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Government Targets ‘Upward-Only’ Rent Clauses in Overhaul of Commercial Leases

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The UK Government has announced plans to ban “upward-only” rent review clauses in new commercial lease agreements in England and Wales, a move aimed at supporting small businesses and reviving struggling high streets. These clauses, which currently prevent commercial rents from falling even when market conditions deteriorate,

have long been criticised for creating one-sided contracts that favour landlords over tenants.

Under the proposed legislation, part of the forthcoming Devolution and Community Empowerment Bill, all new commercial leases will be required to adopt either a fixed rent or a review mechanism that permits adjustments in both directions. Existing leases will remain unaffected, but all new agreements signed after the law takes effect will be subject to the revised rules.

Ministers argue that the reforms will encourage fairer lease structures, help small businesses stay afloat, and reduce the number of vacant shops across the country. They also suggest the changes could contribute to tackling anti-social behaviour by limiting the number of derelict retail units left unoccupied due to unaffordable rents.

However, the proposal has drawn criticism from commercial property groups and institutional landlords. The British Property Federation has voiced concern over the lack of consultation and warned that the changes could undermine investor confidence, reduce property values, and make financing more difficult for landlords. These stakeholders argue that upward-only clauses provide crucial income stability, which underpins pension funds and other long-term investments.

On the other side, the Federation of Small Businesses has welcomed the proposed ban. The organisation's policy team noted that many small firms are burdened by inflexible lease terms and escalating rental costs, which in some cases have pushed viable businesses out of prime locations.

Although similar reform proposals were made by a previous Labour government in the early 2000s, the idea did not feature in the current administration's recent manifesto. Nonetheless, the approach reflects broader efforts to rebalance landlord-tenant relationships and improve the resilience of the high street economy.

The Bill is expected to progress through Parliament in the coming months, during which time MPs will debate possible exemptions, for example, for agricultural land or short-term commercial lets.

If enacted, the reform could mark a significant shift in commercial leasing practices. It may improve long-term affordability for tenants, but it also raises key questions about investment risk and how the property sector adapts to changing legal frameworks.