Commercial leases in the UK regions: Business as Usual?

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Abstract

Purpose: This paper analyses the changing nature of commercial leases with specific reference to the landlord and tenant relationship, lease lengths and incentivisation in the post recessionary UK property market.

Design/methodology/approach: The research applies data analysis utilising the Estates Gazette Interactive database coupled with survey analysis conducted across three UK cities to investigate and compare the changing nature of the commercial property leasing market and the landlord and tenant relationship.

Findings: The empirical analysis highlights that recessionary conditions prevalent in the market from the 2007 global crisis has caused a reassessment of lease structures leading to shorter lease terms and increased use of incentives, as tenants have been empowered to negotiate more flexible leases due to their stronger market position.

Originality/value: This paper builds upon previous research conducted back in 2005 investigating commercial leases in the market up-cycle. The recent volatility in the commercial property sector requires fresh insights and in-depth analysis of lease patterns, length and covenant strength, which is fundamental for investor decision-making. In addition, past research has tended to consider solely landlord or occupier perspectives, this research offers new insight into the landlord tenant lease negotiation process.

Keywords: *Commercial leases, Landlord, Tenant, Incentives, Lease Length*

I Introduction

Commercial property has distinctive and unique financial features compared to other asset classes (Ball et al 1998, Davis and Zhu 2011). Specific characteristics include heterogeneity, durability, illiquidity, high transaction costs, lack of divisibility, limited buyers and sellers and high management costs (Ball et al 1998; McAllister and O'Roarty 1999; Jowsey 2011, Crosby et al., 2012). The demand for space within the commercial rental market is driven by potential tenants with varying space requirements (Buttimer and Ott 2007), grounded on economic factors that influence the mechanics of the commercial property market. Over the past decade there has been growing interest in and ongoing research into commercial property cycles. The UK property market has historically been characterised by a cyclical behaviour of boom and bust periods, reflecting supply and demand peaks and troughs within the wider economy, and the inability of the property market to adequately adjust. Such recurrent and frequently asymmetrical fluctuations within the modern property market have profound impacts on all players in the industry and on the relationships between the economy, occupational leases and investment (Mulhall 1992, Scott and Judge 2000; Jadevicius et al., 2010).

Between 2002 and 2007, the UK property market witnessed substantial growth and was characterised by high levels of investment into fixed assets generally and property in particular, to an extent driven by investor concerns regarding equity markets in the aftermath of the 'dot.com bubble', and other high profile market shocks. Despite relatively weak market fundamentals, UK property was viewed as a 'safe haven' for footloose capital - limited prime product, low cap rates and temporarily high returns (Hutchison et al., 2010), of which the impact of covenant strength on cap rates was largely excluded in investment decision-making (Hutchison et al., 2010). This investment demand helped to drive strong property market performance – making the subsequent fall all the more painful. The shift in market conditions post GFC has profoundly changed the landscape of global property markets, as the crystallisation of risks associated with property assets have undermined confidence across all market players. The resulting seismic shift in investor demand, credit availability and uncertainty in pricing, coupled with reductions in availability and increase in the cost of short-term finance induced a precarious climate for existing and potential investors. Investors have been forced to focus closely on the underpinning fundamentals of real estate investments, such as the security of cash-flow and intricacies of property pricing (Hutchinson et al., 2011). High vacancy rates, uncompleted developments and long marketing periods affected the UK property sector (Rubinsohn, 2009). As many tenants struggled to break even, landlords faced the on-going challenges of loan to value deficits and void costs. Driven by necessity, occupiers have become more aware of endemic risks involved in property leasing and have acted to overhaul their strategic requirements (French and Jones, 2010. This trend had been acknowledged by McAllister (1999) in earlier research, which suggested that oversupply of commercial stock has the capacity to empower tenants to negotiate for more favourable lease terms and greater incentives - to gain additional flexibility and reduce risk. Space oversupply, diminished demand and resulting falling rental levels have resulted in a market where tenants were able to rebalance their leasing positions – a reality that became apparent very early in the downturn (Mansfield and Robinson 2007).

This does, of course, favour those tenants who are seeking to expand their floor space and those who have the flexibility to reorganise their space – creating the spectre of a two tiered marketplace with competitors trading off significantly different cost bases – not only are some tenants trapped at higher rents, any surplus space they may be carrying is both less valuable and may be unlettable due to rent matching lease clauses. Ultimately this inability to flexibly 'regear' leases and real estate exposure has been one of the major drivers of tenant insolvency, which is an additional route back to market (or market rent) of affected property. Importantly, this has impacted upon the nature of commercial leases - particularly the measurement of income risk factors, such as lease lengths, covenant strength and break options. These pressures have encouraged the commercial letting market to reflect such market conditions with flexible lease clauses including incentives, shorter terms and exit mechanisms, shifting from the idealised institutional style lease (Pfrang and Wittig, 2008). Whilst tenants may view this as a long needed rebalancing of the relationship, it is yet to be seen how such increased flexibility is viewed by the finance houses which fund such capital intensive provision, nor whether the tenant appetite for greater flexibility is whetted or sated by the implied increase in rental value which would be sought, as markets rebalance.

That said, just such a reconsideration and market testing of alternatives has been called for, since before the first edition of the Code of practice for Commercial leases 20 years ago. In such a situation tenants arguably have scope for manoeuvrability to achieve more attractive terms, whereas landlords must incentivise through competing strategies to try to let space (Pfrang and Wittig 2008). French and Jones (2010) have further underlined this position suggesting that in this market setting, *more than any other*, tenants are approaching landlords with the idea of renegotiating their liabilities, with landlords considering each proposal on its merits – and perhaps only when forced to by unfurling events, such as the imminent risk of tenant failure. Solutions are ranging from side agreements to not demanding full payment, to surrender and renewals to provide a more even cash-flow, or outright surrenders with a reverse premium being paid (French and Jones, 2012).

The fundamental purpose of this paper is to investigate the changes in leasing patterns in the UK over the period January 2001 and January 2012 across three distinctive UK based regional cities; Belfast, Birmingham and Manchester (hub cities for three UK regions). This is augmented with questionnaire surveys distributed to practicing chartered surveyors. The research builds on previous research by Hamilton et al. (2006) which analysed the dynamism within commercial lease structures during the property market up-cycle. Explicitly, this paper examines the impact of market volatility on commercial leases, during a period of market instability. As the market returns to more normalised conditions it is interesting to consider whether there will be lasting change, and whether this change will be consistent across the UK's regional markets. The paper is structured as follows. Section II presents literature pertaining to commercial leases and the property cycle. Section III applies the methodological framework adopted in the study, with section IV presenting the key findings and discussion. In section V conclusions are offered.

II Literature Review

Over recent decades, the user requirements from property have changed significantly, resulting from changes in technology, finance, business activities and organisational structures. It has been argued that the institutional nature of the property market constrains the ability of property to respond (Lizieri 2003). Most businesses and their associated activities are conducted within leased premises; therefore a lack of lease 'flexibility' can directly affect business operation (Crosby et al. 2006a). Moreover, the demand for space can often fluctuate, implying the need for tenants to be able to adapt their space requirements to their market requirements (Crosby et al. 2006a; 2006b).

The presence of evolutionary forces in leasehold arrangements is of long standing. McAllister and O'Roarty (1998) reported evidence of lease structure changes and adaptation in response to the regulatory environment and in response to changing conditions in property, economic and financial markets. As a result, a 'typical' lease structure has not universally existed since the relatively rapid decline in the UK of the 'institutional lease' (a contract of 25 years with good covenant strength and as many liabilities as possible placed on the tenant) (McAllister and O'Roarty 1998; Harvard 2000; Crosby et al 2006b; Mansfield and Robinson 2007). Through this rigid lease format, tenants were contractually bound to premises for a significant period, as well as often being exposed to paying a premium above current market rents, due to the Upwards Only Rent Review (UORR) clauses (Hamilton et al 2006). This has the capacity to severely affect profit levels of businesses so affected, which face a rapidly changing business environment – with income pegged to current economic conditions whilst a key outgoing pegged to a historic benchmark. Of course, this mirrors the scenario occurring should a tenant invest in owner occupation and is *to an extent* balanced by lower initial rents, attractive to businesses that have relatively long term business planning horizons and required security of tenure to achieve their objectives. Whilst the business environment has changed to a more dynamic model, change away from this standard has been slow however, particularly at the quality end of the investment market (Hamilton et al 2006, Baum 2003). The lack of revolutionary change is perhaps understandable, Jefferies (1994) considered that the only tenants treated unfairly by the traditional lease structures were those who entered into a lease during a property cycle peak and as a result of the upwards only clause, were left paying rent pegged well above the market level. Nevertheless, the main parties in a lease contract each have concerns over their lease agreements and the extent of incorporated flexibility. This remains as an on-going challenge for the industry (Crosby et al 2005; 2006a; 2006b).

