CLUTTONS

Rating Bulletin

June 2024 Issue #2

Welcome to our latest Rating Bulletin.

In this month's update we will be looking at the anticipated impact of the 2026 Revaluation, Completion Notices and Rate Reliefs. We will also introduce you to Tracy Steeden, our Partner responsible for leisure based valuations for rating purposes.

2026 Revaluation

The 1st April 2026 will see the first of the three yearly Revaluations come into effect. Assessments at that time will reflect the economic and hence rental circumstances as at 1st April 2024. This date is known as the Antecedent Valuation Date (AVD).

Whilst it is early days, we have taken a look at rental evidence in several prime locations which is yielding some surprising results.

It should be stressed that our initial research is based upon limited headline rental evidence on prime properties in prime locations. It does not necessarily follow, therefore, that the percentage changes shown below will apply across the board.

We would expect inferior locations to experience lesser increases where rents are increasing or greater reductions where rents are falling.

The assessment of a property is only half of the equation in determining the amount payable. The rate multiplier will be set by the Government close to the Revaluation which will determine the full amount payable.

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Large distribution warehouses

Region	Grade A 2023 List Tone in Prime Locations (£/m2)	Q1 2024 Grade A Headline Rents in Prime Locations (£/m2)	Potential % change at the Revaluation
North West	£70	£102	+45.7%
Yorkshire & North East	£67.50	£97	+43.7%
Midlands	£75	£110	+46.6%
South West	£90	£97	+7.8%
South East			
Slough	£150	£235	+56.6%
Hemel Hempstead	£125	£225	+80%
Barking / Dagenham	£150	£250	+66.6%
Park Royal	£165	£320	+93.9%

Source: CoStar

Retail

Prime high street

Region	Prime High Street 2023 List Tone Zone A (£/m2)	Q1 2024 Prime High Street Zone A (£/m2)	Potential % change at the Revaluation
London	£16,000	£20,000	+25%
Manchester	£2,400	£2,422	+1%
Leeds	£1,550	£1,431	-7.70%
Birmingham	£2,400	£2,045	-14.80%

Source: CoStar

General overview of UK retail market trends

Sector	Grade A 2023 List Tone in Prime Locations (£/m2)	Q1 2024 Prime Grade A Rents (£/m2)	Potential % change at the Revaluation
Retail Park	£28.61	£28.27	-1.12%
Shopping centre	£64.83	£63.86	-1.50%
General retail	£42.67	£43.07	-0.94%
London	£44.41	£44.63	+0.05%
United Kingdom	£24.80	£25.06	+1.00%

This table shows % changes between the 2023 AVD and 2026 AVD for general UK retail sectors.
Source: CoStar

London offices

Submarket	Grade A 2023 List Tone in Prime Locations (£/m2)	Q1 2024 Prime Grade A Rents (£/m2)	Potential % change at the Revaluation
City Core	£600 to £650	£807 to £888	+35.6%
St James's	£1,200	£1,185 to £1,500	+11.9%
Paddington	£650	£807 to £942	+34.6%
Victoria	£785	£861 to £969	+16.6%
Soho	£650	£915 to £1,050	+51.2%
Holborn	£550 to £750	£780 to £915	+30.5%

Source: CoStar

Regional offices

City	Grade A 2023 List Tone in Prime Locations (£/m2)	Q1 2024 Prime Grade A Rents (£/m2)	Potential % change at the Revaluation
Manchester	£295	£457	+54.9%
Leeds	£240	£377	+57.1%
Birmingham	£310	£425	+37.1%

Completion Notices for rating purposes - Squaring the Circle

The Non-Domestic Rating Act 2023 squared the circle in terms of the Completion Notice Procedure.

Where a Local Authority believes that a property can be complete within three months of the service of a notice then upon serving a valid notice the date specified will become the date from which the property is deemed to be complete and therefore capable of assessment.

The notice generally applies to new buildings and was introduced to overcome the situation where developers left a property incomplete so as to avoid the payment of rates. The rules governing the service of Completion Notices and what would constitute completion are complex and backed up by case law. It is usually accepted that a Completion Notice can only be served once the landlord's Cat A specification has been achieved.

Notices must be served on the owner of the building. Service can be on the registered head office of the owner or directly to the building concerned. There is only a 28 day window in which to lodge an appeal against the notice. Very often Completion Notices can be frustrated if they are procedurally or technically deficient.

Crucially, the date specified within the Notice cannot be retrospective and therefore if the Notice is deficient it might need to be withdrawn and reserved.

The Non-Domestic Rating Act 2023 closed a loophole and now allows for the service of a Completion Notice on assessments that have been taken out of the Rating List during refurbishment works where a lacuna in the law previously prevented the service of such notices. This expands the definition of 'new building' to include all significant redevelopment (it no longer has to be structural or brand new).

We are expecting Local Authorities to begin serving notices and they are being encouraged to do so by their representative bodies. We would urge our clients to ensure that if Completion Notices are received that copies are sent without delay to us in order that we can advise upon their legality and options available for any appeal.

