AVISON YOUNG

BPF

ChamberlainWalker

Business Rates: The Wider Economic Impact

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Contents

Contents 2
BPF Foreword 3
Executive Summary....................4
Introduction 6
Building Understanding:....................7
Macroeconomic Impact 10
Microeconomic Impact 16
Implications 23

For and on behalf of Avison Young (UK) Limited

BPF Foreword

We and other stakeholders have consistently called for reductions in business rates – and yet there is very limited existing research which considers the wider economic consequences of maintaining high levels of business rates – or indeed, the benefits of a reduction in business rates. Given the UK imposes a very high level of tax on property – over double the OECD average – this research seeks to better understand and quantify the implications of increases or decreases to the business rates burden on our wider economy.

By using a standard tool in impact analysis, this research shows that a reduction in business rates of £100m, sustained over ten years, would benefit our wider economy by supporting £1.2bn of additional output; £774m of additional Gross Value Add (a proxy for productivity); over £100m in other Government tax revenues; and *1,300 more jobs*.

The research also shows that the inverse of this would also be true – i.e. an increase in the business rates burden would have corresponding damaging implications for our wider economy. We can put this into the context of Government's intention to fund the new permanently lower tax rates for retail hospitality and leisure (RHL) properties (from 2026), from *within the business rates system*, by introducing a new higher tax rate for higher value properties. If Government choose to increase the total business rates burden by the cost of the current temporary reliefs for RHL in 2025/26, we estimate that the total business rates burden would increase by approximately £1.7bn. **An increase in the overall business rates burden in the magnitude of £1.7bn would have the following ramifications for our wider economy:**

- **£2.3bn of lost output.**
- **£1.5bn reduction in Gross Value Add.**
- **Circa £170m of wider Government tax revenues lost.**
- **Up to 22,000 jobs potentially at risk in the wider economy**.

This research is timely – the Government's consultation on Transforming Business Rates concludes in March, and future reforms to businesses rates, including deciding the new tax rates which will apply from 2026, are due to be announced at the Autumn Budget.

Business rates have been seen as the golden goose which has been squeezed for far too long and this has had serious consequences for our economy, jobs and our high streets.

The good news is that this research shows that introducing a lower and proportionate business rates burden, ideally more in line with OECD peers, would support Government's wider objectives to boost economic growth. If Government are serious about economic growth, the consequences of persistently high levels of business rates on our economy, and our jobs, can no longer be ignored.

Executive Summary

Since the late 1980's, there have been ongoing discussions about the effectiveness and efficiency of business rates as a revenue raising measure and as a wider policy tool for influencing investor and occupier behaviour. Despite these discussions, business rates have remained a popular tax with successive Chancellors and raised £27bn in the last tax year (2023/24)[1].

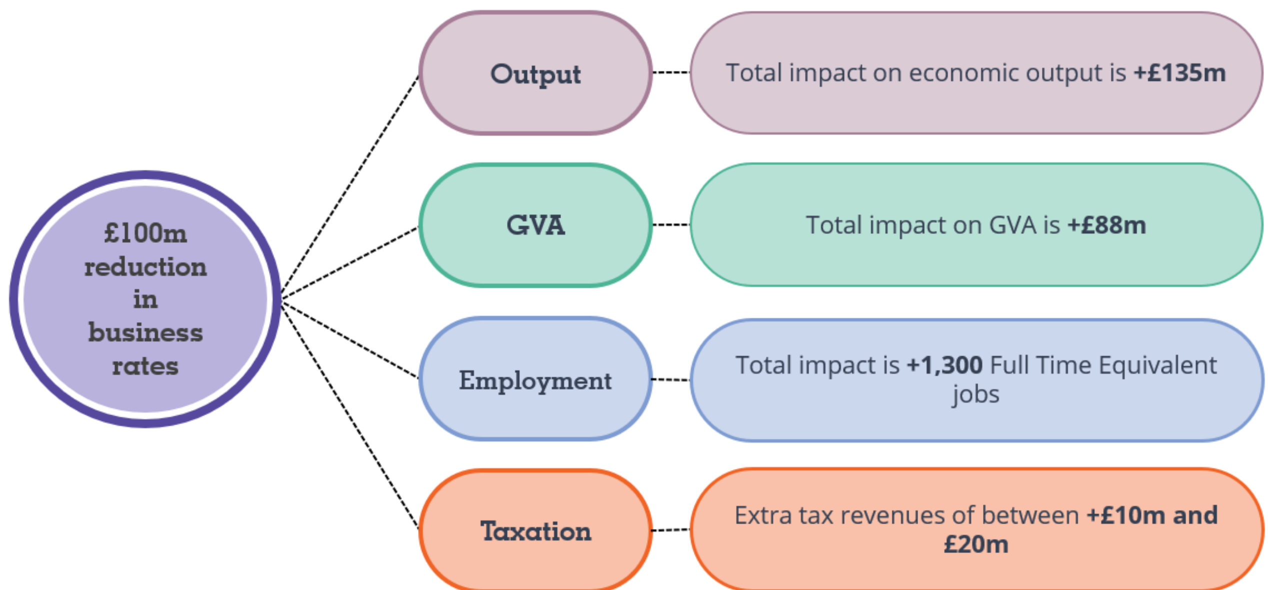
Several recent publications have considered the interaction between business rates and local economic performance, but there are relatively few quantitative assessments of the wider impact of business rates.

Our study builds on existing work and uses a form of structural economic modelling (input/output analysis) to explore the relationship between business rates and wider economic performance – looking at both the national and local impact of a change in business rates

MACROECONOMIC IMPACT

Input/Output (I/O) tables provide a complete picture of the flow of goods and services in the economy for a given year. They detail the relationships between producers and consumers and the interdependencies of industries – enabling us to model the wider impact of changes in taxation in a way which is replicable and robust.

Our study shows that a business rates reduction worth £100m to the sector would stimulate changes in economic output, Gross Value Added (GVA)[2], employment and taxation of:



[1] ONS (2024), 'Public sector current receipts, UK: Appendix D (April 2023-March 2024).
[2] GVA is a measure of productivity – capturing the value of an industry's outputs less the value of intermediate inputs used in the production process.

MICROECONOMIC IMPACT

Recognising the important place-based dimensions, this report also looks at how changes in business rates might affect economic performance of the high street by exploring the geography and dynamics of a specimen town centre.

The specimen high street has over 23,800 m^2 of retail, hospitality, leisure and other commercial floorspace[3]. The retail floorspace has a mix of tenant types and property sizes – from local independent retailers to national chains – with an average business rates liability of £9,800 and a maximum of £50,800.

