

UK Commercial Property Lease Lengths Continue to Increase

London – November 10, 2016 – MSCI Inc. (NYSE: MSCI), today released its latest research on leasing trends with the publication of the **UK Lease Events Review 2016**.

The research, sponsored by Strutt & Parker and the British Property Federation, and based on an analysis of over 90,000 leases across the UK, said new property lease lengths are an average of 7.0 years in 2016, matching levels recorded in 2008.

Larger tenants, who pay the majority of rent collected by professional investors, still opt for longer lease terms, with the proportion of 10-14 year leases rising from 24.3% to 29.0% when weighted by rent.

Office leases saw the greatest increase in length – from 6.4 to 6.8 years between 2015 and 2016 – a sign of changing conditions for occupiers (up to June 2016). In contrast, Industrial leases saw a drop off of 2.3 months from 6.4 to 6.2 years for the same period.

At lease expiry, just 33% of tenants chose to renew their leases. This is significantly below the 18-year average of 38%, and the lowest level since 2007, suggesting that the market is beginning to experience greater flexibility in the revision of rent terms.

The research shows that landlords are keen to avoid vacant space and offering occupiers better deals to avoid the risk of empty properties, with 81% of tenants who had the right to break their lease in 2015 choosing not to exercise it. Office leases experienced the largest increase from 56% in 2014 to 76% in 2015.

In a continuing trend from last year, income lost through insolvencies fell further to 3.1%, the lowest since 2007.

Malcolm Hunt, Executive Director, MSCI, said: “With larger tenants continuing to take on longer leases, particularly in the Office sector, average lease lengths have now increased by a full year since 2011.

“This, alongside the continued decline in insolvencies, is a positive trend for landlords where investors are seeking yield.”

Andy Martin, Senior Partner, Strutt & Parker, said: “Even with average leases lengthening tenants are seeking flexibility and using expiries to facilitate that. The breadth of short term space available within the market, driven by technology and management software, has enabled a new generation of office users to access more choice than ever before”.

Ian Fletcher, Director of Policy, British Property Federation, said: “These figures paint a picture of 2015/16 stability in the occupation of property. Tenants want to hold on to good space and landlords want to hold on to good tenants. Leases will naturally expire and so there will always be an element of churn. These stats are pre-referendum though, and so the impact of the Brexit vote on demand for additional space is not clear. However,

with many occupiers passing the opportunity to break and low levels of insolvency earlier in the year it at least provides some stability to help the sector withstand future uncertainty”.

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