An MSCI Brand

IPD Lease Events Report

2013

Sponsor introduction and commentary

The British Property Federation has for some years commissioned IPD to produce an Annual Lease Review, which provides an insight into new lease terms. Similarly, Strutt and Parker has commissioned a résumé of what was happening with existing leases, the Annual Lease Events Report. We thought, however, wouldn't it be good if the industry was able to access the full picture in one report, and to see the whole lease story, both for existing leases and new ones?

Inevitably, it has involved some changes and additional work, including a later publication date for the Annual Lease Review part of the results, but we hope you agree the end objective is worthwhile in bringing both reports together.

As always there are some interesting trends and sub plots in the report results. New lease terms and what is happening to existing leases are a very good reflection of the underlying economy and offer hints of a transition to better times, but also the overhang of the recession. A good indication of the latter is the lower rent being charged on 56% of new lettings with only 22% able to charge a higher rent and similarly 22% of rents staying the same.

A north-south divide is also very noticeable, with 64% of new lettings in the retail sector in the South East able to command higher rents, but 100% of retail rents in the rest of the UK lower than they were. Tenants in default also continue to rise, with 6.2% in liquidation or receivership, a timely reminder of the impact of tenant insolvency on the property sector.

The structural shift towards shorter leases continues. More than 80% of new leases granted in 2012 were 1-5 years in length. The sheer number of short leases means that the average lease length (excluding breaks) has fallen to under 6 years for the first time, standing at 5.8 years. The distribution of lease lengths shows how rare leases over 10 years have become in recent years. Less than 6% of leases are over 10 years in length now compared to twice that only 5 years ago and more than 20% 10 years ago.

Rent-free periods have also continued to rise to an average length of 9.5 months, and 12.2 months in the office sector. There are differences between the sectors though, with rent-free periods being offered commonly on relatively short leases in the retail sector to get space occupied, whereas in the office sector they are used more as an incentive on longer leases.

There are tentative signs that the full impact of the recession may be starting to ease with lease lengths in the retail sector ticking up slightly.

We hope you enjoy this new format for the results and your feedback is always welcome.

Ian Fletcher

BPF 50 1963 - 2013

Andy Martin

STRUTT & PARKER

IPD introduction

Lease expiries, break clauses, vacancies and defaults are all risks which have to be assessed when evaluating an income stream for commercial real estate investors. These can be considered as a series of options in the future cash flow from real estate assets. They all have a significant impact on the assessment of risk for a cash flow and as such clear analysis is crucial for helping potential investors, occupiers, and landlords to understand the potential of the space they occupy or the income stream they expect.

This Lease Events Review for the year 2012, by IPD, provides empirical evidence on the likelihood of the different events. The analysis for 2012 is based on a sample of over 93,000 leases held in the IPD UK Annual and Quarterly Property Universe. The new leases analysed are reported up to Q2 2013, whilst the impact of lease events is a snapshot also taken at Q2 2013, reporting on the latest status of properties that experienced a lease event in 2012.

The report herein examines the influence of three key lease events on the property investment market; the effect of expiries, the impact of break clauses and the change in rental conditions upon lease renewal. Each of these factors are intrinsically linked to the broader economic landscape and improvements in business activity, exports and consumer trends, which all have a direct effect on lease conditions.

As the UK economy was seen to 'turn a corner' in late 2012 with a pick-up in employment, consumer spending and trade, the competition for buildings and locations that offer the correct pitch, location and configuration will increase. This has led to tenants being offered less flexibility in their lease terms with a reduction in the allowances for break-options and inducements. It is the landlords' prerogative to try to minimise such lease events that might threaten their income in what remains a volatile economic landscape. However, the outcome is diverse, varying from property type, sector, and location, with prime locations clearly outperforming and secondary (and regional) locations remaining very much an 'occupiers' market'.

The lease review in 2013

The lease review section provides a statement of movements in the patterns of lease agreements within the UK commercial property market, identifying the emerging trends in lease lengths, review cycles, and other key features of the landlord/tenant agreement. The section encompasses a full analysis of lease lengths, break clauses, rent-free periods and income profiles. Lease profiles have also been changing, traditional 5 year reviewed, upward-only leases are still commonplace, but more and more modern leases, such as RPI-linked, feature in key segments such as supermarkets and retail warehouses.

The section will firstly look at the average lease length and how this has changed over time. It will then focus on incentives such as break clauses and rent-free periods and how these have changed over time, concluding with how the income position lease negotiations have left the property sector in 2013.

How have leases changed this year?

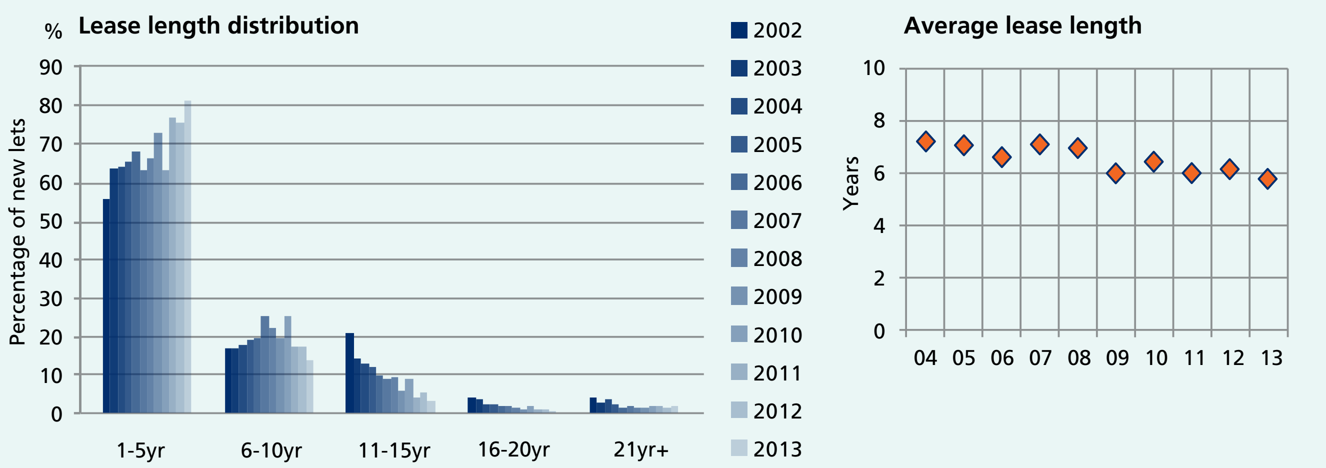
By number of leases granted, the average lease length has shortened. More than 80% of new leases granted in 2012 were 1-5 years in length. The sheer number of short leases means that the average lease length has fallen to under 6 years for the first time, standing at 5.8 years.

The distribution of lease lengths shows how rare leases over 10 years have become in recent years. Less than 6% of leases are over 10 years in length now compared to twice that only 5 years ago and more than 20% 10 years ago.

Weighting leases by rent gives a similar picture, but significantly levels out the distribution. Although leases over 10 years have still (roughly) halved as a percentage of new lets compared to 10 years ago, it is interesting to note that the longest leases (21+ years) account for around 15% of new leases on a weighted basis, compared to just 2% on a equally weighted basis, while short leases fall from over 80% of leases granted, to less than 50% on a weighted basis. This is a clear indication of the value of the lease agreements at the far end of the distribution.