- The proposed changes to the business rates regime announced in 2024 will continue to provide support for smaller, independent retailers but retail, leisure, and hospitality businesses that typically play an anchor role on the high street will be subject to a disproportionately higher business rates burden – eligible properties will see their business rates liability increase by 126%, to an average liability of £6,400.
- Higher rate paying properties including local restaurants, banks, national retailers and pubs who do not qualify for any reliefs are subject to business rates liabilities of up to £50,800, though they each provide (estimated average) employment for 13 Full Time Equivalent roles and have strategic importance in driving footfall and spending for businesses in their proximity, maintaining a constant activity through the high street during the day and into the evening.
- Business rates introduce additional fixed costs to business – and this is often particularly difficult for retail businesses that typically have challenged profit margins. Our study identifies that average business rate increase for retail, leisure, and hospitality businesses would be equivalent to 15% of the cost of employment of a full-time worker. This effectively eliminates the returns associated with employing two existing workers.
- Additionally, using business rates mechanisms to incentivise reoccupation of vacant properties could bring a significant economic benefit to local economies. In our specimen high street, reactivating this amount of floorspace could create up to 180 net local jobs. On an average high street of this size, reoccupying vacant units could create up to 680 net local jobs.

[3] CoStar Analytics (2024) Data. Available by subscription.

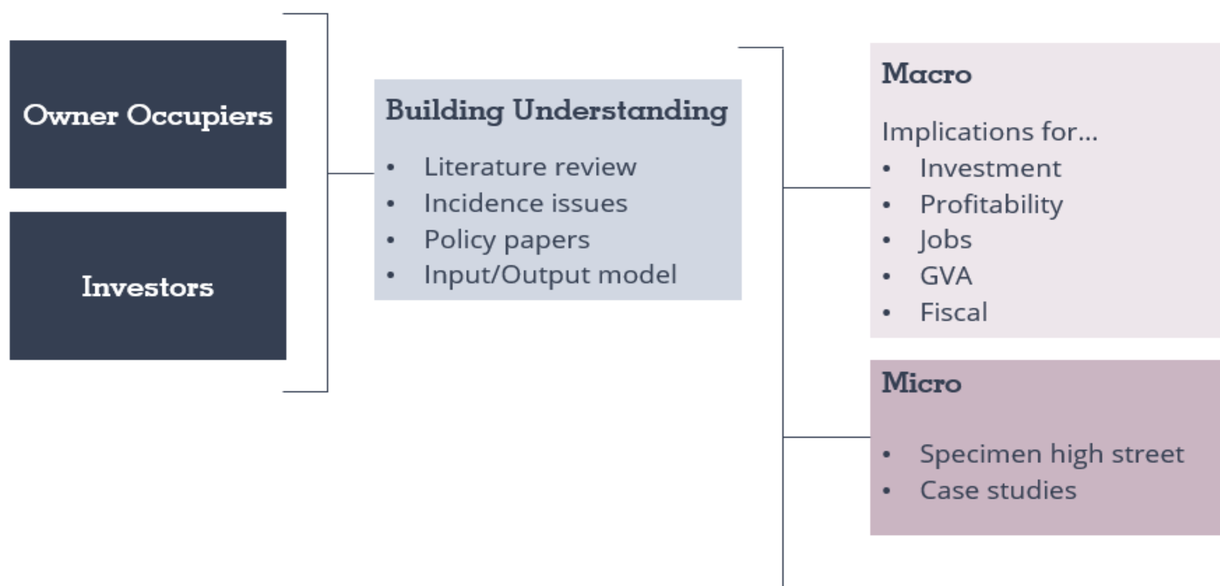
Introduction

1.1 Business rates are a property tax on non-domestic property. Property taxes of this nature have existed since the 1600's and the current system in England dates from the Local Government and Finance Act 1988. In the last financial year for which data is available (2023/24), business rates raised a net total of £27bn[4], which according to the Institute of Fiscal Studies represented 2.8% of total government receipts[5]. It is therefore a significant and important tax for both the Exchequer and for the businesses that pay it.

1.2 Ever since 1988, there have been ongoing discussions about the effectiveness and efficiency of business rates as a revenue raising measure and as a wider policy tool for influencing investor and occupier behaviour. Our study focuses on a small but important consideration that underpins these issues – the relationship between business rates and wider economic performance. In particular, our work considers how changes in business rates effect jobs, investment and wider high street vitality.

1.3 Our work distinguishes between the effects on occupier and investors. It builds on existing work and uses a form of structural economic modelling (input/output analysis) to explore how other sectors are affected. It then considers how changes in business rates might affect economic performance in the high street by exploring the geography and dynamics of specimen high street.

Figure 1 Study Structure



1.4 The report is arranged as follows:

- **Building Understanding** – What does the literature tell us about what would happen in a response to a change in business rates?
- **Macroeconomic impact** – Modelling the national impact of a change in business rates.
- **Microeconomic impact** – The place-based dimension from a change in business rates.
- **Implications** – What are the key takeaways from this analysis?

[4] Source: ONS (2024) Public sector current receipts, UK: Appendix D (April 2023-March 2024).
[5] See Where does the government get its money? | Institute for Fiscal Studies, accessed 18/12/2024.

Building Understanding:

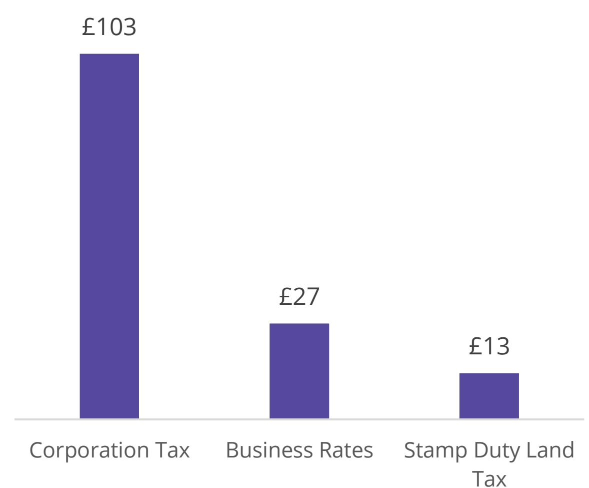
What does the literature say?

2.1 It is generally recognised that business rates are not a perfect tax[6]. It is an important principle of the economics of taxation that an efficient tax system should not distort choices firms make about inputs into the production process, and therefore that intermediate goods — those used in the production process — should not be taxed. Property is an input to the productive process of a business along with other factors of production such as labour and capital. Therefore, a tax on property has the effect of artificially skewing economic activity in the UK away from property-intensive production.

2.2 Despite this inherent economic problem with business rates, they have remained a popular tax with successive Chancellors. This is because they are relatively easy to collect and extremely difficult to evade. They are also non-cyclical as the tax base does not rise and fall substantially during the economic cycle[7]. However, as with all taxes, the nature of the tax, the way it is collected, and any reliefs introduced, all have economic consequences.

2.3 Several recent publications have investigated the interaction between business rates and local economic performance. Summaries of the issues can be found in a number of stakeholder and House of Commons briefings and were examined extensively in the Government's 2015-16 review of business rates[8], and in the 2020/21 fundamental review of business rates.[9]

Figure 2 Business Rates in Context, £bn



Source: ONS (2024) Public sector current receipts, UK: Appendix D (April 2023-March 2024)

2.4 Business and retail representative groups have frequently stated that high business rate liabilities have been a major cause of high street retailers struggling during the late 2010's. They have called for reductions in business rate liabilities for retailers, or for businesses across the board[10].

