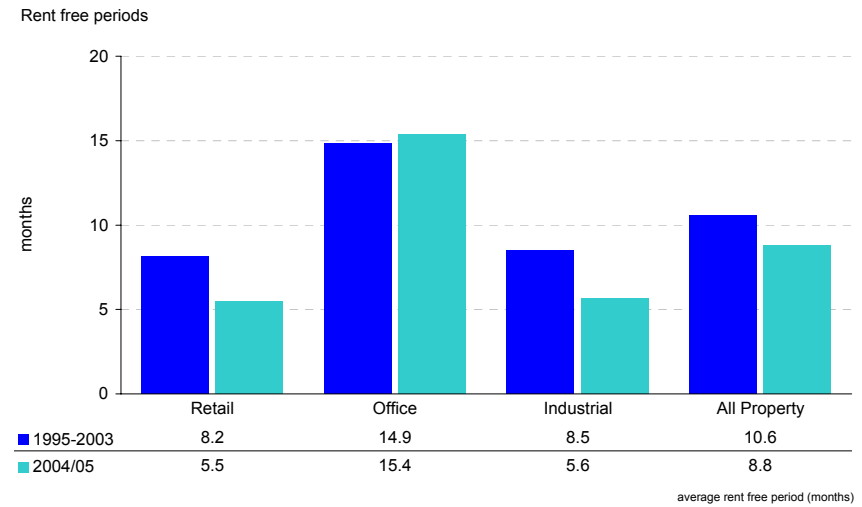
percent of leases with break clauses

## Average Rent Free Periods

### Tenancies equally weighted

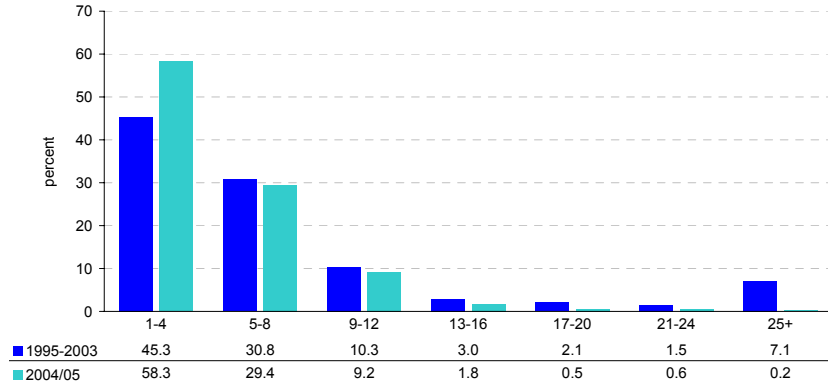


### Tenancies weighted by rent passing



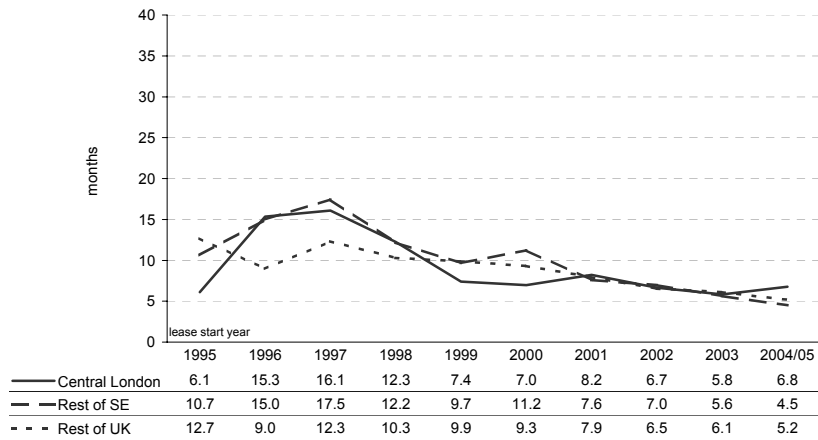
## Tenancies equally weighted

Distribution of rent free periods - retails (where included)



percent of new leases by duration (months)