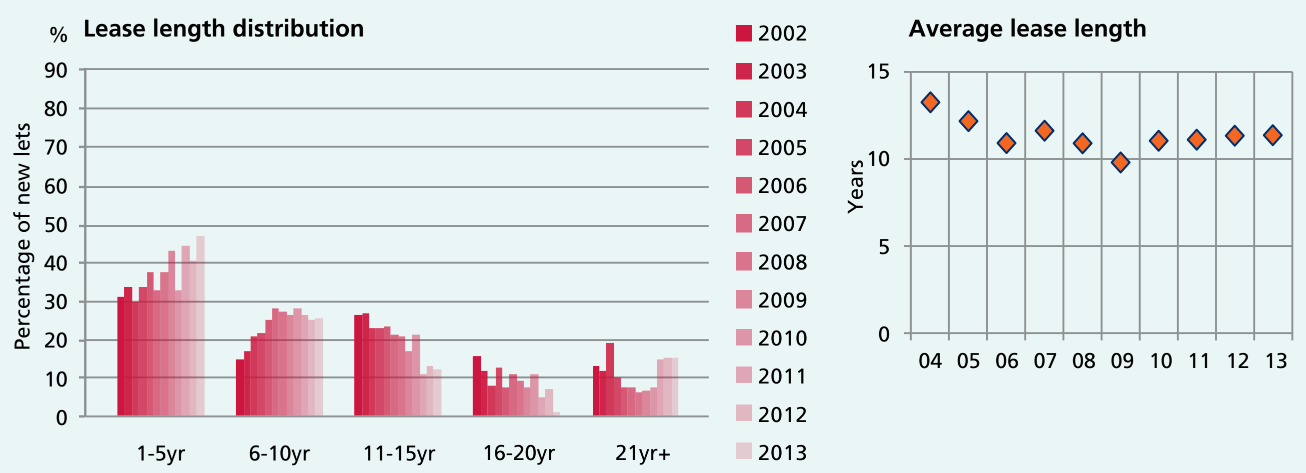
The value of the long leases means that the overall average lease term has actually increased slightly to 11.4 years (on a weighted basis), which is the fourth consecutive year of leases lengthening since the 2009 dip below 10 years (at 9.9 years).

Figure 1: Average lease lengths in 2013 (unweighted)



Note: Full lease term on all leases; tenancies equally weighted
Source: IPD Lease Review

Figure 2: Average lease lengths in 2013 (weighted)



Note: Full lease term on all leases; tenancies equally weighted
Source: IPD Lease Review

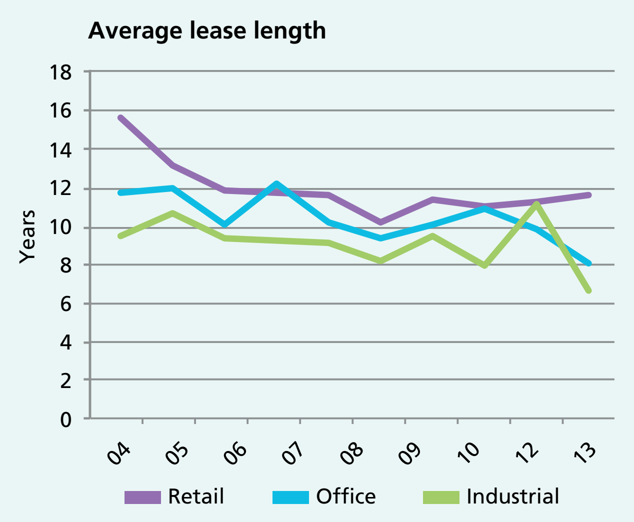
Comparing the three main sectors, retail leases have lengthened again this year, balancing out the dive taken by office and industrial leases.

Retail leases have clawed back from their lowest point of 10.3 years in 2009 to 11.6 years in 2013. Retail leases are longer mainly because of retail warehouses. Leases granted on retail warehouses have consistently been 3-4 years longer than the All Property average, while standard unit shop and shopping centre leases are much closer to the average.

Office leases saw an initial recovery from 9.5 years in 2009 to 11.0 years in 2011. However, lease length has since fallen back to 8.3 years, driven by a shortening of leases in Central London in particular. Only offices in the South East have seen leases lengthen again in 2013. Age of asset also has a bearing on lease lengths for offices, with the newest stock having the longest lease length. Older stock has also performed better in this respect, possibly through refurbishment programs.

Industrial leases have fared even worse with a lease length now at 6.9 years, making the recovery in lease lengths to 11.5 years in 2012 look like a blip. Industrial leases are shorter in Central London than in the rest of the South East and the UK. Age of stock is also of relevance, with newer stock maintaining a wider margin to lease length on older stock of almost four years on average.

Figure 3: Average lease length trends by sector

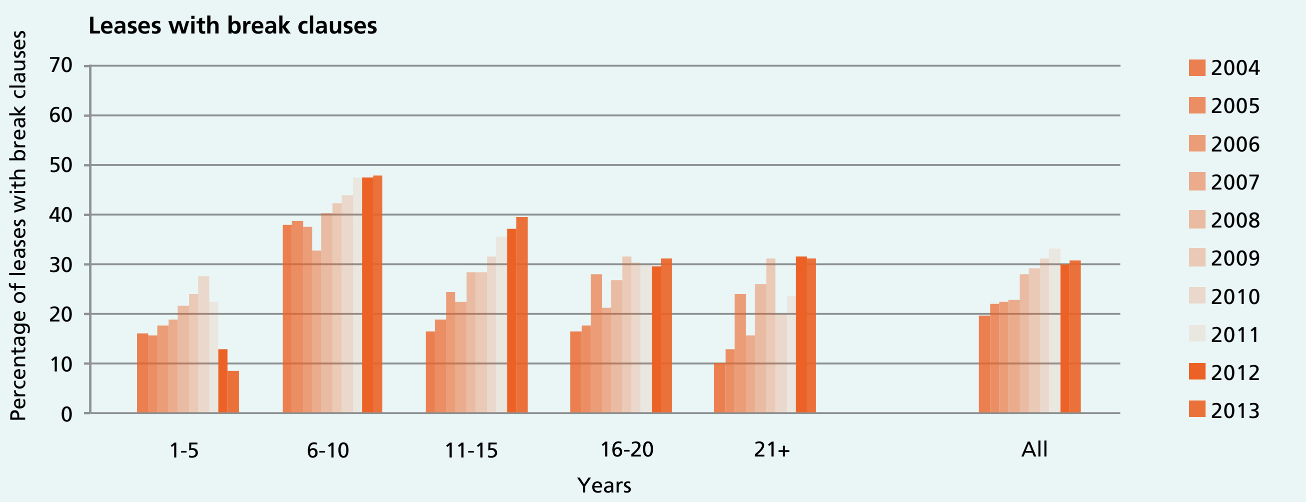


Note: Weighted by rent passing
Source: IPD Lease Review

Break clauses and rent-free periods

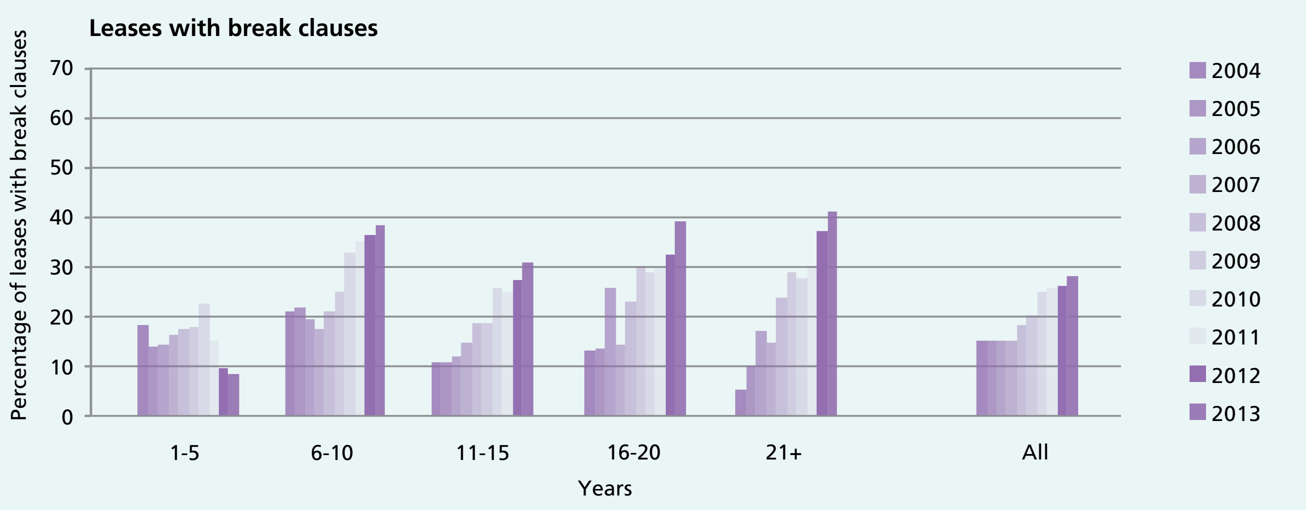
The occurrence of break clauses in lease agreements of less than 5 years has slumped in the past 2 years, but they remain a prominent feature within longer lease agreements. In fact, break clauses are most common in leases 6-10 years and 11-15 years in length and feature more in longer leases. Overall, around 30% of leases have break clauses, as has been the case in the last couple of years. Across the sectors, it is more common for office and industrial leases to have break clauses than retail.

