

ABOLITION OF EMPTY RATES RELIEF WILL BE DETRIMENTAL ALL ROUND

Following a recent report into Local Government funding, the Government's intention is to implement many recommendations likely to have an impact upon business rates payers and, consequently, property values.

Current Situation

Once a property becomes vacant a three-month exemption from business rates is granted after which rates are payable at 50% of the full occupied charge. Rates are not payable for unoccupied industrial and listed buildings and property held by charities and community amateur sports clubs. Empty rates relief equates to around £1bn per annum, and it would appear the reason for these recommendations is to raise extra taxes.

Impact of the New Legislation

The measures proposed from 1st April 2008 will end empty rates relief for businesses after 3 months and industrial property, which has previously enjoyed 100% relief for the whole period of vacancy, will have a six months rates free period. The consultation process ended on 1 October and many were disappointed by its limited scope and the rigidity of the Government's approach.

It seems unlikely that holders of property will reduce rents, as maintaining asset value of the portfolio and ultimately shareholder or pension fund investment values is paramount. It is possible that incentives to new tenants will become more prevalent in some markets. The increase in taxation will present a significant additional burden and is likely to encourage holders of vacant space to explore ways of tax avoidance such as demolishing redundant property in anticipation of the change.

The introduction of a full rate liability could potentially jeopardise speculative development by increasing development risk and this could limit supply of finished new buildings. Such a manifestation will have broader negative economic impacts potentially discouraging investment due to limited availability of suitable (speculatively built) accommodation and make the UK uncompetitive and slower to be able to respond compared to European competitors. Development land values are also likely to be reduced where periods until letting are anticipated to be above the 'rate holiday'.

It is naïve to think that pension funds, insurance companies and tenants of unoccupied property will not be adversely affected. If the true intention is to encourage use of empty property then the revenue could be used to reduce the

rate in the pound paid by all businesses. Many Hampshire properties, new and old, will be hit affecting employers and businesses in the region who have unwanted space because they have needed to move premises.

This proposal could cause the development cycle to take stock thus making future development less profitable without pre-lets to tenants, a market correction in site values, or a reduction in the payments developers can make to local authorities for planning permission under s106 agreements.

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