Retail Renaissance 2026

Lesson #6: Business Rates: Making the inequitable palatable

2026

The last of six papers exploring key themes that are defining the Retail landscape and will play out going forward

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Paper #6 – Business rates: making the inequitable palatable

Robbing both Peter and Paul?

AUTHOR: STEPHEN SPRINGHAM – PARTNER, HEAD OF RETAIL INSIGHT

3 KEY TAKEAWAYS:

- The system is broken. Root and branch reform is needed, rather than superficial tinkering with multipliers and relief packages. But there is currently limited impetus for policy change.
- Inequitable on multiple counts – Retail and Hospitality shoulder a disproportionately high business rate burden (>30%) and the 1% of Retail properties that cross the £500k RV threshold contribute 26% of rateable values – Central London and supermarkets bear the biggest brunt.
- "Levelling the playing field" = creating a minefield. Infinitely more complex than simply applying higher multipliers to warehouses as this will impact online players and high street operators in equal measure.

"The more specific argument from retailers is that they shoulder a disproportionate share of the business rates bill. Retail accounts for around 5% of the UK economy, yet retailers pay over 20% (ca. 25%) of all business rates. Including Hospitality extends this burden to >30%."

"The next Labour government will scrap business rates. We will carry out the biggest overhaul of business taxation in a generation, so our businesses can lead the pack, not watch opportunities go elsewhere."
Rachel Reeves – 2021 Labour Party Conference

"Business Rates are crippling our High Streets. Only the Conservatives have a funded plan to scrap them for thousands of pubs, shops and cafes, and unlock our towns and cities to grow".
Kemi Badenoch – October 2025

Political pledges and promises are clearly much easier to make in times of opposition. As Shadow Chancellor, Rachel Reeves boldly vowed that Labour would scrap business rates when in power. Two years on, they haven't done anything of the sort. Leader of the opposition Kemi Badenoch has since made similar noises, but the Conservatives had plenty of time to act while in power. But didn't.

Tinkering isn't the same as scrapping and to date, promises of meaningful reform have not been honoured.

THE BANE OF RETAILERS & HOSPITALITY OPERATORS – WHY?

Retailers aren't backwards in coming forward in airing their objections to anything. Business rates have supplanted all other common complaints (e.g. upwards-only rent reviews, long 25 year leases etc etc) as their single largest grievance and industry bodies such as the British Retail Consortium (BRC) devote considerable resource to lobbying on their behalf. Why is the issue so contentious and the system apparently so unfair?

"Retailers are effectively being hit by a double-whammy of elevated rent and higher business rate obligations. Profitable sites may become unaffordable at a stroke."

On the most basic level, business rates are a tax. And nobody likes taxation in any shape or form. And business rates is a property tax that doesn't exist in many other countries other than the UK. And in countries where it does, it's less confusing than it is in the UK.

That generic grievance aside, the more specific argument from retailers is that they shoulder a disproportionate share of the business rates bill. Retail accounts for around 5% of the UK economy, yet retailers pay over 20% (ca. 25%) of all business rates. Including Hospitality extends this burden to >30%.

Thirdly, rates are payable based on a property's rateable value (RV) at a given point in time, which will in turn be driven by rent. The two key grievances here are that 1. The revaluations are too periodic and this can result in large distortions e.g. significant jumps and time lags. 2. If rents have increased significantly during the two revaluation dates, retailers are effectively being hit by a double-whammy of elevated rent and higher business rate obligations. Profitable sites may become unaffordable at a stroke.

A myriad of other grievances relating to the many moving parts of how

> “As a percentage of GDP, UK property tax is the highest across the entire OECD at 3.74%.”

business rates are calculated (e.g. multipliers applied to RV bandings, relief packages) but this is the general case from the Retail & Hospitality counsel.

LIMITED IMPETUS FOR REFORM

For all the rhetoric, there has been limited reform from any serving government to date. Again, there are a whole host of reasons for this.