Figure 4: Average lease length trends by sector – All Property



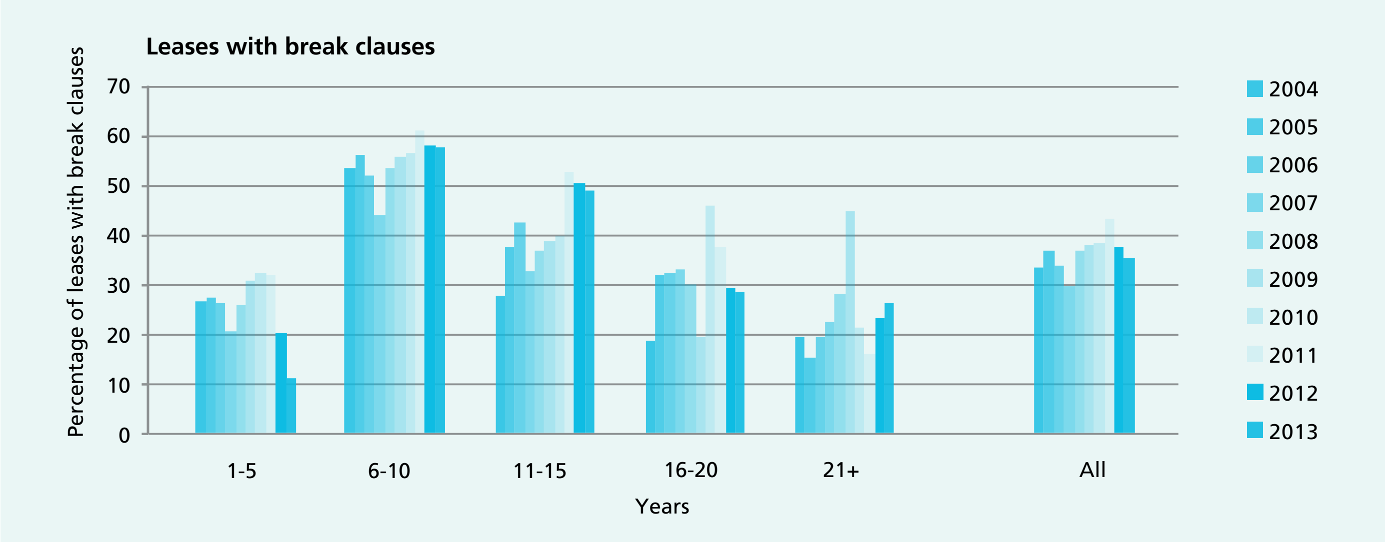
Source: IPD Lease Review

Figure 5: Average lease length trends by sector – Retail



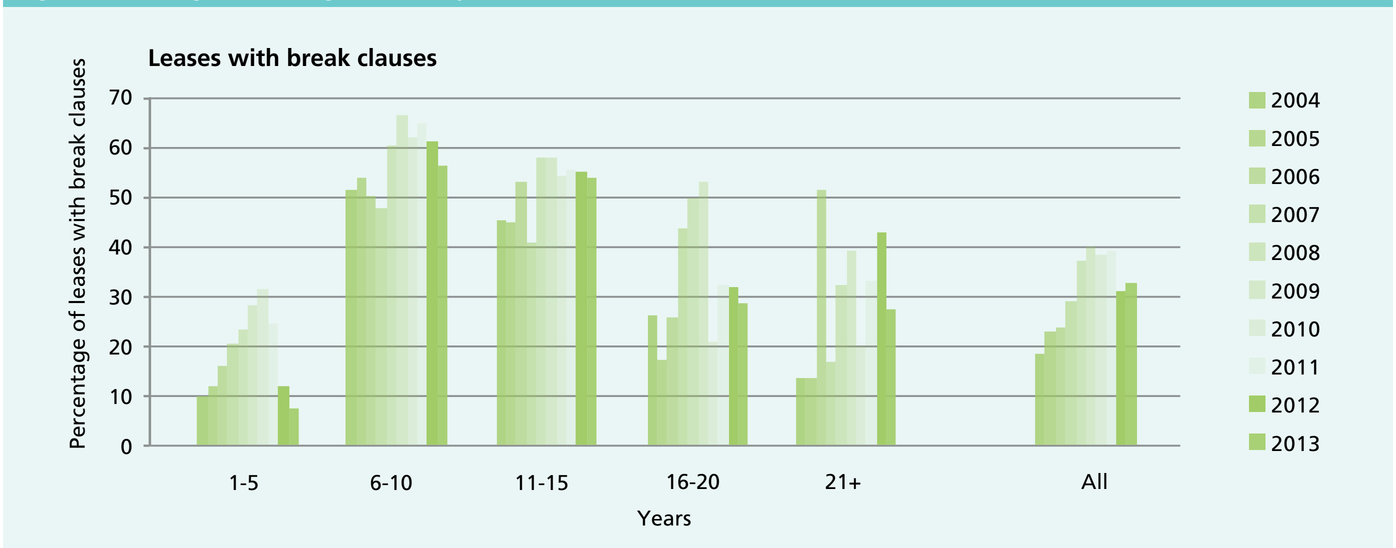
Source: IPD Lease Review

Figure 6: Average lease length trends by sector – Office



Source: IPD Lease Review

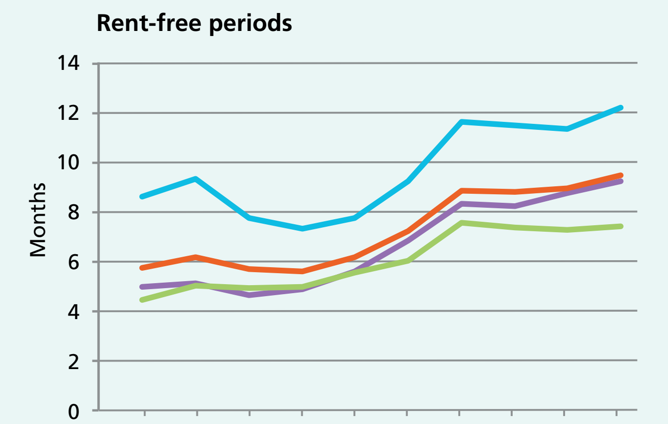
Figure 7: Average lease length trends by sector – Industrial



Source: IPD Lease Review

Rent-free periods remain a feature of leases today, having become more common in the downturn. This is now a feature of all three sectors. Having traditionally been a feature most common in office leases, retail and industrial leases have increasingly included rent-free periods. Rent-free periods for offices remain the longest, but increasingly long rent-free periods for retail and industrial leases push the weighted average rent-free period to over 13 months.

