

**INDEX LINKED RENT REVIEW PROVISIONS**

1. Introduction
	1. This precedent is prepared on the basis that the rent will be reviewed annually (or over a longer period) in line with changes in the All Items Retail Prices Index (RPI) or Consumer Prices Index (CPI). It should be altered to reflect any requirements that are specific to the property, parties and terms of the transaction.
	2. Another index may be used in place of the RPI or CPI. We recommend that if an alternative index is used, the index chosen is one that is freely available without cost to both the landlord and tenant.
2. Incorporation into the lease
	1. Amend the definition of “Rent Review Dates” in clause 1.1 of the lease to read:

“[DATE] [in each year of the Term] and “Rent Review Date” means the relevant Rent Review Date in the context in which it is used.”

* 1. Part 1 of this precedent should be used to replace the existing Schedule 2 (Rent Review) in the lease where the rent will be reviewed annually (or over a longer period) on a straight line basis.
	2. Part 2 of this precedent should be used to replace the existing Schedule 2 (Rent Review) in the lease where the rent will be reviewed every, say, five years on a compound basis so that the rent is reviewed to the figure that would be achieved had the rent been reviewed annually on an indexed basis throughout that five year period. Annual calculations will be necessary where there is any cap or collar used in the formula for calculating the annual increase in the rent. If there is no cap or collar used in the formula for calculating the rent review (and so long as there is no fall in the value of the index over the relevant period), there will be no difference in the rent review figure achieved by calculating a straight line increase over the five year period and by calculating the increase on an annual basis throughout the five year period.
1. Worked examples
	1. Part 3 of this precedent contains worked examples showing how the index linked provisions work. These are for guidance only and should not be incorporated into the lease.

**Part 1: Revised Schedule 2 for straight line rent review on an annual basis**

1.

Rent Review

* + 1. **Defined terms**
			1. This **Schedule 2** uses the following definitions:

**“Base Figure”**

1. on the first Rent Review Date, [FIGURE] (being the Index figure for the month [three][[1]](#footnote-1) months preceding the [date of the Lease][first day of the Term][[2]](#footnote-2));
2. on each succeeding Rent Review Date, the Current Figure for the preceding Rent Review Date;

**“Current Figure”**

the Index figure for the month [three][[3]](#footnote-3) months preceding the Rent Review Date; and

**“Index”**

the “all items” figure of the Index of [Retail] [Consumer] Prices published by the Office for National Statistics or any successor Ministry, Department or Government Agency.

* + 1. **Rent Review**
			1. On each Rent Review Date, the Main Rent is to be reviewed to the higher of:
				1. the Main Rent reserved by this Lease immediately before that Rent Review Date; and
				2. the revised Main Rent (rounded up to the nearest £10)calculated in accordance with the following formula:



Where:

R is the revised Main Rent;

A is the Main Rent reserved immediately before the relevant Rent Review Date;

C is the Current Figure; and

B is the Base Figure.

* + - 1. [If the formula produces an increase in the Main Rent of more than [PERCENT]% then the increase will be limited to [PERCENT]%.
			2. If the formula produces no increase in the Main Rent or an increase of less than [PERCENT]% then an increase of [PERCENT]% will be applied.][[4]](#footnote-4)
		1. **Notice of Main Rent**
			1. If the Main Rent is increased, the Landlord must notify the Tenant as soon as possible after the Rent Review Date.
		2. **Effect of delay in notifying the revised rent**
			1. Following any Rent Review Date until the Landlord has notified the Tenant of the revised Main Rent:
				1. the Main Rent reserved by this Lease immediately before that Rent Review Date will continue to be payable until the revised Main Rent has been notified to the Tenant;
				2. following the notification of the revised Main Rent, the Landlord will demand the difference (if any) between the amount the Tenant has actually paid and the amount that would have been payable had the revised Main Rent been notified before the Rent Review Date; and
				3. the Tenant must pay that difference to the Landlord within 10 Business Days after that demand and interest at three per cent below the Interest Rate calculated on a daily basis on each instalment of that difference from the date on which such instalment would have become payable to the date of payment. If not paid such sums will be treated as rent in arrear.
		3. **Changes in the Index**
			1. If the Index is no longer published or if there is any material change in the way it is compiled or the date from which it commences then a new arrangement for indexation or a rebasing (the “Revised Indexation”) will be substituted for the calculation of the Main Rent to reflect increases in the cost of living on a similar basis to that originally set out in this Lease.
			2. If the parties are unable to agree a basis for the Revised Indexation then, if either party requests it, the parties must make a joint application to the President of the Institute of Chartered Accountants in England and Wales to appoint an arbitrator to do so. The parties must accept the identity of the nominated arbitrator and jointly appoint them to conduct the arbitration. The arbitration must be conducted in accordance with the Arbitration Act 1996.
		4. **Time not of the essence**