As identified by Crosby et al. (2005), the commercial lease includes terms affecting all aspects of tenant occupation. There are certain terms which are generally negotiable between the landlord and tenant (Pfrang and Wittig 2008). Rent is traditionally observed to be the first issue for negotiation, after which the other lease terms are more easily agreed (Baum 2003; Crosby et al 2006b). In addition, the upwards only rent review clause has been identified as one of the most defended elements of a commercial lease (Baum 2003) as well as being the mechanism which induces the most risk liability to the tenant (Robinson 1999). Nonetheless, Crosby et al (2003; 2006a) determined that the upwards only clause is not a prime concern to tenants, ranking fifth in the most problematic lease term in their occupier survey.

Hutchison et al (2011) considered the importance of covenant strength in a lease contract, especially during times of volatility in the market place, as the risk of default and void periods are more probable. Once a letting is established, this aspect is key to investment value via the yield applied. As a result, the ability of landlords to protect covenant strength via controlling alienation clauses remains of high importance. Balancing this, the removal of Privity of Contract in the UK and the importance of a 'reasonableness test' in terms of achieving full market rental value at rent review (i.e. an unreasonable or onerous alienation clause in a lease is capable of causing a significant reduction in rent achieved at review) provide a measure of assurance for tenants. Tenants wishing to assign their lease need to be able to do so without onerous conditions being attached, a situation not always present. This is an obvious source of potential conflict with landlords, as Hutchison et al. (2011) explain, tenant covenant strength impacts on default probabilities during lease, and a prospective change in tenant quality at default, or at a break or expiry must be factored into risk premiums This is particularly prevalent in the market down-cycle. Of course, there is an argument to be made that there is no reciprocal ability of a landlord to pass judgment on potential purchasers of the landlords interest, a situation which could result in a worsening level of service provision, for example. Whilst such a clause has theoretical merit, it has never been a feature of the UK property market and seems unlikely to become one in the future, bit perhaps should be viewed as one of several options which could be offered and considered in a more flexible, rounded letting negotiation.

In terms of the landlord and tenant objectives, Crosby et al (2001; 2003; 2005; 2006a; 2006b) carried out extensive research into the commercial letting market assessing the mismatch between landlord and tenant in terms of lease terms and business planning horizons. Furthermore, empirical research conducted by Mansfield and Robinson (2007) found that 97 per cent of respondents agreed that their leases were worded ambiguously, suggesting that most lease contracts were often a compromise that suited neither party perfectly (Crosby et al. 2006a; 2006b). Similarly, Pfrang and Wittig (2008) comprehensively considered the role of each party in obtaining their minimum requirements in order to agree on the terms for a lease contract. Their study highlighted the importance of the following factors in lease negotiations: Alternative space available; Interests of each party to be addressed; Options; Legitimacy to ensure a fair outcome for both parties; Commitment from both parties; Communication; Relationship. The authors described the process through game theory, highlighting that in a simple bi-matrix game, each party must show willingness to negotiate and make concessions on terms, otherwise the entire process would fail. In a similar vein, Hutchison et al. (2010) considered the negotiation process as more of a 'give and take' situation depending on the relative bargaining power of each party. Indeed, this position was stressed by Hamilton et al. (2006) who established that poor economic conditions often resulted in a shift in this balance, where tenants developed a stronger position due to landlords' fear of vacancy. This is, of course, a finely nuanced scenario, as both landlords and tenants must carefully balance the competing demands of their lenders, in retaining the value of fixed assets on the one hand, and cash flow encumbering commitments on the other.

Crosby et al (2003) pointed out that a lease should be considered in its entirety rather than as individual clauses, as it is often the interaction and relationship between multiple clauses that cause issues to arise, a point endorsed by Mansfield and Robinson (2007) who concluded that it can be challenging to interpret the exact meaning of and links between various clauses, advocating the importance of instructing professional advisors during lease negotiations. Indeed, Crosby et al (2001; 2003) identified that the most problematic lease terms for occupiers were lease length, break clauses, alienation clauses, rent reviews and repair clauses. Their research suggested that landlords were not offering tenants the flexible terms that they sought as each party had conflicting factors driving their leasing needs - landlords had reasons not to grant short(er) leases, whilst tenants had short term business perspectives and required greater flexibility of possible leasing options, in order to match their business and occupational requirements (Crosby et al 2003).

Ideally, tenants seek a lease enabling them to have flexible entry and exit mechanisms, up and downward rent reviews and the flexibility to match their occupation with their business prospects (Sanderson and Edwards 2014; Crosby et al 2003). For landlords who have committed considerable capital sums to investment ownership, this footloose model is challenging – each aspect of occupancy volatility has the dual effect of lowering rental security and diluting covenant strength guarantee – eroding both rental quantity and quality from an investment market perspective, with the potential to seriously erode investment market values. Whilst this is a market function which would return to equilibrium, albeit at generally lower levels, such a prospect has serious repercussions regarding the quantity and quality of stock provided and in terms of the book value of real estate on the nation's balance sheets. That being said, other models for financing real estate do exist and change is by no means impossible. Whether a change can be achieved without a general reduction in the investment value of 'UK PLC' is to an extent governed by the competency and flexibility of key market players, such as the fund management and valuation communities, to appreciate, measure and capture the changing risk – return profile which would emerge.

Whilst valuers may argue that they do not make the market, the embedded techniques they adopt currently militate against flexibility by design and the results have signalling significance beyond the immediate market purpose. Alternative methodologies are available, but would not necessarily reflect a different outcome. Undeniably, a leap of faith will be required, at some level, if real change is to be achieved.

The use of incentives during stronger market conditions is generally offset by an increased rent within the lease. The motivation behind the tenant demanding an incentive and the landlord offering, would often differ, with each party placing a different worth or interpretation on the incentive (RICS 2006). Incentives are *primarily* used in weak market conditions as a means to encourage tenants to occupy space, as vacancy is one of the greatest landlord fears (particularly where property taxes are levied at high marginal rates on vacant stock, such as in the UK). In a market where incentives are widely used, tenants tend to have a greater negotiating power and are able to obtain more flexible leases (Pfrang and Wittig 2008). Incentives include rent free (or half rent) periods to reflect fit-out costs, time for the tenant to move into the premises, a later higher rent or as an encouragement to the tenant to accept other onerous terms (RICS 2006). Moreover, capital contributions or tenancy premiums (subsidy or a cash payment) can be used by the tenant to undertake internal fit-outs to suit the requirements of their business or for relocation costs (RICS 2006). This form of incentive is in some instances preferred by the landlord as an alternative to rent free, where after the initial payout the landlord is guaranteed to receive steady rental payments from an early date for their own cash flow requirements (RICS 2006).

With regards to the effective lease length for a tenant, this can be affected by the initial lease length and by opportunities to exit the lease mid term. Crosby et al (2005; 2006a) carried out extensive research into various exit mechanisms, suggesting that assignment and subletting may provide the most flexible options, as they generally can be triggered at any date with landlord permission. The authors also highlighted that landlords may have a number of legitimate reservations on allowing subletting and assignment. A landlord will often require that the new tenant in an assignment or subletting be of similar or higher financial standing as the current tenant, a significant restriction, particularly in a down market (Crosby et al 2006a). The authors found that the number of small businesses which fail during the first two years was relatively high and that therefore exit mechanisms, such as break clauses, ought to be high on their list of priorities (Crosby et al 2006b). Crosby et al (2006a) considered break clauses, assignments and subletting as the key exit mechanisms. In addition, Cooke and Woodhead (2008) also considered the possibility of surrendering a lease. Exit strategies included in a lease were a major concern for occupiers, especially as average length of leases exceeded the average occupation. The rights for assignment and subletting usually were not a major factor during lease negotiations, especially with smaller business tenants (Crosby et al 2006a). Nevertheless, their importance often became evident during the period of the lease, particularly where there was no reasonableness test included in the alienation clauses. In NI such a test is implied by law, unlike the rest of the UK.