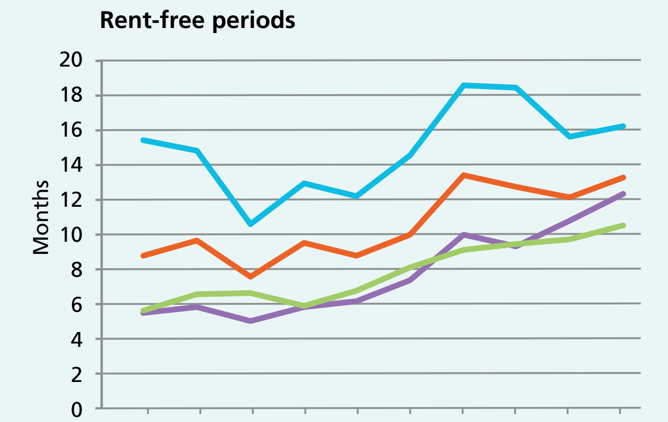
Figure 8: Average rent-free periods by sector



	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Retail	5.0	5.2	4.7	4.9	5.7	6.9	8.3	8.3	8.8	9.2
Office	8.6	9.3	7.8	7.3	7.8	9.3	11.6	11.5	11.3	12.2
Industrial	4.5	5.1	5.0	5.1	5.6	6.1	7.6	7.4	7.3	7.5
All Property	5.8	6.2	5.8	5.7	6.2	7.3	8.9	8.8	9.0	9.5

Note: Tenancies equally weighted (lhs)
Source: IPD Lease Review

Figure 9: Average rent-free periods by sector

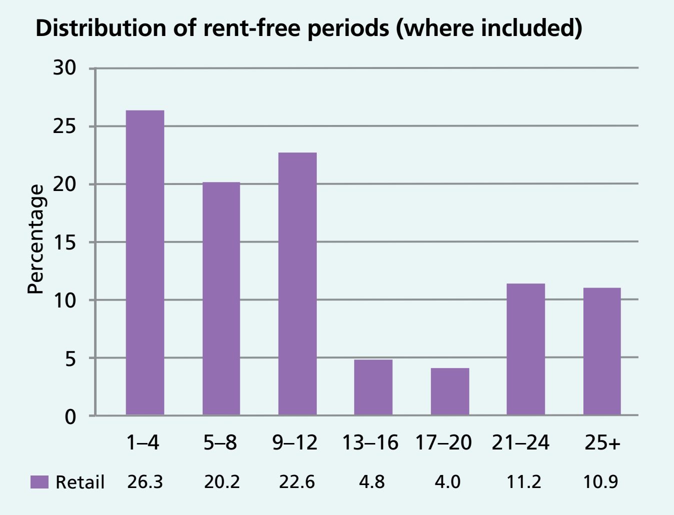


	2004	2005	2006	2007	2008	2009	2010	2011	2012	2013
Retail	5.5	5.8	5.0	5.8	6.1	7.3	10.0	9.3	10.7	12.3
Office	15.4	14.8	10.6	12.9	14.5	18.5	18.4	18.4	15.6	16.2
Industrial	5.6	6.5	6.6	5.9	6.7	8.1	9.1	9.4	9.7	10.5
All Property	8.8	9.6	7.5	9.5	8.8	10.0	13.4	12.7	12.1	13.2

Note: Tenancies weighted by rent passing (rhs)
Source: IPD Lease Review

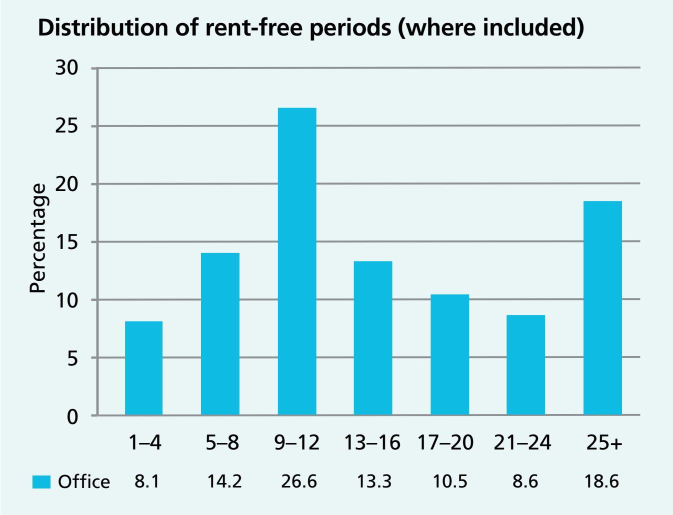
The distribution of rent-free periods is skewed towards shorter leases, perhaps compensating for a higher rent charged for a shorter income stream. Offices buck this trend with more rent-frees granted to leases 9-12 years, than shorter tenancies.

Figure 10: Distribution of rent-free periods for retail



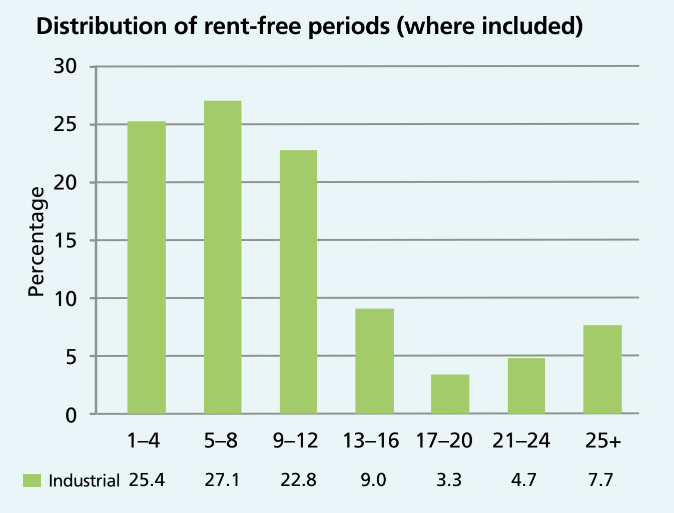
Note: Tenancies weighted by rent passing
Source: IPD Lease Review

Figure 11: Distribution of rent-free periods for office



Note: Tenancies weighted by rent passing
Source: IPD Lease Review

Figure 12: Distribution of rent-free periods for industrial



Note: Tenancies weighted by rent passing
Source: IPD Lease Review

Income security and potential for growth

The graph below summarises the income position leases negotiated in 2013 given portfolios in this dataset. Top slice represents income that is at risk, while reversion represents income available for the portfolios.

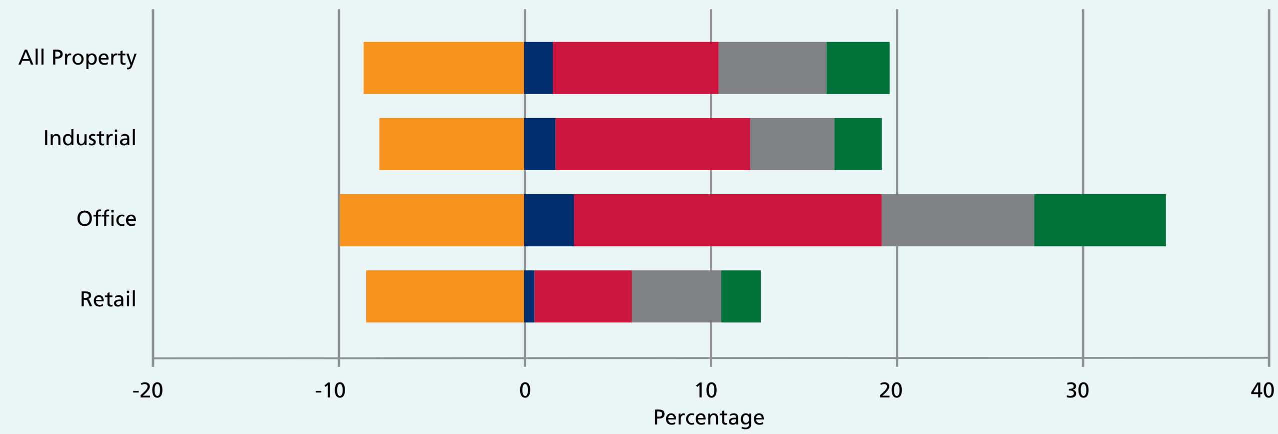
In terms of security of income, just less than 9% of rent passing is at risk due to over renting (top slice). Of the sectors, offices are most over rented at 10% of rent passing, compared to 8.5% for retail and 7.8% for offices.