2.5 Although comprehensive data is not available, representative groups have claimed that rent levels for retail properties on high streets are high (because of limited supply and higher demand) when compared to properties of a similar physical size located elsewhere.

2.6 Commentators have suggested that a reduction in business rates, whilst potentially beneficial for retailers (and other businesses) in the short term, would have little impact in the medium to long term.

[6] For instance, the Institute for Fiscal Studies' "Tax by Design: the Mirrlees Review" (2011) explored the taxation of land and property, including business rates, and commented that the business rate is not a good tax. It taxes business property as an input to the productive process of an enterprise, and so distorts firms' choices. The IFS argue that the effect in the UK is to artificially skew economic activity away from property-intensive production. This combines with an additional distortion in that business rates are zero on unused or undeveloped land which provides perverse incentive to use land inefficiently. When commercial property is subject to tax, but land is not, then there is an incentive to withhold land from development, but also an incentive to demolish empty or unused property.
[7] *Business Rates: Who Pays and Why it Matters* (2016) A Report by Regeneris Consulting for the British Property Federation.
[8] HM Treasury (2016), 'Business Rates Review: Summary of Responses'.
[9] HM Treasury (2021), 'Business Rates Review: Final Report'.
[10] House of Commons Library (2021), 'Town Centre Regeneration' Page 41.

They anticipate that landlords would adjust rents upwards to take account of businesses' reduced expenditure on business rates. This argument has been made by the Centre for Cities and the Institute for Fiscal Studies. In an article in the Times in 2018, Paul Johnson, Director of the Institute for Fiscal Studies (IFS), said: "*While cutting business rates might reduce my costs in the short run, it will not make much difference in the long run. I'm not only paying a business rates bill; I'm also paying rent to the owner of the shop and of the land on which it sits. Because there is only a limited amount of land for shops, especially in places such as central London where rents and business rates are highest, cutting business rates will largely simply lead to higher rents".*

2.7 The IFS argues that this is because the supply of business property is relatively unresponsive to price, due to a combination of a fixed supply of land and a restrictive planning regime. Demand for business property is much more responsive because prospective renters have a range of other options such as using smaller or less well-located premises or moving the business online.

2.8 Put another way, a higher business rates burden for occupiers reduces the amount they would be willing to pay in rent. Property owners face the option of either accepting lower rents, leaving the property empty (and receive no rent) or sell the property (but with a lower sale price because rental yields are reduced).

2.9 This theoretical argument is supported by relatively limited empirical evidence. Cambridge Econometrics (2008) studied the impact of business rate relief for Enterprise Zones and concluded that, "100 per cent of the benefits from [business rates] relief are passed into rents and therefore accrue to landlords, although the range of uncertainty surrounding this statistical estimate puts the boundary at somewhere between 65 per cent and 150 per cent."[11]

2.10 Centre for Cities research argues that "*high street shops are struggling for more fundamental reasons than tax costs, and temporarily reducing these will not fix the underlying issues causing decline. A combination of low footfall and weak customer spending power is to blame for the empty shops in many city centres, driven by cities failing to attract enough jobs (especially well-paid, high-skilled ones) into their central areas. No matter how cheap it is for retailers to set up shop, this lack of customer demand will always prevent them thriving, so the focus of policymaking should be on improving these city centre economies rather than subsidising retail."*[12]

2.11 A recent report for the House of Lords (2024)[13] looks at the purpose of high streets beyond retail uses and focuses on learning from successful high street transformations. It notes that the existing business rates system contributes to high streets declining, creating an additional financial burden on businesses. The report recommends a comprehensive review and reform of the business rates system to make it fairer and more supportive of high street businesses. This includes considering alternative taxation methods that could alleviate the financial pressure on these businesses.

2.12 A 2022 report by academics University of Warwick[14] looked at the impact of commercial property taxation on vacancy rates and rents. It estimated that the retail relief reduces vacancies by 85%, and the small business rate relief (SBRR) reduces vacancies by up to 49% — demonstrating a link between commercial property taxation and vacancy and occupancy rates. Vacant units on the high street can negatively impact vitality through reduced footfall, spend and discourage further investment.

2.13 Viewed from these perspectives, it is perhaps surprising that quantitative assessments of the wider impact of business rates are difficult to find. Often discussions are case-study led, relying on anecdotal

[11] Cambridge Econometrics (2008), 'The Relationship between National Non-Domestic Rates and Rents on Commercial Property: Empirical Evidence from Enterprise Zones'.
[12] Centre for Cities (2019), Written evidence submitted by Centre for Cities (IBR0067).
[13] House of Lords, Built Environment Committee (2024) High Streets: Life beyond retail? – November 2024.
[14] University of Warwick (2022), 'Tax and Occupancy of Business Properties: Theory and Evidence from UK Business Rates.

evidence rather than a broader theoretically based understanding of impact. An exception to this was the recent report by Development Economics (*Reforming business rates: the jeopardy of inaction*) which used a revenue-based modelling technique to assess the wider impact of business rates in terms of employment, taxes and investment. The methodology relied on an intricate set of assumptions regarding investor and occupier behaviour, as well as multi-year modelling of revenue and employment impacts and taxes. It provides a useful benchmark in assessing the economic impact of business rates changes.

2.14 Building on the literature review and the identified gaps in the research for a simple and compelling response to the research question, we have based our macro analysis on the application of Input/Output Tables. This approach is explored in more detail below.

Macroeconomic Impact

Modelling the national impact of a change in business rates

3.1 Our macroeconomic analysis seeks to explore the relationship between business rates and wider economic performance though the use of national Input/Output (I/O) tables. In particular this explores:

- The impact of tax changes on different sectors
- The impact on wider spending
- The impact on Gross Value Added (GVA or productivity)
- The effect on employment
- Broader changes in tax receipts

What is Input-Output Analysis and how can it help us?

3.2 Input/Output tables provide a complete picture of the flow of goods and services in the economy for a given year. They detail the relationships between producers and consumers and the interdependencies of industries. Many economic impact assessments use Input/Output based multipliers to estimate effects of spending in the wider economy. Using I/O tables we can calculate multipliers to estimate the effects of spending in the wider economy, enabling us to model the wider impact of changes in taxation in a way which is replicable and robust.[15]

3.3 Input/Output (I/O) analysis is a standard tool underpinning economic impact assessments which is recognised across the public sector. Studies based on I/O analysis can help to demonstrate the wider impacts of changes in spending/investment, in a way which recognises existing supply chain and structural relationships and without creating convoluted logic models.

