BUSINESS RATES

The UK's business rates are excessive and deter international retailers from opening here, argues Harper Dennis Hobbs director **James Ebel**

Time to take action on business rates

The UK's outdated business rates system is scaring off overseas retailers and the country is losing much-needed investment as a result.

New Yorker, Crate & Barrel, Oliver Peoples, Koton, Michael Hill, Aéropostale, Cotton On, Target and Teavana – just a few of the international brands that have so far chosen not to progress their expansion strategies in the UK, partly because business rates here are the highest in Europe.

Landlords seek new entrants for their shopping centres as a priority. That is clear to me, having spent 15 years travelling to the US for International Council of Shopping Centers conventions. In the early days there were just a few UK agents present. Now all the major firms in retail send people with the hope of finding the next big retailer to expand overseas. In addition, proactive landlords are making investment and marketing their centres instead of waiting for retailers to knock on their door.

Having advised a large number of American retailers on their plans to expand into the European and UK markets over the past 10 years on every occasion, without exception, clients are astonished at the high level of business rates they face.

European comparisons

When comparing Munich with Manchester, Brussels with Birmingham, or Lisbon with Liverpool, nowhere else across Europe has the level of property tax that we have in the UK.

One US client commented: "35% to 40% of the rent, that's just crazy. How does anyone make money in this country?"

That's because no other European country has business rates like the UK. There are some very minor property taxes across the Continent but they amount to a few thousand euros a year. The UK's property tax alone as a percentage of GDP is 1% higher than the G7 average.

So when they look at European expansion holistically and see such a high price to enter the UK, many retailers opt to focus on other countries.

Take our client Forever 21, for example. Its growth in the UK has been restricted by high occupancy costs because of rates and it has decided to continue most of its expansion outside the UK. The focus has shifted and we have instead signed for additional stores in Germany and are pursuing locations in Spain, France and the Netherlands.

The UK expansion plans of international retailers such as Forever 21 have been hindered by business rates

> **"The business rates model in the UK is outdated and needs a major overhaul if we are to compete at a European level"**

Levelling the playing field

Some international retailers have tried and failed to crack the UK market, partly as a result of real estate costs – for example, Borders, Best Buy, Gymboree, Eddie Bauer and Bebe.

Why aren't we doing more to make new entrants into the UK market sustainable? Should there be subsidies for new entrants – perhaps for the first few stores to encourage and fertilise the market?

Some retailers such as Uniqlo, Ralph Lauren, Lululemon, Forever 21, J Crew, Williams-Sonoma, American Eagle and TK Maxx have been more successful.

However, is it not time we took cross-border strategies into account and started competing with other European countries on a level playing field? Why are we losing investment to other countries that have scrapped or capped business rates?

If other countries get their act together they could market themselves ahead of the UK on cost. Gone are the days when retailers wanted to expand country by country.

It is about capital cities, because logistics and supply chains have upped their game and large distances between stores no longer present a problem for an expanding retailer.

The business rates model in the UK is outdated and needs a major overhaul if we are to compete at a European level. Perhaps rates increases should be based on store performance or stepped up as the retailer can afford it.

It is time the retail and property industries placed greater pressure on Government to force change.