DECODING BUSINESS RATES

Following the Budget, we look at the changes announced by the Chancellor, the likely impact of the forthcoming 2026 Revaluation and answer whether the Government is delivering its promises.

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2024

CUSHMAN & WAKEFIELD

EXECUTIVE SUMMARY

WE DIDN'T COME THIS FAR, JUST TO COME THIS FAR.

MIKE FLECKNOE
Head of Rating UK

Labour's Manifesto Promises: Will the New Business Rates System Deliver Fairness and Investment?

Labour came into Government with a manifesto commitment to "replace the business rates system, so we can raise the same revenue but in a fairer way" in England.

The manifesto went on to claim the "new system will level the playing field between high street and online giants, better incentivise investment, tackle empty properties and support entrepreneurship".

Following the Budget, we look at the changes announced by the Chancellor, the likely impact of the forthcoming 2026 Revaluation and answer whether the Government is delivering its promises.

Business rates is a devolved tax and consequently the Westminster Government actions apply only to England.

WHAT YOU NEED TO KNOW

DECODING BUSINESS RATES

The Chancellor announced several taxation increases, many falling on business. These tax increases, including Employer National Insurance and Capital Gains Tax, will have a much larger impact than any changes concerning business rates. The Government published a supplementary paper "Transforming Business Rates" alongside the Budget, which highlights several changes to business rates:

- Small Multiplier applied to rateable values under £51,000 will be frozen at 49.9 pence in 2025/26.
- A lower 40% rates relief in 2025/26 for Retail, Hospitality and Leisure (RHL) properties up to £110,000 cap per business.
- Permanent lower multipliers for RHL properties whose rateable values are below £500,000 following the 2026 Revaluation. RHL properties whose rateable value is less than £51,000 will have the lowest multiplier whilst rateable values between £51,000 and £499,999 will also benefit from a discounted multiplier.
- To fund lower RHL multipliers, a new "High Multiplier" will be introduced for all properties whose 2026 Rateable Value is £500,000 and above.
- Scrapping of the Check stage within Check Challenge Appeal process postponed until the 2029 Revaluation.
- The introduction of new ratepayer statutory duties to inform the Valuation Office Agency of any occupation, property or lease change, and to complete annual confirmations will be delayed until April 2029.
- The Digitising Business Rates project, which will provide Government details of all ratepayers' hereditaments and liabilities, will be delivered by March 2028. This will allow Government to better target rate reliefs and reduce fraudulent relief applications.

In addition, the Government plans to consult further on:

- Understanding how business rates impact property investment decisions and the effectiveness of the new Improvement Relief.
- Reviewing whether the recently extended 3-month reset period to qualify for Empty Property Rates Relief is sufficient.
- Ensuring rates liabilities are more responsive to changing economic circumstances by reducing the period between antecedent valuation date and revaluation and introduce more frequent revaluations.
- Considering whether to scrap rebasing multipliers in line with total aggregate rateable value changes following revaluation.

UNDERSTANDING THE IMPACTS

2026 REVALUATION

The purpose of revaluations is not to raise additonal tax revenue for the Government but rather apportion tax liability according to how rental values change. The Government views shifting rental values as a proxy of ability to pay or affordability for ratepayers. The Valuation Office Agency (VOA) is currently valuing every non-domestic property across England and Wales for the 2026 Revaluation. The new 2026 Rateable Values will be equivalent to the annual rental value of the property on 1 April 2024. The existing 2023 Rateable Values reflect rental values on 1 April 2021.

Consequently, the change in rental values from April 2021 to April 2024 will determine how rateable values shift at the 2026 Revaluation. To ensure total revenue remains the same in real terms following a revaluation, the multipliers applied to rateable values to determine liability are rebased at revaluation. In other words, if total rateable value increases then the multiplier will decrease by the same percentage before being adjusted for inflation. In the years between revaluations, the multipliers increase annually by inflation. Any risk of tax revenue falling following a revaluation is eliminated and total receipts are inflation-proof.

Consequently, at least from the Government's viewpoint, business rates is a highly attractive tax. Assuming multipliers are rebased according to total rateable value change, ratepayers' liabilities following revaluation will alter according to how their rateable values move compared to the overall average. If the rateable value increases by more than the average then liability will increase whilst where a rateable value increases by less than the average or actually falls then liability will drop, prior to any inflation adjustment.

