

No more upward-only rent reviews

A double-edged reform?

July 2026

It is approximately 12 months since the government introduced the English Devolution and Community Empowerment Bill (Bill) to Parliament, sending shock waves through the real estate sector with its proposed ban on upward-only rent review clauses (UORRs) in commercial leases. The Bill has now received royal assent and is known as the English Devolution and Community Empowerment Act 2026 (EDCEA 2026). As a result, the proposals are well on their way to being implemented, through provisions to be inserted into the Landlord and Tenant Act 1954.

UORRs are found in a vast number of commercial leases, meaning that at rent review, rents can only be reviewed upward, or at worst, remain the same as the current passing rent, even where market conditions would otherwise justify a rental decrease. UORRs have been an almost unique feature of the UK real estate industry for decades, and one reason the UK has been the go-to place for incoming investment, but the EDCEA 2026 will be changing that.

This is not the first time that a ban on UORRs has been considered. As referred to below, the ban was proposed in the early 1990s. Some critics have accused the government of attempting to quietly push through these proposals via the EDCEA 2026, which, in the main, deals with unrelated points focusing on devolution of power to local authorities and measures to strengthen local government. Whatever the position is on that, the EDCEA 2026 certainly has the industry's attention now, and it will be interesting to see whether the sector is willing to lobby again this second time around, prior to the secondary legislation being passed to implement it.

Why reform and why now?

In published guidance for the recent reforms, the government states that it believes UORRs lead to market inefficiencies, principally that in economic downturns, tenants get stuck paying rents at levels above open market levels, leading to lower profits for tenants and risking higher prices for consumers. The government is now proposing to intervene to ban such clauses, instead of simply relying on the sector to self-regulate, as it has up till now. It is notable that the effect on "consumers" and "high street rents" is specifically mentioned, implying that the government is mainly focused on the retail sector, which has been struggling over recent years.

The early 1990s saw similar reforms proposed by the then government. The criticisms of UORRs, and the reasons for those proposals largely mirror those being put forward today.

The fierce lobbying against the proposals at that time was ultimately successful, and the proposal were abandoned, but evidently the government believes enough time has passed to try again.

What does the reform look like today?

The EDCEA 2026 provides that all new commercial leases in England and Wales (excluding agricultural leases) must allow for rent reviews to be both upward and downward. The initial proposals were not retrospective, but a change was made so that the EDCEA 2026 will apply to tenancy renewals if they are made pursuant to a tenancy renewal arrangement (i.e. an option or other agreement) entered into on or after 17 March 2026. In addition, the EDCEA 2026 modifies the provisions of any existing superior lease that states an underlease must provide for a UORR, so that instead, rent reviews in underleases can be upward or downward. That could of course result in a rental mismatch. Any UORR clause inserted into a new lease in the UK will simply be unenforceable once the EDCEA 2026 is implemented.

Stepped rents, where future rent increases are fixed (and so obviously known) at the start of the lease, are not caught by the prohibition, so would be allowed, and if EDCEA 2026 is implemented, may become one of the more favoured approaches. They do introduce certainty for both parties as lease terms progress, but, on the other hand, do not necessarily result in rents being more reflective of market conditions. Stepped rents are also generally not so favourable for tenants on a cost point, as stepped rents will inevitably bake in higher annual rents to compensate landlords for foregoing any possibility of benefiting from open market rent increases.

It would be difficult to properly gauge such market conditions at lease completion, especially if a lease term is 10 years or longer. All this seems contrary to the government's objectives in these proposals.

