CREDIA

BY RE-LEASED

UNITED KINGDOM

Commercial Real Estate Two-Year Review

(2020-2022)

COVID-19 IMPACT AND OUTLOOK REPORT

Re-Leased

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When the COVID pandemic hit the UK's shores just over two years ago, a wave of uncertainty washed over the country's commercial property industry.

To help navigate these turbulent times, CREDIA began regularly reporting important insights and market commentary to both its clients and the wider industry. This allowed property professionals to not only benchmark their own performance against the market, but also stay on the pulse with its evolving dynamics.

This report summarises our findings over the past two years across a number of key metrics including key rent collected, assistance provided by landlords, lease lengths and vacancy rates.

As we look beyond COVID, we have also included key data on arrears. This information is particularly relevant given the UK Government introduced the new arrears arbitration scheme on 25 March. This scheme allows landlords to collaboratively work with tenants to rebalance their books.

Tom Wallace

RE-LEASED CEO

01 KEY EVENT TIMELINE

Pandemic Impacts 2020-2022

2020

MARCH 2020	**UK NATIONAL LOCKDOWN BEGINS** March QTR rent collection drops to an all-time low of 59%
APRIL 2020	**LOCKDOWN EXTENDED BY "AT LEAST" 3 WEEKS**
MAY 2020	**SCOTTISH GOVT ANNOUNCES £5M FUND OFFERING INTEREST-FREE LOANS TO LANDLORDS**
JUNE 2020	**NON-ESSENTIAL SHOPS RE-OPEN**
JULY 2020	**UK FIRST LOCAL LOCKDOWN**
AUGUST 2020	**EAT OUT TO HELP OUT SCHEME LAUNCHED**
SEPTEMBER 2020	**NEW RESTRICTIONS INCLUDING WFH AND 10PM CURFEW FOR HOSPITALITY**
NOVEMBER 2020	**UK SECOND NATIONAL LOCKDOWN COMES INTO FORCE**
DECEMBER 2020	**SECOND LOCKDOWN ENDS AND UK ENTERS STRICTER THREE-TIER SYSTEM OF RESTRICTIONS**
DECEMBER 2020	**TIER 4 RESTRICTIONS COME INTO EFFECT IN LONDON AND SOUTH EAST ENGLAND**

2021

JANUARY 2021	**MAINLAND SCOTLAND GOES BACK INTO LOCKDOWN**
JANUARY 2021	**UK ENTERS THIRD NATIONAL LOCKDOWN**
APRIL 2021	**NON-ESSENTIAL RETAIL, HAIRDRESSERS AND PUBLIC BUILDINGS REOPEN**
JUNE 2021	**COMMERCIAL RENT MORATORIUM EXTENDED TO 25 MARCH 2022**
JULY 2021	**CLOSED SECTORS OF THE ECONOMY REOPEN (NIGHTCLUBS)**
SEPTEMBER 2021	**PLAN B ANNOUNCED IF NHS BECOMES OVERRUN DURING WINTER**
DECEMBER 2021	**OMICRON VARIANT RESULTS IN MOVE TO PLAN B**

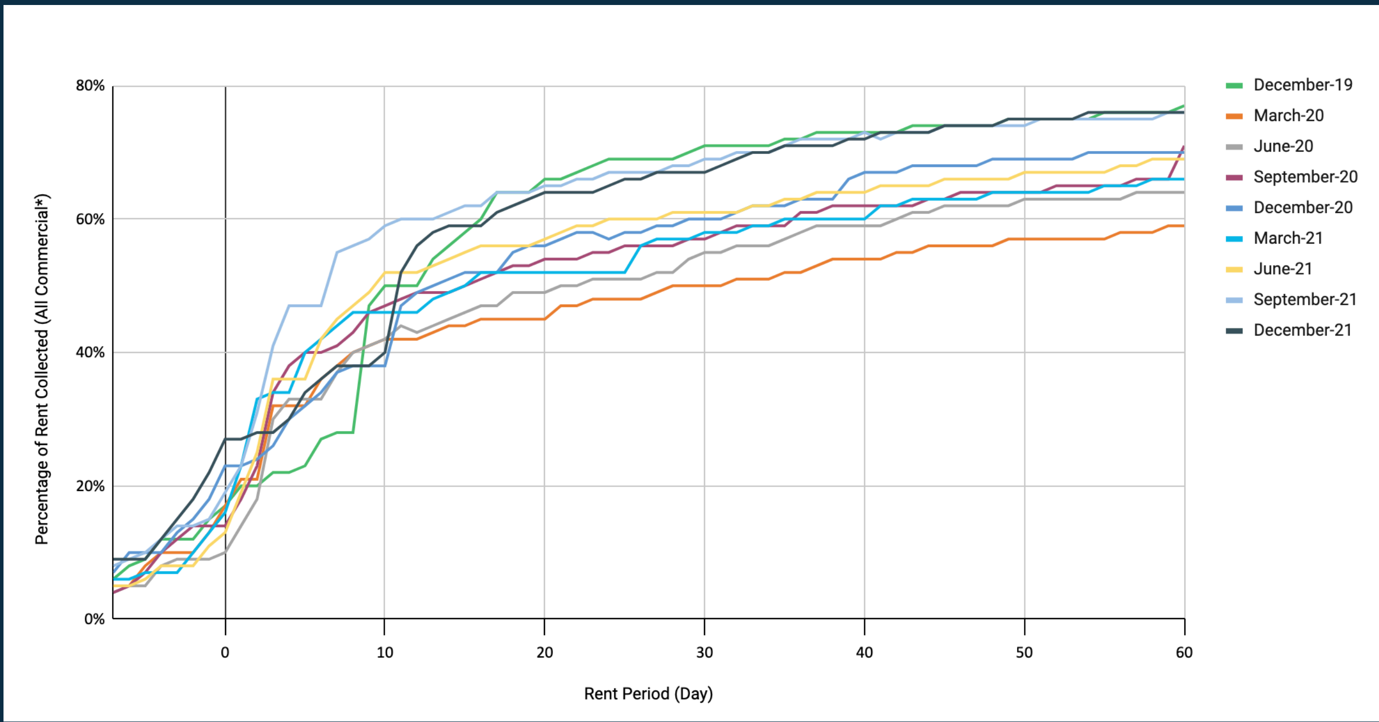
2022

FEBRUARY 2022	**ALL CORONAVIRUS RESTRICTIONS END IN THE UK** December QTR rent collection recovers to pre-pandemic levels

02 RENT COLLECTION

Commercial rent collection has taken a full two years to return to pre-covid levels

UK COMMERCIAL RENT COLLECTION BY QUARTER FOR 2019 TO 2021



Includes other asset classes with smaller sample sizes (leisure etc). The data excludes Scotland.