Voids offer the most potential for income growth at over 9% at the All Property level. Again this is driven by offices, which also have the largest proportion of developments as well as reversionary and rent-free income.

The retail sector offers least potential for income growth. On the other hand its vacancy rate of 5.3% is almost half of the All Property average, which arguably puts the sector in a better position than the industrial and office sectors in still uncertain economic conditions.

Figure 13: Security of income and growth potential by sector

Income security and growth potential



	Retail	Office	Industrial	All Property
Development	0.6	2.8	1.8	1.6
Voids / vacant	5.3	16.7	10.5	9.1
Reversionary	4.9	8.3	4.7	5.8
Rent free	2.1	7.1	2.5	3.4
Top slice	-8.5	-10.0	-7.8	-8.7

Note: Percentage of total rent passing
Source: IPD Lease Review

The impact of lease events in 2012

The lease events section will examine the role played by historic lease events and their impact on investor income. The section will begin by looking at the behaviour of properties as leases edged towards expiry, particularly the renewal rate of tenants. It will then cover inducements and incentives such as break clauses and how these are exercised. Each element of the report will provide analysis at a headline All Property level, then at sector and location level. Finally, this element of the report will conclude with a look at the effect of tenant default on an investor's income position.

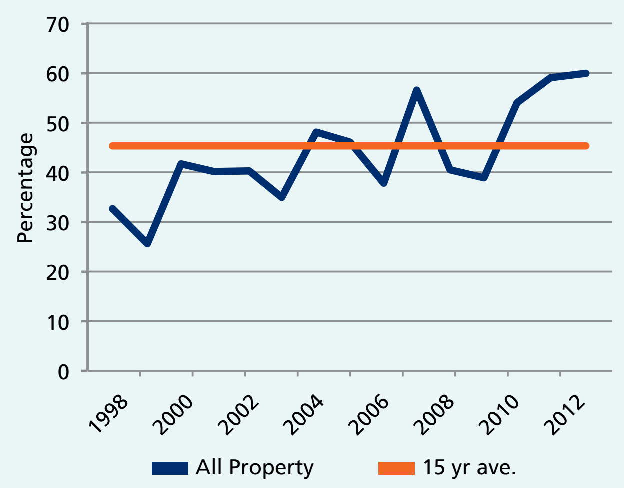
What is happening on expiry?

Continuing with the weak trend of the last few years, now further exacerbated by the ongoing economic difficulties and lack of optimism experienced by occupiers, the majority of properties in this analysis fell vacant upon lease expiry. Many tenants are using the opportunity to push for more competitive rents, as many of the shorter leaseholds were signed at times of record rent. For example, in 2012, this was particularly evident for tenants who signed 5 years leases at the peak of the market in 2007.

Table 1: Outcome of leases expiring in 2012 for All Property

	Unweighted	Weighted
Renewed	41%	32%
New letting	9%	8%
Vacant	49%	60%

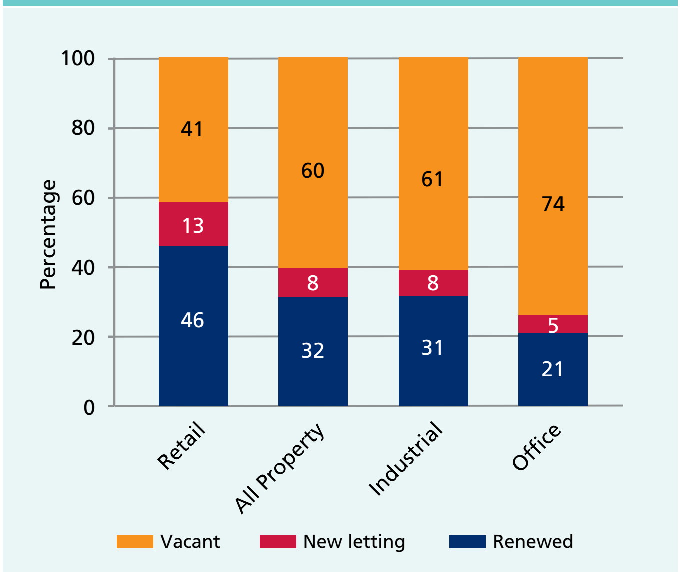
Figure 14: Vacancy rate for leases expiring 1998-2012 (weighted)



Source: IPD Lease Events

Figure 15 shows the All Property and sector-level renewal and re-letting rates for 2012 weighted by previous rent passing. This can also be split into 'unweighted', which is simply the number of leases in this analysis. From an investor perspective, the 'weighted' analysis is more relevant as it highlights the level of income under risk or lost upon expiry. The unweighted analysis shows that 41% of total leases were renewed upon expiry, whereas 49% fell vacant. A small portion, 9% of the total, was re-let in the same quarter the previous lease expired. When weighted by rental income the picture is bleaker, with only 31% of leases renewed and just 8% re-let in the same quarter. Significantly, 60% were vacant post lease expiry. These figures are shown in Table 1.

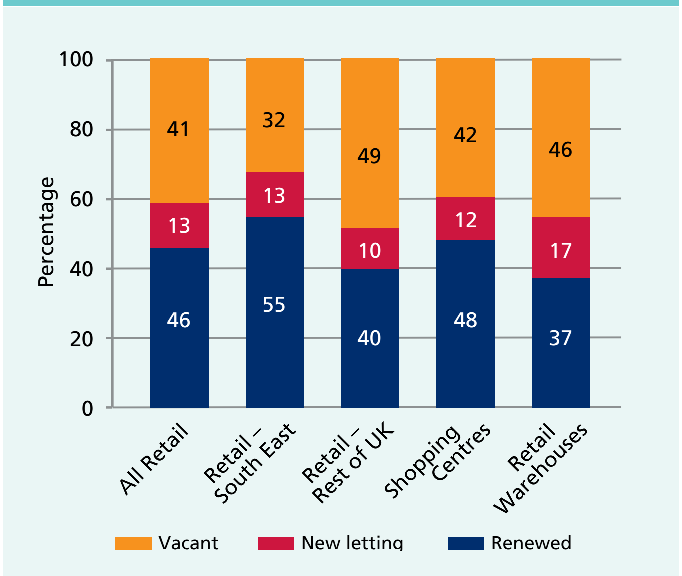
Figure 15: What happened when leases expired in 2012? (weighted)



Source: IPD Lease Events

Sector level analysis shows that the office sector has the highest level of immediate vacancy, both weighted and unweighted, when leases expired. Much of this is due to the flexibility of office tenants who are less attached to particular buildings or locations than retailers are, but it also highlights the attractive options and deals available to office tenants, particularly those outside of Central London. These occupiers can often avail themselves of improved terms and conditions elsewhere as the lettings market struggles to get in to second gear in most UK cities and regions.

Figure 16: Regional disparity in lease expiry outcomes (weighted)



Source: IPD Lease Events

Location plays a significant role in determining a property's investment performance, particularly given the economic performance divergence in the UK since 2008, with the London economy growing strongly as the rest of the country remained in technical recession. This spread is most evident in the retail sector with a dramatic spread of 17% in vacancies upon expiry for the South East (dominated by London) and the rest of the UK. Similarly, tenants were more willing to renew in the South East 55% renewing their leases compared with 40% in the rest of the UK. Figure 16 illustrates the spread in lease expiry outcomes for the retail sector by primary region and retail property type.