Break clauses became popular in the UK during the 1990s recession and have been a long standing feature of many European property markets (McAllister 2000). Research by Crosby et al (2006a) contended that 73% of tenants who negotiated their leases considered break clauses. Break clauses are diverse in their financial implications, terms surrounding their operation and their effect on the security of income (McAllister and O'Roarty 1998; 1999; McAllister 2000). A break clause can vary depending on the precise drafting of the clause including: is time of the essence (in serving notice of intention to quit against a timetable), subject to notice, subject to a financial penalty, subject to complete compliance, frequency and beneficiary (McAllister and O'Roarty 1998; 1999; McAllister 2000). Several authors have pointed out that break clauses often are perceived to provide the tenant with more flexibility than they actually do. They range from fairly basic to extremely technical / near impossible to exercise (Crosby et al 2006a; Cooke and Woodhead 2008). A break clause can be hard to exercise if the clause within the lease has been poorly drafted, creating ambiguous conclusions which may or may not have been intentional by the landlord (McAllister and O'Roarty 1998; McAllister 2000). Break clauses are generally only operable at fixed points in the contract and therefore the flexibility they provide is somewhat restricted (Crosby et al 2006a). Mansfield and Robinson (2007) considered the strict compliance necessary to operate a break as being a skilful tactic by landlords to counteract the increased flexibility granted. Whilst this does tend to negate the point somewhat, McAllister (2000) and Baum (2003) suggest that the negotiation leverage of a break clause could *in reality* act as a proxy for a downward rent review, where the tenant could renegotiate the rent to the current market level before agreeing to not operate the break and allow the lease to continue. This could occur during a downturn in the market where the passing rent on the property was higher than the current market rent (McAllister and O'Roarty 1998; 1999).

Generally, investors strive for long leases or long unexpired terms, good locations and strong covenants, in order to provide adequate security of income (Harvard 2000). It is clear that landlords need to consider a significant reduction in lease length and, as Crosby et al (2003) pointed out; many tenants may be willing to pay more for their lease if it was customised to their occupational and business objectives. Lease lengths in the UK have been the subject of a number of studies, with literature mainly focusing on their changing nature, catalysed from the property crash of the 1990s (Crosby et al 2003; Baum 2003; Crosby et al 2006b). The recessionary market conditions experienced in the 1990s led to shortening of the standard lease and increased diversity in leases for all grades of property, although mostly recognised in institutional grade (McAllister 2000; Crosby et al 2003; Cooke and Woodhead 2008). Research by Crosby et al. (2001) found that 81% of respondents thought that their lease length was incompatible with their requirements for space. The problems faced with a long lease were exacerbated by restrictive alienation clauses. Further empirical analysis carried out by Crosby et al (2003) confirmed the shortening of leases, with 60 per cent of respondents stating that they would not consider a lease longer than 10 years with a further 30 per cent indicating that five years would be their maximum tenure. Pertinently, the research identified that 54 per cent of respondents considered lease length as the most problematic element of a lease. This must be considered in the context that England, Wales and Northern Ireland statute confers security of tenure on commercial tenants in most circumstances, strengthening the tenants hand with regards to their own security of tenure in a shortened lease scenario. That said, whilst the shortening trend is of long standing and has been exacerbated by the downturn, the most recent evidence from the IPD UK Lease Events Review (2015) reports that lease lengths have recovered to a 8 year high, as occupier confidence returns.

Crosby et al. (2001) found through their empirical research that office and retail occupiers had different opinions regarding lease terms and the overall flexibility. Research found that retail tenants had the longest average lease length in comparison to office and industrial sectors as well as the fewest break clauses (Baum 2003; Crosby et al 2005; 2006b). Their research also determined that small business tenants' leases were on a shorter term and that higher quality properties had longer lease lengths.

Baum (2003) considered the impact of long leases from a different perspective, suggesting that retailers may prefer a longer term for the security of their trading position and to obtain an adequate write-off period for substantial costs such as fit-out and to maximise their Internal Rate of Return (IRR). The analysis suggested that retail tenants in some circumstances considered the importance of a good trading position ranking before the flexibility of their lease. Crosby et al (2006a) pointed out that while the lease length may have been suitable to both parties initially, changes in the economy could result in a change of circumstances and the increase in importance of exit mechanisms. Both break clauses and short leases have similar results; reducing the effective length of leases (McAllister 2000). Baum (2003) found that many landlords considered a short term lease to be riskier than a short term break option, due to the more illiquid nature of short leases. Previous research investigating lease length in a number of UK cities by Hamilton et al. (2006) revealed that lease length varied by location and illustrated that the modern lease with break clauses and shorter lease terms portrayed the stronger bargaining position of the tenant (Hamilton et al., 2006).

The literature reveals the challenges within the commercial property sector, specifically the shifts in leasing. In times of economic downturn the existing literature establishes that tenants are able to press harder, negotiating more flexible leases in recognition of the over-supply in the market, whereby tenants have greater leverage in lease negotiations. Such weak market conditions can empower tenants to negotiate for incentives, reduced lease lengths and improved exit mechanisms. It is evident that there has been a transition in lease lengths which have witnessed a shortening trend for a number of decades, fuelled by intermittent recessionary conditions and greater risk awareness by tenants. A shift has occurred from the 25 year institutional lease, with research suggesting a more frequent lease term of 10 years and concessions on other clauses. The introduction of what can be described as modern contemporary commercial leases provide occupiers with more flexibility regarding their property interests to help ensure that their property obligations do not adversely affect businesses viability and performance.

III Methodology

The aims of the research are to establish whether leasing patterns have changed over the period in question, how they have changed in each study area and to investigate the permanency of any changes. The methodology comprises both quantitative and qualitative strands. The first strand encompasses a data analysis stage premised upon letting transactions and changing lease lengths within the Belfast, Birmingham and Manchester commercial market sector. These cities were chosen as case studies as they represent the key urban centre in their respective UK region. The analysis focuses on the term of leases in each city with reference to the retail and office sectors and the date of the deal completion. In order to measure the differences and changing patterns of lease structures across the property cycle, the analysis captures both the upturn (pre-recession) and downturn (post-recession) phases within the commercial property market. The pre-recession period covers transactions that occurred between January 2001 and December 2007, with the downturn period encompassing the period January 2008 to March 2012. As data sources pertaining to property deals can be limited, and at times only comprise partial information, both online databases and in-house surveyors' databases were exploited. The online database utilised for the study was Estates Gazette Interactive (EGi) as this is the most comprehensive database covering all three case study cities. The EGi database provides detailed building reports on property deals, availabilities, occupiers, ownership, planning, investment transactions, building information and history. The information is provided to EGi from the relevant agents involved ensuring that the information is accurately derived from the market.

In total, a sample of 6,017 transactions were collated for the three case study cities. In order to ensure consistency, reliability and validity between and across the three cities, and also between the two time periods investigated, a preordained set of criteria was identified to allow for meaningful and comparable analysis. The following criteria were employed:

- Transactions derived from city centre locations only
- Transactions during the period January 2001 to March 2012
- Open market lettings only: all assignments, sub lettings, licences and pre-lets were purged to reduce misleading lease lengths due to short run offs of existing longer leases
- Only leases with a term greater than two years (All leases with a term of less than two years were omitted to reduce reliability/bias error). Such short leases

> are potentially due to redevelopment schemes, business rate mitigation strategies and/or associated with lower quality property and weaker covenants. Many may also lie outside of statutory security of tenure.

The cleansing of the data, in accordance with the pre-specified criteria removed 3,912 observations equating to 65% of the original transactional data collated. A total sample of 2,105 deals was therefore employed in the analysis.

Strand two of the research methodology used an electronic questionnaire which targeted commercially focused surveyors based on expertise and experience (preferably of chartered accreditation status) working within the three test case cities. This online survey was employed to investigate and understand the characteristics and the evolving nature of the commercial property sector in the UK. Surveyors were targeted specifically as they are a key stakeholder grouping with a fundamental role in the negotiation of leases and serve as a proxy for landlord and tenant opinion. This part of the research enables the views, opinions and attitudes of active surveyors, agents and their landlord and tenant clients within the current commercial market to be collated and analysed.

The questionnaire design was concurrent with good practice as identified by Knight and Ruddock (2008), considering question types, attitude scales, wording and structure. The questionnaire was organised into two broad sections; background information and leasing information. The background information was gathered to obtain details on the respondent that may affect the results, such as their area of expertise and the level of experience in their local property market. The latter section contained the applied questions on the subject area through three main avenues, multiple choice, Likert scale and ranking. This section of the questionnaire survey addressed a number of key issues namely: Incentives and Key lease terms; Lease Negotiations and Lease Lengths.

A pilot questionnaire was distributed and optimised in line with established best practice (Knight and Ruddock, 2008). Overall, questionnaires were circulated to a total of 44 commercial property companies targeted across the three case study cities (19 in Manchester, 12 in Birmingham and 13 in Belfast). In total, 298 surveys were distributed to respondents to allow for a representative sample return. Respondents were given a four-week period in February 2012 to complete the survey (via Survey Monkey). A total of 95 surveys were returned between the three locations from which 67 were usable in the analysis. The response rate was 22.48% which whilst below expectation was sufficient to ensure market coverage and representation (**Figure 1**). The responses received are reflective of the relative size of the markets involved.

