



JONES LANG  
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## Revaluation 2010

### Central London Offices

Increases in rate liabilities across the Central London Grade A office market, with an average increase in rate liability of 70% by 2014-15.

Village rate liability differentials to widen, with a trebling of the cost differential between the most and least expensive locations.

November 2008

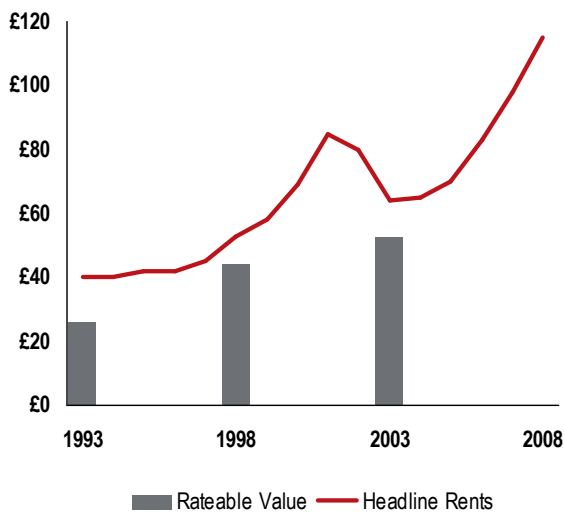


## 2010 Revaluation

The next Rating Revaluation will be effective from 1 April 2010, reflecting rents in April 2008 - a date shortly after record rents had been set for the best located Grade A offices in Central London. This report considers the potential impact of the 2010 Revaluation on the best located Grade A office space.

There have been five-yearly Rating Revaluations since 1990. Rateable Values (RV) reflect the rental value of a property calculated at a set valuation date (AVD) two years prior to the Revaluation being effective. At each Revaluation RVs will reflect the market conditions at AVD. To date the highest Rateable Value for Central London offices is £575psm/£53.40 psf for a property in Mayfair in the 2005 Rating List. The correlation between RVs and rental movements over time can be demonstrated by the relationship between headline rents and RVs for Grade A space in Mayfair.

### Mayfair Headline Rents and Rateable Values



The peak in rental levels compared with any previous AVD, as shown for offices in Mayfair, holds true across the Central London office market. Jones Lang LaSalle's research predicts an average increase in RVs for Grade A offices in Central London of in excess of 50% – however this average hides a wide variation between the village markets. The Valuation Office will publish the draft 2010 RVs on 1<sup>st</sup> October 2009 in advance of the revaluation becoming effective on 1<sup>st</sup> April 2010.

## Rate Liability Impact

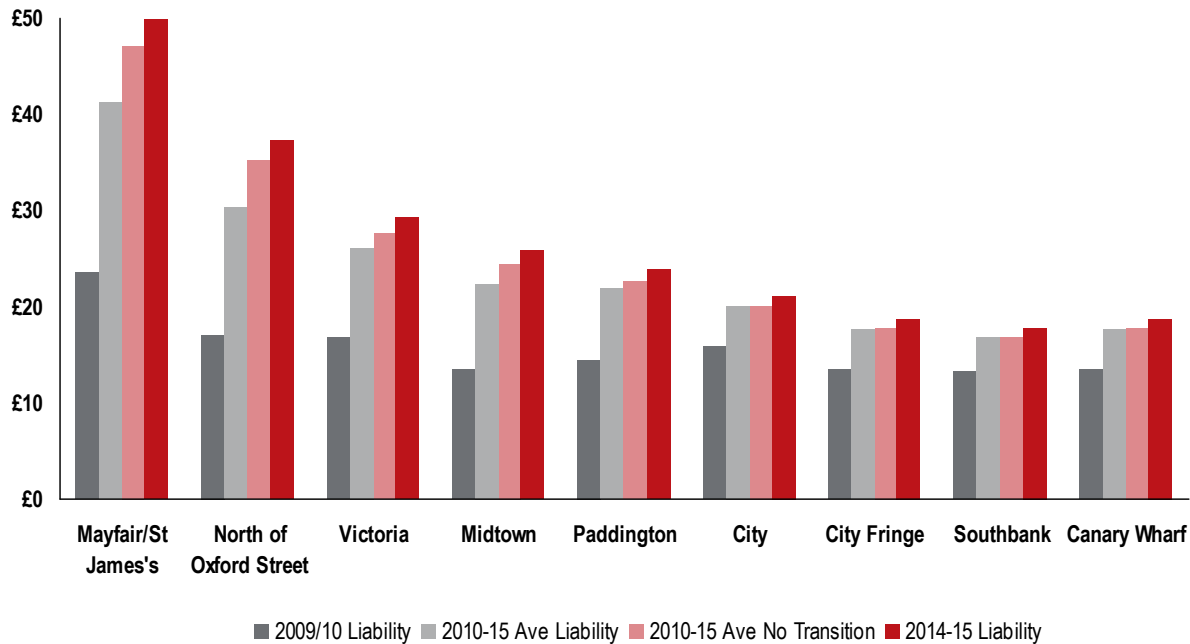
The actual impact on costs will be determined by the interaction of higher RVs, the rate poundage (UBR), the existence and provisions of a transitional scheme and the level of rate supplements. These factors will not be known until late 2009 at the earliest, the relevance of each element is explained below.