For the purpose of this **Schedule 2** time is not of the essence.[[5]](#footnote-5)

**Part 2: Revised Schedule 2 for compound rent review on a five yearly basis**

1.

Rent Review

* + 1. **Defined terms**
			1. This **Schedule 2** uses the following definitions:

**“Base Figure”**

1. on the first Notional Rent Review Date, [FIGURE] (being the Index figure for the month [three][[6]](#footnote-6) months preceding the [date of the Lease][first day of the Term][[7]](#footnote-7));
2. on each succeeding Notional Rent Review Date, the Current Figure for the preceding Notional Rent Review Date;

**“Current Figure”**

the Index figure for the month [three][[8]](#footnote-8) months preceding the Notional Rent Review Date; and

**“Index”**

the “all items” figure of the Index of [Retail] [Consumer] Prices published by the Office for National Statistics or any successor Ministry, Department or Government Agency.

**“Notional Rent”**

until the first Notional Rent Review Date, the [Main Rent][£●][[9]](#footnote-9) and, from each Notional Rent Review Date, the sum calculated in accordance with **paragraph 2.1**;

**“Notional Rent Review Date”**

each anniversary of the first day of the Term.[[10]](#footnote-10)

* + 1. **Rent Review**
			1. On each Notional Rent Review Date, the Notional Rent is to be reviewed to the higher of:
				1. the Notional Rent immediately before that Notional Rent Review Date; and
				2. the revised Notional Rent (rounded up to the nearest £10) calculated in accordance with the following formula:



Where:

R is the revised Notional Rent;

A is the Notional Rent immediately before that Notional Rent Review Date;

C is the Current Figure; and

B is the Base Figure.

* + - 1. [If the formula produces an increase in the Notional Rent of more than [PERCENT]% then the increase will be limited to [PERCENT]%.
			2. If the formula produces no increase in the Notional Rent or an increase of less than [PERCENT]% then an increase of [PERCENT]% will be applied.][[11]](#footnote-11)
			3. On each Rent Review Date, the Main Rent will be reviewed to the Notional Rent calculated for the corresponding Notional Rent Review Date.
		1. **Notice of Main Rent**
			1. If the Main Rent is increased, the Landlord must notify the Tenant as soon as possible after the Rent Review Date.
		2. **Effect of delay in notifying the revised rent**
			1. Following any Rent Review Date until the Landlord has notified the Tenant of the revised Main Rent:
				1. the Main Rent reserved by this Lease immediately before that Rent Review Date will continue to be payable until the revised Main Rent has been notified to the Tenant;
				2. following the notification of the revised Main Rent, the Landlord will demand the difference (if any) between the amount the Tenant has actually paid and the amount that would have been payable had the revised Main Rent been notified before the Rent Review Date; and
				3. the Tenant must pay that difference to the Landlord within 10 Business Days after that demand and interest at three per cent below the Interest Rate calculated on a daily basis on each instalment of that difference from the date on which such instalment would have become payable to the date of payment. If not paid such sums will be treated as rent in arrear.
		3. **Changes in the Index**
			1. If the Index is no longer published or if there is any material change in the way it is compiled or the date from which it commences then a new arrangement for indexation or a rebasing (the “Revised Indexation”) will be substituted for the calculation of the Notional Rent to reflect increases in the cost of living on a similar basis to that originally set out in this Lease.
			2. If the parties are unable to agree a basis for the Revised Indexation then, if either party requests it, the parties must make a joint application to the President of the Institute of Chartered Accountants in England and Wales to appoint an arbitrator to do so. The parties must accept the identity of the nominated arbitrator and jointly appoint them to conduct the arbitration. The arbitration must be conducted in accordance with the Arbitration Act 1996.
		4. **Time not of the essence**