<<<Insert Figure 1 Composition of responses>>>

IV Results and Discussion

Examination of the time-series data over the period shows the Belfast market to have an average lease length of 10.2 yrs, the longest duration of the case study cities. This is most likely explained by the relatively high dependency on public sector clients with commensurately longer time horizons in there occupancy models. The results for Manchester show the average lease length over the period was 8.5 years with Birmingham 7.7 yrs respectively. Pertinently, the results do ~~infer~~ imply that what is considered as a traditional institutional lease (15-25 yrs) is no longer standard practice. This is confirmed by the standard deviation statistics which reflect the presence of shorter leases (by volume) and a dense clustering ranging from 3.94yrs in Birmingham, to 5.13yrs in Manchester. Overall, frequency analysis of the lease lengths at the all property level exhibits the most frequently occurring lease length to be 10 years, followed by 5 years, 3 years and then 15 years.

In terms of the impact of the market cycle, comparison of pre and post recessionary lease lengths presents credible evidence of a fundamental shift in the profile of length tenure. The analysis does however demonstrate that those lease lengths in the medium range of 10 years have remained consistent between both time periods. These figures reflect a consistent pattern in each location of long leases significantly decreasing and short leases increasing. Shifts in lease lengths are only evident at the two extreme ends of the spectrum. The analysis provides strong evidence of the movement towards the shorter lease with terms of ten years and below – a sharp contrast from the landlord expectation.

Sectoral disaggregation highlights the difference in the movement of lease tenures over the market cycle. As illustrated in **Table 1,** the mean lease length for Belfast Offices is highest in both the pre and post-recession contexts. The findings show all cities exhibit a decrease in the mean lease length in the recessionary period. Retail occupiers appear to take longer leases pre-recession in comparison to office occupiers. The longest lease length pre-recession is observed in Manchester and lowest in Birmingham. Post-recession, Manchester remains with the longest retail lease length with Birmingham and Belfast switching places. This further indicates the reliance of Belfast on public sector office lettings, as the fully private sector retail market leases are notably shorter and have reacted worst to the ~~adverse~~adverse economic conditions. Overall, the retail sector has significantly longer means in both economic contexts. Office mean lease lengths are sub 10 years both pre and post-recession, whereas retail mean lengths are nearer to and above 10 years. The results over the time period depicted in Figure 2 generally indicate both the continuation of a shortening trend but also marked shortening around the GFC across several of the market sectors in the comparative cities, notably the ~~.~~Belfast and Birmingham Office sector and the Belfast Retail sector. Both Manchester sectors and Birmingham retail exhibit a more long term trend structure.

<<<Insert Table 1 Lease length analysis of the office and Retail sectors>>>
<<<Insert Figure 2 Average Lease length by market sector >>>

The most frequent lease lengths in the pre-recession retail sector is jointly 10 years and 15 years, followed by 5 years. Post-recession the pattern is similar however the diversity of lease lengths is somewhat subdued with the frequencies being more compact. The most frequent lease lengths pre-recession within the office market are 10 years, followed by 5 years and 3 years. In the post-recession data similarly to the retail sample, the data is more compact. The frequency analysis illustrates that downward trends are clearly evident in both the retail and office market sectors over the pre and post-recession contexts. The shift is most pronounced in the retail sector with the sizeable decrease in lease tenures over 15 years whilst in the office sector the shift is seen in the increase in shorter leases as longer leases in the office sector was infrequent in both contexts. The retail sector pre-recession can be seen to have the longest leases over the office sector. Only 16.1% of office tenants took a lease longer than 10 years, whilst on the other hand 50% of retail tenants took a lease for longer than 10 years. At the other end of the scale, 43.3% of office tenants took a lease for 5 years or less pre-recession and only 17.4% of retail tenants took a lease for 5 years or less. It is clearly evident that retail tenants are keener to contract longer leases whilst office tenants favour shorter terms pre-recession. Of office tenants 55.9% have taken a lease for 5 years or less in contrast with 25.7% in the retail sector and 5.4% of office tenants have taken a lease longer than 10 years in comparison with 23% within the retail sector. In this post-recession data, the most frequent office lease length is 5 years at 33% whereas within the retail sector 10 years is the most common at 44.6%.

Questionnaire Analysis

As a measure of the extent to which various factors have impacted on lease negotiations, respondents were asked to rank a series of variables on a Likert scale of 1 representing ‘strongly agree’ to 5 representing ‘strongly disagree’. **Table 2** demonstrates that in the context of lease negotiations, 95.6% of respondents ‘strongly agreed’ or ‘agreed’ that volatility in the market impacts on lease negotiations, indicating that uncertainty is the most significant factor, a finding equivalent across all the locations analysed (**Table 3**). Respondents also strongly agreed that having cheaper space available and property cycles have a significant impact on lease negotiations, again similar across the three city markets, indicating the likelihood of a strong relationship between market conditions and lease negotiations. At a secondary level, changes in business activity, tenant downsizing and government policy hold strong links with lease negotiations with many respondents agreeing that these fundamentally impact on lease negotiations. Wider macro-economic considerations, namely interest rates and inflation were considered by the respondents to have had the least impact on lease negotiations. Inflation, interest rates and Government policy all have the highest mean in Birmingham at followed by Manchester and then Belfast.

<<<Insert Table 2 Economical factors affecting lease negotiations>>>

<<<Insert Table 3 Economical factors affecting lease negotiations – city level>>>

With regards to tenant advantage during lease negotiation in the current post recessionary milieu, respondents were virtually unanimous in their opinion, with 97% selecting ‘yes’. Respondents were subsequently asked to consider the key players in the commercial property market in terms of risk aversion between office and retail tenants and landlords. At city level, Birmingham was observed to have the lowest mean scores in comparison with the Manchester and Belfast. Nonetheless, the findings infer that surveyors have a more neutral opinion that there is little risk differential between retail and office key players. The results imply that surveyors believe that ‘smaller’ tenants were often disadvantaged by lease contracts.

<<<Insert Table 4 Surveyor opinion of key players>>

<<<Insert Table 5 Surveyor opinion of key players – city level>>>

As a measure of the extent to which various incentives are used within the office and retail sectors, respondents were asked to rank a number of incentives in order of their popularity within the specific market. As evidenced in **Table 6**, within both the retail and office sectors rent free can be seen to be the most significant incentive used with 76.2% of respondents ranking it as the most popular in the retail sector and 81.8% within the office sector. This is indicative of the key position that rent free periods have within both property markets. Break clauses are the next highest ranked incentive in both market sectors with 58.7% of retail respondents ranking the top two most popular. In the office sector 57.6% of respondents ranked break clauses highest. Lease concessions and fitting out have a diverse range of rankings with the highest responses being middle range suggesting that these types of incentives are utilised within the market place but are not of the same importance as rent free periods and break clauses nor are they as unpopular as gifts.

<<<Insert Table 6 Incentives used in office and retail markets>>>

To try and gauge the key drivers behind the use of incentives, respondents were asked how important the following reasons are for the use of incentives. The respondents were asked to score each reason on the sale of '1' representing very important to '5' representing very unimportant. To attract a tenant to lease vacant space was identified as being the most important driver behind the use of incentives with a surveyor response of 94% selecting either 'very important' or 'important'. This portrays a strong relationship, with an almost unified response indicating incentives are first and foremost used to attract tenants to occupy available space with a mean of 1.34 and also the lowest standard deviation at 0.641. At the city level a mean of 1.17 in Belfast, 1.56 in Birmingham and 1.37 in Manchester is seen in Table 7.

The second reason for consideration was that incentives may be used to encourage tenants to take a longer lease. This statement also received a high response between the 'very important' and 'important' options totalling 88.0%. The mean is also the second lowest. At the city level Birmingham and Manchester have considerably higher means in than in Belfast. To encourage tenants to agree at a higher rent was the third ranked statement with a total of 74.3% of respondents selecting the 'very important' or 'important' option. A relatively high proportion of respondents selected the 'neutral' option (20.9%) suggesting that incentives may cause a higher rent to be agreed, but this was not necessarily their primary reason for being used. Lastly to encourage tenants to accept onerous terms within the lease has received a more diverse response range and also has the highest mean. The highest response was seen for the option 'neutral' at 32.8% followed by 'unimportant' at 29.9% of respondents. This indicates that respondents believe that incentives are primarily used as a way to achieve lettings in difficult trading conditions, rather than for landlords to obtain onerous lease terms.