UBR – at each revaluation the UBR is reset to ensure that in real terms the revenue from business rates is unchanged following the revaluation. The revaluation acts to redistribute the burden of business rates to reflect market changes in property sectors/locations throughout the country. Accordingly, those sectors/locations that have experienced greater than average rental increases over the 5 years prior to a revaluation will experience an increase in rate liability following the revaluation. As rental growth in the Central London Office market has outperformed the national average the rate liabilities there will increase following the revaluation.

Transitional Scheme – this exists to prevent swingeing increases in rate liability immediately following a revaluation, with increases in liability being introduced gradually. The scheme for the 2005 Rating List allows maximum real increases in liability of 12.5%, 17.5%, 20% and 25% in each year following the revaluation. The Transitional Scheme does not apply to new buildings completed after the revaluation.

Rate Supplements – the majority of occupiers pay a supplement of 0.4p (in 2008-09) to fund a scheme of rate relief for small businesses, in addition to this occupiers in the City of London currently pay a further 0.4p supplement. From 1<sup>st</sup> April 2010 all upper tier local authorities will be able to levy a business rate supplement of up to 2p on assessments with an RV greater than £50,000. The GLA has proposed that a 2p supplementary rate will be introduced to assist with the funding of Crossrail.

### Central London Villages Rate Liability Forecasts



Based on Jones Lang LaSalle’s in-house estimates of these elements of the rate liability equation we estimate that on average by 2014-15 rate liabilities for Grade A space in Central London could increase by 70%. The average increase in liability hides wide locational differences – forecasts of rate liabilities following the 2010 revaluation for various Central London Villages are shown above.

As the rate liability forecasts show, the extent of the growth in rents in Mayfair, St James’s and North of Oxford Street will result in these locations experiencing the largest increases in liability following the revaluation.

The differences in the level of increase in liability will widen the rate liability differential between the most and least expensive locations in central London – this is forecast to increase from £10 psf in 2009-10 to £30 psf in 2014-15.

For those locations experiencing large increases in rate liability the provisions of the transitional scheme will be of paramount importance in determining the cost impact of the revaluation. Whilst existing buildings should benefit from transitional relief this will not be available to new buildings, which will result in a cost differential between buildings completed before and after the revaluation.



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Located in offices in Central London, West London, Birmingham and Glasgow, the team has unrivalled expertise covering every aspect of the UK property market encompassing office, retail, hotels, industrial and warehouses and a range of specialist properties including the utility networks.

The team is advising on over £2 billion of Rateable Value and has saved their clients over £1 billion over the life of the 2005 Rating List.

The team provides strategic rating advice to some of the country's largest occupiers, property companies and investment managers.

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