The pandemic drove unprecedented drops in rent collection throughout the two years. March 2020 acted as an early indicator for what landlords could expect for the remainder of the year, with only 59% of commercial rent received by landlords.

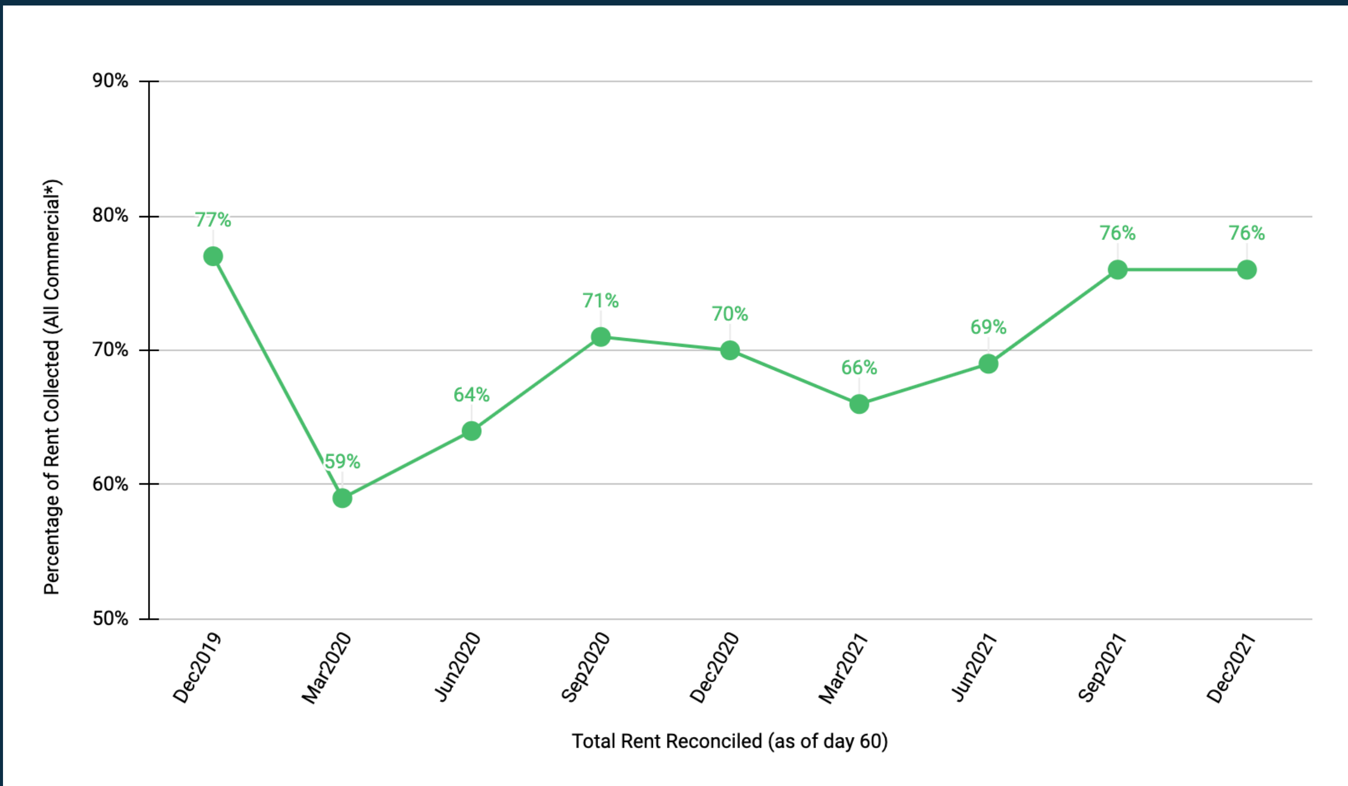
Retail was particularly hard hit at the beginning of lockdown, when collections plunged as low as 50% in March 2020. There has been evidence of recovery with improved rates in the latter half of 2020 and 2021.

The industrial and office sectors also saw initial drops at the beginning of COVID. Both have followed similar trends to the overall average commercial trend and have made steady gains to pre-pandemic levels in December Quarter 2021 at 77% for Office and 86% for industrial.

“We are at the two-year point in this pandemic and these figures mark the eighth successive quarter of shortfalls in rent collection. This being said, we are well on the road to recovery and some asset classes have recovered fully” Sam Caulton, CFO Re-Leased.

NATIONAL TREND | QUARTERLY RENT COLLECTION ACROSS KEY SECTORS FOR 2019 - 2021

UK DAY 60 | TOTAL RENT COLLECTION FOR ALL COMMERCIAL



**Includes other asset classes with smaller sample sizes (leisure etc). The data excludes Scotland.*

UK DAY 60 | TOTAL RENT COLLECTION FOR RETAIL

LONDON | QUARTERLY RENT COLLECTION FOR 2019 - 2021

While most regions are near or exceeding pre-pandemic levels, London is still 20% lower than the December quarter 2019 benchmark.

Despite this downturn, there are early signs of recovery for the nation's capital, with incremental increases being made each quarter since March 2020.

