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# Commercial property lease lengths hit eight-year high as occupier confidence recovers.

**London – November 12th, 2015** – MSCI Inc. (NYSE: MSCI), a leading provider of investment decision support tools worldwide, including indexes, portfolio risk and performance analytics and ESG research, today released its latest research on leasing trends with the publication of the **IPD UK Lease Events Review 2015.**

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 rose to 7.2 years in 2015, matching levels last recorded at the market peak in 2007.

Flexibility remains key for many tenants, despite the lengthening of commercial leases, with 73% of total leases signed so far in 2015 for a term of between one and five years. Larger tenants, who pay the lion's share of rent collected by professional investors, still opt for longer lease terms, with the proportion of shorter one-to-five year leases falling to 42% when weighted by rent.

Retail leases saw the greatest increase in length – from 6.7 to 7.5 years between 2014 and 2015 – a sign of the improving trading conditions for occupiers. It also highlights the importance of a prime pitch and the unwillingness of retailers to move elsewhere.

At lease expiry 43% of tenants chose to renew their leases. This was above the 17-year average of 38% suggesting that the market is beginning to experience more normalised conditions.

Offices generally saw a shorter lease length than in the retail sector, although both sectors recorded a significant rise in lease lengths. Office sector tenants, however, remained highly flexible with just 34% renewing their tenancy at the end of a lease, compared to 52% of retailers.

The research shows that landlords are keen to avoid vacant space and were offering occupiers better deals to avoid the risk of empty properties, with 71% of tenants who had a right to break their lease in 2014 choosing to stay in the same place rather than move. This rose to 80% for the retail sector with tenants keen to protect their established pitch in a market where rents are generally rising.

In further good news for the property sector, income lost through insolvencies fell to 3.7%, the lowest since 2007.

**Colm Lauder, Senior Associate at MSCI, said:** "As a barometer for the wider economy, commercial property is a strong indicator of business sentiment. Improved demand for retail space reflects greater consumer spending while demand for office space highlights growth in the services sector.

As yields stabilise in the UK market following a tumultuous recovery, a growing emphasis is being placed on income growth, so this analysis will come as good news to investors. Longer lease lengths and declining insolvencies will further bolster the appeal of UK real estate for investors looking to shelter from more volatile investment options.

For investors looking to venture outside of prime real estate, having a detailed understanding of the underlying tenants and lease conditions will be vital in mitigating and understanding risk."

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**Andy Martin, Senior Partner at Strutt and Parker, said:** "With yields at historically low levels, particularly in prime segments, and the consensus suggesting a turning in the interest rate cycle sometime next year, investors' ability to maintain and grow property income will be key to driving returns going forward.

The rental growth outlook certainly appears strong for the next five years, and not just in central London. It will be those investors that take a realistic view on lease events, and plan appropriately for their outcome and aftermath - with a focus on the underlying drivers of demand, who will succeed as the property cycle moves into its next phase."

**Ian Fletcher, Director of Policy at the British Property Federation, said:** "Our sector's success or failure rests in large part on its ability to serve its occupiers. Whilst the recovery in the investment market has been apparent for some time, it is good to see that this survey shows occupiers are becoming more confident about their space requirements.

"For many occupiers, their leases will still involve flexibility, such as a shorter lease and the ability to break, even if not exercised. Signs of rental growth are leading some occupiers to lock into longer leases, or to shop around for a good deal. It could be said that the occupational market has returned to normal, but it is a new normal that reflects the pace and uncertainties of modern business."

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MSCI serves 97 of the top 100 largest money managers, according to the most recent P&I ranking.

For more information, visit us at www.msci.com.

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