- If there is an increase in final demand (i.e. ultimate output from the industry), it can be assumed that there will be an equivalent increase in the output of that industry as it reacts to meet the increased demand. This is the **direct effect**. It assumes that there is spare capacity within the economy to supply that demand and assumes there are no effects on the price of products or labour. The direct effect in the commercial property sector captures activity related to investment in new and existing buildings, including refurbishment and new construction. The direct effect on retail could be related to investment on shop floors, as well as expanding the scope of the retail offer to consumers.
- As producers increase their output, there will also be an increase in demand on their domestic suppliers and so on down the supply chain; this is the **indirect effect**. The supply chain could include a range of professional services such as architects, designers, lawyers, planners as well as construction activity.
- As a result of these direct and indirect effects, the level of household income throughout the domestic economy will increase as a result of increased employment. A proportion of this increased income will be re-spent on domestically produced products – this is the **induced effect**.

[15] Input Output multipliers are based on a fixed 'snapshot' model of the economy for a given year. This can be useful to estimate the wider economic impacts of existing final demand. See 'IO Based Economic Assessment Guidance', Scottish Office (2015), p.4.

3.4 I/O tables tell us the indirect (Type 1) and indirect + induced (Type 2) impacts as a result of a direct, final demand driven change in industry output, income and full-time equivalent employment or GVA.

Detailed Methodology

The Starting Point

3.5 The starting point for our analysis is to make calculations for **a notional £100m reduction in business rates.** I/O tables assess the impacts resulting from a change in final demand. We therefore assume that any reduction in business rates will result in an increase in final demand for the property sector. However, some adjustments need to be made before a change in the business rates burden can be considered as a change in final demand. The tax cut should be regarded as an injection into the relevant sector, but allowances need to reflect that fact that business operators may choose to divert the savings to other activities or factor payments. Our assumptions are as follows:

- In the **invested property sector**, the maximum yield paid out by Real Estate Investment Trust (REITs) last year was circa 8-8.5%. We deduct 8.5% from the injection to make allowance for distribution to shareholders. REITs are also subject to the 75% rule, i.e. the property rental business must represent at least 75% of the REIT's profits and assets. We therefore assume 75% of the injection net of the shareholder distribution is retained in the business and feeds through into final demand[16].
- In the **owner-occupied sector**, dividends of the top paying stocks tend to return 9-10%. We assume the remainer is treated as retained in business and feeds through as an injection. We therefore assume 90% of the remaining injection will be retained in the business and feeds through into final demand.

3.6 These assumptions allow us to estimate the proportion of the tax cut that will be invested in final output.

COMMERCIAL PROPERTY SEGMENTATION

3.7 For the purposes of the assessment, it is assumed that all commercial property is owned by either:

- Investors (such as institutions, REITs, private investors etc.), who lease or sell the property to others for income.
- Or owner occupiers who own the business premises and have a physical presence on site.

3.8 These two groups of businesses may not respond in the same way to a change in business rates, therefore the study makes slightly different assumptions to distinguish between owner occupiers and investors.

INCIDENCE

3.9 Business rates are paid by the occupants of non-domestic properties. **Owner occupiers will face the business rates liability directly**, whereas **investors face a choice about whether to adjust rents to reflect the wider changes in occupier taxes** Therefore, the **financial incidence** (the legal obligation to pay the tax) may be different from the **economic incidence** (who ultimately bears the cost in terms of economic welfare).

[16] The remaining 25% of the business activity has been excluded from the analysis because it may not lead to an increase in final demand. This is a relatively conservative assumption.

3.10 The **behavioural response of investors** determines how different parts of the sector respond to a reduction in business rates, recognising the evidence identified in the recent literature:

- We assume that **owner occupiers bear the full economic and financial incidence** of business rates from day one and would therefore benefit from a reduction in the business rates multiplier immediately.
- We assume that occupiers would be the **primary beneficiary for the first 3 years**, after which point, the literature suggests that **property owners would raise rents** to adjust for the lower business rates liability for occupiers[17]. This assessment reflects the fact that lease length as well as the wider commercial environment are important considerations for the investor community.

RELEVANT I/O TABLES

3.11 The current UK I/O tables developed by the Office for National Statistics (ONS) do not provide the necessary detail to capture indirect and induced effects (Type 1 and Type 2) multipliers. For the main part of the analysis, we have used the more detailed Scottish I/O tables. For our purposes, these are the best tools available to capture the complexity of sectoral relationships for property-based activities. In keeping with ONS and Scottish Office guidance, we use 2019 tables as subsequent years are distorted by the impact of COVID 19. These tables use the 2007 Standard Industrial Classification (SIC) code definitions.

SECTOR DEFINITION

3.12 The BPF and other trade bodies have a detailed and sophisticated understanding of the UK property sector, which involves office, retail, industrial, logistics, leisure, medical and hotel properties, and residential property[18]. It is not possible to disaggregate SIC codes in I/O analysis in the same way that the British Property Federation has traditionally done. We have identified the most appropriate way to capture the sector within the framework permitted by conventional I/O analysis.

Table 1 Sector Definition

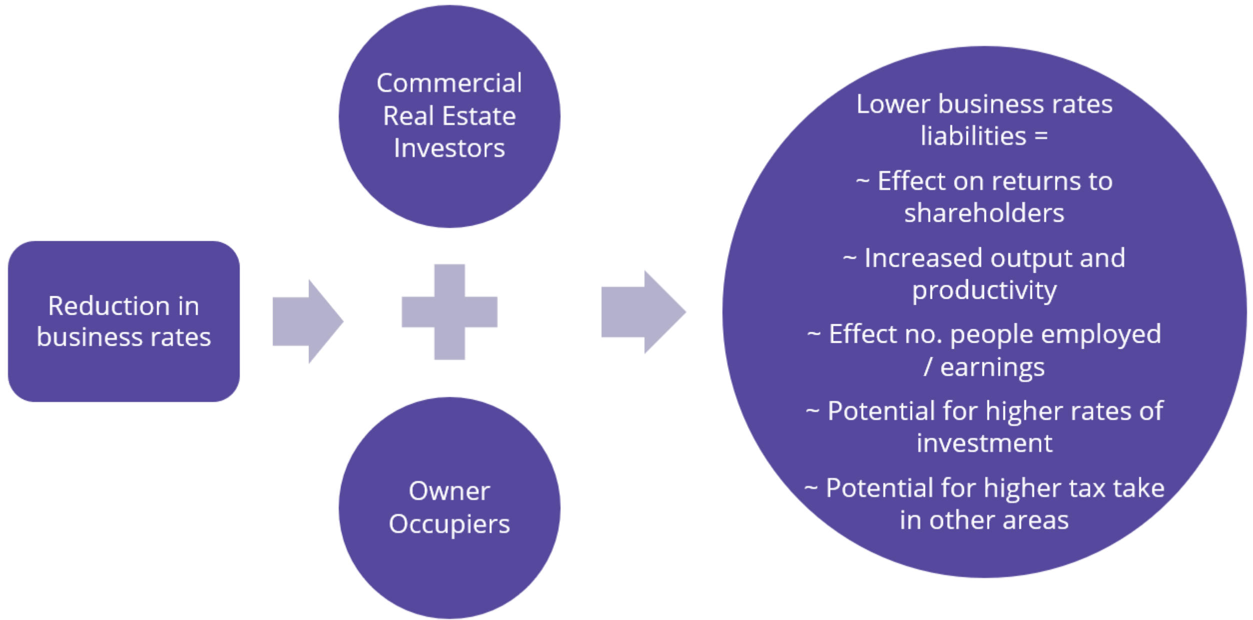
Codes	Definition	Application
47	Retail – excl vehicles	To be used a proxy for **owner occupied** sector
68.1-2	Real estate: • Buying and selling of own real estate • Renting and operating of own or leased real estate	To be used as proxy for the **invested** sector

Logic Model

3.13 A change in business rates will predominantly affect the commercial property sector, split between commercial real estate investors and owner occupiers. Allowing for the effect on returns to shareholders, there will be impacts on output, GVA, employment and wider taxation.

