

BUSINESS RATES

2021 Rating List



LEEDS LONDON MANCHESTER NEWCASTLE BELFAST

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BUSINESS RATES TIMELINE OF EVENTS

Preparations for the 2021 rating revaluation are well under way.

Here is an illustration of the stages from commencement to publication of a new rating list on 1st April 2021.

March 2020

The government's budget statement to introduce significant changes.

See Dunlop Heywood's published advice.

March 2020

New 2020/21 rate bills arrive.

The last bills for the 2017 Rating List. The liabilities set will form the basis of any transitional rates relief scheme.

1 April - 31 December 2019

The Valuation Office Agency have devised schemes to adopt in valuing all categories of properties.

Representations can be made to the VOA in order to influence their approach, especially for non-bulk properties, up to the publication of the new list.

Statutory questionnaires seeking rental, cost and income data to assist the valuation of 1.8 million properties are already in circulation.

These documents are critical to determining the levels of assessment to be applied and should be completed with care. The VOA is approaching some ratepayers direct particularly where they hold building cost information for specialist property such as airports.

January 2020 - June 2020

The VOA complete their rating valuations for the 2021 rating list.

30 September 2020

Draft 2021 rateable values are published. These need to be checked for clear factual errors and provide the basis for budgeting and decisions on appeal.

Representations can be made to the VOA in order to influence their approach.

Autumn/Winter 2020

Announcement on the UBR multiplier for 2020/21 and any transitional adjustment arrangements.

At this stage accurate budget estimates for financial year 2020/21 can be provided.

1 April 2021

The new rating list is published.

Appeals can be submitted after 1st April 2021.





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NON-DOMESTIC RATES - ENGLAND AND WALES

The long awaited non-domestic rating revaluation is underway with new Rateable Values to be implemented on 1st April 2021 in England & Wales. These will be based on rental values at 1st April 2019.

The current 2017 Rating List is based on 2015 rental levels – post the collapse of global banking markets and the economic crisis. But with little economic growth in recent years, many feel that business rates today are artificially high and they are looking forward to the change that a revaluation offers. This change is particularly anticipated by those in the retail sector.

As with previous rating revaluations there will be winners and losers with the introduction of the 2021 Rating List but this time around we believe more businesses will benefit than lose.

Current legislation is actually designed to ensure constant revenue in real terms when new rating lists are introduced, regardless of what is happening in the economy.

So, despite a collapse in demand and market rents in some parts of the country, to date there has not been a new rating list to re-balance the tax base. Over recent years many have called for a major overhaul of the rating system and the 2020 March budget is likely to offer some respite from business rates beyond the reliefs and exemptions currently offered.

After four years of the 2017 Rating List, from 1st April 2021 rateable values will be based on rents as at 1st April 2019





Today we have seen some rental incomes bounce back from the recession-hit years but overall the property sector has yet to recover from the lows of 2009/10. As a result, this revaluation has been one of the most eagerly awaited.

Currently, business rates increase each year in line with the CPI. In the long term this system would be fairer if the annual increase truly reflected economic growth.

Whilst in many areas rents have stagnated or dropped, overall the CPI has continued to rise, albeit slowly.

There will undoubtedly be some transitional arrangements introduced in England with the new rating list to soften the blow for businesses facing large increases in business rates liability. Usually this takes the form of phased increases

but as the system has to stay 'fiscally neutral', in the Chancellor's own words, then those phased increases in liability are usually paid for by those who would otherwise enjoy business rates liability reductions; the very same who have arguably been over paying in recent years!

Boris Johnson has pledged to reduce the burden of business rates and so some anticipate a reduction in the rating multiplier (UBR) following the rating revaluation.

Put simply, a ratepayer's liability arises by multiplying their rateable value (RV) by the appropriate rate in the pound, currently the Uniform Business Rate (UBR). The change at each revaluation is the re-basing of rateable values forming the rating list based on the new valuation date.