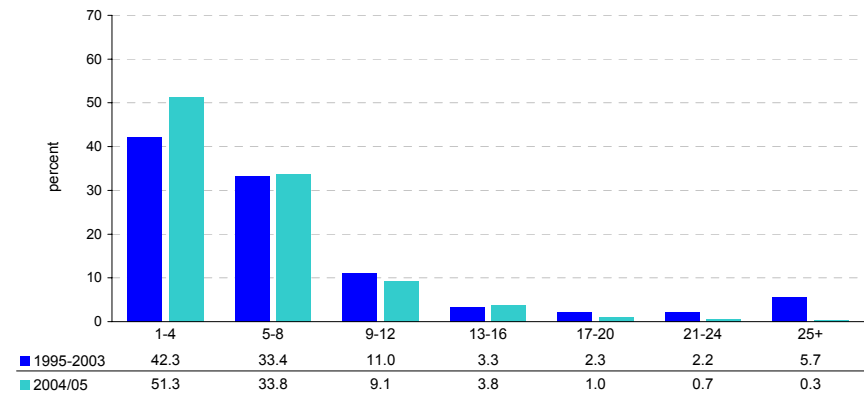
Retail rent free periods by region



average rent free periods (months)

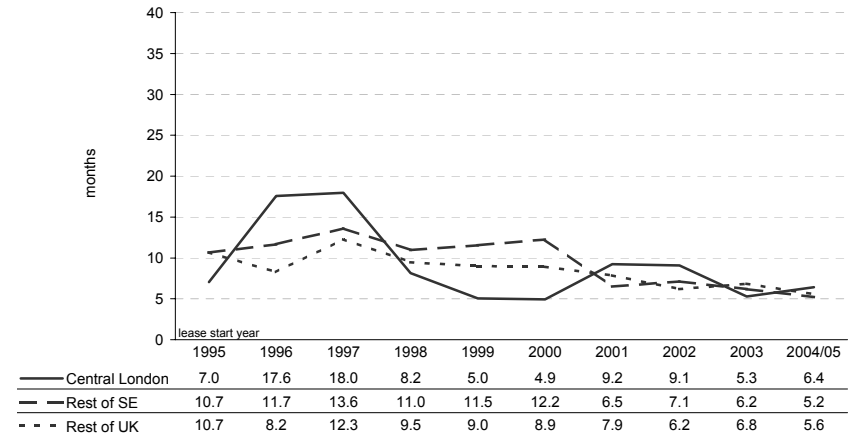
## Tenancies weighted by rent passing

Distribution of rent free periods - retails (where included)



percent of new leases by duration (months)

Retail rent free periods by region



average rent free periods (months)

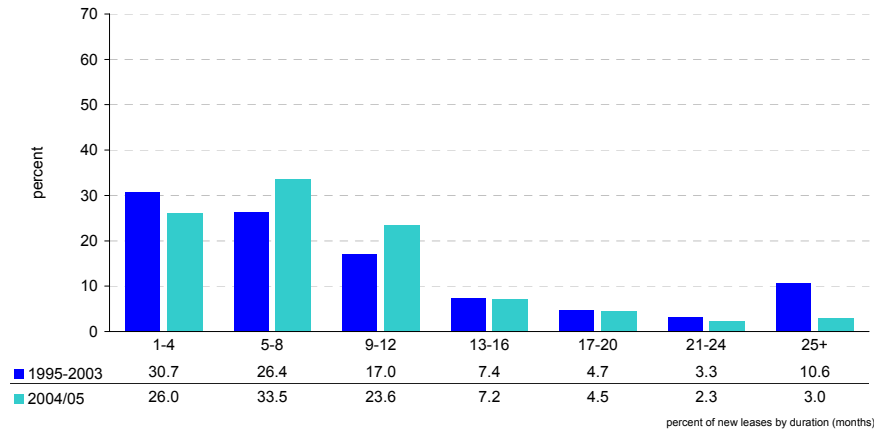
## Retails by region: incidence of rent frees

