

Rating revaluation

09 MAY 2016

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CATEGORY:

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The Valuation Office Agency ('VOA') is recalculating business rates. The new rates will be payable from 1 April 2017, based on rents in 1 April 2015.

How does the business rates system work?

The total revenue from business rates is fixed in real terms, and so rates increase each year in line with the Retail Price Index ('RPI').

Business rates are then periodically reviewed. The amount of tax paid is redistributed amongst taxpayers, in accordance with new rateable values.

What happens at revaluation?

The VOA consider the rental value of properties of a certain type and then calculate the average value for that property on the open market per square metre. When rental information is not available or appropriate, the VOA value properties by calculating how much it would cost to replace them.

To calculate the ratepayer's liability, the rateable value for the property is then multiplied by the rating multiplier, known as the Uniform Business Rate ('UBR'). At revaluation, this UBR is often changed. This ensures that the total rates collected remain the same in real terms but the amount of rates paid by individual rate payers changes.

Impact of the 2017 revaluation

It is expected that rateable values in general will fall from the last valuation in April 2008. For the total revenue from rates to remain the same, it is expected that UBR will increase. We have highlighted the impact of the revaluation on various sectors below:

1. London offices

Rates liabilities may increase by over 20% for some London offices, depending on location. This increase stems from the continued growth and demand for London offices and the increase in rents since the last revaluation.

Notably, offices in traditionally fringe locations which have now become recognised business centres will see a significant increase in rates. Stratford and Shoreditch are obvious examples of this change. For example, rateable values in Shoreditch may increase by around 140% as the price per square foot has risen dramatically since 2008.

The knock-on effect of this will be that the difference in cost of offices between the traditionally core locations and fringe locations will markedly reduce. The traditional advantages of relocating out of the core City market may become less apparent after this revaluation. This may then put pressure on City rental values and may prompt some businesses to look further afield to other emerging London locations, such as Hackney.

2. Regional offices

On average, rental values are likely to stay the same for offices in the regional centres. However, as UBR is expected to increase, many rate payers will be paying more, even if their rental value has not increased.

For example, Birmingham and Leeds are likely to experience lower rate liabilities but Manchester may see an increase of around 10%. The simple fact that whilst London rents and business rates are predicted to rise steeply, yet regional rents and rates are more likely to remain static, might encourage many businesses to relocate into regional centres.

3. Retail

The revaluation is likely to have the greatest impact in the retail sector. Since the last revaluation, rents have fallen by as much as 50% in certain locations, yet business rates have continued to rise in line with RPI. On the flip side, shops in prime locations have seen booming turnover and increased rents, yet these increases have not been reflected in rates payable.

In some shops in Central London, such as those on New Bond Street and Oxford Street, rates liabilities could be increased by around 50%. Outside of London, many locations should face reduced business rates, particularly in the north and west of the country.

However, any benefits that the retail sector may experience from this revaluation will depend on what, if any, transitional provisions are applied for the implementation of the revaluation. To help businesses adjust to the significant increases in business rates, those that have experienced a significant decrease in business rates may have to pay a price. Many centres will face three to four, or more, years of transitional phasing of the new business rates. The effect of this will be that the rating revaluation will not resolve many problems that businesses currently face, and regional centres will only gradually experience an alleviation of the tax liability pressures that they currently face.

4. Industrial and logistic sectors

Since the 2008 revaluation, the industrial sector has shown positive growth, particularly in London, the South-East and the West Midlands. With the predicted rise in UBR and the relative decline of other sectors, particularly retail, the occupiers of industrial and logistics properties are likely to experience an increase in business rates after 2017 and to pay a greater share of the national tax received from business rates.

Next steps

Generally, businesses in London and the east of England are likely to experience an increase in business rates. It remains to be seen what transitional provisions will be implemented.

There have been numerous calls over recent years for significant changes to the business rates system, yet, at the moment, there appears to be no indication of this. Occupiers of properties, particularly in London, should be aware of their predicted increased liability. Budgeting to allow for these increased rates should be addressed now. For those occupiers who can expect a reduction in business rates, it is important that they are aware of the change. This information may offer leverage in landlord and tenant negotiations over rent.

The Government have announced that a draft rateable value for each property will be published online on 30 September 2016. This should allow occupiers time to budget and to check the value assigned for any errors or oversights. The draft list will give rate payers prior warning and will enable them to flag any immediate errors before payments become due in April 2017.

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