Updates

- **Duty To Inform** – The Non-Domestic Rating Act 2023 introduced the duty to notify the Valuation Office Agency of value significant changes to a property, verify factual details relating to a property and to advise upon new lease terms and amendments. At the time of publication we await guidance from the Valuation Office Agency on how and when the information will be required. Importantly, we need guidance on the format in which the information must be notified.
- **Empty Rate Relief** – The new 13 week occupation period has now replaced the old six week period to generate empty rate relief. We have noticed Councils becoming more diligent in undertaking inspections to verify information given to them. Clients are reminded that following the initial three or six month exemption further periods of relief can be generated by going back into occupation of a small part of the property for a minimum 13 week period. Cluttons' Rating team can provide advice upon the operation of the strategy and other lawful opportunities to manage empty rates.
- **Improvement Relief** – This was introduced on 1st April 2024 and is a scheme to support businesses who invest in their property through its alteration and improvement. It attempts to make sure that no ratepayer has an increased liability for a 12 month period following the conclusion of the works as a result of making qualifying improvements to the property they occupy. At the point of altering the Rating List to reflect the value of the improvements, the Valuation Office will decide whether they qualify for relief and certify the value of the improvements to the Local Authority. The value of the improvements will be excluded from the rate demand for a period of 12 months. If you are about to embark upon works to improve a property please contact a member of the team for advice upon how to ensure relief is maximised and that you benefit from a reduction in liability whilst the works are being undertaken. Please note that temporary reductions must be subject to a check notice at the beginning of the works and cannot be made once the works have finished. The relief will only apply to ratepayers who remain in occupation and is closed to landlords and developers.

> *There is only a 28 day window in which to lodge an appeal against the notice. Very often Completion Notices can be frustrated if they are procedurally or technically deficient.*

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Meet the team
Tracy Steeden

Tracy is a Partner in the Business Rates team having joined Cluttons in 2014. She is one of the leading experts in the valuation for rating purposes of leisure properties and has a particular expertise in the public house sector.

Turning her thoughts to the 2026 Revaluation which is based upon economic and hence rental values as at 1st April 2024 she makes the following points:

- The public house sector is currently heavily impacted by the continuing cost of living crisis and rising occupational costs.
- It is important to prepare now and budget for the likely costs that will arise for occupiers under the 2026 List.
- When considering a client's portfolio there must be a full understanding of the way the company works to ensure the trade achieved is reflective of a reasonably competent operator (which must be assumed for rating purposes) and to ensure there is no element of overtrading reflected within the assessment.
- Many properties continue to benefit from transitional relief and there may be a reluctance to challenge assessments. It is critical that values that came into effect on 1st April 2023 are correct as they may impact upon future liabilities.
- The licensed sector is constantly evolving and increasingly the traditional distinction between public houses, nightclubs and restaurants as a mode and category of occupation gets blurred. The current valuation approach is to compartmentalise values which can lead to significant variations in assessments and hence liability based on the scheme chosen by the Valuation Office to assess different types of property. The problem arises when the valuation approaches throw up widely different values. It is important to adopt a pragmatic valuation approach and ensure there is flexibility within the guidance adopted by the Valuation Office Agency over public houses. Alternative valuation approaches should be considered and, if possible, preinfluence the Valuation Office in advance of the Revaluation.

Tracy has built up her expertise in the licensed property valuation sector by adopting the mantra of "carry out a valuation and stand back and look. Is it supported and does it look reasonable?"

Unfortunately, with many trade based valuations the procedure becomes one of a mathematical exercise rather than a valuation.`

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2024-25 Retail, Hospitality & Leisure Rates Relief

This was introduced to assist qualifying ratepayers of retail, leisure and hospitality properties during the COVID-19 Pandemic. The relief has been gradually reduced. In England, the relief currently remains at 75% subject to a cash cap limit of £110,000 per business. We have detected a number of instances recently where councils have failed to correctly apply the relief. If you believe the relief should apply please contact us for further advice.

Occupiers need to be aware that in future years the relief may be further reduced. The reliefs currently available are set out below:

England	Wales	Scotland
75% relief, up to a cash cap limit of £110,000 per business.	40% relief, up to a cash cap limit of £110,000 per business.	Not available

Ratepayers in England should be mindful of the lead being set by Wales where only 40% relief is available. Moreover, if the relief is removed, particularly in more secondary locations, we think there will be a serious impact upon businesses who are forced to find extra funding to cover their liability for the payment of rates. This may lead to more failing businesses and void properties.

And finally...

Our Business Rates team work very closely with our Lease Advisory team, led by Chris Jakes. He oversees a dedicated team of RICS Chartered Surveyors and Registered Valuers from our London and Manchester offices. They provide lease advisory services throughout the UK. The team is actively involved in a large number of rent reviews, lease restructure and lease renewal instructions on behalf of a variety of occupiers across the country.

The team works closely with our agency, research, building and rating teams to provide tenants with market led advice on all aspects of commercial leases. Our joined up approach ensures the lease advisory team provides our clients with proactive advice to maximise occupational flexibility, manage costs and meet ESG requirements.

As the 2026 revaluation will be based on rental values as at 2024 it is important that significant lease events, including rent reviews are carefully considered because of the knock on impact for the revaluation and your future rate liability.

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