Region	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004/05
Central London	15.9	9.0	9.9	12.9	19.2	21.2	31.7	30.8	36.7	37.2
Rest of SE	12.8	13.8	16.4	7.5	13.3	18.4	27.2	33.3	36.2	53.5
Rest of UK	15.7	23.0	18.9	20.4	22.9	26.2	30.8	37.8	44.4	47.8

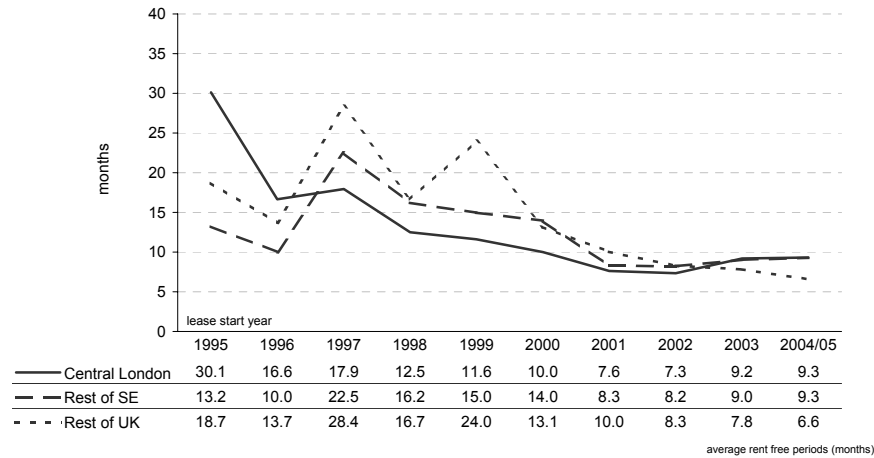
Percent of new leases with rent free periods

## Tenancies equally weighted

Distribution of rent free periods - Offices (where included)