“After four years of the 2017 Rating List, from 1st April 2021 rateable values will be based on rents as at 1st April 2019.”

The new UBR is calculated by dividing the total business rates income requirement by the total RV forming the new rating list.



“This revaluation has been one of the most eagerly awaited in living memory.”

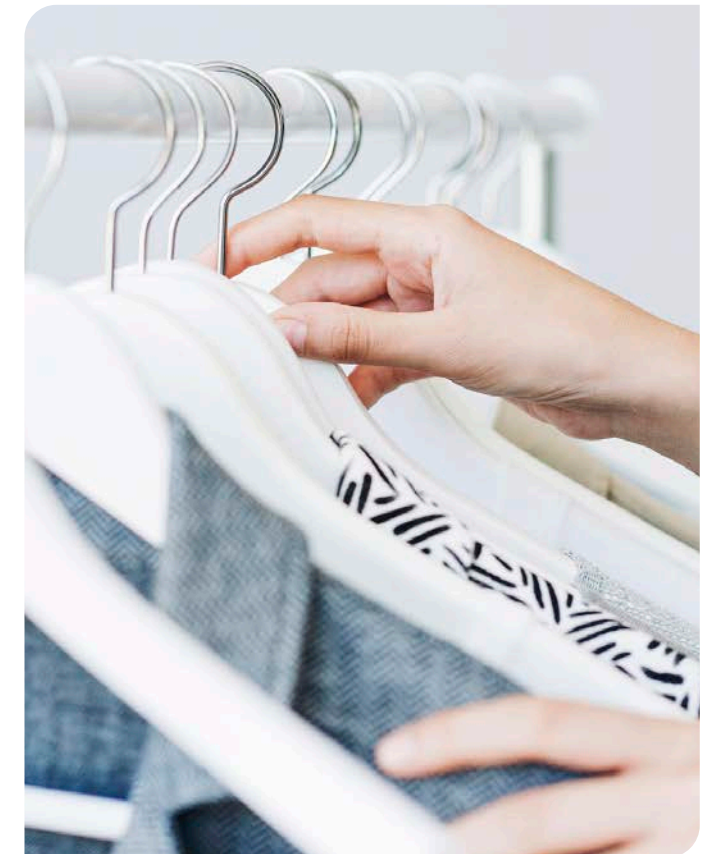


RETAILERS – LIMITED RELIEF

The retail sector in particular has been very vocal in its calls for a rebalancing of the business rates burden.

Some of the heat has been taken away from the issue, with the Government’s announcement in 2019 of its plan to introduce a new 50% discount in business rates for small retailers, such as shops, restaurants, hairdressers, and pubs.

Whilst broadly welcomed as a step in the right direction, the problems on the high street are real and visibly affecting large retailers as the structural change in retailing continues where we all continue to purchase goods online.





Regionally, we have also seen some polarisation of areas that sit almost side-by-side.

Birmingham, for example, has seen its High Street become more marginal since the successful re-development of the Bullring and the Grand Central scheme above its New Street Station.

Other areas looking to benefit from substantial decreases in Rateable Value.