For the purpose of this **Schedule 2** time is not of the essence.[[12]](#footnote-12)

**Part 3: Worked examples**

* + 1. **Example of an annual rent review**
			1. Assume a lease granted at an initial rent of £50,000 on 1 January 2014 for a term of 6 years beginning on that date. Assume that the Index for October 2013 was 195 and that there are annual rent reviews. There are no caps or collars on the rent review.
			2. The first rent review is on 1 January 2015. Assume that the figure for the Index for October 2014 is 205:
				1. the relevant percentage is 100 times (205-195)/195 = 5.128205%; and
				2. the new Main Rent is £50,000 increased by this percentage = £52,570 (rounded up to the nearest £10).
			3. The second rent review is on 1 January 2016. Assume that the figure for the Index for October 2015 is 215:
				1. the relevant percentage is 100 times (215-205)/205 = 4.878048%; and
				2. the new Main Rent is £52,570 increased by this percentage = £55,140 (rounded up to the nearest ten pounds).
			4. The third rent review is on 1 January 2017. Assume that the figure for the Index for October 2016 is 210 (this is lower than the previous year but there has been no change in the Index that would justify the landlord substituting an alternative index):
				1. the relevant percentage is 100 times (210-215)/215 = -2.3255814%; and
				2. the revised Main Rent (£53,860 rounded up to the nearest £10) would be lower than the current Main Rent. As the rent review is upwards only, the Main Rent remains at £55,140.
			5. The fourth rent review is on 1 January 2018. Assume that the figure for the Index for October 2017 is 218:
				1. the relevant percentage is 100 times (218-210)/210 = 3.809523%; and
				2. the new Main Rent is £55,140 increased by this percentage = £57,250 (rounded up to the nearest £10).
			6. The fifth and final rent review is on 1 January 2019. Assume that the figure for the Index for October 2018 is 225:
				1. the relevant percentage is 100 times (225-218)/218 = 3.211009%; and
				2. the new Main Rent is £57,250 increased by this percentage = £59,090 (rounded up to the nearest £10).
		2. **Example of an annual rent review with cap and collar**
			1. Assume a lease granted at an initial rent of £50,000 on 1 January 2014 for a term of 6 years beginning on that date. Assume that the Index for October 2013 was 195 and that there are annual rent reviews. There is a cap of 4% on any increase in the annual rent and a collar of 1.5%.
			2. The first rent review is on 1 January 2015. Assume that the figure for the Index for October 2014 is 205:
				1. the relevant percentage is 100 times (205-195)/195 = 5.128205%; and
				2. as the annual rent cannot increase by more than 4% (the cap), the new Main Rent is £50,000 increased by 4% = £52,000 (no rounding is required).
			3. The second rent review is on 1 January 2016. Assume that the figure for the Index for October 2015 is 215:
				1. the relevant percentage is 100 times (215-205)/205 = 4.878048%; and
				2. as the annual rent cannot increase by more than 4% (the cap), the new Main Rent is £52,000 increased by 4% = £54,080 (no rounding is required).
			4. The third rent review is on 1 January 2017. Assume that the figure for the Index for October 2016 is 210 (this is lower than the previous year but there has been no change in the Index that would justify the landlord substituting an alternative index):
				1. the relevant percentage is 100 times (210-215)/215 = -2.3255814%; and
				2. as the annual rent must increase by at least 1.5% (the collar), the new main rent is £54,080 increased by 1.5% = £54,900 (rounded up to the nearest £10).
			5. The fourth rent review is on 1 January 2018. Assume that the figure for the Index for October 2017 is 218:
				1. the relevant percentage is 100 times (218-210)/210 = 3.809523%; and
				2. the new Main Rent is £54,900 increased by this percentage = £57,000 (rounded up to the nearest £10).