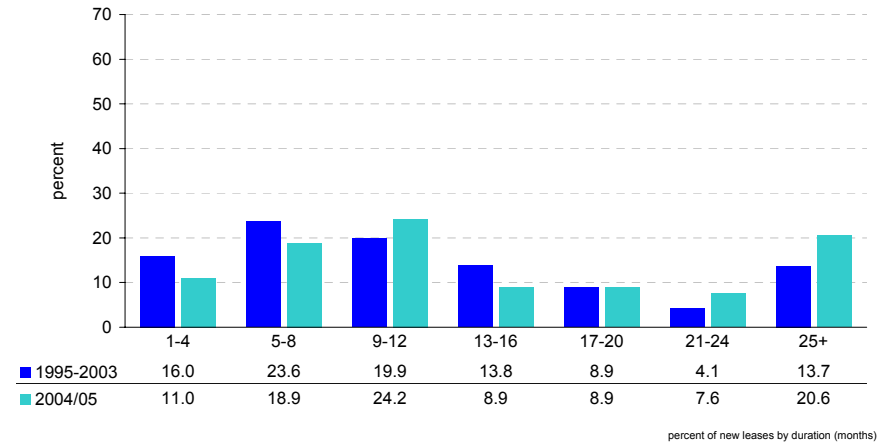


Office rent free periods by region

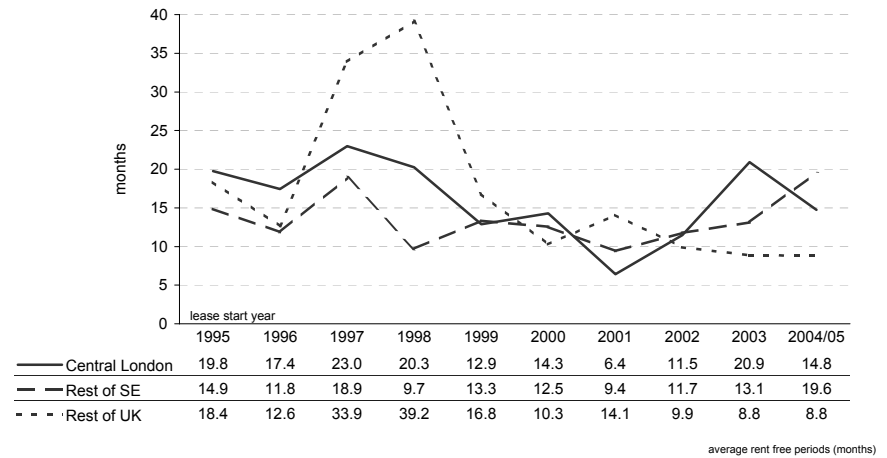


## Tenancies weighted by rent passing

Distribution of rent free periods - Offices (where included)



Office rent free periods by region



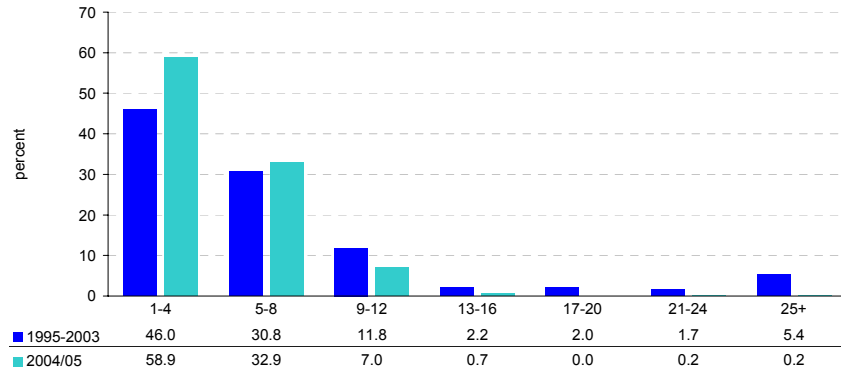
## Offices by regions : incidence of rent frees

	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004/05
Central London	9.1	17.5	20.8	18.3	14.0	21.9	21.5	30.8	34.5	45.2
Rest of SE	16.0	13.3	18.8	10.7	20.4	29.2	31.0	33.0	33.8	48.6
Rest of UK	5.9	9.8	7.0	8.6	16.7	22.0	20.3	24.4	27.6	38.6

percent of new leases with rent free periods

## Tenancies equally weighted

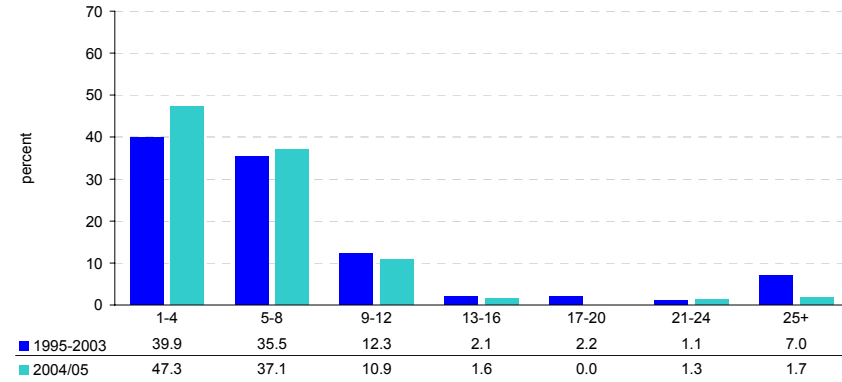
Distribution of rent free periods - Industrial (where included)



percent of new leases by duration (months)