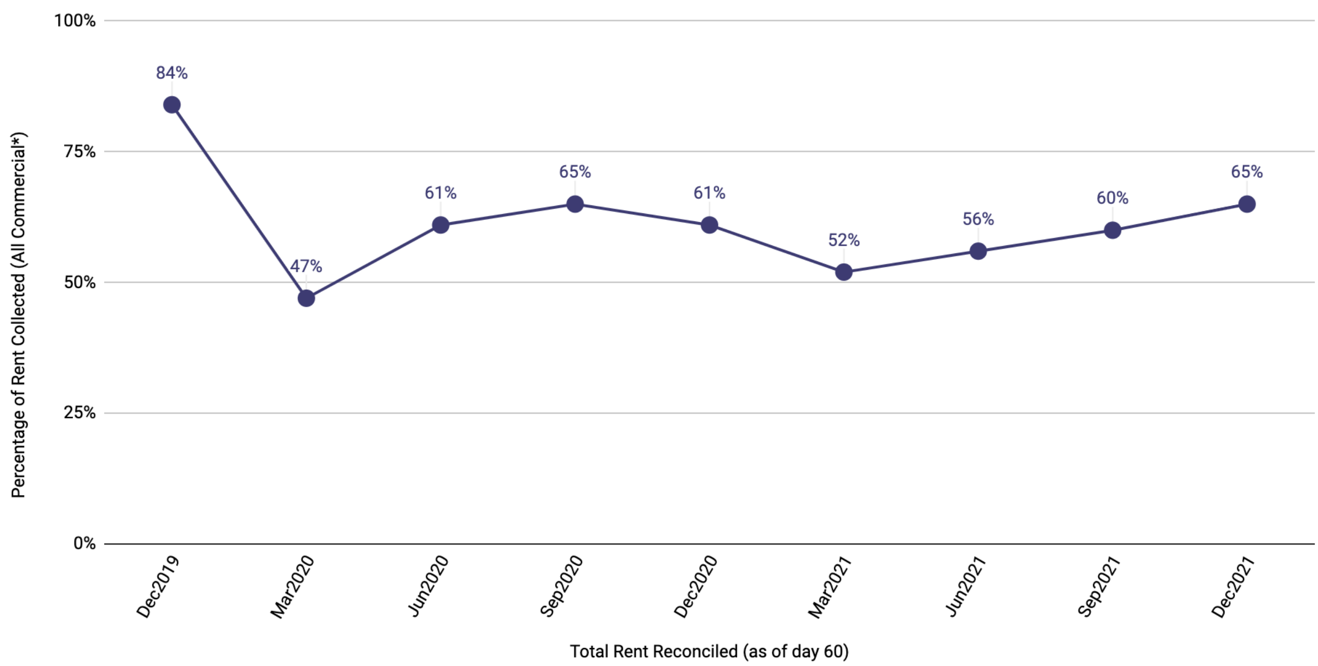
Rent recovery rates vary across other UK regions and reflect the unique challenges COVID has created across the country for landlords and property managers. Yorkshire and Humber and East Midlands, for instance, both now exceed pre-pandemic levels, while The East of England, like London, is still sluggish and 22% below pre-Covid levels, reinforcing the regional recovery differences.

Sam Caulton, CFO of Re-Leased, said: "Rent collection data continues to be an important barometer for economic performance, and crucially economic recovery. From these latest figures, there is definite cause for optimism – the overall UK picture seems to be looking up, as we begin to really feel the effects of the lifting of COVID restrictions. Landlords in Yorkshire and Humber and East Midlands will be particularly pleased to see rent collection almost in line with pre-pandemic levels at this stage in the quarter.

But what this data undoubtedly shows is that the picture is vastly different across the country's regions, and perhaps surprisingly, our capital city is proving slow to recover. We are hearing again and again from the UK Government that levelling up must be a priority, and what we can see here highlights that London must still be considered within this agenda.

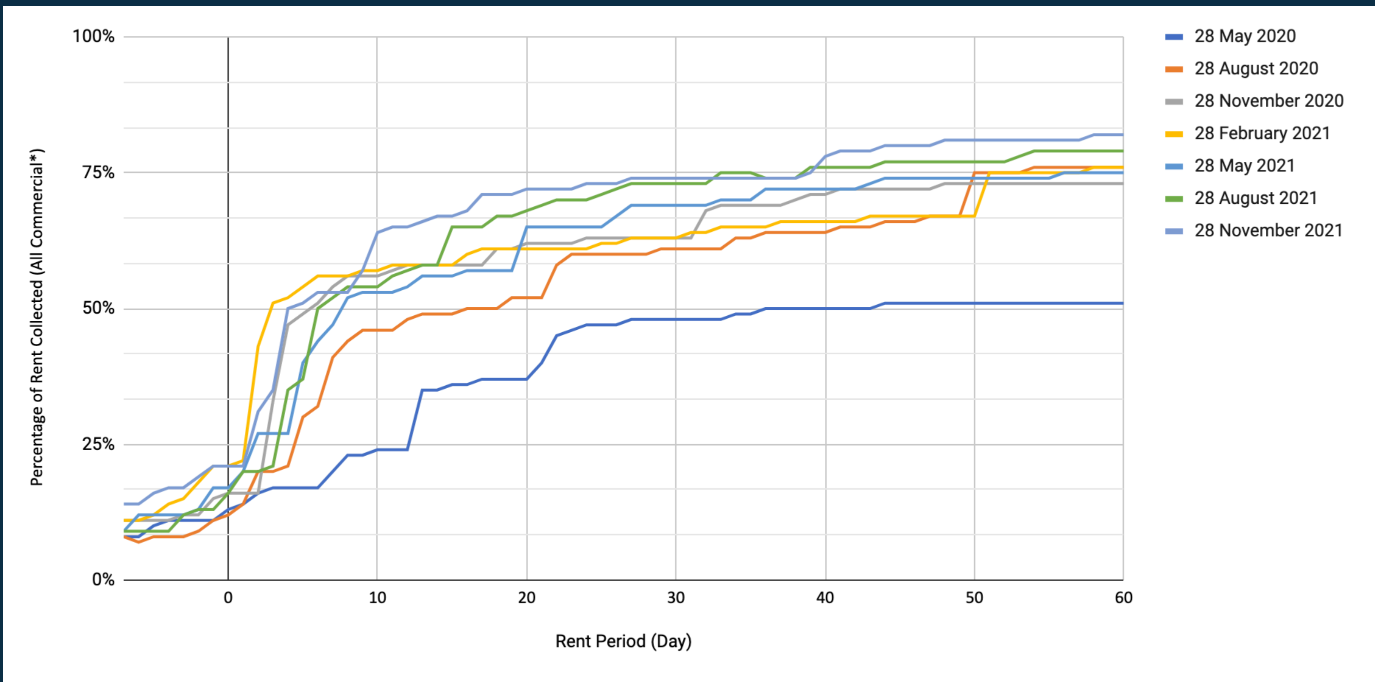
What is clear in general though is that the UK's regions look set to punch above their weight post-COVID. Businesses have realised they don't need everyone in London, and this may lead to a transition away from the capital, in which regional cities get a bigger piece of the pie."