			6. The fifth and final rent review is on 1 January 2019. Assume that the figure for the Index for October 2018 is 225:
				1. the relevant percentage is 100 times (225-218)/218 = 3.211009%; and
				2. the new Main Rent is £57,000 increased by this percentage = £58,840 (rounded up to the nearest £10).
		3. **Example of compounded rent review**
			1. Assume a lease granted at an initial rent of £50,000 on 1 January 2014 for a term of 10 years beginning on that date. Assume that the Index for October 2013 was 195 and that there in one rent review in year 5 calculated on a compound basis. There are no caps or collars on the rent review.
			2. The first notional rent review is on 1 January 2015. Assume that the figure for the Index for October 2014 is 205:
				1. the relevant percentage is 100 times (205-195)/195 = 5.128205%; and
				2. the notional rent becomes £50,000 increased by this percentage = £52,570 (rounded up to the nearest £10). This sum does not become payable.
			3. The second notional rent review is on 1 January 2016. Assume that the figure for the Index for October 2015 is 215:
				1. the relevant percentage is 100 times (215-205)/205 = 4.878048%; and
				2. the new notional rent is £52,570 increased by this percentage = £55,140 (rounded up to the nearest ten pounds). This sum does not become payable.
			4. The third notional rent review is on 1 January 2017. Assume that the figure for the Index for October 2016 is 210 (this is lower than the previous year but there has been no change in the Index that would justify the landlord substituting an alternative index):
				1. the relevant percentage is 100 times (210-215)/215= -2.3255814%; and
				2. the revised notional rent (£53,860 rounded up to the nearest £10) would be lower than the current notional rent. As the notional rent review is upwards only, the notional rent remains at £55,140. This sum does not become payable.
			5. The fourth notional rent review is on 1 January 2018. Assume that the figure for the Index for October 2017 is 218:
				1. the relevant percentage is 100 times (218-210)/210 = 3.809523%; and
				2. the new notional rent is £55,140 increased by this percentage = £57,250 (rounded up to the nearest £10). This sum does not become payable.
			6. The fifth notional rent review date is on 1 January 2019. Assume that the figure for the Index for October 2017 is 225:
				1. the relevant percentage is 100 times (225-218)/218 = 3.211009%; and
				2. the new notional rent is £57,250 increased by this percentage = £59,090 (rounded up to the nearest £10).
			7. As the fifth notional rent review date is also the Rent Review Date, the new Main Rent is the notional rent calculated for the corresponding notional rent review date. The Main Rent is therefore reviewed to £59,090.
			8. Had rent been reviewed on a straight line basis over the five year period rather than on a compounded basis the relevant calculation would have been:
				1. the relevant percentage would have been 100 times (225-195)/195 (the increase in the index over the five year period) = 15.3846154%; and
				2. the new Main rent would have been £50,000 increased by this percentage = £57,700 (rounded up to the nearest £10).
		4. **Example of compounded rent review with cap and collar**
			1. Assume a lease granted at an initial rent of £100,000 on 1 January 2021 for a term of 10 years beginning on that date. Assume that the Index for October 2020 was 100 and that there is one rent review in year 5 calculated on a compound basis. There is an annual cap of 3% and an annual collar of 1%.
			2. The first Notional Rent Review Date is on 1 January 2022. Assume that the figure for the Index for October 2021 is 102:
				1. The formula produces a rent of £100,000 x 102/100 = £102,000.
				2. The increase in the Index is (102-100)/100 = 2%, so the cap and collar do not apply.