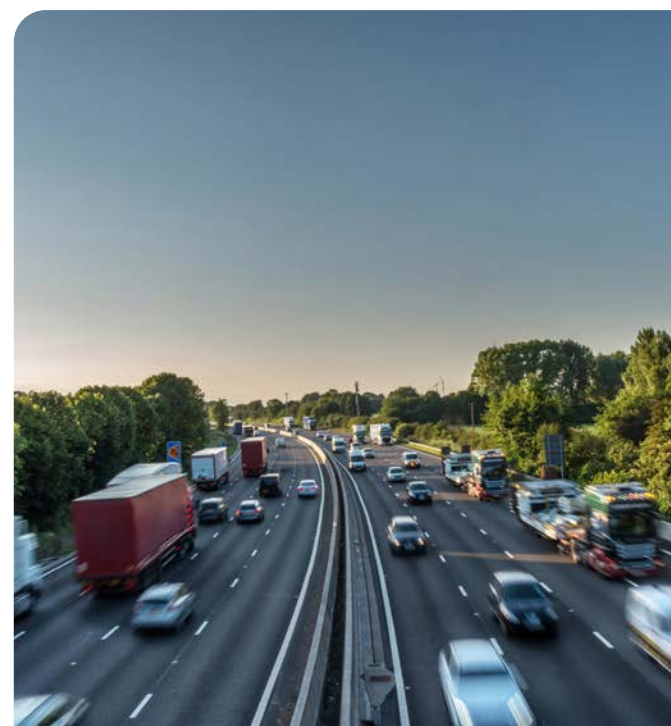
INDUSTRIAL AND LOGISTICS

The industrial sector overall has not been affected as badly as retail and the market has weathered the storm rather well since 2015.

As a result, any transitional phasing will not hit the sector as hard, with upwards phasing much more limited.

With the expected change in the UBR, occupiers of industrial and logistics properties could expect to see business rate liabilities stabilise in 2021.

Those specialised industries whose Rateable Values are set using the Contractors' Basis of valuation will generally see increases as costs of construction have generally increased by 1st April 2019. This will be seen as unrealistic and unfair in industries that have declined, such as the steel industry, where large amounts of plant and machinery are rateable – i.e. being valued by reference to cost and then amortised to find Rateable Value using a statutorily prescribed single percentage. Overall, an unjust system?





OFFICES

Parts of London are forecast to see dramatic rises in business rate liability, this will be no surprise.

Outside of London, the position of the regions is very different with some areas only recently returning to growth and many others still years away from returning to pre-2008 levels – good news as far as new Rateable Values are concerned.

The picture illustrated by Grade A stock do not reflect a wider, catch-all picture. Older or less well-placed properties could easily have been in the falling rents category since 2015 and Grade B premises will not have necessarily seen the same double digit percentage rises seen by Grade A stock.

While take-up in the London office market in the first half of 2019 was down year-on-year (30% in the City and 6% in the West End), the major regional cities have continued to show strong occupational demand against a background of increasingly tight supply. Given that 2018 saw the best ever year of take-up in the top 10 regional cities, it is impressive that this continued into the first six months of 2019, with 3.2m sq. ft of take-up (0.3% higher than the same period in 2018).

This strong tenant demand continues to be led by the TMT sector (technology, media, and telecom) which accounted for 19% of all regional office take-up in the first half of 2019.

The comparative lack of speculative development activity that has taken in the major regional cities has driven Grade A supply to record low levels. This undersupply situation is putting firm upward pressure on prime office rents in many locations, with record-high office rents being achieved in Birmingham, Cambridge, Leeds, Manchester, and Oxford.

Following the revaluation, it will also be interesting to see if London can maintain its stranglehold on the service and financial industry or if other regional centres can make headway by offering better transport, a pool of graduate talent, reasonable cost of living and lower business rates liability.



“Parts of London are forecast to see dramatic rises in business rate liability, this will be no surprise.”





TRANSITIONAL RATES RELIEF

The rebalancing of the business rates' burden in England will not occur if the transitional provisions that applied for the 2017 Rating List are simply re-applied when the 2021 Rating List is introduced.

The rating revaluation does not solve a lot of the problems still facing retailers and other businesses. Any change in liability as a result of the 2021 Rating List are likely to be gradual rather than a seismic shift. Some areas facing potentially large increases in liability are much better equipped to weather the oncoming rises. International luxury brands that have a global presence and liquidity can move around territories to cushion any immediate hit on just one of its many flagship stores.

The 2021 List will exaggerate the cost differential between regions making some centres more attractive in the short term when compared to London or the South East.

London has never been a cheap retail option but it has been used successfully to establish and then springboard new international brands into the UK market. It remains to be seen if it will continue to attract new market entrants or if we will see retail flight to our European neighbours following Brexit.