LONDON COMMERCIAL RENT COLLECTION BY QUARTER



**Includes other asset classes with smaller sample sizes (leisure etc)*

SCOTLAND | COMMERCIAL RENT COLLECTION BY QUARTER FOR 2019 TO 2021



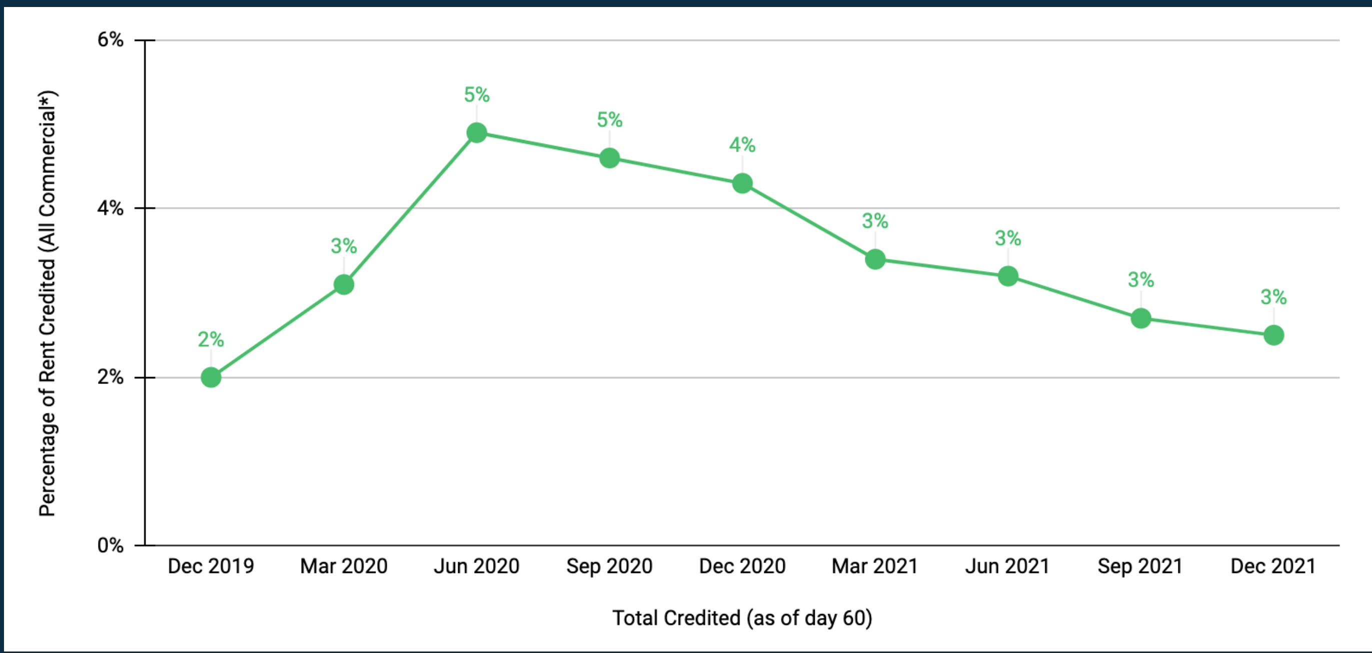
Includes other asset classes with smaller sample sizes (leisure etc).

Rent collection in Scotland has been steadily recovering since we began collecting data on the country in May 2020. November 2021 reports an average commercial rent collection of 82% for day 60, and current quarter figures mirror a similar trend.

03 RENT RELIEF INDICATORS

Landlord subsidies normalise after spike in rent credited in 2020

UK LANDLORD SUBSIDIES | COMMERCIAL AVERAGE



Shows the percentage of rent that was credited on a quarterly basis

Landlord subsidies are measured by examining the volume of rent that has been reduced by landlords and cleared from tenants' balances, meaning that they may never have to pay a portion of their rent.

The subsidies facilitated by landlords spiked at the beginning of the pandemic, since June 2020 they have been steadily trending back towards pre-COVID levels.

Earlier in the pandemic, we believed that the volume of rent credited was indicative of the worst-hit sectors.

This recovery suggests landlords and tenants have been collaborating and working together to navigate the unique challenges posed by COVID. As businesses have returned to somewhat normal operations, subsidies are being decreasingly relied on by tenants.

Scotland's landlord subsidies have fluctuated over the course of the pandemic. Uncertainty and multiple false starts in regards to lockdowns and restrictions easing have been reflected in the credit notes. However, like the UK, the country is now returning to pre-COVID subsidy levels.