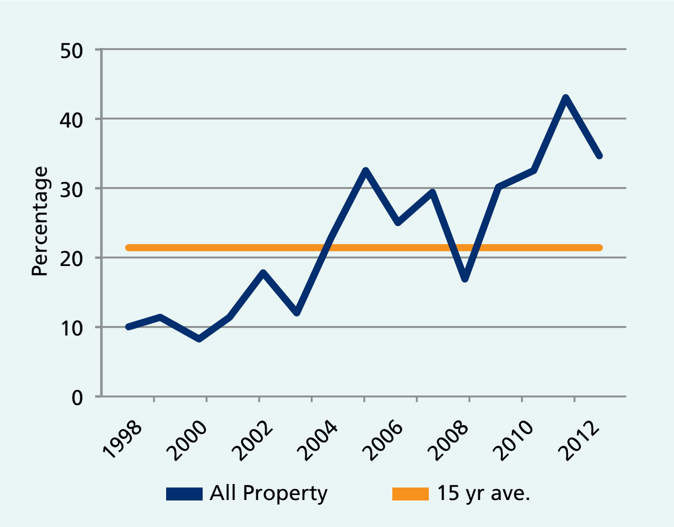
The impact of break clauses?

Many tenants tied into market peak rents that were signed in the run up to the crash of 2008 will have eagerly awaited the opportunity to exercise their break clause. However, as rents recover in key locations, such as Central London, many tenants are opting to remain due to the competition in securing favourable buildings and terms. Table 2 reveals the proportion of tenants for All Property who had the right to break in 2012. This is analysed on a weighted basis by previous passing rent (weighted) and by number of leases (unweighted).

Table 2: State of leases with a break in 2012

	Unweighted	Weighted
Break not exercised	73%	60%
Exercised – re-let	4%	6%
Exercised –vacant	23%	34%

Figure 17: Vacancy rate for exercised break clauses 1998-2012



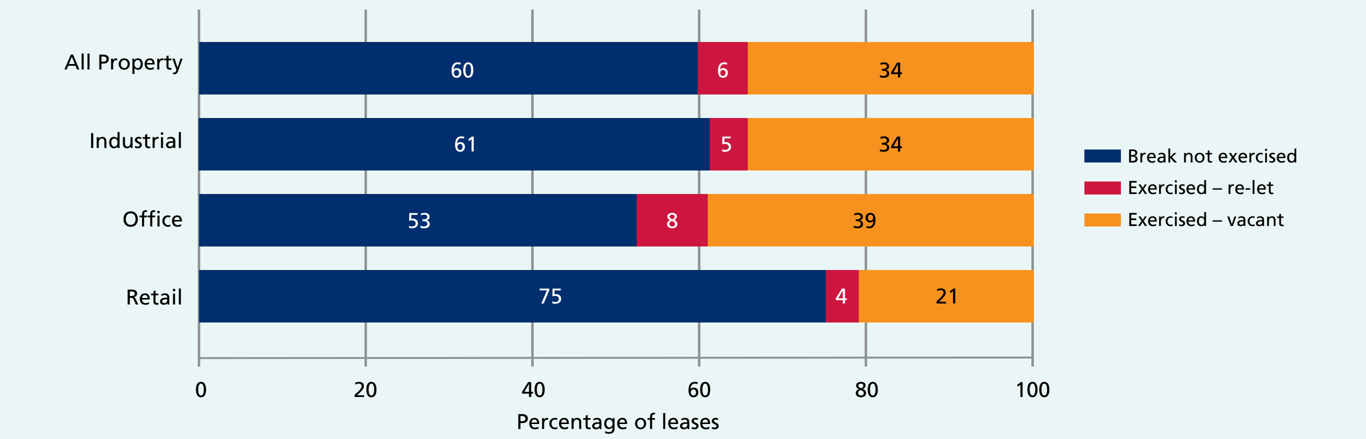
Source: IPD Lease Events

Compared to the previous year the key improvement is the fall in the number of vacant units after a break clause was exercised. In 2011, 28% of units remained vacant for a quarter of longer upon the previous tenant taking the option to break, this fell in 23% in 2012. For the number of leases weighted by previous rent passing the divergence is even greater, with the post-break vacancy rate dropping from 43% to 34%. This will come as a comfort to investors and landlords who may have feared a dramatic fall off in income.

Further reassurance to investors is the reduction in the number of tenants opting to exercise their break options, both for a weighted and unweighted basis. This is symptomatic of the improving occupier market and the likelihood that many tenants will struggle to improve on their lease terms elsewhere. In many key locations rental values are close to their 2008 peak, competition for prime buildings is growing, and landlords realising the supply squeeze are reducing inducements and incentives. On an unweighted basis, the proportion of tenants exercising breaks fell from 32% in 2011 to 27% in 2012. On a weighted by previous passing rent basis the proportion fell from 47% to 40%.

The time it takes for a unit to be re-let is a key indicator of occupier market confidence, with 4% of units re-let immediately after the previous tenant opting to enforce a break in 2012. This is consistent with 2011 but down from 8% in 2010. The immediate re-letting rate remains well down on the long-term (15-year) average of 9% in tandem with the cautious occupier sentiment that prevails across most commercial property sectors and locations, with the exception of London.

Figure 18: Break clause actions (weighted)

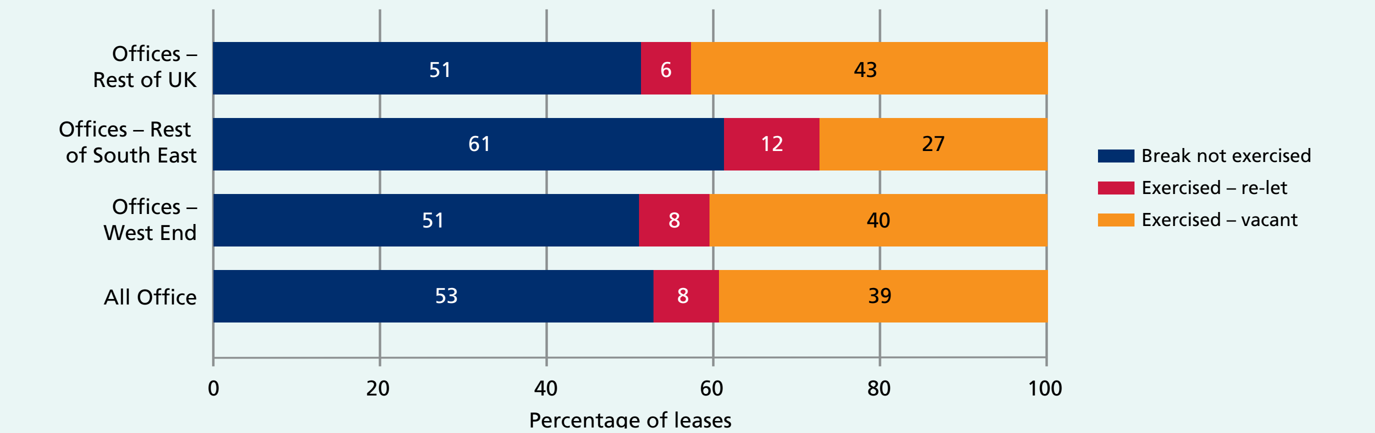


Source: IPD Lease Events

Figure 18 shows that the break clause action rate in 2012 was lowest in the retail sector, on both a weighted and unweighted basis at 25% and 20%. Tenants in the retail sector rely heavily on established locations to maintain trade and are the most reluctant to move. This factor, combined with the fact that rents in key locations, mostly central London, are approaching peak highs will have discouraged tenants to enforce a break clause. Meanwhile, offices recorded the highest rates of tenants exercising breaks at 47% weighted and 33% unweighted. Of these actions 39% of offices, by previous passing rent, were vacant for at least one quarter following the break being enforced, the highest recorded for the main property sectors in 2012, although this is still an improvement on the vacancy rate of 53% in 2011.

Break clause action rates varied by location, but not by as much as in previous years. Markets with high turnover, like offices in London's West End, where tenants move frequently to secure better deals or better quality space, saw a significant decrease in the number of tenants exercising breaks. This may be explained by the strong rental values now being achieved in the West End and limited availability of office space.