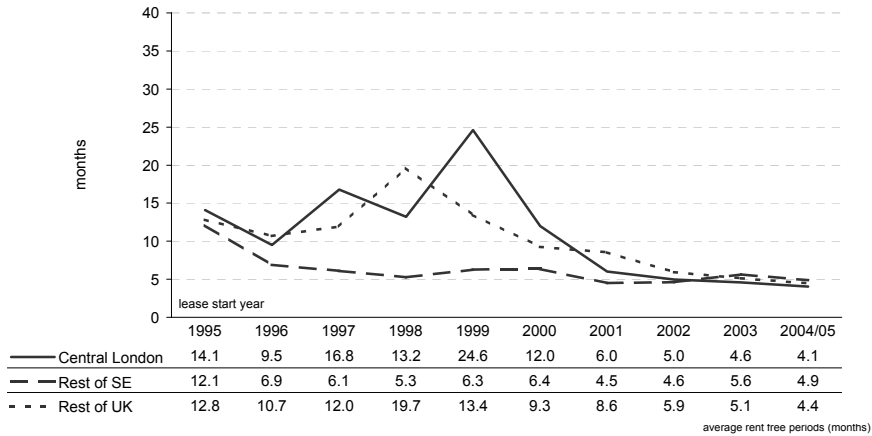
## Tenancies weighted by rent passing

Distribution of rent free periods - Industrial (where included)



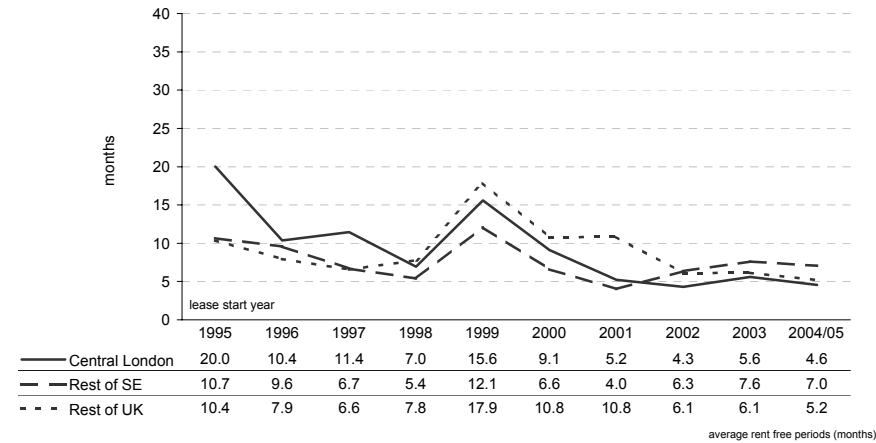
percent of new leases by duration (months)

Industrial rent free periods by region



average rent free periods (months)

Industrial rent free periods by region



average rent free periods (months)

Industrials by Regions : incidence of rent frees

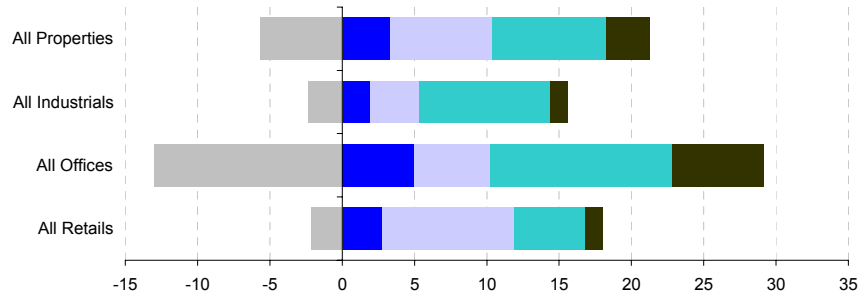
	1995	1996	1997	1998	1999	2000	2001	2002	2003	2004/05
Central London	13.7	8.2	7.6	9.6	19.8	25.4	21.7	21.5	30.6	38.2
Rest of SE	8.6	13.6	9.1	8.1	12.9	13.0	15.6	18.6	24.6	31.3
Rest of UK	5.3	7.6	5.8	6.0	8.5	8.3	11.2	11.4	18.2	24.2