04

ARREARS AS A PROPORTION OF RENT

UK landlords carry a continually growing arrears balance

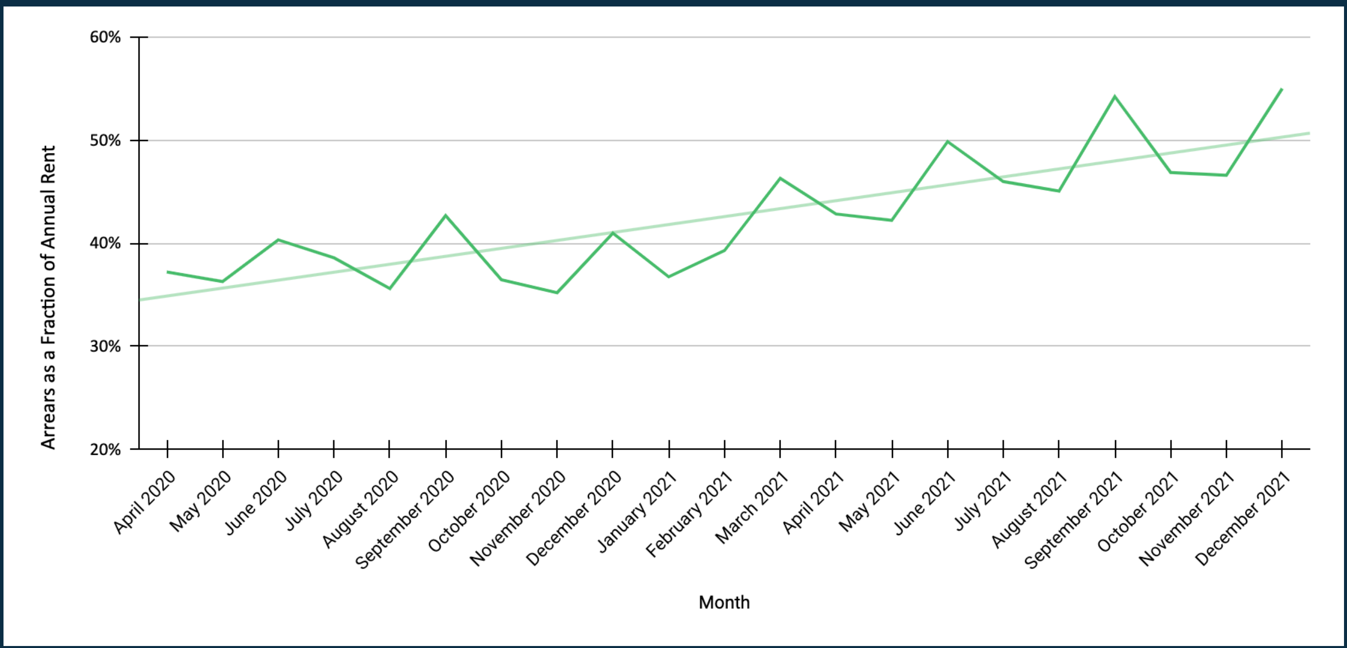
The upward trend shows an increase in total portfolio arrears as a proportion of annual net rent. It has increased by 37% from April 2020 to 55% in December 2021. This is an increase of nearly 20% since the onset of the pandemic and means the total rate of arrears carried by commercial property owners is increasing over time.

The importance of these growing arrears has not gone unnoticed by the Government. On 25 March, the new COVID-19 commercial rent arrears arbitration scheme came into force.

This scheme sets out an unprecedented arbitration scheme to deal with COVID-19 commercial rent arrears which remain unpaid and in dispute.

Sam Caulton, CFO of Re-Leased, said: "These figures illustrate the growing weight of the burden placed upon landlords over the past two years. Whilst all covid restrictions have now ended, the rate of arrears owed to commercial landlords has continued to increase even as the economy has bounced back. The arbitration scheme allows landlords to work collaboratively with tenants to rebalance their books, and is no doubt welcomed across the sector."

ARREARS AS A FRACTION OF ANNUAL RENT

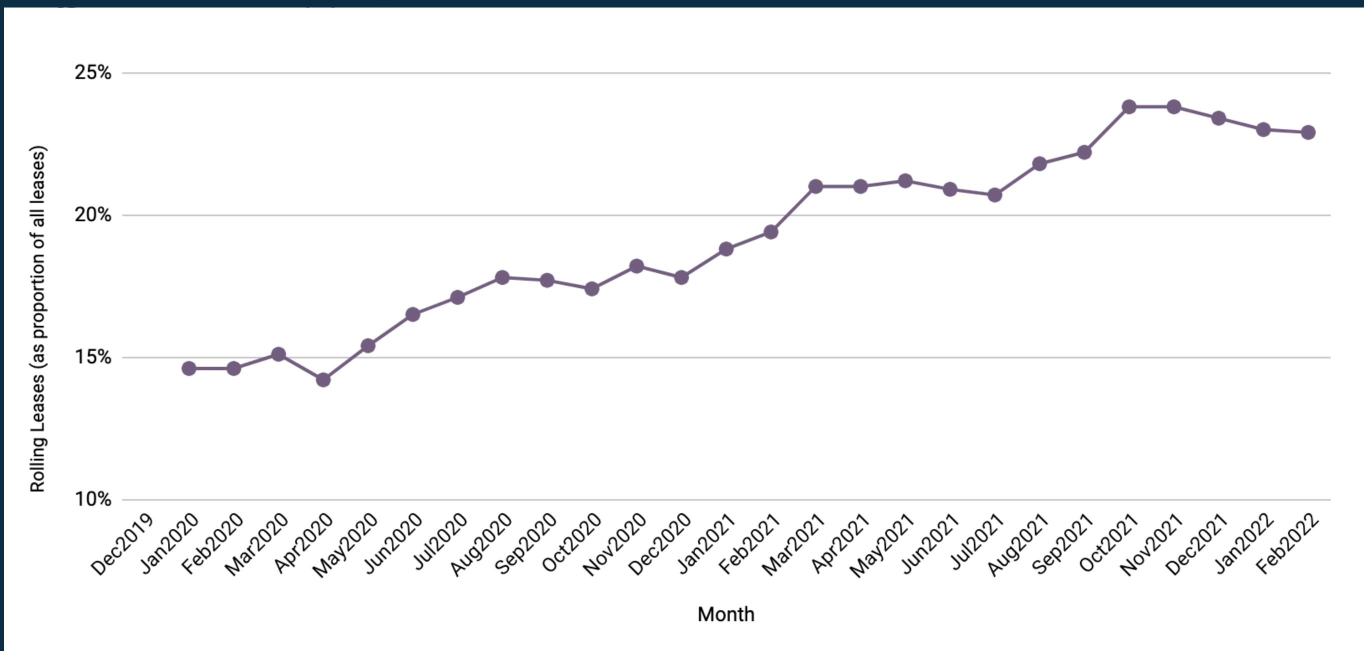


05

POTENTIAL VACANCY RISK (BY COUNT)

Office increases in vacancy risk with a growing proportion of rolling leases

UK OFFICE VACANCY RISK BY COUNT



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Tenancies can either have a fixed term lease or a periodic tenancy, also known as a "rolling" lease, with no agreed expiry. This presents a risk to landlords due to the uncertainty of future occupancy and cash flow. This is a measure of the proportion of periodic leases.