Figure 19: Regional disparity in lease break actions (weighted)



Source: IPD Lease Events

Figure 19 displays the regional breakdown of break clause impacts for the office sector. Popular locations with a large variety of tenants and office stock tend to have a higher turnover than secondary locations, which often have longer leases. This has the effect of increasing in the short-term vacancy rate of popular locations, such as the West End, although most units are often re-let within three months of the previous tenant vacating. Along with offices in the rest of the UK (excluding London and the South East), the West End had the highest level of tenants exercising breaks, 49% and 48% of tenants weighted by previous passing rent, respectively. Offices in the rest of the South East (excluding London) had the lowest level of actions, with only 39% of tenants choosing to exercise their right to break.

The rest of South East office market also saw the highest levels of immediate (same quarter) re-letting with 12% of tenancies re-let as weighted by previous passing rent. This would indicate that investor income is more stable and secure for this market than for a market with a lower re-letting rate and higher vacancy. However, landlords operating in these regional and secondary markets will likely have higher tenant risk to contend with as well as greater eventual building obsolescence.

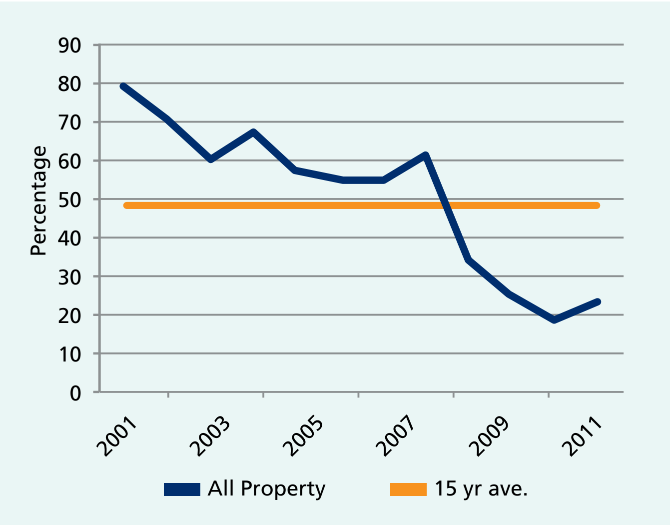
What is happening on renewal and re-letting?

The almost unique structure of UK commercial property leases, the dominant inclusion of upward-only rent reviews, means that there may be only minimal rental value movements during the life of a lease, particularly in a challenging or subdued market. Therefore, it is at the end of lease life, when the tenant has the option to renew or vacate, where the income movements can be seen as the rent will revert to the open market rental value for the said property. This provides interesting analysis of an investor's income position for properties with leases approaching expiry.

Table 3: Rental change for new lettings (renewal or re-letting) in 2012

	Unweighted	Weighted
Higher	24%	22%
Lower	55%	56%
Same	21%	22%

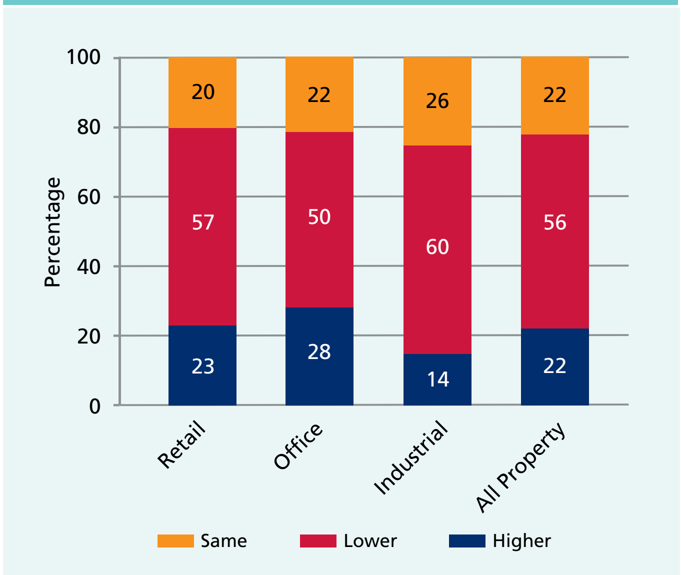
Figure 20: Achievement of higher rent on new lettings 2001-2012 (weighted)



Source: IPD Lease Events

Table 3 shows, in percentage terms, the change in rental income that occurred for All Property new lettings, including both renewal by existing tenants or re-lettings to new tenants. Rental income has continued to fall for the majority of tenancies, particularly as peak time 5-year and 8-year leases come to an end. As a percentage of overall tenancies in the sample, 55% had lower rental income following a new letting, cautiously up from 42% in 2011. Tenancies with rental growth following a new letting were only 24% for All Property, with the office sector performing strongest with 28% of units seeing an income uplift, and industrials the weakest with only 14% of tenancies witnessing a growth in rental income. The breakdown of new letting performance between property sectors and All Property is illustrated in Figure 21.

Figure 21: Weighted rental change for new lettings in 2012

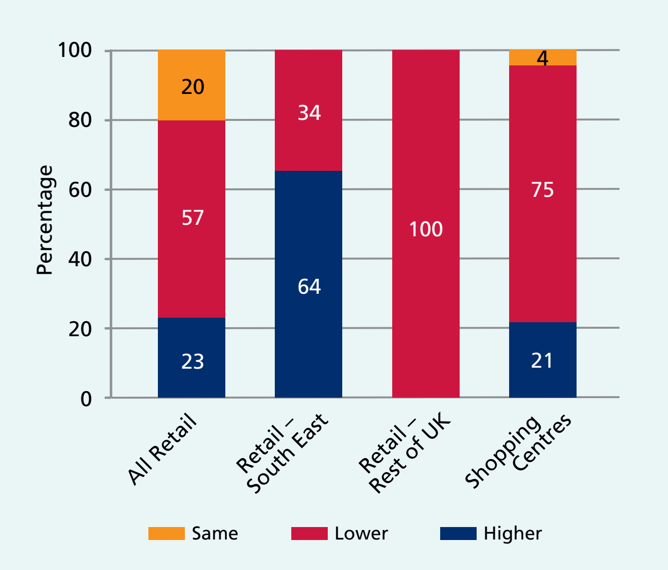


Source: IPD Lease Events

Income at risk

When analysing the effects of break clauses and behaviour on expiry, region and location are significant factors. Figure 22 illustrates the varying rental behaviour for the retail sector by region and property type. Worryingly, retails outside of London and the South East saw rental income fall for all leases upon renewal or re-letting. The South East (dominated by London) saw rental income growth for the majority of new lettings with 64% of tenancies weighted by previous passing rent recording an income uplift.

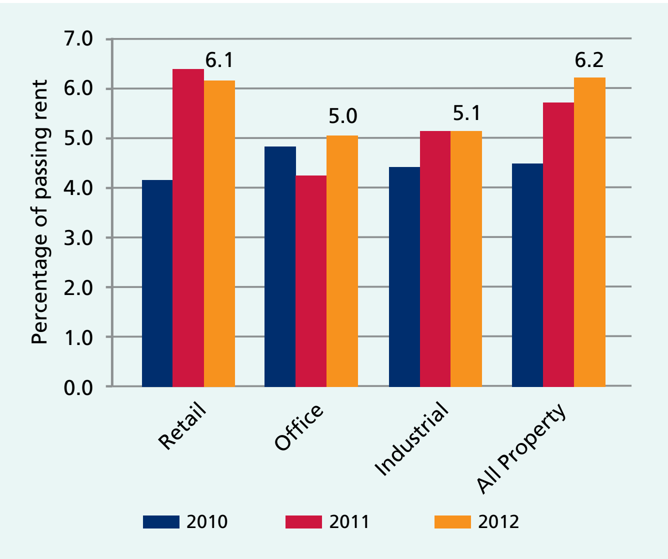
Figure 22: Weighted rental change for new lettings by retail region and type in 2012



Source: IPD Lease Events

The main risk to landlords and investors, which is almost unpredictable compared to planning income streams in the run up to a break or vacancy, is tenant default. Given the difficult trading conditions for retailers in the UK in recent years, along with a number of high profile receiverships and liquidations in 2012, it comes as no surprise to see All Property default rate growing from 5.7% of rent passing in 2011 to 6.2% in 2012. This represents a significant jump in the rate of default since 2010, when the rate was 4.5% for All Property. Figure 23 shows the range of tenant default rates for All Property and the primary sectors over the last three years.