percent of new leases with rent free periods

## Income Profiles of Current Leases

## All Property

Income security and growth potential - all sectors

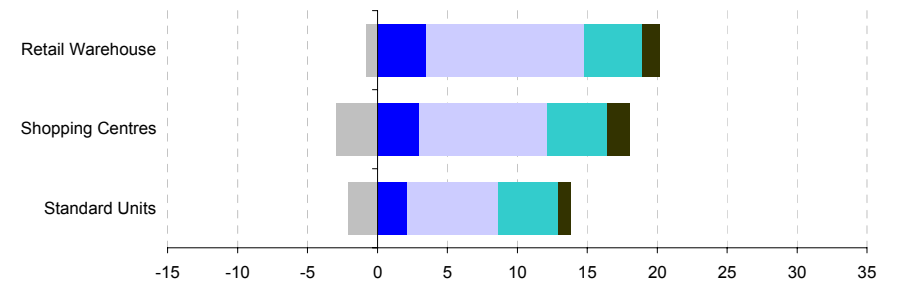


	All Retails	All Offices	All Industrials	All Properties
Top Slice	-2.2	-13.0	-2.4	-5.7
Developments	1.2	6.4	1.2	3.0
Void / Vacant	4.9	12.5	9.0	8.0
Reversionary	9.1	5.3	3.4	7.0
Rent Free	2.8	4.9	1.9	3.3

percent of total rent passing

## Retail Property

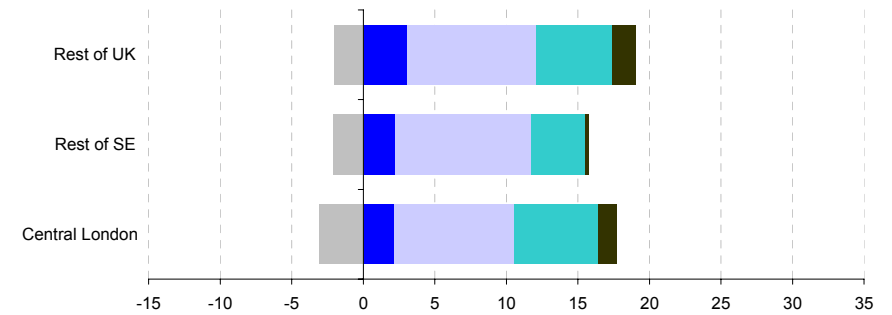
Income security and growth potential - retails by type



	Standard Units	Shopping Centres	Retail Warehouse
Top Slice	-2.1	-3.0	-0.8
Developments	0.9	1.6	1.2
Void / Vacant	4.3	4.3	4.1
Reversionary	6.5	9.2	11.3
Rent Free	2.1	2.9	3.5

percent of total rent passing

Income security and growth potential - retails by region

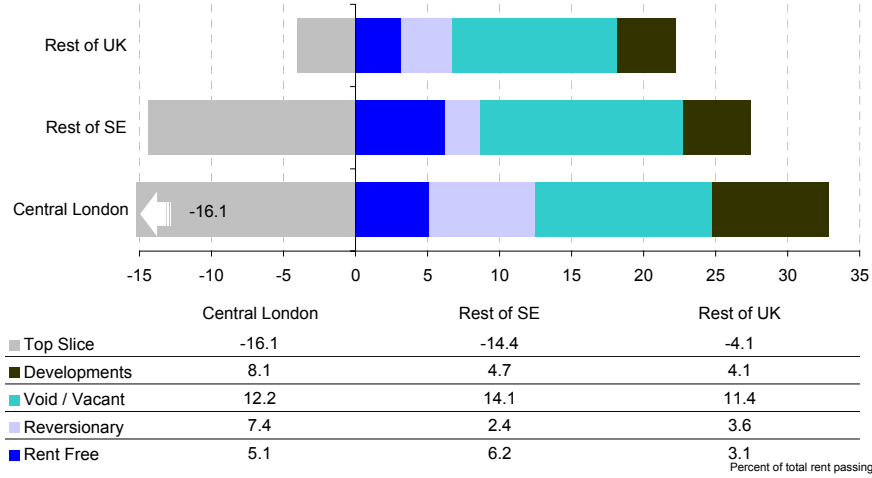


	Central London	Rest of SE	Rest of UK
Top Slice	-3.1	-2.1	-2.1
Developments	1.3	0.3	1.6
Void / Vacant	5.9	3.7	5.3
Reversionary	8.4	9.5	9.0
Rent Free	2.2	2.3	3.1