- Office increases in vacancy risk over the two-year pandemic period by 8%.
- Industrial remains consistent but has an overall high potential vacancy risk for landlords with a high proportion of rolling leases at 35% in Feb 2022.

06 LEASE RETENTION

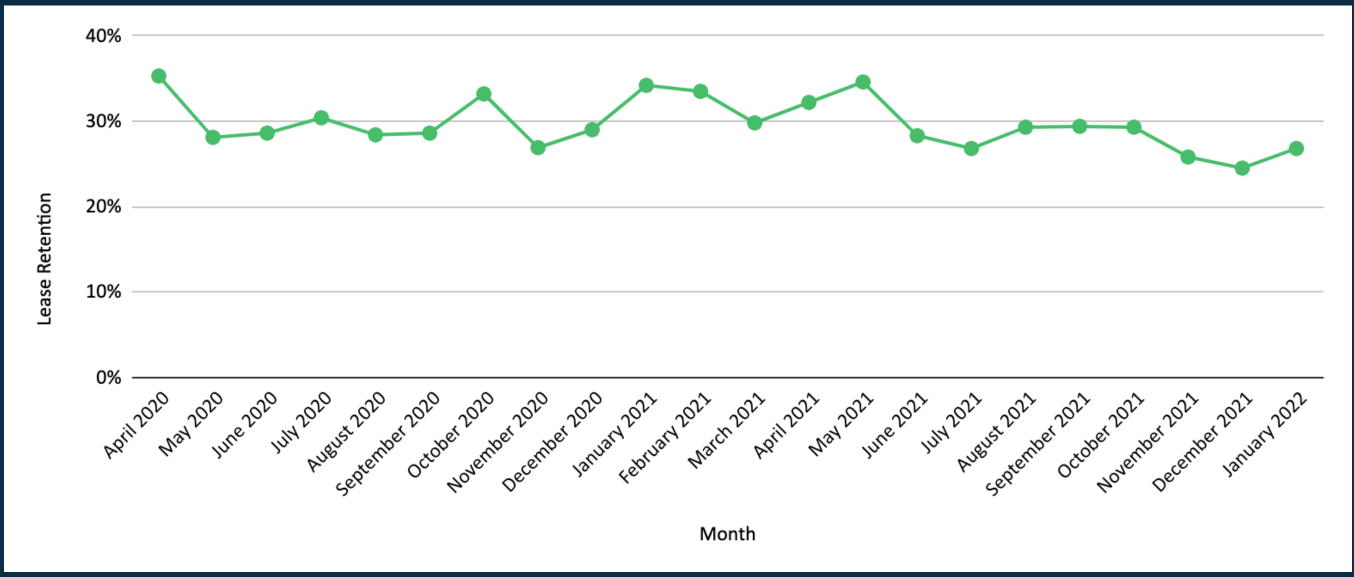
Slow but steady fall of retention rates

Tenant longevity is at the forefront of many landlord's minds. However, there has been a reduction in UK landlord's ability to retain tenants.

The Lease Retention figures establish the rate at which tenants renew or extend their lease when presented with either a term expiry or break option. As landlords need to gauge the likelihood of future vacancies and the impact on cash flow, the Lease Retention metric provides a retrospective view of how similar situations have played out in the recent past. Since the beginning of 2020, there has been a slow but steady fall in the average retention rates, particularly in the Office and Retail sectors.

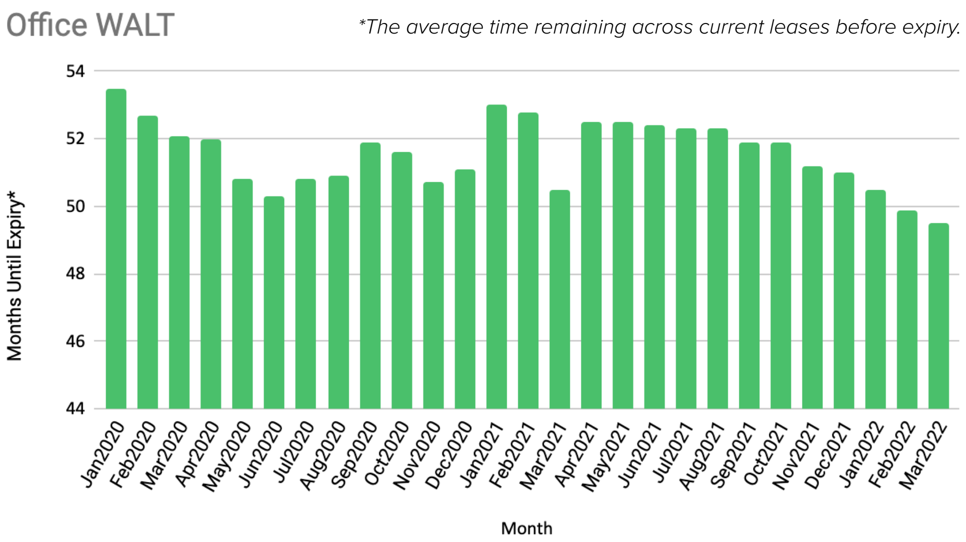
This signals that occupiers are looking to change their lease strategy as COVID has forced many tenants to reconsider their physical space requirements.