<<<Insert Table 7 Reasons for the use of incentives>>>

<<<Insert Table 8 Reasons for the use of incentives – city level>>>

Respondents were asked if they thought that incentives would leave the market place when the economy and property market started to recover. The respondents were given four multiple choice options; yes completely, yes partly, no or unsure. Figure 3 demonstrates the responses from the questionnaire survey on a city level. As can be seen, no respondent selected the 'yes completely' option suggesting a broad perception that incentives are not a temporary phenomenon and will remain in the market. A considerable response for 'yes partly' was observed across all three cities highlighting the likelihood that the range and worth of incentives may reduce but that they fundamentally will always be active in the market. However in Belfast, a significant result was seen in the 'no' option demonstrating a strong belief by surveyors in the Belfast market that they do not consider that incentives will reduce in the market when it recovers especially in comparison to Birmingham and Manchester.

<<<Insert Figure 3 Will incentives leave the market when the market recovers?>>>

The respondents were asked as a continuation question to select after which time period they imagined that incentives would start to reduce in the market place. As can be seen from Figure 4 no respondents selected any less than 6-12 months.

<<<Insert Figure 4 How long until incentives reduce in the market? Will tenants always demand break clauses in their leases in the future?>>>

Respondents were asked whether they considered tenants to always demand break clauses in their leases since the recession and their increased awareness in letting risk and lease lengths. An almost universal response was seen for ‘yes’ suggesting that tenants after becoming aware of the advantages of break clauses would be keen to keep such an incentive within their lease. An extremely small percentage in each city selected the ‘unsure’ and ‘no’ options (Figure 5). Concerning rent free periods, respondents were asked to indicate what length of rent free would be expected in a 5 year office and retail lease. Figure 5 displays the results at a city level for the rent free expected in a 5 year office lease. Within Belfast, 3-6 months is the most common, followed by 6-12 months and with a small minority selecting 12-18 months. The most popular response for Birmingham was 12-18 months followed by 18-24 months. The most popular length indicated by surveyors in Manchester was for a period of 6-12 months followed by 12 -18 months and 18-24 months.

Considering the rent free period offered for a 5 year retail lease (Figure 5), the responses can be seen to differ from that of the office sector. Firstly, Belfast is observed to have a larger range of rent free periods. The most popular length is 6-12 months followed by 3-6 months in Belfast and Manchester and 12-18 months In Birmingham.

<<<Insert Figure 5 Length of rent free expected in a 5 year office and retail lease>>>

Respondents were asked to consider five lease terms specifically from the view point of three key players namely; small sized tenant, large sized tenant and landlord, through indicating which terms each player would insist on having in their lease. The five pre-determined terms are namely; break clauses, assignment / subletting rights, rent free periods, rent reviews and FRI term. From Figure 6 it can be observed that a small sized tenant and a large sized tenant generally seek the same terms from a lease, whilst it appears that the landlord prefers the opposite terms. In terms of the tenants, a break clause, rent free periods and the rights for assignment or subletting have large responses compared to FRI terms and rent reviews which have fairly insignificant responses. On the other hand, FRI term and rent reviews are the two most popular for landlords with significant responses.

<<<Insert Figure 6 Key players lease terms>>>

Respondents were asked to scale a series of eight pre determined market changes in regards to whether they were solely caused by the market conditions using the Likert scale. In Table 9, ranked most often by respondents as ‘strongly agree’ was increasing the range and worth of incentives. At a secondary level ranked most often as ‘agree’ was decreasing the average lease length, increasing the complexity of lease negotiations, increasing the turnaround time of lease negotiations, increasing the number of break clauses exercised, increasing break clauses used for lease renegotiations and lessee downsizing. Onerous repairing and insuring obligations show the majority of respondents selecting 'neutral' followed by 'disagree'. Onerous repairing and insuring obligations also has the largest mean followed by lessee downsizing, increasing the turnaround time of lease negotiations and increasing the complexity of lease negotiations. The remainder of the means are all lower, indicating a stronger agreement that those changes were influenced solely by the market conditions.

Table 10 displays the same question in terms of city level. Most of the factors have similar means across the three cities showing an element of uniformity between the opinions of surveyors across the three cities. Onerous repairing and insuring obligations also has the largest mean across all three cities and increasing the range and worth of incentives has the lowest means across the board. Belfast appears to have the lowest means in most instances.

<<<Insert Table 9 Market led changes>>>

<<<Insert Table 10 Market led changes – city level>>>

The respondents were asked to indicate what length of lease would be the preferred length in the current market conditions within both the office and retail sector from five multiple choice options; 3 years, 5 years, 7 years, 10 years and 15 years. In the office sector analysis in Figure 7, 5 years is observed to be the most frequently selected lease length by a considerable degree in all three cities. The second most frequently selected term was 3 years in Belfast and Birmingham, but 10 years in Manchester. Belfast appears to have similar results to the office sector with the two most frequent lease lengths being 5 years followed by 3 years with a small minority selecting 7 years. However Birmingham retail has a more diverse range of results to that of the office sector with some respondents selecting '7 year' and '10 year' leases suggesting longer retail leases in Birmingham than office leases. The most frequent length in Birmingham remains '5 years' the same as in the office sector. In Manchester the same leases remain the most frequent from office and retail (5 year and 10 year leases).

<<<Insert Figure 7 Lease length in the office and retail sectors>>>

Regarding the downward shift in leases caused by the recessionary conditions, 47% of respondents do not think that lease lengths will increase after the market picks up compared to 32% considering that they will increase. Figure 8 demonstrates that surveyors in Belfast and Manchester consider that lease lengths will not increase whilst surveyors in Birmingham show an indefinite answer.

<<<Insert Figure 8 Will lease lengths increase when the market recovers?>>>

The findings from these two complementary research strands clearly support one another with similar conclusions being derived from each. A clear shift in lease lengths was seen from the desktop data analysis between pre and post-recession with shorter leases becoming more frequent and longer leases becoming less frequent. Pre-recession 22.9% of leases were for more than 10 years compared to only 8% post-recession, 38% of leases pre-recession were for 5 years or more compared to 51.4% post-recession. The questionnaire analysis supports this thread with 80.8% of respondents either 'strongly agree' or 'agree' that the decrease in lease lengths was led by the downturn in the market.

Retail leases were found to be the longest in the desktop data analysis with the most frequent length in each city being 10 years post-recession. This is likely to be related to the higher initial fit out expenditure incurred by retailers. From the questionnaire survey analysis, surveyors indicated that the most frequent retail length was 5 years in each city (Figure 7~~5.13~~) which disagrees with the data analysis. The most frequent office lease was 5 years post-recession in each city, where surveyor's most frequently selected 5 years across all three cities. Respondents in the questionnaire survey highlighted that lease negotiations have been affected by the downturn in the economy with 67.2% agreeing that volatility in the market place has affected lease negotiations as well as property cycles and the availability of cheaper space. However surveyors considered interest rates, inflation and government policy to hold little bearing over lease negotiations.

Rent free and break clauses were found to be the most popular incentives used within each office and retail. Gifts were ranked as the least popular in both the retail and office markets. The respondents held a fairly universal agreement that incentives are used to attract a tenant to a vacant space, encourage a tenant to take a longer lease and to agree at a higher rent. The vast majority of respondents considered that the the increase in the range and worth of incentives in the market place was a direct result of the downturn. The mismatch in the landlord and tenant relationship is demonstrated where the terms the landlord most insists on are FRI and rent reviews, whereas respondents ranked these of lower importance for the tenant, placing more weight on terms such as alienation clauses.

Conclusions

The principal aim of this research was to analyse the changing nature of commercial leases across three typical UK cities, with specific reference to the landlord and tenant relationship. This has involved analysis of lease lengths and incentivisation. The empirical research has sought to clarify the importance of specific incentives across retail and office markets. The findings complement other studies, illustrating that leases *have* increased in flexibility, as weak market conditions has allowed tenants to negotiate for incentives, reduced lease lengths and exit mechanisms. Although the research illustrates that such incentives can be observed in all market conditions, their frequency and worth is heightened in weaker conditions, where they are used as inducements to achieve tenancy agreements. A key finding from the survey analysis established that rent free periods were the most common incentive in both the retail and office markets, with break clauses ranked second most popular respectively. Despite the increased use of incentives due to economic conditions, no respondent believed that incentives will leave the market completely as markets recover.

The analysis illustrated that tenants will continue to demand break clauses in their leases due to a greater awareness of leasing risk, not least due to the requirement to record the net present value of lease payments in company accounts. Across the case study locales, break clauses have increased in frequency as a consequence of the latest property market downturn, which has also increased the range and worth of incentives available. However, the analysis of the time series data illustrated that the most frequent lease across the three cities was for a period of 10 years, a finding that supports in the research conducted by Crosby et al. (2003). Whilst the results illustrate that the shift towards leases of much shorter duration has been increasing in the post-recessionary setting, the popularity of the ten year lease has nevertheless remained relatively constant.