				3. The Notional Rent becomes £102,000. This sum does not become payable.
			3. The second Notional Rent Review Date is on 1 January 2023. Assume that the figure for the Index for October 2022 is 106:
				1. The formula produces a rent of £102,000 x 106/102 = £106,000.
				2. The increase in the Index is (106-102)/102 = 3.9%, so the cap will apply.
				3. The new Notional Rent is £102,000 x 103% = £105,060. This sum does not become payable.
			4. The third Notional Rent Review Date is on 1 January 2024. Assume that the figure for the Index for October 2023 is 104 (the Index has fallen, but not because it has been rebased or there has been any material change in the way it is compiled):
				1. The formula produces a rent of £105,060 x 104/106 = £103,077.
				2. The Index has fallen, so the collar will apply.
				3. The new Notional Rent is £105,060 x 101% = £106,110. This sum does not become payable.
			5. The fourth Notional Rent Review Date is on 1 January 2025. Assume that the figure for the Index for October 2024 is 109:
				1. The formula produces a rent of £106,110 x 109/104 = £111,211.
				2. The increase in the Index is (109-104)/104 = 4.8%, so the cap will apply.
				3. The new Notional Rent is £106,110 x 103% = £109,300 (rounded up to the nearest £10). This sum does not become payable.
			6. The fifth Notional Rent Review Date is on 1 January 2026. Assume that the figure for the Index for October 2025 is 112:
				1. The formula produces a rent of £109,300 x 112/109 = £112,308.
				2. The increase in the Index is (112-109)/109 = 2.75%, so the cap and collar do not apply.
				3. The Notional Rent becomes £112,310 (rounded up to the nearest £10).
		5. As the fifth Notional Rent Review Date is also the Rent Review Date:
			- 1. The new yearly rent is the Notional Rent calculated for the corresponding Notional Rent Review Date.
				2. The yearly rent is therefore reviewed to £112,310.
1. The reason for using a date three months before the rent review date is to ensure that there has been sufficient time for the relevant index figure to be published and avoid delays in implementing the rent review arising from the relevant figures being unavailable. [↑](#footnote-ref-1)
2. Amend, where necessary, to reflect the date from which the Rent Review Dates are calculated. [↑](#footnote-ref-2)
3. This should match the figure used in the definition of “Base Figure”. [↑](#footnote-ref-3)
4. Include where it has been agreed that there will be a cap or collar (or both) on any increases in the rent. [↑](#footnote-ref-4)
5. A decision has been taken not to include provisions to circumvent any statutory restrictions on implementing rent reviews or to nominate an extra rent review date when any such restrictions cease to have effect. [↑](#footnote-ref-5)
6. The reason for using a date three months before the rent review date is to ensure that there has been sufficient time for the relevant index figure to be published and avoid delays in implementing the rent review arising from the relevant figures being unavailable. [↑](#footnote-ref-6)
7. Amend, where necessary, to reflect the date from which the Rent Review Dates are calculated. [↑](#footnote-ref-7)
8. This should match the figure used in the definition of “Base Figure”. [↑](#footnote-ref-8)
9. If the Main Rent is stepped [↑](#footnote-ref-9)
10. If the Rent Review Dates are not anniversaries of the term commencement date, amend this definition so that the Notional Rent Review Dates will periodically coincide with the Rent Review Dates. [↑](#footnote-ref-10)
11. Include where it has been agreed that there will be a cap or collar (or both) on any increases in the rent. [↑](#footnote-ref-11)
12. A decision has been taken not to include provisions to circumvent any statutory restrictions on implementing rent reviews or to nominate an extra rent review date when any such restrictions cease to have effect. [↑](#footnote-ref-12)