DEVOLUTION – THE DEVIL OR THE DEEP BLUE SEA

The 2016 Budget changes to business rates had serious implications for the devolution of this tax to Local Authorities.

With the removal of an estimated 600,000 properties from liability for business rates, a significant amount of revenue has been taken out of Local Authority budgets.

Business rates are devilishly difficult to understand and there will be even more uncertainty in the markets as we work our way through the likely transitional minefield.

Changes likely to be announced in the 2020 Budget are also unlikely to result in a significantly reduced UBR.

Local discounts to the UBR will only occur when the Local Authorities have sufficient revenue buoyancy from additional Rateable Value after 2021. Until then, Local Authorities are unlikely to forego this revenue.

On a final note, the 2p increase hypothecated for infrastructure projects follows the example of London/Crossrail. But London has an unrivalled Rateable Value to dip into and no other UK city can boast anything even close as a parallel.

Devolution may help to cut the need for larger Local Authorities to go cap in hand to Whitehall, but smaller less wealthy areas will still need assistance.

“Overall, recent changes will not have a discernible effect on the tax burden.”



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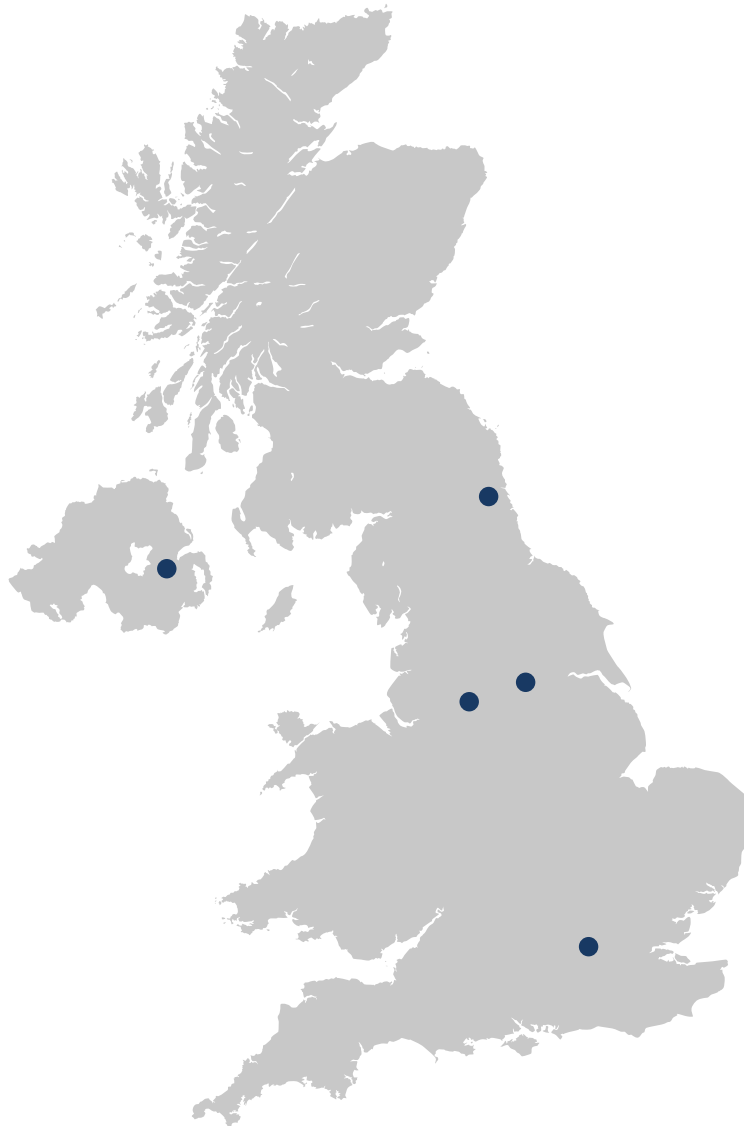
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