The findings suggest that commercial lease structures/patterns *have* changed due to the recent recessionary conditions. Importantly, the survey analysis suggested that lease lengths will remain stagnant in the current market recovery period, and that incentives will remain a key feature of the space market for a considerable period of time to come. The research has demonstrated that the widespread and deep recessionary conditions created an environment in the market place which both required and empowered tenants to exploit their stronger bargaining position, to negotiate for shorter leases, alienation clauses and incentives. This is likely to have been exacerbated by the somewhat 'gladiatorial' nature of the atmosphere surrounding agency activity, which can extend far beyond the basic requirements of the clients themselves to achieve fair value. This has changed the landscape for the landlord and tenant relationship, with landlords likely to continue to make concessions in order to achieve lettings. The recent recessionary conditions felt in the UK have, at the very least, consolidated the emerging trend for shorter commercial lease lengths and have heralded in a wider range and worth of incentives - with significant market opinion supporting the view that such changes *may not* undo themselves once the property cycle moves into the next phase. This suggests that a new landlord and tenant equilibrium position may be being established, further away from the traditional institutional lease. This is likely to have significant implications regarding investor appetite for and pricing of commercial real estate. Such a change could have long term repercussions for the quantity and quality of prime stock produced by the development community. It could also result in reappraisal of current and future investor portfolio composition. Such changes would require the industry to examine well established assumptions regarding appropriate approaches to property development, valuation and investment appraisal. As the economy improves it may also herald in unprecedented pricing pressures, as landlords seek to balance their position. Without the ability to strengthen the covenant prevent yield dilution landlords will inevitably seek to raise rents. Whether landlords will be able to achieve higher average rents, given wider economic pressure on real estate based business models, remains to be seen. There is at least the hope that a new letting paradigm can be established which properly reflects the realities of the modern economy and which supports the flexibility that tenants need, to plan and run their businesses, alongside providing the landlord with a risk return profile that continues to underpin high asset values and strong investor appetite.

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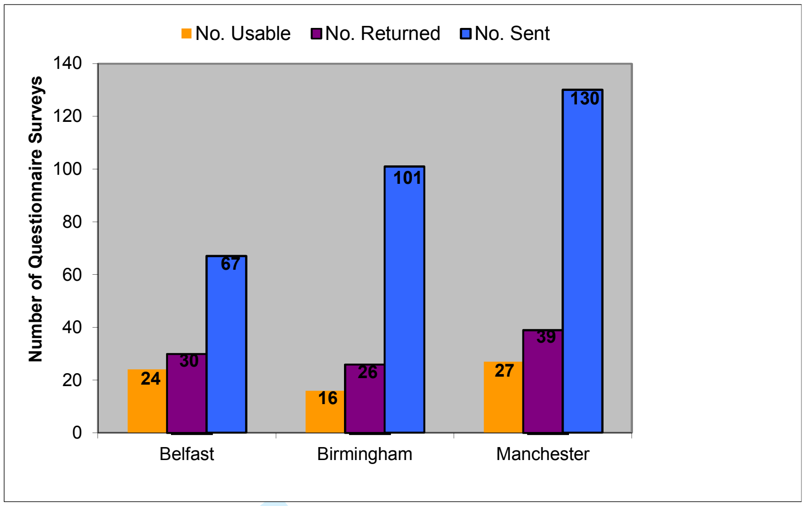
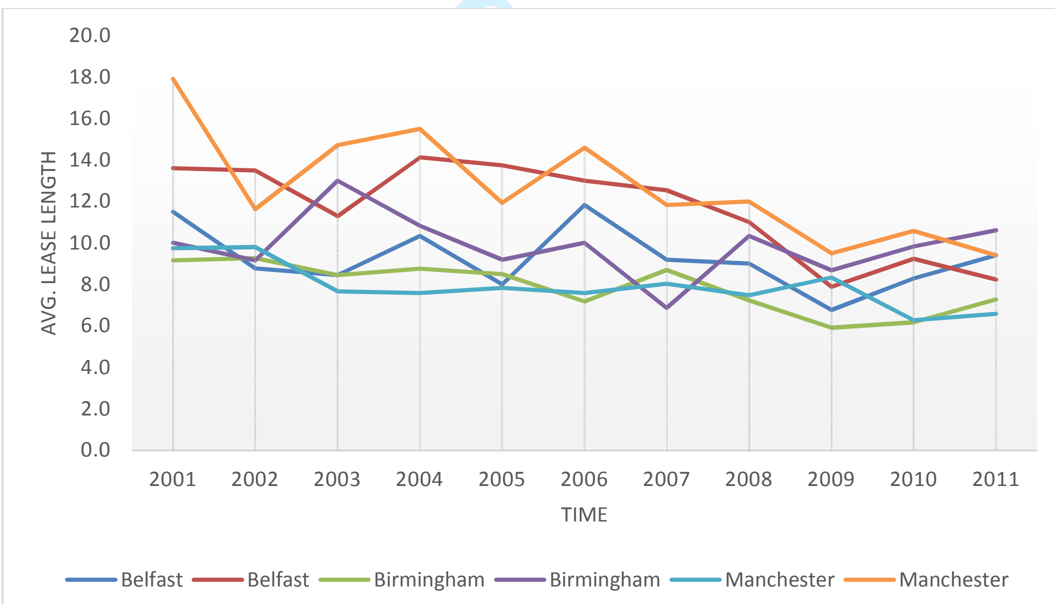
Figures and Tables