**Logistics & Industrial rateable values are due to increase in all regions; the highest in the Northwest at 37.5%. The Southeast will have the highest Offices increase at 22.3%.*

UNDERSTANDING THE IMPACTS

2026 REVALUATION

Our research suggests that the total rateable value in England will increase by 10.5% to £79.3 billion at the 2026 Revaluation.

The revaluation impacts sectors differently. Retail will see an overall fall of rateable value by 1.8% whilst Logistics & Industrial will experience an increase of 28.6%. The Office and Other Sectors will see a below average rateable value increase of 8.7% and 5.9% respectively.

Within Wales, the impact follows a similar pattern to England albeit with smaller changes. Total rateable value will increase by 4.1%. Retail will see a 0.3% fall and Logistics & Industrial the largest rateable value increase at 11.1%. Offices will increase by 0.8% whilst the Other Sector will increase by 3.3%

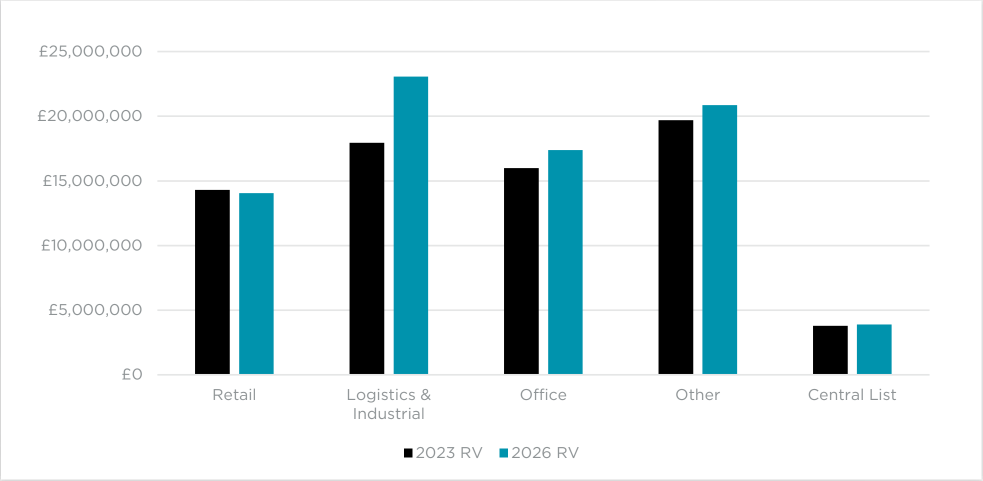
The revaluation process of reallocating liability according to rental movement is working with a declining future liability within Retail. Retail within England will have a significantly lower total rateable value (and liability) than any of the other sectors.

At this early stage prior to the 2026 Revaluation, our research into the impact of the revaluation is limited to sector and regional averages. Individual rateable values are likely to vary significantly from the appropriate sector or regional average and impact liability accordingly.

