

BRITISH PROPERTY FEDERATION press release 23 August 2008

Gov't regeneration chief attacks empty rates chaos

Gordon Brown's own regeneration chiefs are today publicly opposing the government's stealth tax on empty property, warning him of the chaotic effects it's having with parts of the country resembling bombsites as buildings are demolished to avoid the tax and regeneration schemes are scrapped, threatening jobs and new homes.

The chief executives of the country's urban regeneration companies (URCs) – government funded private-public partnerships tasked with regenerating Britain's cities - warned Gordon Brown of the chaos 'empty rates' were likely to cause almost a year before the tax was brought in this April, but received no adequate response.

John Nicholls, chairman of the URC Chief Executives Group said that the levy had prompted many landlords and public bodies (such as councils) to knock down empty buildings because they did not want to pay it. "There is a lot of pre-emptive demolition going on. This is already having a visual impact, cities are beginning to look like broken teeth," he said.

The combination of the tax with the credit crunch had rendered many regeneration sites unworkable, he warned. Instead of letting out empty buildings on short lets, owners were instead "flattening everything".

Mr Nicholls, who is also chief executive of the Leicester Regeneration Company, said: "Putting together a brownfield site for regeneration involves assembling quite a lot of land, which takes a lot of time. Adding to the cost (with the tax) is putting off people from doing it, or else requiring much more public money to continue."

The government claimed the tax – expected to raise £1.3bn a year – would increase the supply of property and force landlords to get tenants into their empty properties. However, ministers have ignored the reality that weak demand is keeping properties empty, not unreasonable landlords.

Offices and shops previously received rate relief of 50%, while industrial units got full relief. Now all empty commercial property has to pay full business rates, a tax for services the owners do not get because the properties are vacant.

This will put further pressure on the Treasury to re-apply the tax relief in its Pre-Budget Report, making use of a clause that allows it to do in adverse economic conditions.

The BPF, trade body for property, has been running a campaign for 18 months to get the tax scrapped, setting up a hotline (info@emptyrates.com) for those affected.

URC warned last year that the quality of schemes could be compromised, while small businesses could be hit, echoing the united opposition of the BPF, CBI, RICS, British Chamber of Commerce and British Retail Consortium, as well as a group of over 35, mainly Labour, MPs.

The letter said: "In particular, the collapse of residential new-build has left developers holding large brown-field residential sites, where they are demolishing to avoid the risk of rates.

"The visual effect is very poor, and these are premises which would otherwise have accommodated short-term lets to small businesses but for the risk of EBR on any remaining vacancies. The small businesses lose out, and the developer is denied a rental income which could have offset the holding costs pending an upturn."

Eric Pickles MP, shadow secretary of state for Communities & Local Government, said: "The changes are nothing less than a £1 billion rise in stealth taxes for local firms. At a time when the property market is so fragile, these tax rises threaten to discourage development and regeneration."

Peter Cosmetatos, investment director at the BPF, said: "The message to Gordon Brown could not be any clearer. He needs to step in personally and prevent this situation getting worse and reapply the relief immediately. Buildings are being torn down, regeneration plans are being shelved, and firms face bankruptcy because of a tax on properties producing no income. Clearly the Treasury will have a problem in finding £1.3bn to do this, but the cost of not doing so will be unquantifiable and last far beyond the lifetime of this government."

Notes for editors

Business rate relief on empty commercial property was removed on 1 April 2008. Before this, empty retail and office space received full relief for three months and 50% thereafter, while industrial space (warehouses and factories) received full relief permanently.

Since 1 April 2008, retail and office space pay full rates after three months' grace. Industrial space is now charged full rates after six months' grace.

The British Property Federation (BPF) has been campaigning for this relief to be reintroduced, a position supported by the likes of the CBI, RICS, the British Retail Consortium (BRC), British Chamber of Commerce and over 35 MPs from various parties (see EDM2045 below).

Main issues

Rates are a tax for the provision of local services. By definition, empty buildings make little demand on local services.

Empty rates are a tax on hardship. They tax individuals and companies on property assets that generate zero income.

Buildings are empty because of a lack of demand. During a downturn, both rents and capital values fall, so there is no reason for a landlord to keep a building empty.

Speculative developments and regeneration projects will be shelved in the current economic climate, as occupier confidence wanes and it becomes more difficult to find commercial tenants.

Older buildings are being demolished sooner than originally planned. Buildings nearing the end of their life might previously have been let at modest rents on a short term basis, before redevelopment. However, empty rates may now make it more cost effective to knock down a perfectly good building than to find a tenant. This will reduce the supply of affordable property.

The demolition of existing properties contradicts the government's green policy. Demolition and construction create far more carbon emissions than the re-use of existing buildings.

Government logic that empty rates will lead to lower rents is – in the majority of cases – misguided. Empty rates will cause rent increases in the medium term, due to supply shortage from early demolitions and shelved developments.

More than half of government's empty rates intake will come from commercial tenants, rather than landlords, as they choose to reduce their occupancy and attempt to sublet their space. This is a very significant burden on all businesses.

Economically competitive countries ensure that businesses have low fixed costs and high variable costs. Empty rates increase the proportion of fixed costs for businesses, making the UK less attractive.

Individuals are finding that their property investments are becoming liabilities, rather than a safe source of income / pension investment, as tenant demand dries up and they must pay full business rates on their empty properties.

Empty rates penalise property refurbishments that take longer than three months, which contravenes pledges to help make property more sustainable and lower emissions.

Empty rates risk turning foreign investors away and undermine the credibility of the UK's listed property sector and its real estate investment trust (REIT) regime.

Foreign investors are upset that their dividends – which **are** taxed in the UK – are now reduced by the tax burden that did not exist when REITs were formed.

West Lothian question. Empty rates only exist in England and Wales, not Scotland. This gives Scotland a significant competitive advantage, and will attract more business and investment.

Early Day Motion 2045

“That this House urges the Government to exercise its power, as given in the Rating (Empty Property) Act 2007, to reintroduce empty property rate relief immediately in response to the world economic downturn and worsening conditions in the property market; notes that empty rate relief is a tool used to stimulate investment and growth in the property market during times of economic difficulty; and notes that the withdrawal of the relief is having unintended consequences such as creating unnecessary financial hardship for people with small businesses, compromising regeneration schemes, and constraining the supply of affordable commercial property.”