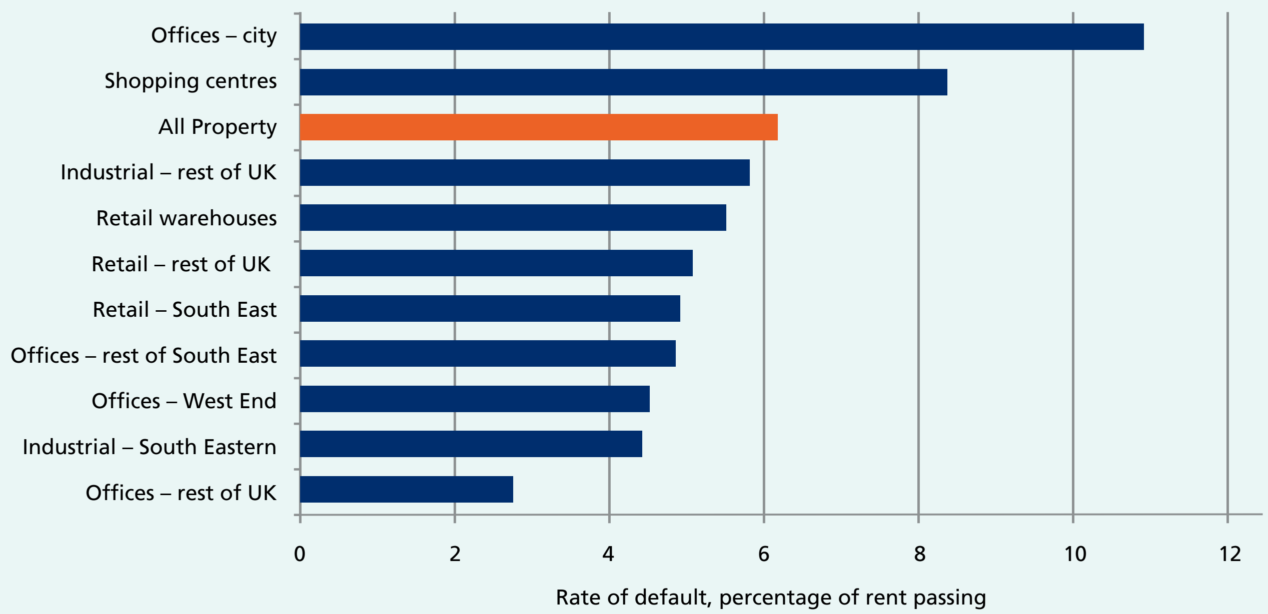
Figure 23: Tenants in default (in liquidation or receivership)



Source: IPD Lease Events, D&B, IPD IRIS Service

In 2012, the pressured retail sector had the highest level of tenant default at 6.1% of passing rent, although this is marginally down from 6.2% in the previous year. This sector has been heaviest hit by fragile consumer confidence and declining sales for most regions outside of Central London. However, the weak occupier sentiment also spreads to the office and industrial sectors with many tenants remaining cautious to expand and grow employment through investment, resulting in many firms going under due to lack of innovation and restructuring until there is a clear pick-up in the domestic economy. The default rate for offices saw the highest rise in 2012, to 5.0% from 4.2% in 2011. The rate for industrials was unchanged at 5.2%.

Figure 24: Tenants in default by region and type



Source: IPD Lease Events, D&B, IPD IRIS Service

The rate of default varied significantly between location and property type. Offices in the City, dominated by financial occupiers, had the highest rate of default in 2012 at 10.9% of passing rent, although this was primarily due to a number of large, strategic defaults by tenants as major firms restructured and rationalised their space requirements and City operations. Conversely, offices in the rest of the UK had the lowest rate of default at 2.8%. Offices outside London have a disproportionate level of government and semi-state occupiers hence the relatively low rate of default and low risk. For retail, shopping centres, heavily reliant on consumer confidence, had the highest default rate at 8.4%. Figure 24 illustrates this location-defined breakdown.

The high rate of default in locations such as the City and for shopping centres may surprise, but given the economic sensitivity of occupiers in these markets and associated high turnover levels, the volatility of these markets has historically been higher. In fact, the long-term average default rate (11 years) for UK All Property is 3.5% of passing rent, which the City matches while shopping centres are higher at 4.4%.

Conclusion

The IPD lease events analysis is the best reflection of the UK property market and effectively illustrates the changing needs and wants of the occupational market. The combined research for 2013 tells us that occupiers will, where they can achieve it, continue to target shorter leases, attempt to insert non-punitive break clauses and take the opportunity at the point of lease expiry to move to new premises.

At present retail income is most secure when it comes to lease events. The only thing we can be sure of when it comes to the structural changes in this sector is that they are likely to move much faster than we expect and in ways we have not thought yet thought of. Thus relying on this sector as the cure to our income insecurity ills may prove more risky than it at first seems.

Conversely the survey shows us that office and industrial tenants have a much higher propensity to take advantage of lease events – a consistent trend thrown up by the research. Despite the retail sectors ability to attract negative headlines it has not been lonely in experiencing structural change, and the research continues to exemplify the extent to which the income security of institutional grade industrial and office property has been eroded.

On a positive note, the confidence of many tenants is without a doubt increasing as they finally exhibit tentative signs of moving back into growth mode six years after the collapse of Lehman's. The big question for us all is whether an improving economy, and low levels of new commercial development, will bring the structural changes that this research has documented to a juddering halt. We take the view that the decline in lease lengths may level off, and the rate of lease renewal may edge up in the coming years. However, to hope for some sort of reversal of the main trends will be asking for too much. Short income is here to stay.

Shorter income demands a greater focus on tenants' businesses

As the past decade has seen lease lengths shorten, we have seen long-let real estate with a blue chip income become increasingly rarefied and consequently expensive. The asset class seemingly diverging into bond-like and equity-like populations. The bond-like population has remained in vogue, satisfying as it does traditional institutional expectations of their property investments e.g. an alternative to bonds. These assets have seen their valuations closely follow those of the governments bonds that they are benchmarked against.

However, for the equity-like portion of real estate the picture is less clear. Valuations have continued to deteriorate in recent years: Partly reflecting a necessary readjustment in the face of a poor occupational market, but also the degree to which investors have become nervous over appraising the outcome of lease events. Moving forward we should be cognisant of the fact that with short leases likely to remain par for the course for the majority of the property market, working out the long-term income stream from real estate investments is going to involve a far greater involvement with the ins and outs of tenants' businesses and their future real estate needs. Landlords have and will start to think a lot more like equities analysts.

Definitions

Rate of default

Based on tenants with a D&B UK failure score of 0 or 1. The D&B UK failure score is designed to predict the likelihood that a company will cease operations without paying all creditors over the next 12 months. This includes the onset of failure such as meeting of creditors, administrator appointed, and bankruptcy.

ERV (Estimated Rental Value)

The annual rent the valuer estimates could be charged if the unit were let in the open market on the valuation date.

Rent passing

The gross annual rent receivable on an accruals basis, before deducting property specific management costs, ground rents and other irrecoverable expenditure.

Vacant

A unit where the landlord is receiving no income and where there is no tenant in occupation. Vacant units therefore exclude empty, or vacant units where rental payments are still being honoured under an existing lease. Vacant units also exclude leases where a rent-free agreement is in place.

IPD

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