[17] This analysis is based on the summary in *Business Rates: Who Pays and Why it Matters* (2016) A Report by Regeneris Consulting for the British Property Federation.
[18] UK Commercial Real Estate Economic Footprint 2023.

Figure 3 Logic Diagram



Assessment of Impact

3.14 Our model considers how a business rates reduction worth £100m sustained over a 10-year period would stimulate changes in economic output, GVA, employment and other taxes.

Output

3.15 In the first year of a notional £100m cut to business rates, **an additional £45m of output could be stimulated in other sectors**. When combined with the indirect and induced effects, **the total impact of the notional change in business rates is £135m**, reflecting the fact that any increase or decrease in government spending or changes in tax policy can impact spending, production, and investment – leading to economic growth or contraction. This is the multiplier effect – the disproportionate impact of government spending and fiscal policy on national output. **Over a 10-year period, the total effect on output of a sustained £100m reduction in business rates is £1.2bn.**

Table 2 Wider Output Effects

	Direct	**Indirect**	**Induced**	Wider Effect (indirect **+** induced)	Total Effect
Year 1	£90m	£18m	£27m	£45m	£135m
Year 5	£415m	£105m	£102m	£208m	£623m
Year 10	£812m	£219m	£187m	£406m	£1,218m

Gross Value Added (GVA)

3.16 Gross Value Added (GVA) is a measure of the value of goods and services produced in an area, industry or sector of an economy. Gross value added is the value of output minus the value of intermediate

consumption; it is a measure of the contribution to GDP made by an individual producer, industry or sector, and is often used as a proxy measure for productivity.

3.17 The I/O analysis shows that in the first year of a notional £100m tax cut, **an additional £61m GVA would be generated directly, with an additional £26m GVA stimulated in other sectors. The total impact of the notional business rates cut on GVA is £88m**. Sustained over 10 years, the **total effect is £774m.**

Table 3 Wider GVA Effects

	Direct	Indirect	Induced	Wider Effect (indirect + induced)	Total Effect
Year 1	£61m	£11m	£15m	£26m	£88m
Year 5	£280m	£59m	£59m	£118m	£398m
Year 10	£545m	£119m	£110m	£229m	£774m

Employment

3.18 The I/O analysis shows that a sustained reduction in business rates for ten years could support the creation of up to **1,300 permanent jobs**, with approximately half of the jobs in real estate and retail, and half supported in the supply chain (notably professional services and construction activity), with a smaller proportion through induced expenditure. **The direct impact of a business rates reduction worth £100m would produce a public sector cost per job of £63,000**.

3.19 The efficiency of this as a measure to support employment can be assessed by looking at past governments' **willingness to pay** for job creation in regeneration programmes and projects. An independent report produced for the Homes and Communities Agency (HCA) in 2015 explored the public sector cost per jobs in over 60 major interventions, identifying a range of gross public sector expenditure between £28,700 - £51,000 per net additional job[19]. In 2024/25 prices, the upper bound estimate would be equivalent to **£68,000 per job.**

3.20 This suggests that a notional £100m reduction in business rates could generate job creation at a cost that matches the public sector's previous willingness to pay for similar outcomes. A rate of £68,000 is also comparable to other, recently introduced policies specifically targeted at getting people into work. For example, under the previous government, the 2023 'Back to Work' Budget was designed to boost the UK's workforce and was broadly equivalent to a cost of £70,000 per job.[20]

Table 4 Employment Effects

	Direct	Indirect	Induced	Wider Effect (indirect + induced)	Total Effect
Average annual employment	653	520	110	630	1,283

[19] Homes and Communities Agency (2015), 'Cost per Job: Best Practice Note'.
[20] BBC (2023), 'https://www.bbc.co.uk/news/business-your-money-64975682' – Accessed 3 January 2025.

The Impact on Wider Taxes

3.21 In terms of the wider **tax effects**, the latest data provides a partial estimate of the impact of an increase in final demand on taxes in the wider economy. Analysis of the most recent UK I/O tables suggest that the wider tax multiplier for different elements of the sector is between approximately 1.1 and 1.2. In our example, and on a conservative basis, the **net exchequer cost of a £100m reduction in Business Rates would be £91m** rather than £100m in year one, or **£896m in year 10 rather than £1bn**.

A BUSINESS RATES INCREASE WORTH £100M

3.22 The I/O model is symmetrical, it can also demonstrate the implications from a rise in business rates. An increase in business rates worth £100m to the exchequer would result in:

- **Over a 10-year period, wider tax receipts increase by £91m rather than £100m in year one, or £896m in year 10 rather than £1bn.**
- **Over a 10-year period, output would shrink by £1.2bn.**
- **Over a 10-year period, there would be a contraction in GVA worth £774m.**
- **Over a 10-year period, 1,300 FTE jobs potentially at risk.**

HIGH STREET CONSIDERATIONS

3.23 Business rates specifically affect the commercial property sector and retailers. Cutting £100m in tax to another sector may have similar output, GVA, taxation and employment effects, but their outsized impact on retail and high streets mean that there is strong rationale for adjusting business rates specifically.

- Retail stores are an important part of high streets and town centres, and the I/O approach does not capture dynamic effects and the range of place-making issues that flow from increased employment and activity in different locations. For example, the updated **HMT Green Book** identifies **place-based multipliers** that should be applied when an intervention creates jobs that are involved in regeneration interventions. These multipliers are broadly comparable with the sector specific multipliers above and offer some reassurance to the accuracy of the estimated effects[21].
- It should be noted that increases in activity, footfall and spend in the high street can influence commercial and residential property values in the surrounding area, as reflected in recent Homes England Guidance[22]. There are also wider social value impacts flowing from property-based investment and retail activity which are not captured in an I/O based analysis. Taking these effects into consideration would magnify the positive impacts realised through a reduction in business rates.
- There is wider evidence to suggest that **business rates stifle investment in buildings specifically** - such as improvements or upgrades to existing properties that would increase their business rates liability. Business rates are a key factor in making decisions on capital investments and the current level of business rates can be a deterrent to renovation[23], even where temporary reliefs are available. In areas that suffer from widespread dilapidation, even modest improvements to building quality can support regeneration efforts.

[21] HMT (2024) 'Green Book Annex A2 Place Based Analysis'.
[22] Homes England (2023), 'Measuring the placemaking impacts of housing-led regeneration'.
[23] CBI (2019) 'Submission to the Treasury Select Committee's Inquiry into the Impact of Business Rates on Business'.

