EMPTY RATES "Pain or Gain?"

Before April this year, vacant commercial properties in England received 100% relief from business rates for the first three months they were unoccupied; after that, 50% relief applied. Industrial and warehouse premises received 100% relief when they became vacant, for as long as they remained vacant. Vacant properties owned by charities, and community amateur sports clubs received 80% relief on business rates.

In March 2007, the Government announced its decision (effective from 1st April 2008) to reform the way business rates were charged as an incentive to bring empty commercial buildings back into use. The Government sought to do this by largely removing the empty rate relief, with the intention that it would have the effect of encouraging owners and occupiers of commercial property to re-let, re-develop or sell unoccupied property.

The new legislation effectively removes the 50% relief from business rates enjoyed by vacant commercial properties. As a result, empty rate costs for owners and developers of office or shop premises have doubled since April, and owners of unoccupied industrial property, who previously did not pay any empty rates, now face significant rates liabilities. After an initial three month exemption period for commercial properties such as shops and offices, and a six month exemption period for some industrial properties such as factories, warehouses, workshops and stores, business rates will have to be paid in full. This change in the law has dramatically reduced the amount of relief given against business rates on empty commercial and industrial buildings.

Property and business organisations are stepping up their opposition to the new empty rates legislation, pointing out the negative effects, one of which is the demolition of buildings which could have provided cheap short-term space. For example, in June 2008, St Modwen pulled down a 757,000 sq ft industrial warehouse at its Longbridge site near Birmingham ahead of schedule to save an annual £700,000 empty rates bill. However, demolition is not an option for new buildings, so landlords have adopted alternative strategies to mitigate the impact of empty rates, such as delaying completion of developments, intermittent occupation or letting to charities. The most beneficial avoidance activity is to let the vacant space, yet many property owners and landlords are facing difficulties finding tenants. There is evidence however of extra incentives being used to attract tenants, such as extended rent-free periods, reverse premiums and capital contributions.

With such controversy regarding the changes to empty property relief and the prospect of sharp increases in rateable values, as a result of the forthcoming 2010 revaluation, the empty rate levy problem will be exacerbated. Owing to the credit crunch, there is the prospect of a substantial decline in City office rental values. The credit crunch has already led to a significant slowdown in investment and agency activities around the Antecedent Valuation Date (AVD) for the 2010 Rating List (1st April 2008). The reduced agency activity has limited the amount of evidence on which the Valuation Office (VO) can base its rateable value assessments for 2010. This may lead to potential inaccuracies in the rateable values adopted by the VO in the 2010 Rating List.

The Uniform Business Rates (UBR) for 2008/09 is set at 45.8p in England, 46.6p in Wales, and 45.8p in Scotland. It is estimated however, that England's UBR will fall to 45.5p in2010/11 after an anticipated 46.9p in 2009/10.

In our view, West End office rates liabilities are likely to increase by as much as 50% in eighteen months time (i.e. from 1st April 2010) and could amount for 50% of the then rental value; Midtown could see a rate liability hike of approaching 25%, but it will form a smaller portion of rental value than in the West End. In the City, by 2010, rate liabilities for occupied space may have increased by about 20%, and could be equivalent to about 40% of the then rental value.

The British Property Federation recently met with officials from the Treasury and the Department for Communities and Local Government as the campaign continues to get the previous empty property rate relief regime reinstated. It was also raised in Parliament on 10th October. Given the country's current economic predicament, the Exchequer is not flush with funds and the Treasury will doubtlessly put up a strong fight against any reduction in the extra £1 billion that it expects to raise annually from empty rates.