

2023 business rates revaluation set to positively impact retail sector, but some will fare better than others

2 years ago



According to Savills analysis of Valuation Office Agency (VOA) data, the 2023 revaluation of business rates has the potential to polarise the market with some retailers and leisure operators faring better than others.

Savills states that the changes are largely positive, with some retailers, such as department stores, prime high street retailers and shopping centres, set to make annual savings of over £20 million per year. This comes at a time when the pressure of other occupational costs, including energy bills, are set to rise by as much as 400%.

[Savills analysis](#) shows that the revaluation appears to favour larger stores (c. 20,000 sq ft +), where rates will fall by up to a third. Whilst smaller stores (c.8,000 sq ft and below) will only see reductions of around 8%. This should benefit prime units for fashion and comparison goods, as well as the shopping centre market where stores with larger footprints tend to account for a greater proportion of revenue than non-prime high street units. Consequently, department stores have been granted significant respite with a 30-40% reduction, which is likely to aid recovery for those operators still active.

There are also variations across retail category, sector and geography. For example, supermarkets can expect average reductions of 5%, whilst convenience stores are set to increase by up to 13%. Pubs and restaurants will see reductions of 17% and 5% respectively, but in contrast takeaway businesses will see an increase of 7.5%.

Other sub-sectors seeing increases include the drive-thru market, which will rise by 14%, and retail

logistics space, which will go up an average of 35% for large distribution warehouses. This is due to both markets seeing considerable growth throughout the pandemic. As a result large retail brands who have benefited from significant rates reductions on their retail units are likely to experience hikes within their warehousing portfolios.

Tom Whittington, director in the commercial research team at Savills, comments: “We will see rateable values reduce by an average of 10% for retail and 2.2% for leisure nationally, which overall is a good result for the sector. However, it is important to note that when you drill down to specifics there is considerable variation across different assets and geographies. The rate reductions appear to favour larger units and prime retail and leisure locations, which will leave many local and independent stores significantly worse off, although small businesses will continue to benefit from rates relief, at least in the short term.”

Steve Henderson, director in the national retail team, adds: “Overall, the reduction will provide relief in the face of unavoidable increases to operational and occupational costs, providing a lifeline to businesses in some key locations. Since the announcement we have seen operators review the level of rent they can offer, meaning board approval for some deals has been more readily attained. Whilst the rates payable reduction will not automatically result in rental increases, it will provide competitive tension for the best space which should over time see a positive impact on rents.”

Mark Garmon-Jones, head of shopping centre and retail investment & repurposing at Savills, says: “The improved occupational costs and subsequent positive impact on some retail leasing markets noted above, will in turn lead to benefits in the retail investment market. For shopping centres in particular, some schemes will see a 5 to 10% increase on net operating income as at April 2023.”