The rolling back of rate relief

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Variously described as a 'half-baked idea', 'stealth tax', 'huge blow' for the property and development industry, and a £1bn 'tax grab'; empty property rate relief reforms in England and Wales have certainly generated enormous interest across the development sector, business community and policy circles. Responding to recommendations made by Kate Barker's (2006) *Review of Land Use Planning* and Michael Lyons' (2007) *Inquiry into Local Government*, the Rating (Empty Properties) Bill was introduced into the House of Commons on 10 May 2007 and received Royal Assent on the 19 July 2007. Applicable to non-domestic property and operational since April 2008, the reforms reduce the period of rate relief for empty premises as follows:

- rate relief reduced from 50 per cent to 0 per cent for empty commercial property – 3 month exemption period remains unchanged, but then 100 per cent thereafter
- exemption from rates for empty industrial property reduced to 6 months, but then 100 per cent thereafter – no longer open-ended relief period

Dreamt up by the then Chancellor, Gordon Brown, when the UK economy appeared resilient and towns and cities were still in the midst of a renaissance, the rate reforms were purported to be part of a wider 'modernisation' agenda to improve the efficiency of the commercial and industrial property market. Central government's rationale was that rate relief was distorting market activity, insinuating that many properties were purposely left empty. The Department for Communities and Local Government

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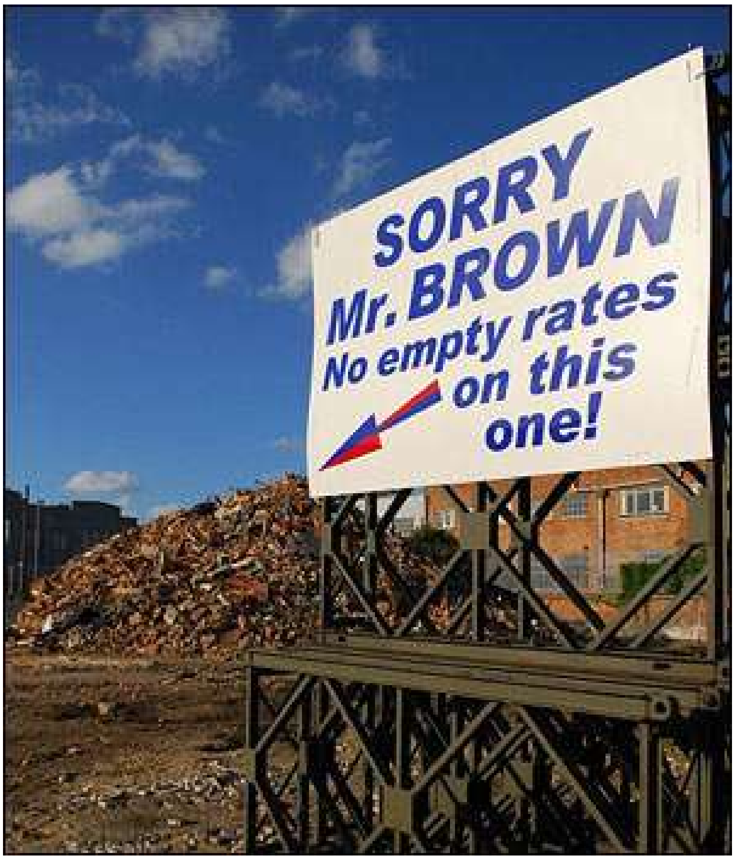
suggest that reducing rate relief for empty properties will help reduce rents, enhance the supply of commercial property, and improve access for new and existing firms. In short, the reforms are represented by government as a positive tool that will support rather than hinder economic resurgence and urban renaissance. However, with government calculations estimating that the reforms will generate an additional £950m of rates revenue in 2008-09 there was wide suspicion that reforms were little more than a 'tax grab'; imposing a 'stealth tax' on property owners.

In stark contradiction to government logic, industry bodies, developers and practitioners made the case that reforms would hinder speculative development and put some regeneration schemes at risk, reduce build quality and urban design standards, result in the deliberate damaging of buildings to remove them from the ratings list and lead to the premature demolition of properties. Rather than laying the blame for premises laying empty at property owners' obstinate practices in a manner akin to the 'buy-to-leave' scenario in the residential sector, industry bodies, developers and practitioners assert that it is not in the interests of investors to hold back properties from the rental market.

Blots on the landscape

The reforms have been vigorously lambasted by industry bodies, such as the Royal Institution of Chartered Surveyors, the British Property Federation, and the British Chambers of Commerce, local authorities and regeneration agencies, such as Regional Development Agencies and Urban Regeneration Companies, since the reforms were first proposed when the national economy was generally considered ‘healthy’. Now, with the economy taking a decided turn for the worse as the country sinks deeper into recession, warnings have regrettably transformed into ‘I told you so’ as evidence mounts that speculative development has taken a nose dive and ‘constructive vandalism’ is increasing. But perhaps most shocking is the situation where property *assets* with an enduring economic life are increasingly viewed as liabilities once empty, which is resulting in the demolition of commercial and industrial premises. The most publicised example of demolition as a direct result of the rate reforms is the site which once stood the Lightning pub in Ealing, London. All is left of the Lightening is a pile of rubble and a huge sign with the slogan: ‘Sorry, Mr Brown. No empty rates on this one!’.



The former Lightning pub, Ealing © Copyright of Telegraph Media Group Limited 2009

From pubs, to industrial parks to city centre office blocks, ‘blots on the landscape’ are left behind in a scenario dubbed ‘Bombsite Britain’. As the economic climate began to deteriorate more rapidly and the ‘credit crunch’ evolved into a full blown recession, the government, to its credit, recognised that a rethink of the recent rate reforms was needed. In November’s *Pre-Budget Report* (2008), Chancellor Alistair Darling admitted that the policy was no longer ‘hitting the same buttons’. He thus announced that as of April 2009, non-domestic properties with a rateable value of less than £15,000 will receive a one year rate relief ‘holiday’. With unemployment rising and thousands of businesses going bust, the so called rate holiday may prove to be too little too late. As development grinds to a halt and schemes are mothballed, the worry is that we will continue to witness the demolition of empty properties – particularly larger premises above the relief threshold.

As Birmingham City Council leader Mike Whitby states the government’s current ‘tax now, ask questions later’ policy is threatening the economy and ‘suffocating vital new developments’. I contend that it is now time for the government to undertake some critical and reflexive thinking. I will leave them with a few questions of my own for them to begin with:

- how do empty property rate reforms comply with joined-up policy thinking?
- is it sustainable to demolish buildings purely to avoid paying rates?
- can an urban renaissance be sustained without the rolling back of rate relief?