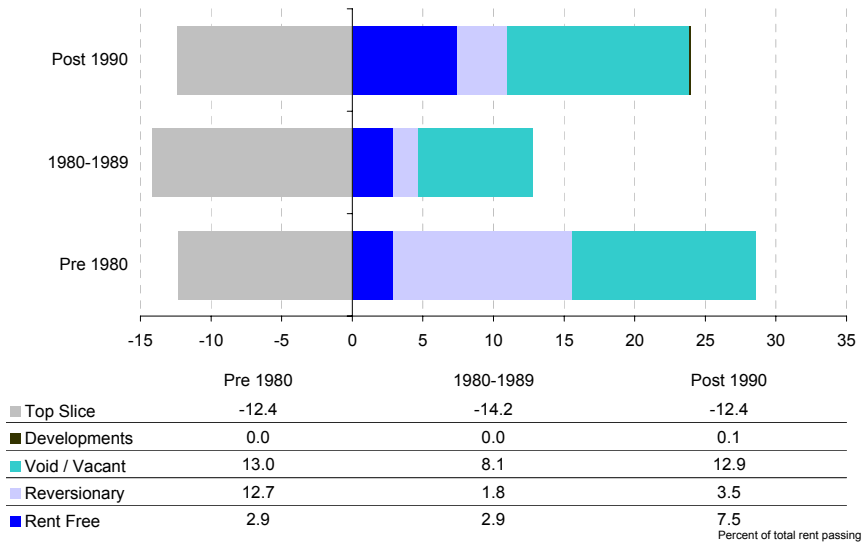
percent of total rent passing

## Office Property

Income security and growth potential - offices by region

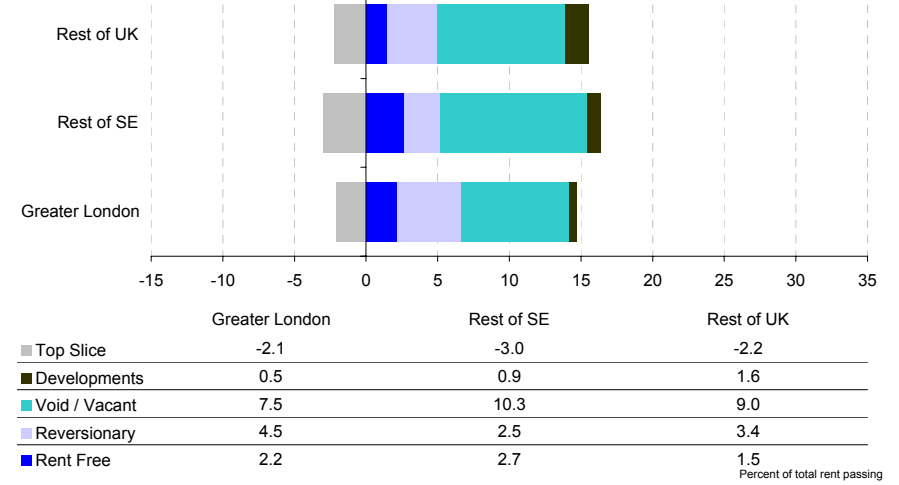


Income security and growth potential - office by date of construction

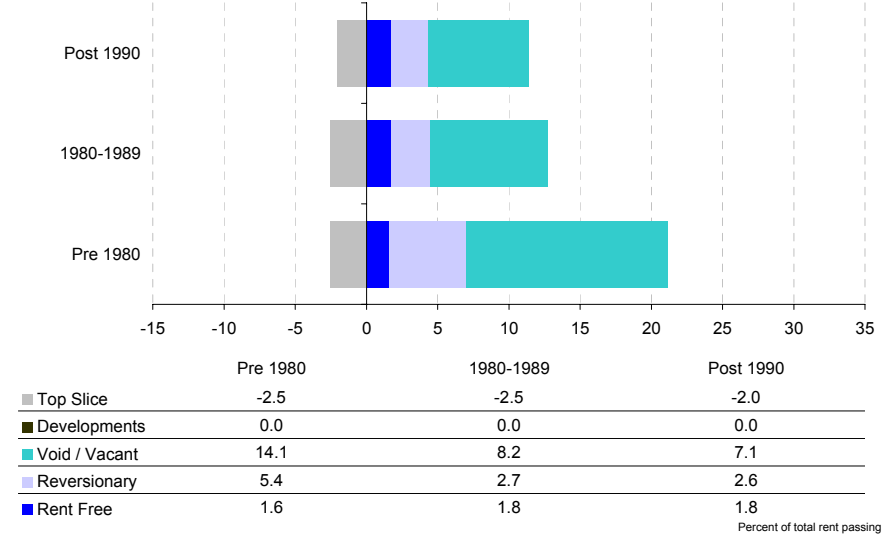


## Industrial Property

Income security and growth potential - Industrials by region



Income security and growth potential - Industrials by date of construction



# Technical Appendix

## The BPF/IPD Annual Lease Review Database

The Review reflects not only all of IPD's institutional and property company portfolios valued at the calendar year end but also covers the major property companies and other funds which contribute to the IPD service on the basis of a March rather than December valuation date. These extra portfolios are normally excluded from headline performance indices because of their lack of synchronised valuation dates.

For the purpose of this research, however, techniques have been developed for the consistent integration of their lease records within a single research database – the biggest ever analysed as a single exercise within IPD. Its composition in detail is as follows:-

### Number of leases granted

	1995-1997	1998-2000	2001-2003	2004-2005	All Leases
All Retail	5,116	7,862	9,811	4,851	45,623
All Office	1,816	3,367	4,211	2,089	19,164
All Industrial	1,743	3,067	5,971	3,632	23,847
All Properties	8,956	14,866	20,556	10,768	91,430

### Rent Passing (£m)

	1995-1997	1998-2000	2001-2003	2004-2005	All Leases
All Retail	552	921	838	376	4,302
All Office	416	597	574	218	2,809
All Industrial	172	242	344	150	1,386
All Properties	1,167	1,837	1,806	761	8,700

## The Definition of Lease Terms

The IPD database records the dates both of the ending of each lease and of any tenant option to break. In the lease length analyses the term of the lease is defined by the earlier of these dates, so that a tenant break option is treated as equivalent to a lease termination.