UK AVERAGE LEASE RETENTION



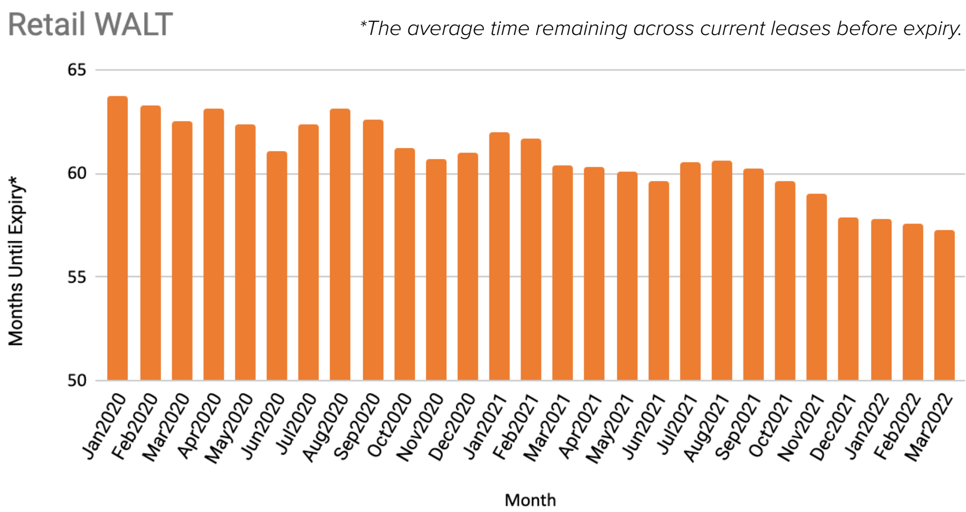
07 WALT

Retail decreases in the average time remaining across current leases before expiry



Retail and Office sector landlords are more vulnerable to tenant vacancies.

- Office decreased 7% from Dec 2019 to March 2022 — 53.5 months to 49.5
- Retail decreased 10% from Dec 2019 to March 2022 — 63.7 months to 57.3



Weighted Average Lease Term is an important measurement for analysing office, retail, and industrial properties. WALT displays the average time remaining across current leases before expiry. However, leases with higher rents are given greater weighting and contribute to the average expiry profile to a greater extent than those with smaller annual rents.

"COVID has created an uncertain economic outlook, in response, tenant confidence has dropped and they are looking for more flexibility in their lease terms. We believe that landlords also need to be flexible with their leasing strategy to match this sentiment, or face longer periods with vacant space if they struggle to sign leases on pre-pandemic terms," says Tom Wallace, founder and CEO, Re-Leased.

08 MAINTENANCE ITEMS AND SPEND

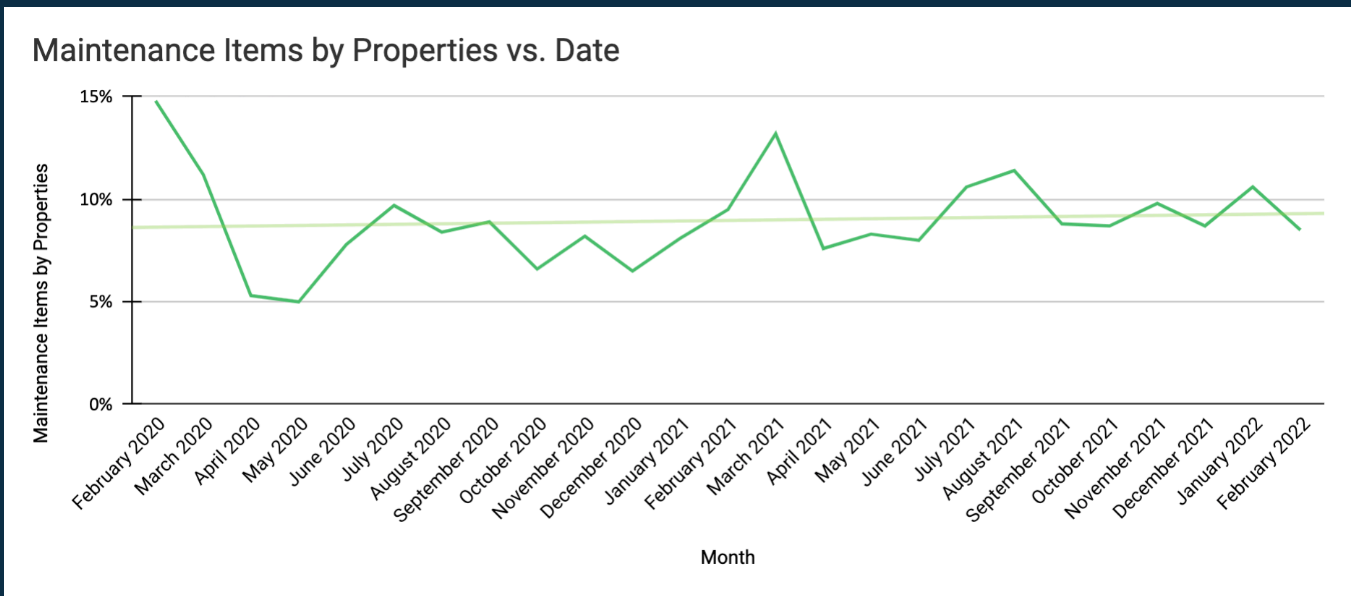
Year-on-year drop in completed maintenance cost