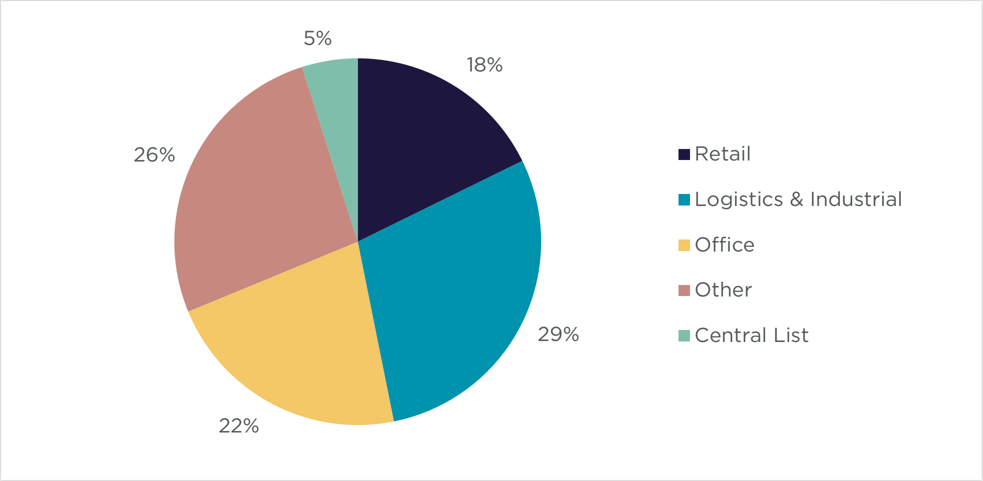
Regional Variations

Unsurprisingly the expected sector rateable value changes at regional level are closely aligned with the national averages. The largest Retail fall is in the East at 5.2% but elsewhere in the West Midlands, Northeast and Yorkshire rateable values will increase slightly although well below the national overall average. Logistics & Industrial rateable values are due to increase in all regions; the highest in the Northwest at 37.5%. The Southeast will have the highest Offices increase at 22.3%.

SECTOR BREAKDOWN OF RATEABLE VALUES BY PERIOD



2026 RATEABLE VALUE SPLIT BY SECTOR



REBASED MULTIPLIERS

DECODING BUSINESS RATES

What it means

The Chancellor confirmed that the 2025/26 Small Multiplier will be frozen at 49.9 pence. However, the 2025/26 Standard Multiplier will likely increase to 55.5p in line with September 2024 CPI of 1.7%.

Total rateable value in England will increase by 10.5% at the 2026 Revaluation. Consequently, the Government should confirm a similar reduction of multipliers before adjusting according to inflation in September 2025. Given the expected rateable value changes and an assumed inflation rate of 2%, we estimate that the 2026/27 Small Multiplier will fall to 45.5 pence. Meanwhile the 2026/27 Standard Multiplier will be reduced by 8.7% to 50.7 pence. Similarly in Wales, the 2026/27 Multiplier should fall by 2.2% to 55.9 pence given the lower Welsh rateable value overall increase.

Our research into the 2026 Revaluation impact reflects the rebased multipliers above. However the Chancellor announced that lower multipliers will be introduced in England for Retail, Hospitality and Leisure (RHL) properties whose 2026 Rateable Value is below £500,000. RHL properties whose rateable value is less than £51,000 will have the lowest multiplier whilst rateable values between £51,000 and £499,999 will also benefit from a discounted multiplier. To fund the lower multipliers for RHL properties, a new higher multiplier will be introduced for all properties regardless of sector whose 2026 Rateable Value is £500,000 and above. Details of the lower and higher multipliers will only be confirmed in the 2025 Budget once the Government has analysed the new 2026 Rateable Values.

REBASED MULTIPLIERS

DECODING BUSINESS RATES

The Combined Impact and New Rates Environment

The lower 2026/27 rebased multipliers off-set some of the adverse liability impact caused by higher 2026 Rateable Values. Nevertheless, Logistics & Industrial's share of total liability will significantly increase. With increasing occupation costs within the sector, concerns around affordability may become more prevalent in occupier discussions.