Microeconomic Impact

The place-based dimension from a change in business rates

4.1 The microeconomic aspect of the study involves testing a series of issues on a specimen high street. This allows us to explore the effects of a change in business rates "in the real world" – looking at which businesses face the business rates burden and to consider specific issues around regeneration of high streets and investment in the local economy.

4.2 ONS analysis identifies 1,186 urban areas with a population between 5,000 and 225,000 in England. These urban areas were home to approximately 32.6 million people in 2017, covering more than half (56%) of the population in England and Wales.

4.3 ONS data analysis of high streets in Great Britain reveals:

- Around **a third** of addresses on the high street in Great Britain in 2020 belong to **retail** shops.
- More than **half** of the addresses on British high streets are **residential**.
- In most regions and countries, around **10% of addresses are offices.**
- 2% to 3% are leisure or community facilities.

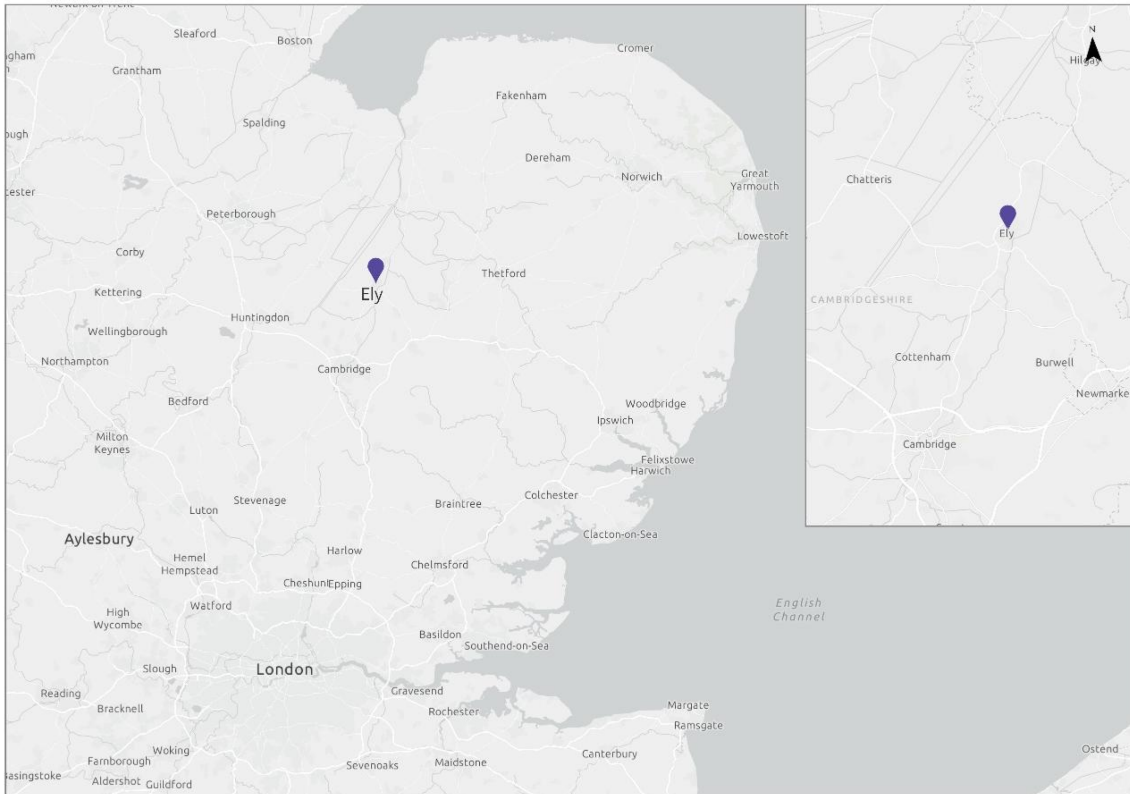
4.4 Additionally,

- Certain towns also play an important role as "hubs" for the rural areas around them, in terms of providing services, employment and businesses.
- There are 182 of these hub towns in England.
- They tend to be free-standing settlements, often with a market town heritage, or sited on historically important trading roads.
- Hub towns have a more significant retail component and are composed of **36% retail addresses**.

The Specimen High Street

4.5 The specimen high street for the study has been identified to reflect a typical high street in a market or hub town. Our designated location is Ely – a small cathedral city in Cambridgeshire, 14 miles northeast of Cambridge, 24 miles southeast of Peterborough and 80 miles from London, as shown in Figure 4.

Figure 4 Ely Location



4.6 Ely's high street is not statistically representative of towns in the UK, but its make-up, geography and economy provide an opportunity to explore some of the economic impacts of business rates on a more human scale. As a relatively healthy market town, we can be sure that our business rate impact assessment is quite conservative. It follows that any potential impact on a challenged high street area would be demonstrably greater.

4.7 At the 2021 Census, Ely had a population of 19,200[24]. It has roughly over **23,800 m^2 of retail, hospitality, leisure and other commercial floorspace[25].**

4.8 The make-up of the high street is **a mix of local independent retailers and national chains**. The breakdown of uses consists of predominantly retail and restaurants (73% of total floorspace combined). There is some office floorspace, albeit small units, comprising of 15% of the total floorspace. A detailed breakdown is provided below in Figure 5[26].

4.9 There are approximately **139 businesses** on the high street which support between **1,600** and **2,400** jobs. On average, each business supports between **15 - 22 jobs[27]**.

[24] Office for National Statistics (2021) Census.
[25] CoStar Analytics (2024) Data. Available by subscription.
[26] This breakdown is provided using floorspace data on available properties. Some properties do not have floorspace data available, although the number is small compared to the readily available data. Therefore, the data is considered a good representation on the high street mix despite its limitations.
[27] This has been estimated by applying a general density of 10-15 sqm per job in line with HCA's Employment Density Guide (2015) for retail floorspace.