It is interesting to note that Australian states have similar legislation, which primarily protects retail leases of shops, but also extends to commercial premises where there is provision of retail goods and services. That has been in place since 2003 and was brought in primarily to promote fairness and transparency. The Republic of Ireland is another jurisdiction that moved to ban UORRs, passing legislation outlawing them in 2010. The scope there went further than in Australia, covering all commercial leases, akin to that which will now be implemented under the EDCEA 2026 in the UK. What the effect will be on UK real estate is unknown, but we can look to Ireland to see what may be on the horizon. There was immediate concern that the ban would create a two-tier system of leases, and cause havoc for valuations and comparisons. Such an effect would be fairly short lived, as pre-ban leases expired. However, the market needed time to adjust to that. A resulting and more lasting effect has been that shorter leases are now more common, to avoid having to insert rent reviews. That has led to increased property management and lease renewal costs for landlords. While the ban has made way for greater flexibility and a more fluid market for tenants, again, it has been something of a double-edged sword, with less certainty for long-term occupation and higher initial rents as landlords cater for the lack of guaranteed long-term income.

What about workarounds?

The government has stated that they want to remove the ability for landlords to find "loopholes" within the legislation, otherwise it would do little to rebalance the power between landlord and tenants – one of its stated aims. A good illustration of this is that the legislation will allow tenants to trigger rent reviews, to avoid the obvious work-around of inserting only landlord-triggered rent reviews, which, in the event of a decline in markets, landlords would just not implement in order to keep rents as they are.

Inevitably however, legislation can only prevent loopholes if they are anticipated, although note the EDCEA 2026 does contain antiavoidance provisions. Landlords will no doubt seek to be creative to limit the clear disadvantages to them and their income streams. The ability to do so will of course depend on the negotiating power between parties, but as an example, one interpretation of the EDCEA 2026 suggests landlords may seek to include dual rent review clauses which take the higher of an open market rent review and an RPI or CPI rent review (albeit this has not, of course, been tested and may still fall foul of the antiavoidance provisions). While these options independently would each have to result in the ability for a downward result, including both of these options means a landlord may be able to reap the benefits if one of those options results in an increased rent, or take the least worst review in a particularly bad market.

Arguably, a dual rent review means that results could be favoured toward a landlord and therefore not achieve the proposal's aims of assisting tenants and realigning with market forces.

We wait to see whether the government will clarify the position on this prior to implementation of the EDCEA 2026. Caps and collars will also be on the minds of both tenants and landlords, but the position on this under the EDCEA 2026 is unclear and is another aspect that the government needs to clarify. They have committed to a consultation on caps and collars, so the outcome of that is awaited.

At present, the government has ruled out imposing on landlords an additional legislative requirement to provide government-issued guidance to tenants at the outset of negotiations. This would have created a greater burden for landlords and required enforcing. The government has, however, said that this option will be kept under review for future introduction, so they will no doubt be keeping an eye on the effect of the proposals once implemented.

Timeline and outlook

Although the EDCEA 2026 has received royal assent, the implementation date is unknown. Commentary suggests this is likely to be 2027–2028. The proposals, which had fairly limited consultation, initially came as a shock to the industry, and now the Bill has received royal assent, discussion around it has intensified.

Landlords and institutional investors will be worried about the income risk that comes with downward rent reviews, and, ultimately, about the effect on valuations. It is arguable, however, that properties with existing leases containing UORRs will have higher valuations, compared to ones with new leases. Though difficult to assess at present, the EDCEA 2026 is very likely to increase volatility in the real estate market at a time when there is already economic uncertainty.

Rent review disputes resulting in litigation are not common in current times. Surveyors, landlords and tenants are well used to determining rents using existing mechanisms, and they are rarely litigated. However, new mechanisms and the legislation governing them can be expected to increase litigation as the market adjusts to the new systems and seeks clarification. This is to be especially expected if markets are in decline and parties are disputing what the "correct" rent should be in a world where downward rent reviews will be, at least for the first few years, uncharted territory.

The outlook on future rentals is unfortunately uncertain for both landlords and tenants. The market will take time to adjust to the reforms. This is clearly a time of change for the real estate market, a move away from a self-regulating market to one of greater government intervention. This is something that the recently implemented Renters' Rights Bill also signifies and is, perhaps, a sign of further things to come.