<<<Insert Figure 1 Composition of responses>>>



<<<Insert Figure 2 Average Lease length by market sector >>>



<<<Insert Figure 3 Will incentives leave the market when the market recovers?>>>

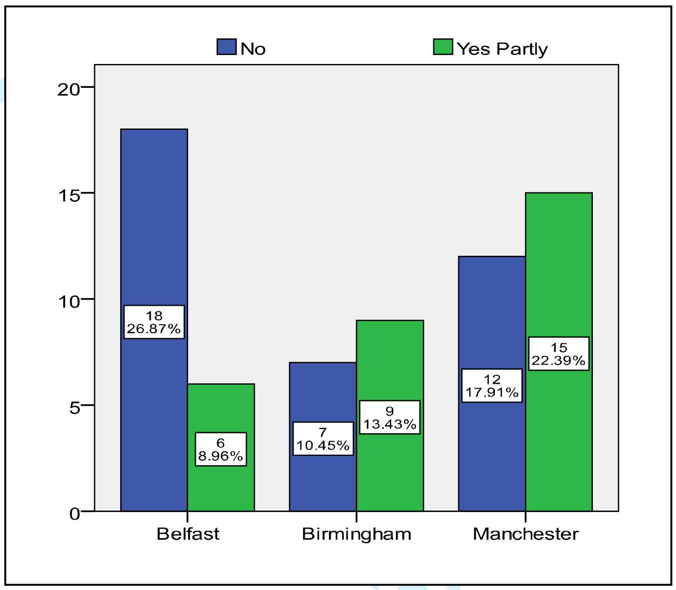
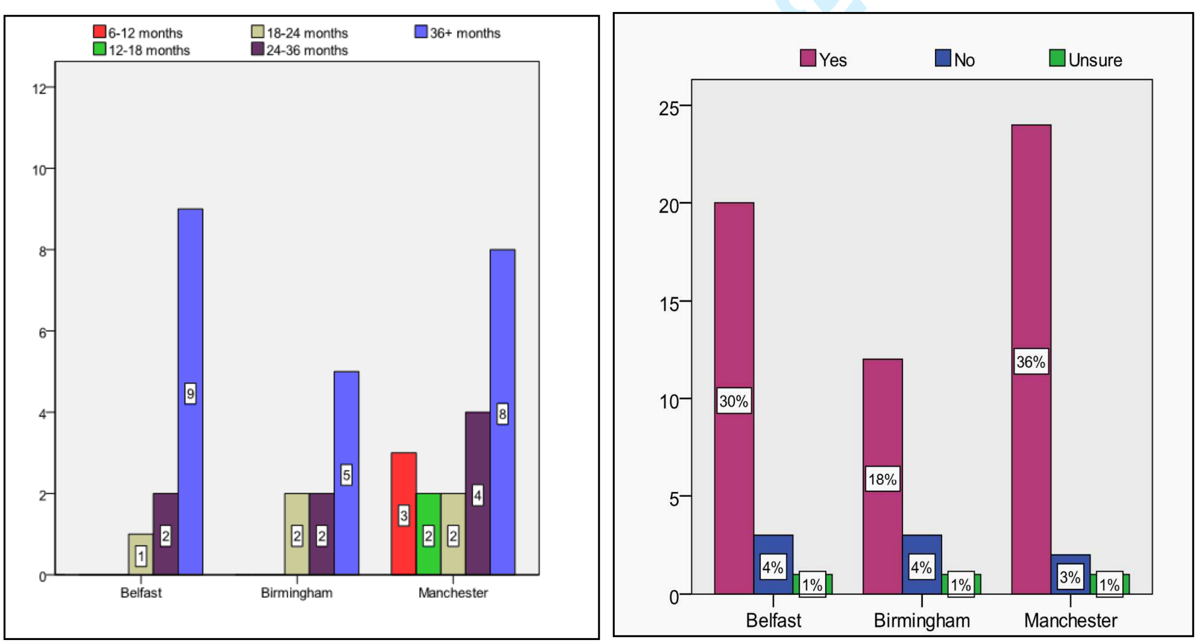
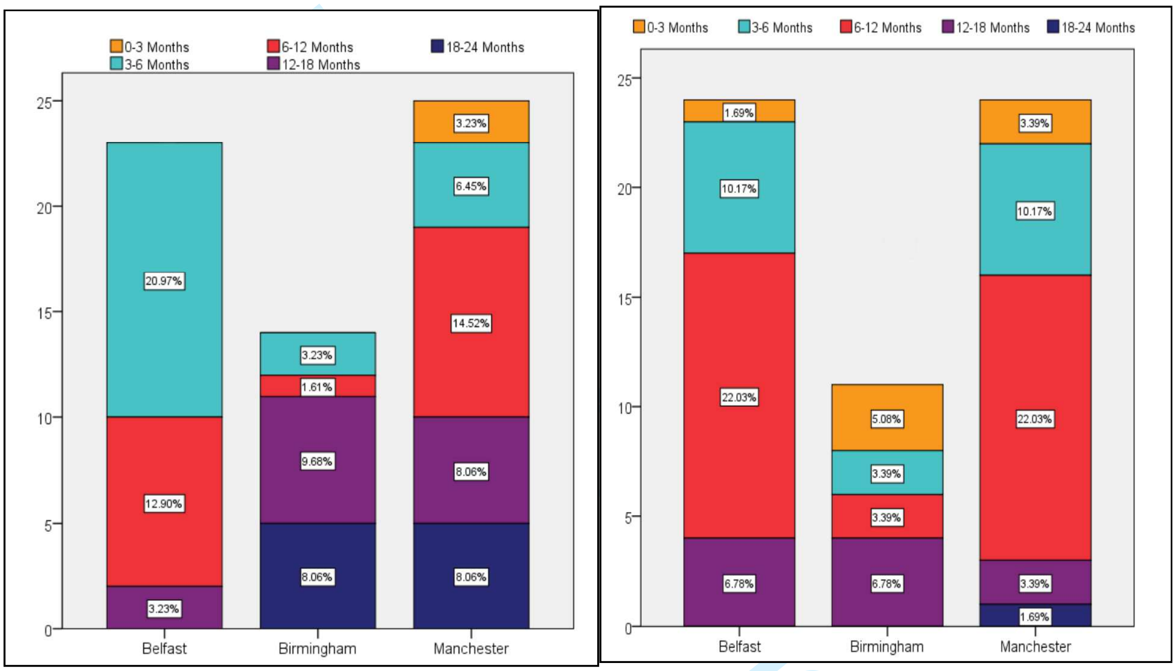


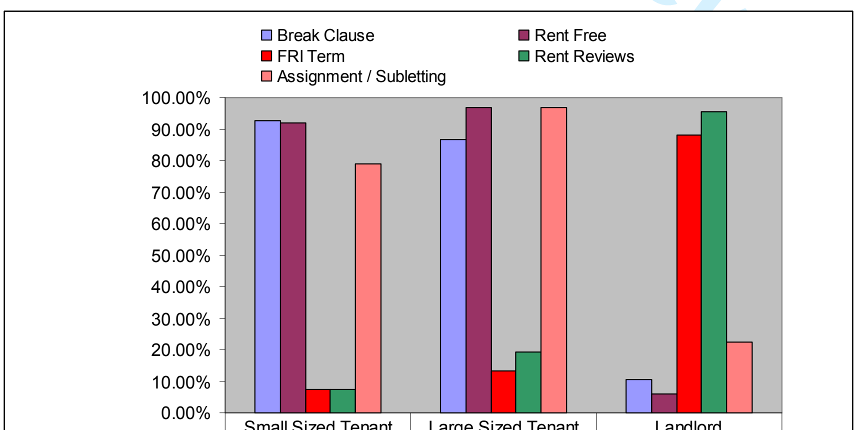
Figure 4 How long until incentives reduce in the market? Will tenants always demand break clauses in their leases in the future?



<<<Insert Figure 5 Length of rent free expected in a 5 year office and retail lease>>>

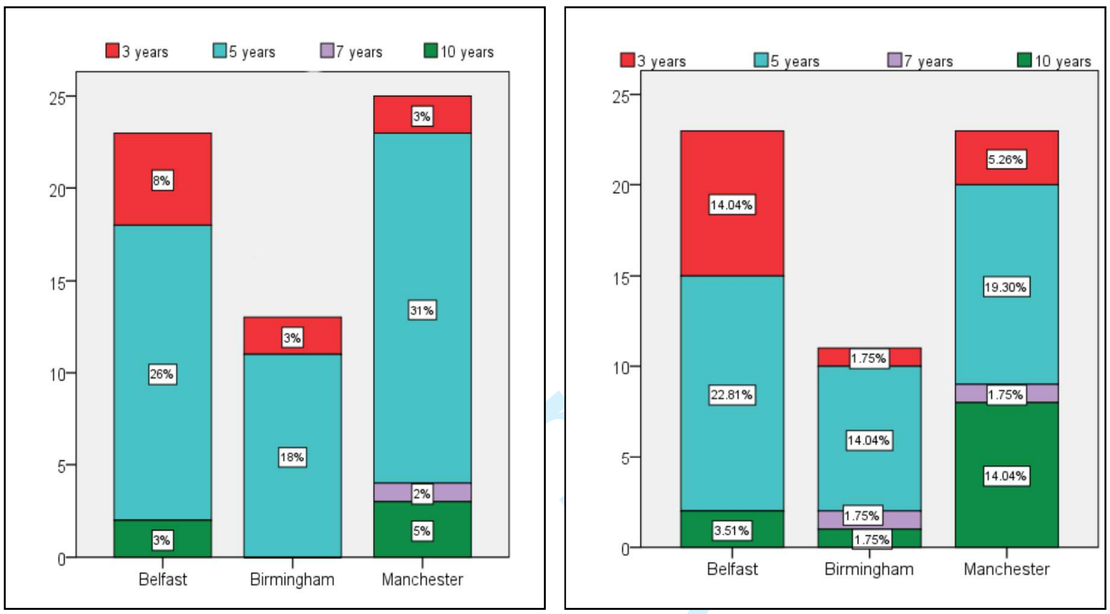


<<<Insert Figure 6 Key players lease terms>>>

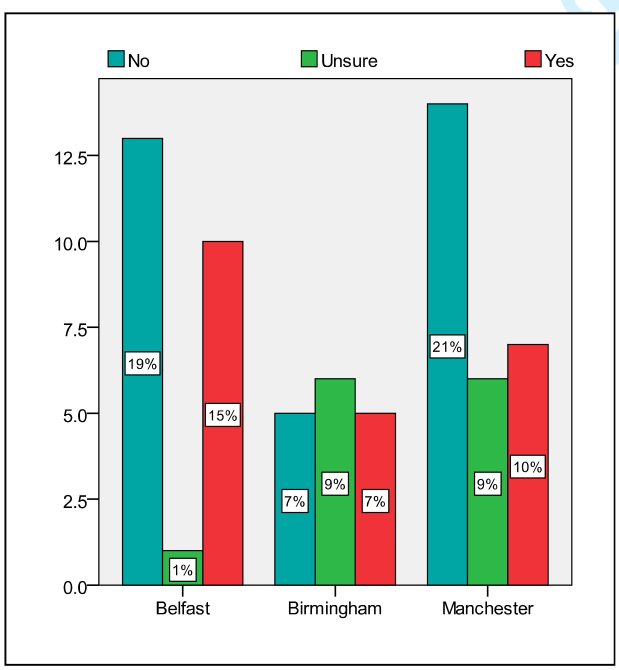


	Small Sized Tenant	Large Sized Tenant	Landlord
Break Clause	92.50%	86.60%	10.40%
Rent Free	92%	97%	6%
FRI Term	7.50%	13.40%	88.10%
Rent Reviews	7.50%	19.40%	95.50%
Assignment / Subletting	79.10%	97%	22.40%