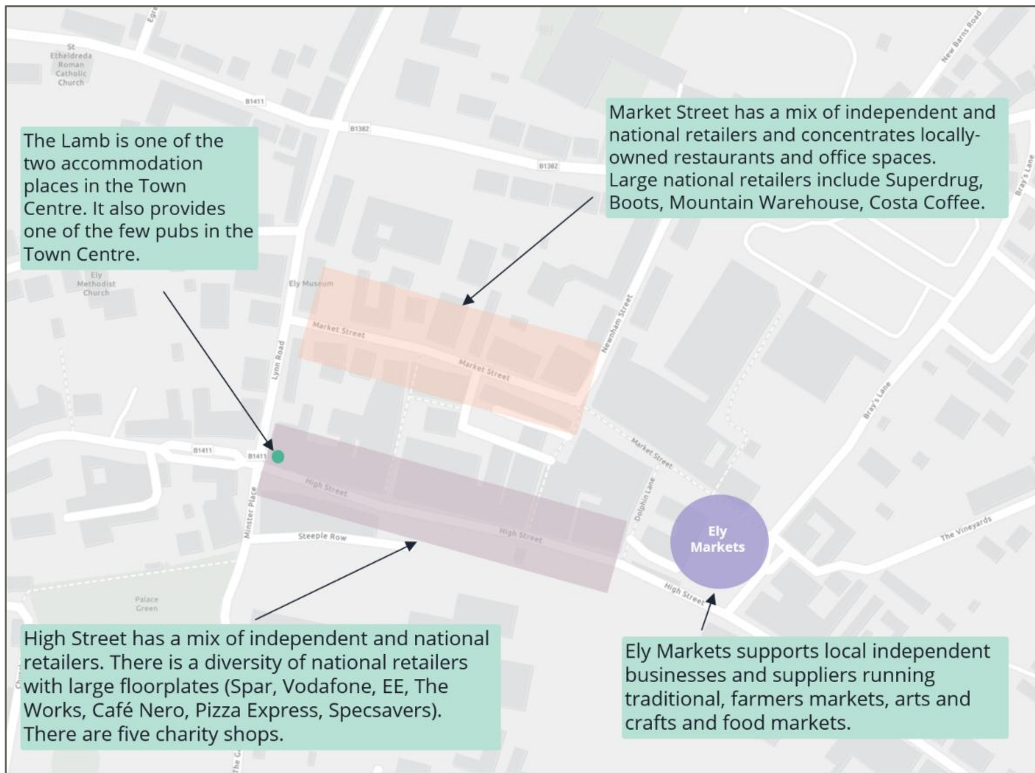
Figure 5 Breakdown of Uses by No. of Properties

4.10 In terms of business rates:

- Approximately **27% of businesses are exempt from paying business rates** and have a ratable value lower than £12,000. These are mostly independent retailers – specialised businesses, local supermarkets, beauty salons and offices.
- **12% of businesses qualify for small business multiplier reduction, having a ratable value lower than £15,000.** For properties with a rateable value of £12,001 to £15,000, the rate of relief will go down gradually from 100% to 0%. These are largely independent retailers with small floorspace.
- There are **five charity shops on the high street**. Charities can get to up to 80% relief on their business rates bill. An additional 'discretionary relief' can be applied by the local council to top up the discount.
- Of the businesses with a ratable value over **£15,000**, the types of businesses above this threshold vary from independent restaurants, larger national chains (i.e. Boots, Costa Coffee, Café Nero, EE, Pizza Express), larger shops and banks. While some of the independent restaurants and shops qualify for the current 75% reduction for hospitality, leisure and retail, national retailers are capped to £110,000 per business.
- The average business rate liability on the high street is around **£9,800.** This reflects the current 75% reduction [28] in business rate for hospitality, leisure and retail.
- The highest business rates liability is **£50,778**, borne by a local public house with a large floorplate and owned by a national chain.

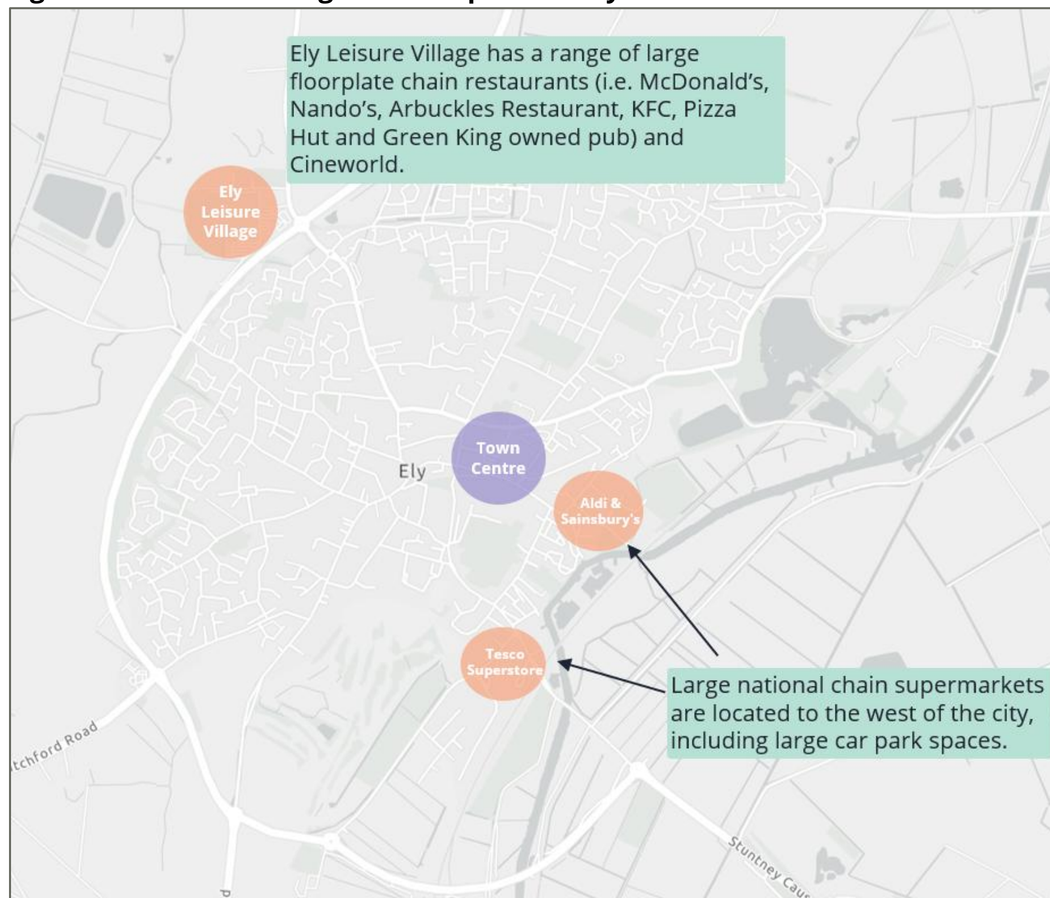
[28] Applied to eligible properties only.

Figure 6 Snapshot of Ely's Town Centre



4.11 Outside the town centre, there are larger retailer parks with high business rates value uses that do not qualify for rates relief and are more likely to be based on the standard multiplier of 54.6 pence. Their location is shown in Figure 7.

Figure 7 Location of Larger Retail Spaces in Ely



Policy Issues

4.12 Our specimen high street can be used to explore a series of policy questions that are crucial to understanding the economic and financial impact of business rates.

1. The strategic importance of big floorplates in playing an "anchor" role on the high street.
2. The additional cost that business rates introduce to retail businesses.
3. The potential economic benefit of re-occupying vacant properties.

THE STRATEGIC IMPORTANCE OF ANCHOR RETAILERS

1.5 Successful high streets depend on a mix of uses, tenant types and property sizes. Recent changes in consumer spending and a shift towards e-commers mean that people want to have a mixed provision on the high street. This includes public services, shops and leisure, and more increasingly, leisure and cultural facilities. Enhancing public spaces and incorporating green areas are seen as crucial for attracting visitors and improving the overall environment of high streets.