## The Weighting of Lease Analysis

Wherever possible analyses are reported on both rent weighted and unweighted base. The weighting of leases is based on the rent passing. Unweighted analysis treats all tenancies equally. This approach enables the influence of tenancy and lot size to be identified and quantified within the analysis.

## Lease Agreements Excluded from the Analysis

Because IPD does not have full records of leases back to the early years of the 1990's, all analyses have had to utilise latest available data, which includes start dates / break points on all leases, whenever they were granted.

This means that the shorter leases granted in the early years will have now expired and thus become unavailable for comparison with short leases granted more recently. For this reason all leases granted at whatever date for periods of less than 4 years have been excluded from all analyses in order to achieve closer comparability over time.

## Income Security and Potential Analysis

The last section of the Review shows the overall impact of all leases currently in place upon the bottom line income generating potential of investment property. It is thus restricted to the set of newly / recently granted leases reported in the earlier sections of the report. The analysis compares the potential loss of income on over-rented property (the margin of lease determined current rent above open market levels), with the potential sources of income growth (which include the expiry of rent free periods, rent reviews on reversionary properties, and the letting of void and current development properties).

It should be noted that this analysis makes no assumptions about future rental value growth or decline. Thus potential future income changes are quantified at current rental values, and will only materialise if these values remain constant until the relevant lease events (reviews, expiries etc).

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Facsimile: 020 7267 0208  
Website: [www.ipdindex.co.uk](http://www.ipdindex.co.uk)