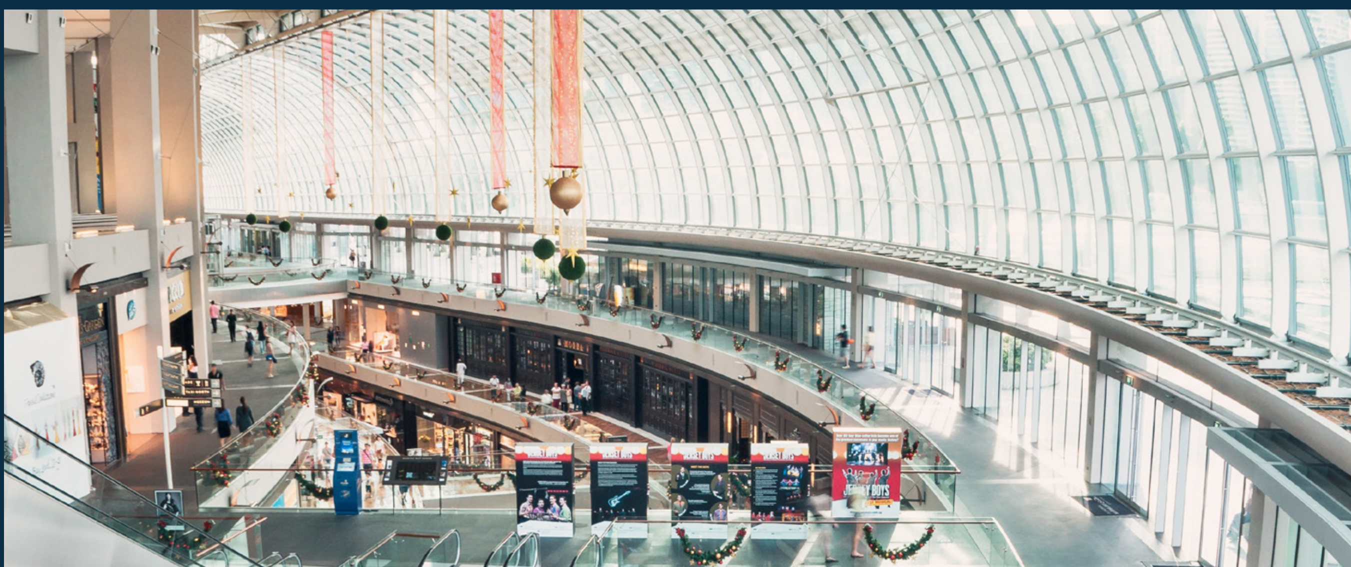
Since the beginning of 2020, maintenance-spend by commercial property owners has slightly trended down. We can report a year-on-year drop in completed maintenance cost per property of 40% across our platform in the UK.

This downward trend indicates the long-term impacts of COVID-19 are still being felt by the property industry.

Property Owners are preferring to hold cash rather than spend on maintenance as they look to navigate these uncertain times.

In terms of the number of maintenance items carried out, we see a significant drop from 14.80% in Feb 2020 to a low of 5.30% in April 2020. From here we have seen a steady rise but not to the pre-pandemic levels.





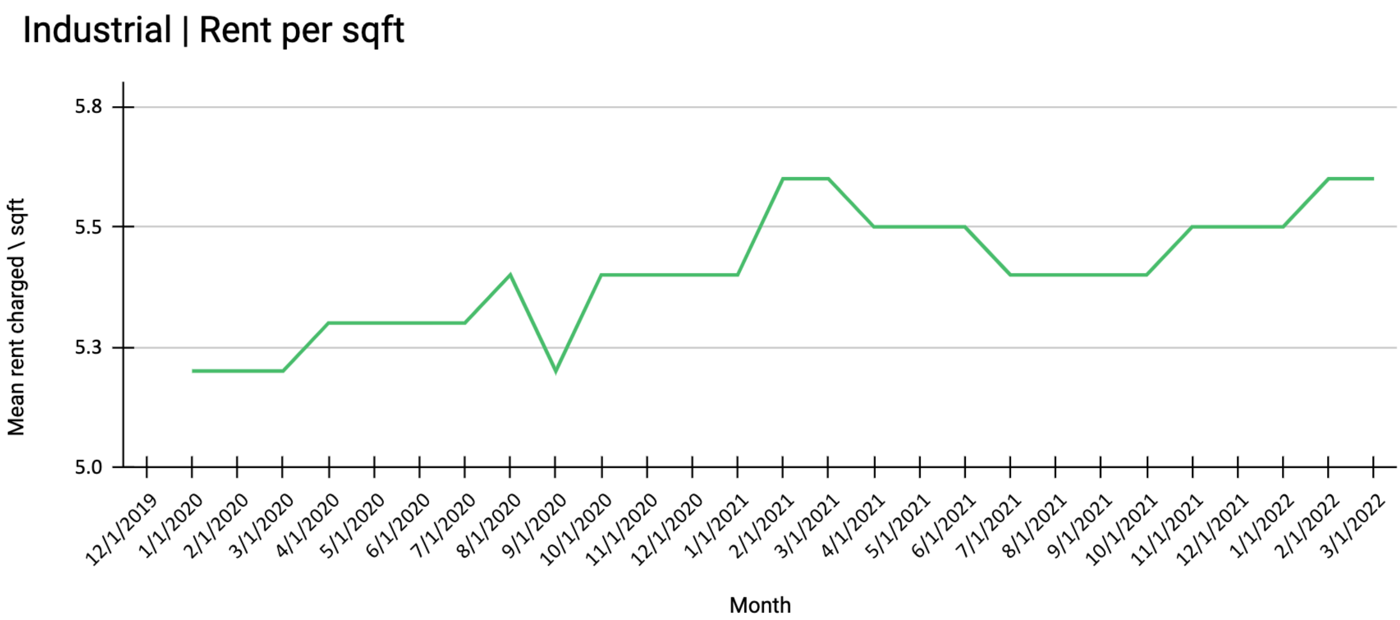
09

RENT (£GBP/SQFT)

Industrial sector thrives with rent per sq ft increasing steadily since March 2020

This data measures the mean rent charged to active tenants divided by the size of area that they occupy.

While rent charged per square foot across the property industry has slightly decreased over the two-year period, when looked at in isolation, industrial bucks this trend. Industrials' increase is indicative of the sector's relatively strong performance during COVID, with both construction costs and an increase in land prices also driving up rents over the period.



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COVID-19 IMPACT AND OUTLOOK REPORT

This data has been collected, anonymised and aggregated directly from over 10,000 properties and 35,000 leases in the UK. It does not rely on surveys or secondary collections.

Re-Leased Software Company Ltd are confident in the validity of this data as its formation is a direct result of bank statements entries being matched and reconciled to rental invoices.

All data that has been aggregated for this report is in line with the following Re-Leased Terms and Conditions as at the time of publishing.

Data Methodology Update

We are continually striving to improve our market analytics, and as a result will occasionally update a previously published dataset. This can occur because:

- We add/remove customers as outliers due to abnormal system use
- We improve our analytical models due to further research
- Our ML mapping of customer entered asset classes is improved
- We remove customers who request their data be excluded from our anonymized, aggregated market insights.

In general, we have found that these changes result in minimal differences in the overall sentiment of our data, although we monitor these differences so that we can learn from them.

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