4.13 Similarly, anchor tenants have strategic importance in driving footfall and spending for retailers in their proximity. These properties play a disproportionate role in the health of the high street. Anchor tenants could include public services (e.g. local authority services, NHS services, community libraries, higher education) or private retailers. These anchor institutions drive footfall and create demand for services, maintaining a constant activity through the high street during the day and into the evening.

4.14 The October 2024 Budget announced changes to the business rates regime which are likely to have impacts on the high street retailers:

- Freezing the small business rates multiplier at 49.5p in 2025/26.
- Providing 40% relief (a reduction from the current 75%) to retail, leisure, and hospitality business on their rates in 2025/26, up to a cash cap of £110,000 per business.
- An intention to permanently reduce lower rate multipliers for retail, hospitality, and leisure properties with a rateable value of under £500,000 from April 2026/27. This will be funded through a higher multiplier on properties with a rateable value of £500,000 and above, which includes the majority of large distribution warehouses used by online retailers.

4.15 While the freeze in the small business rates multiplier is welcomed, the reduction in relief from 75% to 40% will result in increased business rates for a large number of businesses on the high street. **The system has the effect of providing support for smaller, independent retailers but subjecting properties that typically play an anchor role on the high street to a disproportionately higher business rates burden**. Arguably this overlooks the cost pressures for businesses playing a strategically important role on the high street – with potentially significant economic consequences if retailers were to fail

4.16 Analysis of this issue in the context of our specimen high street shows:

- Currently the highest paying properties in terms of business rates are local restaurants, banks, national retailers and pubs who do not qualify for any reliefs. There are **35** in our area, with an average size of **316** square meters each and employing between **19-28** people. On average they have a current liability of **£19,300** per year in business rates, with a maximum of **£50,800**.
- We estimate that **46** properties may be receiving either Small Business Relief, Retail Hospitality or Leisure Relief or Charitable Rate Relief. These have an average size of **151** square meters each and

are estimated to employ between **9-13** workers. Current estimates suggest an average liability of **£2,800** per annum.

- The reduction in the retail, leisure and hospitality relief to 40% will see the average business rates liability for eligible properties increase by **+126%** to an average liability of **£6,400**. By contrast, the increase in business rates across the entire business base is +21%. This shows the disproportionate impact of the proposed change on those in the retail, leisure and hospitality industries.

BUSINESS RATES INTRODUCE ADDITIONAL COSTS FOR RETAIL BUSINESSES

4.17 The business rates levied on occupiers (whether directly or through rent adjustments) are an additional cost to doing business. An average increase of £3,600 for a small retailer may not seem significant, but this needs to be put into context with the costs of employing staff.

4.18 For a retailer paying median wage for retail in the East of England, the annual salary cost per employee is approximately £24,000[29]. The average business rate increase would therefore be equivalent to 15% of the cost of employment a full-time worker. This might not seem a great deal but given a target Return on Capital Employed (ROCE) of between 6-8%, **it effectively eliminates the returns associated with employing two existing or new workers.**

4.19 Additionally, there is evidence that higher business rates liabilities may discourage investments in buildings such as improvements or upgrades to existing properties which may make a positive contribution to the quality and functioning of the high street.

REOCCUPATION OF VACANT PROPERTIES

4.20 There is an established link between high street vacancies and higher business rates, as identified in the literature review in Section 1:

- Businesses have been critical of the scale of rates, with the Shopkeepers' Campaign describing them as "unsustainably high", and RICS have said that their members *"consistently tell us that high levels of business rates are the number one barrier to the reoccupation of empty retail property"*.

- Recent economic events and high inflation has proven difficult on the high street in many areas across the country. Recent increases in property's ratable value have contributed to increases in businesses rates for businesses in some areas. Business rates have made it difficult for many high street businesses to remain profitable, particularly as many of the hospitality, retail and leisure businesses operate low profit margins.

- Low business rates that favour small businesses may diversify town centre offers by making it more affordable for small, independent trades to occupy spaces. Businesses in properties with a ratable value lower than £12,000 are not required to pay business rates.

4.21 There is also evidence pointing to the damaging impact of vacancies, including shops, office or other closures, in a town and city centre context. This includes economic effects such as reduced revenue for businesses, job losses and decrease in footfall. This contributes to a decline in community engagement with the high street, with the previous Government stating that *"the economic and physical decline caused by high street vacancy entrenches economic underperformance and undermines pride in place"*[30]. Beyond the economic effects, high street decline can lead to reduced community cohesion and a loss of local identity.

[29] Median wage for Retail in East of England - £18,581 (Source: 2024 provisional dataset) and non-wage labour costs would add approximately 30% to wages, giving the cost of employment £24,155.

[30] House of Lords, Built Environment Committee (2024) High Streets: Life beyond retail? – November 2024.

4.22 While we recognise that the causes of high street vacancy are multifaceted, using business rates mechanisms to incentivise reoccupation of vacant properties could bring a significant economic benefit to local economies. Assessing the potential impact through the specimen high street demonstrates:

- Ely has a vacancy rate of 3.8%, which equates to 8,600 ft^2 commercial floorspace[31]. The economic benefit of reoccupying these units could equate to 50-80 direct FTEs in our specimen high street[32], 20-30 indirect jobs in the supply chain and 50-70 induced jobs in the wider economy[33], supporting a maximum of **180 total local jobs**.
- The average level of vacancy on high streets throughout the UK is circa 14%. On a high street the same size as Ely that performs around the national average, the reoccupying vacant units could create between **450 – 680 total local jobs**.[34]

[31] CoStar (2024) Analysis.
[32] Savills (2024) Spotlight: Shopping Centre and High Street – Q1 2024.
[33] Based on Green Book (2022) Place-based Analysis Appendix 2 multiplier for tradable sectors.
[34] To provide some additional context, the vacancy rate in Pudsey, a town in the Chancellor of Exchequer's constituency, is 12.3%. Based on a very limited analysis of the local high street as defined by ONS, re-occupation of vacant floorspace could yield between 330-496 additional local jobs.

Implications

5.1 Our analysis shows it is possible to explore the impact of business rate changes using simple structural analysis based on Input/Output tables. The exercise has demonstrated the wide-ranging economic impacts arising from a change in business rates – including output, tax take, GVA, and employment

5.2 The analysis also suggests that a notional £100m reduction in business rates could generate job creation at a cost that matches the public sector's recent willingness to pay for regeneration-based interventions. The analysis also shows that the business response to a potential change in business rates will not only produce quantifiable macro-economic benefits, but also wider placemaking and regeneration impacts.

5.3 In tandem with this macro analysis, our analysis of a specimen town centre shows that the scale of potential benefits that a reduction in the business rates burden could generate. These could have real practical implications in terms of jobs and spending for local communities.

5.4 More widely, it is important to recognise, that local authorities retain 62% of business rates collected in 2022/23, making up around a quarter of Council spending. However, if this comes at the expense of local business vitality, the net local impact could be detrimental to job creation and the long-term sustainability and variety of our high street.

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