<<<Insert Figure 7 Lease length in the office and retail sectors>>>



<<<Insert Figure 8 Will lease lengths increase when the market recovers?>>>



<<<Insert Table 1 Lease length analysis of the office and Retail sectors>>>

Office	Belfast Pre (n=89)	Birmingham Pre (n=331)	Manchester Pre (n=468)	Belfast Post (n=57)	Birmingham Post (n=467)	Manchester Post (n=326)
Mean	9.74	8.47	8.09	8.17	6.70	6.96
Median	10.00	10.00	6.00	9.00	5.00	5.00
Minimum	3.00	2.50	3.00	3.00	2.50	3.00
Maximum	25.00	30.00	35.00	20.00	15.00	20.00
Range	22.00	27.50	32.00	17.00	12.50	17.00
Std Dev.	4.31	4.28	4.76	3.98	3.15	3.41
Retail	**Belfast Pre (n=73)**	**Birmingham Pre (n=47)**	**Manchester Pre (n=99)**	**Belfast Post (n=46)**	**Birmingham Post (n=44)**	**Manchester Post (n=58)**
Mean	12.97	9.70	14.49	8.95	9.75	10.43
Median	15.00	10.00	15.00	10.00	10.00	10.00
Min	3.00	3.00	3.00	3.00	3.00	3.00
Max	25.00	25.00	35.00	18.00	25.00	25.00
Range	22.00	22.00	32.00	15.00	22.00	22.00
Std Dev.	5.30	4.63	7.13	4.37	5.11	4.44

<<<Insert Table 2 Economical factors affecting lease negotiations>>>

Importance Weighting % (1 = Strongly Agree, 5 = Strong Disagree)	1	2	3	4	5	Mean	SD
Prop Market Volatility	67.20	28.40	4.50			1.37	0.57
Inflation	1.50	31.80	51.50	21.10	3.00	2.83	0.78
Interest Rates	0.00	34.80	48.50	16.70	0.00	2.82	0.70
Property Cycles	23.90	50.70	22.40	3.00	0.00	2.04	0.77
Government Policy	4.50	42.40	43.90	9.10	0.00	2.58	0.73
Downsizing	18.20	42.40	34.80	4.50	0.00	2.26	0.81

Changes in Business	17.90	55.20	26.90	0.00	0.00	2.09	0.67
Cheaper Space Avail.	41.80	44.80	11.90	1.50	0.00	1.73	0.73

<<<Insert Table 3 Economical factors affecting lease negotiations – city level>>>

	Belfast		Birmingham		Manchester	
	Mean	SD	Mean	SD	Mean	SD
Prop Market Volatility	1.130	0.34	1.690	0.79	1.410	0.50
Inflation	2.740	0.62	2.940	0.93	2.850	0.82
Interest Rates	2.710	0.69	2.940	0.68	2.850	0.73
Property Cycles	2.000	0.72	2.130	1.03	2.040	0.65
Government Policy	2.420	0.65	2.810	0.66	2.580	0.81
Downsizing	2.250	0.90	2.310	0.79	2.230	0.77
Changes in Business	1.920	0.65	2.250	0.68	2.150	0.66
Cheaper Space Avail.	1.420	0.65	1.750	0.68	2.000	0.73

<<<Insert Table 4 Surveyor opinion of key players>>

Importance Weighting %							
(1 = Strongly Agree, 5 = Strong Disagree)							
	1	2	3	4	5	Mean	SD
Office tenants are more risk averse that retail tenants	3.00	16.40	46.30	32.80	0.50	3.13	0.81
Office landlords are more risk averse than retail landlords	1.50	17.90	47.80	31.30	1.50	3.13	0.77
Small tenants are often disadvantaged by lease contracts	3.00	43.30	26.90	23.90	3.00	2.81	0.94

<<<Insert Table 5 Surveyor opinion of key players – city level>>>

	Belfast		Birmingham		Manchester	
	Mean	SD	Mean	SD	Mean	SD

Office tenants are more risk adverse that retail tenants	3.29	0.91	3.00	0.73	3.07	0.78
Office landlords are more risk adverse than retail landlords	3.13	0.85	3.00	0.83	3.22	0.70
Small tenants are often disadvantaged by lease contracts	3.08	1.14	2.50	0.89	2.74	0.71

<<<Insert Table 6 Incentives used in office and retail markets>>>

Importance Weighting %														
(1 = Most Important, 7 = Least Important)														
	Rank 1		Rank 2		Rank 3		Rank 4		Rank 5		Rank 6		Rank 7	
	Ret	Off	Ret	Off	Ret	Off	Ret	Off	Ret	Off	Ret	Off	Ret	Off
Rent Free Period	76%	82%	8%	12%	10%	3%	2%	-	2%	-	2%	2%	2%	2%
Break Clause	22%	17%	37%	41%	19%	21%	14%	14%	5%	5%	-	2%	3%	2%
Step Rent	6%	2%	27%	18%	23%	38%	16%	21%	13%	8%	14%	9%	2%	5%
Capital Cont.	8%	3%	18%	9%	16%	21%	24%	23%	16%	20%	14%	18%	5%	6%
Gifts	2%	3%	3%	-	2%	-	-	-	6%	8%	5%	9%	84%	80%
Lease Concessions	5%	5%	11%	12%	16%	17%	16%	14%	30%	30%	19%	18%	3%	5%
Fitting out	8%	8%	11%	3%	14%	17%	22%	24%	14%	20%	22%	24%	8%	5%

<<<Insert Table 7 Reasons for the use of incentives>>>

Importance Weighting %

(1 = Strongly Agree, 5 = Strong Disagree)

	1	**2**	**3**	**4**	**5**	**Mean**	**SD**
Attract lease vacant space	73.1%	20.9%	4.5%	1.5%		1.34	0.64
Encourage longer lease	34.3%	53.7%	10.4%	1.5%		1.79	0.69
Encourage higher rent	23.9%	50.7%	20.9%	4.5%		2.06	0.80
Encourage onerous terms	11.9%	17.9%	32.8%	29.9%	7.5%	3.03	1.13

<<<Insert Table 8 Reasons for the use of incentives – city level>>>

	Belfast	**Birmingham**	**Manchester**

	Mean	SD	Mean	SD	Mean	SD
Attract lease vacant space	1.17	0.38	1.56	0.89	1.37	0.63
Encourage longer lease	1.54	0.59	2.06	0.68	1.85	0.72
Encourage higher rent	1.75	0.68	2.38	0.89	2.15	0.77
Encourage onerous terms	2.83	1.34	3.25	0.93	3.07	1.04

<<<Insert Table 9 Market led changes>>>

Importance Weighting %

(1 = Strongly Agree, 5 = Strong Disagree)

	1	**2**	**3**	**4**	**5**	**Mean**	**SD**
Decreasing avg lease length	31.3	49.5	14.9	4.5		1.930	0.80
Increasing complexity of lease negotiations	27.3	33.3	22.7	16.7		2.290	1.04
Increasing time of lease negotiations	25.4	32.8	17.9	23.9		2.400	1.11
Increasing break clauses being exercised	31.3	64.2	4.5			1.730	0.54
Break clauses for lease renegotiations	44.8	50.7	1.5	3.0		1.630	0.67
Increasing range & worth of incentives	52.2	44.8	3.0			1.510	0.56
Onerous repairing and insuring obligations	4.50	11.9	44.8	34.3	4.5	3.220	0.89
Lessee downsizing	13.6	47.0	25.8	12.1	1.5	2.410	0.92

<<<Insert Table 10 Market led changes – city level>>>

	Belfast		**Birmingham**		**Manchester**	
	Mean	**SD**	**Mean**	**SD**	**Mean**	**SD**
Decreasing avg lease length	1.63	0.71	2.19	0.91	2.04	0.76
Increasing complexity of lease negotiations	2.00	1.18	2.73	1.03	2.3	0.87
Increasing time of lease negotiations	2.25	1.18	2.69	1.19	2.37	1.01
Increasing break clauses being exercised	1.54	0.58	1.69	0.47	1.93	0.47
Break clauses for lease renegotiations	1.33	0.48	1.75	0.85	1.81	0.62

Increasing range & worth of incentives	1.21	0.41	1.53	0.51	1.78	0.58
Onerous repairing and insuring obligations	3.29	1.08	3.31	0.70	3.11	0.81
Lessee downsizing	2.21	0.93	2.73	0.96	2.41	0.89