

Burden empty property tax will stifle economic recovery, warns BPF

The British Property Federation, the property trade body, has warned that businesses occupying commercial premises are being hard by a government tax on empty property which is halting new developments and seeing existing buildings demolished in face of huge tax bills.

The government cut business rate relief for empty commercial from April this year, adding an estimated £1.3bn to the tax bills of property owners without tenants. Local government minister John Healey claimed the tax would reduce rents and increase the supply of business premises.

The BPF and other groups, including the Confederation of British Industry and the British Retail Consortium, has dismissed this idea as nonsense, saying that a tax on hardship is unfair and that, in a downturn, no amount of tax could conjure up demand.

The tax is killing off new development and making owners demolish buildings early. This will stifle an economic recovery by making rents more expensive, due to the reduced supply. Many smaller firms are facing bankruptcy and thousands of jobs are likely to be lost as a result.

A hotline set up by the BPF for businesses to report the effects of 'empty rates' has revealed hundreds of buildings being demolished early as owners choose between paying a 'second mortgage' of rates on empty space, or cutting their losses and razing their buildings to the ground.

But while a large proportion of the burden will fall on property owners, the BPF estimates that 50 per cent of the burden will be felt by occupiers, particularly in the industrial sector. Businesses subletting warehouse or factory space have been particularly hit by the downturn, and have seen their rates bill increase from nothing to 100 per cent of rates.

"It is simply a tax on business failure and makes no sense," says BPF president Francis Salway, chief executive of Land Securities, the UK's largest Reit.

"Like many others we are demolishing more buildings as empty rates make it too costly to provide cheaper, older property. But those hardest hit will be businesses subletting our space who will be unable to pay what is essentially a second mortgage taxing space they cannot use because of the decline in the economy," said Ian Coull, chief executive of Segro, another Reit specialising in industrial property.

A back bench rebellion is now growing with over 35, mainly Labour MPs calling for the tax to be scrapped and the rate relief reapplied.

A Commons motion tabled by Halifax MP Linda Riordan has been tabled with supporters including Keith Vaz and Chris Mullin, who helped free the Birmingham Six.

The MPs agree with the BPF's position that ministers have ignored the fundamental point that a landlord earns nothing if a property is empty and that taxing empty space will not fill it.



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Chris Mullin MP, Labour MP for Sunderland South, who was instrumental in freeing the Birmingham Six, warned last month that the tax would be disastrous and would send firms bankrupt within months.

Mr Mullin said: "The way forward is clear: local authorities must be given the discretion to apply common sense and relieve rates on unused and underused property. If disaster is to be averted, that will need to be done quickly, because the bills have already been sent out and the court orders for non-payment are already being applied for."

Peter Coesmetatos, finance director at the BPF, said:

"In trying to quickly fill holes in his budget, Alistair Darling risks causing more chaos to the economy with an ill-conceived move that will hurt regeneration and kill off the supply of affordable property. If buildings are demolished early to avoid the tax and fewer are built because developments become unviable, when the economy does recover, businesses will face higher rents. It's nonsensical to tax hardship and we hope that more MPs can join this campaign as the effects are being felt right across the country."

Halifax Labour MP Linda Riordan said: "The removal of empty property rate relief is a tax on hardship which hit just as the property market needed a kick start. It's an added tax burden paid for by those whose properties are not making them an income. But the unwanted consequences have been felt most by disadvantaged areas where investment has been most needed.

"The government's commitment to build more affordable homes is something I applaud, but this must be linked with a commitment to look again at the effects on regeneration. Halifax has numerous empty properties, but it's not fair that hardworking local businessmen should be hit with an extra tax burden when they've taken personal risks to build their businesses, tirelessly contributing to the local economy.

"We need to ensure the conditions are right for investment in our local communities. This is why I am happy to support the British Property Federation's campaign against empty rates. I now want the Government to look again at this issue, move up a gear, and help rather than hinder the speed of regeneration and housing projects across the country."

For more information, case studies, interviews or anything else please contact Andrew Teacher, the British Property Federation head of media, on 07968 12 45 45 / ateacher@bpf.org.uk

A full background brief on this story along with some useful press clippings is included further down the release.

Notes for editors

The EDM said:

"This House urges the Government to exercise its power... to reintroduce empty property rate relief immediately in response to the world economic downturn and worsening conditions in the property market... 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."

The full list of MPs currently signed up to the EDM can be read here: <http://edmi.parliament.uk/EDMi/EDMDetails.aspx?EDMID=36387&SESSION=891>

If the EDM receives enough support it can push the issue to be formally debated in parliament.

The British Property Federation believes:

Rates are a tax for the provision of local services. By definition, empty buildings make little demand on local services. Businesses should not be taxed for services they don't receive and the BPF believes that compromising on 50% relief represents a fair solution.

Empty rates are a tax on hardship. They tax individuals and companies when they are making a loss, rather than a profit, through properties lying empty.

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

Government logic that empty rates will lead to lower rents is – in the great majority of cases – nonsense. As we are seeing, during a downturn, rents fall without government intervention.

Speculative developments and regeneration projects will be shelved in the current economic climate, causing rents to rise in the future as the supply of property will be reduced.

Buildings nearing the end of their life might previously have been let at modest rents on a short term basis, before redevelopment. Empty rates are causing many landlords in that situation to simply demolish early. This will reduce the supply of affordable property just when many small businesses might need it. It contradicts the government's green policy.

It penalised any business refurbishing their premises who takes longer than three months, which also totally contravenes pledges to help make property more sustainable and lower emissions.

Economically competitive countries ensure that businesses have low fixed costs and high variable costs. Empty rates increase the proportion of fixed costs for businesses. Companies generally like to structure their operations in a way that a high proportion of their cost base can be varied according to demand for their products. The impact of empty rates is that even if a company moves out of a factory, a shop or offices, it still has the fixed cost of empty rates to pay.

When companies consider which country they should choose for their international operations, they normally target countries where legislation and regulations means that they have low fixed costs (ie flexibility in how they run the business).

The government invests millions of pounds through Regional Development Agencies to promote development to support local employment initiatives. The added burden of empty rates will undo a lot of the work of RDAs since it will reduce the redevelopment of deprived areas in the regions.

Empty rates risk turning foreign investors away and undermining the credibility of the UK's listed property sector.

Media background

Today Programme

<http://www.bpf.org.uk/pdf/21129/0624%20hrs%20%20Liz%20Peace%20%2010July08.mp3>

The Daily Telegraph

<http://www.telegraph.co.uk/money/main.jhtml?xml=/money/2008/07/07/cnempty107.xml>

The Times

http://business.timesonline.co.uk/tol/business/industry_sectors/construction_and_property/article3656102.ece

Property Week

<http://www.propertyweek.com/story.asp?sectioncode=297&storycode=3119187>

Bloomberg 'Property and Politics'

http://www.youtube.com/watch?v=Q3Be0p_ePBI

BBC TV

<http://www.youtube.com/watch?v=iiF9I9PbXi4>

Retail Week

http://www.retail-week.com/Property/2008/04/empty_property_rates_mean_bad_news.html