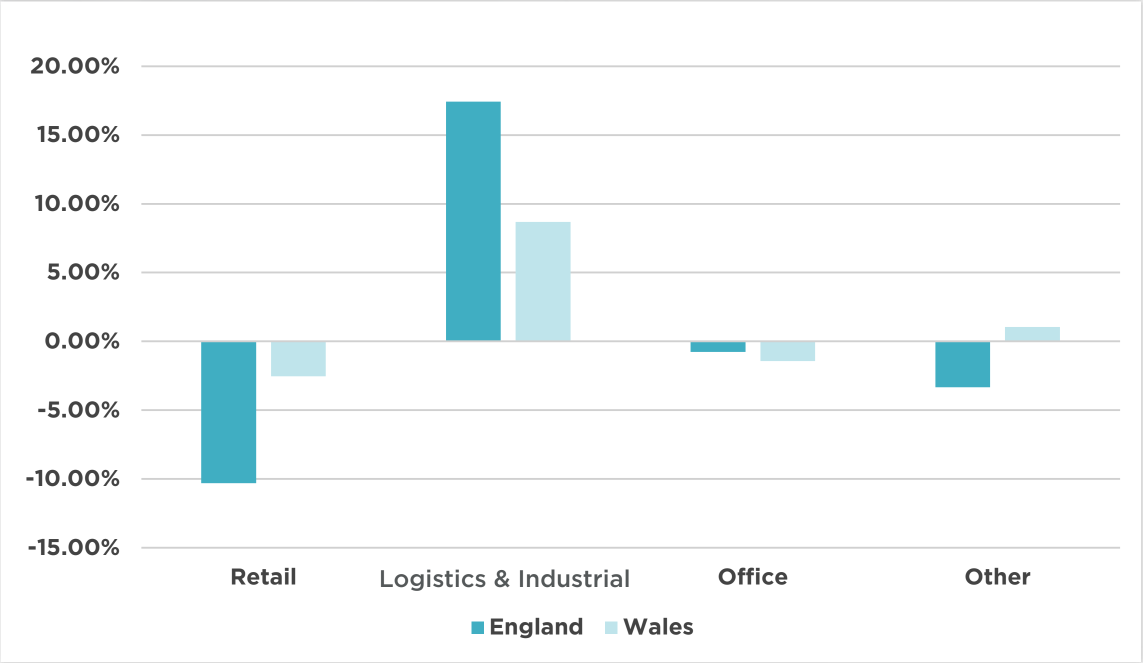
Meanwhile Retail will have a double benefit of falling rateable values and lower multipliers driving down rates liability. The largest liability fall following the 2026 Revaluation will be in the Northeast Other Sector at 14.9% and East Retail at 13.5%.

Our research excludes the impact of the new unknown RHL discounted multipliers for properties below 2026 Rateable Value of £500,000. The new discounted RHL multipliers will cause 2026/27 rates liability of retail, hospitality and leisure properties to be driven down still further.

All properties valued over £500,000 or higher could lose any multiplier off-set benefit if the Government decide to freeze the 2026/27 "High Multiplier" at 55.5 pence significantly increasing rates liability.

The Government intended online retailers occupying high value distribution centres to pay for the RHL discounted multipliers. However, by applying the new "High Multiplier" to all properties whose 2026 Rateable Value is £500,000 or higher, ratepayers in all sectors including retailers, factories, hospitals and utilities will be impacted.

CHANGE IN TOTAL RATES LIABILITY BY SECTOR 26/27 VS 25/26



Source: Cushman & Wakefield

WHAT'S COMING NEXT?

DECODING BUSINESS RATES

Promises, Realities and Future Implications

As outlined in the introduction of this paper, Labour promised to "replace the business rates system, so we can raise the same revenue but in a fairer way". Unsurprisingly on forming the Government, Labour has quickly recognised the benefits of business rates and the significant £30 billion revenue raised across the United Kingdom.

The budget supplementary paper refers to both the future 2026 and 2029 Revaluations potentially signaling that the Government has no serious intention, at least in the foreseeable future, of replacing business rates. Although it may feel like the government are robbing Peter to pay Paul, the forthcoming changes to business rates do provide some clear signals of intent. Overall business rates is a relatively small contributor to both public sector revenues and government strategy. The business rates supplementary paper coincides with a significant taxation increase announced in the Budget.

For now, and at least in the short term, the existing business rates system of using revaluations to apportion liability according to shifts in rental values is working. Retail historically accounted for the highest total rateable value and liability of any sector. However this position continues to reverse with Retail's liability falling relative to other sectors. The speed of the reversal will only increase with discounted RHL multipliers. To some, this may be a signal of intent to support Retail and its contributing jobs, albeit these savings come further down the line and the immediate concern for many occupiers will be shouldering higher National Insurance contribution costs.

FOR MORE INFORMATION, PLEASE CONTACT:

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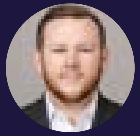

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About Cushman & Wakefield

Cushman & Wakefield (NYSE: CWK) is a leading global commercial real estate services firm for property owners and occupiers with approximately 52,000 employees in nearly 400 offices and 60 countries. In 2023, the firm reported revenue of $9.5 billion across its core services of property, facilities and project management, leasing, capital markets, and valuation and other services. It also receives numerous industry and business accolades for its award-winning culture and commitment to Diversity, Equity and Inclusion (DEI), sustainability and more.

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