

IBRF Response Document

Rating (Empty Properties) Bill 2007



IBRF response to the Rating (Empty Properties) Bill 2007

Introduction

The IBRF welcome the opportunity to comment on the above Bill &, in particular, to outline the potential financial impact upon members & the reasons for our opposition.

Wherever feasible banks have, traditionally, attempted to release vacant and unused space by undertaking a programme of sale and leasebacks and also various efficiency exercises such as the removal of back-office functions within branches to centralised locations. This has been of benefit not only from an operational perspective but also to our customers but invariably has left voids which may not be readily lettable or capable of being occupied by third parties. This has left legacy issues on a rolling basis producing the statistics shown below.

This document is referenced to specific points & facts which may be read separately & may be copied &/or quoted as appropriate. The vacant portfolio of each member generally comprises retail & office accommodation both from within their surplus operational estate & their lettable third-party estate, therefore the few vacant industrial &/or storage premises that some members hold are not included in the statistics detailed below.

Statistics

- An average of 2.4% of total annual Business Rates liability is subject to Empty Property Relief for each member organisation (including Royal Mail).
- This equates to a total of £11.9 million pa in Empty Property Relief & an average per member of £625,000 pa.
- Within members non-operational, third-party estate, average void/vacant period is 13.5 months between vacation & re-occupation (typical properties are located in Prime or Good Secondary positions).
- An average of 5.7% of each members portfolio is currently vacant.

Comment

We are extremely disappointed that the Government are seeking to introduce this draconian legislation without any form of prior consultation which tends to defy their stated intent of more open governance.

The Government state that "amending Empty Property Rates Relief will encourage more efficient use of land" & that these are "measures aimed at encouraging empty buildings back into commercial use"....."together with a newly introduced allowance to support renovation of empty business premises in our most deprived communities & proposals to extend tax reliefs on brownfield sites, will better incentivise the re-use, redevelopment or sale of empty commercial property"....."businesses that rent premises will particularly benefit from the changes which will increase the availability of premises, thereby reducing rents & increasing the UK's competitiveness"

We have collectively debated these statements but fail to either understand the logic behind them nor, more importantly, fail to see how the market will (can) react in the desired manner.

Perhaps we shall see operation of the "Law of unintended consequences" applying as this is likely to hit the weakest of our business customers, e.g. tenants trading at the margin & Landlords who own properties in fringe & secondary locations that are difficult if nigh-on impossible to let.

These proposals also seem to defy the legal premise of the Governments powers to increase the UBR yield by more than the rate of inflation, year-on-year. The Governments estimates of the additional yield generated would exceed the RPI cap. We assume that, to compensate, the UBR would need to be adjusted downwards?

We believe that these proposals will restrict regeneration as speculative development ceases, especially in low-demand areas or building projects are suspended/deconstructed in order to avoid Empty Property rates; this will simply reduce supply, driving up rents. In addition, it has the potential to cause hardship to tenants who are tied to leases with restrictive alienation provisions causing a decline in capital values.

This realistic & significant adverse impact upon commercial, retail & industrial properties is likely to lead to the following:

- "Constructive vandalism" of properties to render them incapable of actual or beneficial occupation prior to commencement of the Act, thereby avoiding the rates (subject to any disregards incorporated within the Act)

- An increase in appeals contesting the value of redundant vacant premises
- Increase in the number & cost of dilapidations claims
- Increase in Service Charges to cover owners increased empty-rate liability
- Impact upon costs of property holding/investment companies & consequent affect upon share prices, investor return & pension funds
- Restrict the good intentions of the Commercial Lease Code by reducing intended flexibility within lease terms
- Legal challenge to the European Convention on Human Rights under the provisions of the Human Rights Act 1998

Proposals

Quite simply, we believe that the current Empty Rate Relief provisions should remain untouched; history (1970's) would appear to dictate the folly of such a major change.

The Government, however, seem intent on introducing (re-introducing?) this outdated concept but they must accept the warning that the desired legislation will need to be robust & devoid of any loopholes in order to avoid a confusing legal morass.

Perhaps Ratepayers may need to explore the comparatively grey area of "Hardship Relief".....&, perhaps, companies should consider creating Charitable Foundations & then "letting" surplus accommodation to the registered charity in order to take advantage of Charitable Relief which, we understand, will remain untouched? This latter provision may well suit the CSR of large multiple occupiers like our members at the same time as avoiding the potential charge!

With some "tweaking", it may be possible to create a revised scheme of Empty Rate Relief which may go some way towards achieving the Governments objectives; this, we believe, would necessitate inclusion of a realistic "void period" of not less than 18/24 months at a reduced charge, together with a further period at the discretion of the Local Authority, thereby allowing for different market conditions to dictate policy.



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