RATING REVALUATION: WHICH GARDEN CENTRES WILL BE HIT HARDEST?

The retail industry is poised for April 1, when the Business Rates Revaluation comes into force, meaning changes to business rates across the country. Property consultant Gilbert Evans partner **Allen Evans** explains what this will mean for the garden centre sector.

Allen Evans

The impact of the rates revaluation on garden centres varies dramatically, with new liabilities ranging from 17% reductions, to astounding increases of over 50%.

Business rates liabilities on 'non-domestic' property are based on rateable value, multiplied by a 'multiplier' (Uniform Business Rate – UBR) to determine an annual rates liability. Rateable value is an assessment of the annual equivalent rental value of a property. The rates revaluation will apply to England, Wales, and Scotland only. Northern Ireland's revaluation took place in 2015. The UBR for England is £0.479 (large properties), and for Wales is expected to be £0.499 (large properties). The Scottish Parliament has not yet released its anticipated UBR.

There will be a transitional relief scheme in England, for 'smaller' properties in Wales and, as yet, Scotland remains undecided. Some ratepayers in England could see actual liabilities increase by a staggering 43% (plus RPI) in the first year and an additional 32% in the second year. Reductions, however, will be capped at 4.1% in the first year, then 4.6% in the second.

There will also be a new appeals process in England, called 'Check, Challenge, Appeal', intended to reduce the volume of appeals by agreeing the facts underlying valuations at an early stage. Ratepayers wishing to lodge an appeal before the Valuation Tribunal will incur a £300 fee, only refundable if the appeal is successful.

An inconsistent approach

Most garden centres have seen increases in their rateable values since the 2010 rates revaluation. Average increases are approximately 11%. Most striking is the extreme range of movement, from reductions of 17%, to increases of over 50%. This demonstrates a very inconsistent approach by the local offices of the Valuation Office Agency (VOA). This erratic approach and dismissal of previously-agreed individual assessments will, undoubtedly, generate a significant number of appeals from businesses.

Garden centres range from single site operations of less than £500,000 pa turnover, to supercentres with £15million-plus turnovers. Some have modern purpose-built structures; others dilapidated glasshouses. Values will be wide-ranging. The valuation basis for rating is a rentals basis, where floor areas are categorised and valued accordingly. This is for a sector, where turnover – actual or potential – is the key value driver. The VOA accepts that turnover has a place in establishing rental values. However, again the degree of acceptance varies. If the level of assessment proposed by the Valuation Office is not sustainable, where there is evidence of an actual turnover, we believe turnover should carry greater weight as it reflects reality.

Solar roof panels no longer exempt

Many garden centres that have installed solar roof panels and are currently assessed could see their resultant rates liability from April 1, 2017 increase dramatically – some of these potentially eightfold. Previously, installations generating under 50kw escaped assessment. Now they will be included. Though still valued from an environmental perspective, the additional rates liability will reduce potential energy bill savings.

Concessions adding further complexity

Garden centres are often valued as a single entity, despite often being occupied by a number of concessions. Following recent case law, the VOA is intending to review these with the aim of arriving at separate assessments. Garden centre operators may not consider this bad news, as there will be opportunities to argue for reductions on the overall garden centre assessment. However, they should review licence and lease documentation to determine how concessions' rates liability is to be treated if separately assessed. If the concession operator is faced with higher overall occupational costs, this might impact on the level of rent the concession will pay. There will be practical issues for the Valuation Office as concessions often relocate within garden centres, with many concession agreements temporary and on flexible terms. Keeping tabs on a regularly changing entity will mean more time and effort for garden centre operators, their rating advisors, the Valuation Office and local authorities.

Are nurseries at risk?

The VOA is reviewing 'growing nurseries' to consider if they should be assessed for rating purposes. This follows a 2015 Court of Appeal decision relating to a mushroom compost business, which was found not to be exempt from rating, as the operation was not deemed to be agricultural, nor did the buildings qualify as a 'market garden'. Despite various press articles, it is anticipated that the consequences of the VOA review are likely to be limited to young plant producers who grow crops only in buildings and do not bring them on to their final maturity. Liner, plug, and young plant producers are anticipated to be at greatest risk of rates assessment.

The more complex appeals procedure and the specialist nature of garden centre property and rating mean that taking specialist advice from a suitably qualified chartered surveyor and sector expert is as important as ever.