



Press Release

SHOCK ABOLITION OF EMPTY PROPERTY RATE RELIEF

by Andrew West, Director, Cooke & Arkwright

The Chancellor's completely unexpected announcement in the last Budget to remove rate relief on empty commercial premises has rung alarm bells throughout the property industry. Unless the Welsh Assembly Government decides it shouldn't apply in Wales, under his proposals it will be abolished from 1st April 2008. The Rating (Empty Properties) Bill has already received its first reading and is scheduled for a second reading in the House of Commons in June.

This is a substantial and punitive change. For many years empty industrial and warehouse property has not been liable to rates, while shops and offices pay half rates after a period of three months' grace. Under the new proposals, most commercial properties will enjoy only three months' grace – an extremely short time to find a new occupier, whatever the market conditions - and certain industrial and warehouse premises will receive six months' relief, after which they in turn will have to pay full rates.

This will impact on property values throughout England and Wales and will affect developers' willingness to commence building before identifying an occupier. In the wider sense, factoring in the carrying cost could have an adverse effect on both investment and competitiveness in the UK. The WAG has powers in respect of local government finance, and could opt out of the English scheme, which could give Welsh business a competitive advantage. Typically, the new proposals will not apply in Scotland.

The Chancellor states the justification for the changes is to encourage the use of unoccupied properties. However, he ignores the reason the majority of property being vacant is due to market conditions that are outside the owners' control. Many properties are empty not through a lack of effort on the part of owners and their agents, but because no occupier demand exists at that time.

It is just another way to raise substantial additional revenue for the Treasury while placing a significant burden on owners and almost certainly reducing incentives to invest in commercial property.

As an example, take the former LG Electronics factory at Newport, finally vacated in December 2006. A few years ago, when its full 1,000,000 sq ft was occupied, Cooke & Arkwright agreed the annual rates bill at £1million. This is what the new owner will have to find if it remains unoccupied for any period of time - a huge burden for any investor prepared to buy the property empty and re-offer it for letting to an industrial occupier. Taking it to its logical extent it could hamper the regeneration of large industrial complexes.

History shows that where unoccupied property rates have become an unreasonable burden, owners have resorted to some desperate methods to avoid liability. This was particularly poignant for City of London offices during the recession of the late '80s and early '90s, when building owners resorted to "constructive vandalism". This usually involved work such as removing services and other parts of the fabric of the building in order to avoid paying empty rates. In Birmingham developers resorted to removing factory roofs. Such measures are by no means straightforward and professional advice should always be sought beforehand. It is likely that the Treasury will look for ways to restrict avoidance.

The government is facing strong opposition and a petition has been launched by an industry-wide group of property professionals supported by the RICS, the British Property Federation, the British Retail Consortium and CoreNet. We can only hope that the Chancellor's recent assertion that he is ready to listen is more than a token gesture and that WAG take notice of the argument.

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