Business rates is a big and, more importantly, reliable money-spinner. Historically, the government has raised between £25 billion to £28 billion per annum from business rates in England alone, while total UK-wide revenue is projected to rise to £35.8 billion for 2026/27. As a percentage of GDP, UK property tax is the highest across the entire OECD at 3.74%. Back in 1990 when the “modern” system of business rates was introduced, this figure was 2.69% and the UK was only 4th on the list (behind Canada, the US and Luxembourg).

Whatever the cash figures, ‘reliable’ is arguably the operative word. Business rates are fiscally neutral, meaning that whatever the uniform business rate (UBR) is, whatever weightings are applied through bandings and whatever relief is given, the net figure is still the same – but obviously still pegged to inflation. Unlike other taxes, business rates are therefore fairly transparent and predictable and relatively easy to collect. There is very little impetus to change any of these factors.

Beyond that, business rates are a corporate rather than a consumer issue. They are not a votes-winner, at a politically unstable time when votes are at a premium. Much more political energy is being channelled into issues closer to public sensitivities. Put bluntly, no government past, present or future, has even been nor will ever be elected on the basis of business rate policy. Cynical, but ultimately true.

IS THE SYSTEM BROKEN?

A cursory recap of the mechanics of business rates and the key moving parts that underpin them – and makes them so complicated and in retailers’ eyes ‘unfair’:

1. The Standard Multiplier
2. RV Bandings
3. Relief

The Standard (or Base) Multiplier is set at each revaluation period and business rates are calculated by multiplying the property’s rateable value by this figure, before any reliefs or transitional arrangements are applied. So far, so seemingly simple.

There are three different multipliers, based on RV property bandings:

- Properties <£51k RV. Can be up to 20p lower than the Base multiplier
- Properties £51k - £500k RV. Can be up to 10p lower than the Base multiplier.
- Properties >£500k. Can be up to 10p higher than the Base multiplier.

This complexity becomes a minefield when relief is factored in. Sole traders (i.e. those with a single site) may be eligible for small business rate relief depending on that property’s rateable value. Single properties with a RV of £12,000 or less are exempt from business rates. For properties with a RV of £12,001 to £15,000, the rate of relief will go down gradually from 100% to 0% e.g. for a RV of £13,500, a 50% reduction, for a RV of £14,000, a 33% reduction etc.

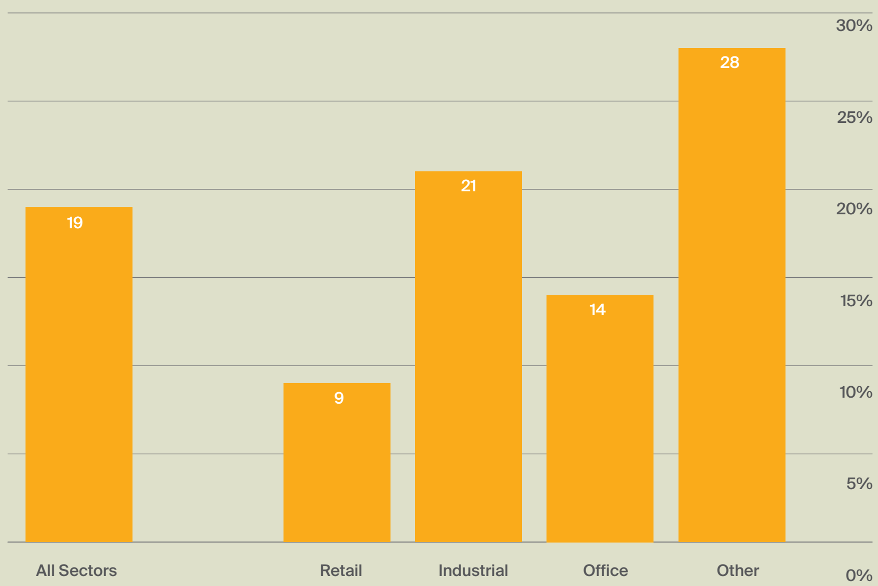
The UK government also provided historic business rates relief during the COVID-19 pandemic, implementing a 100% Retail, Hospitality and Leisure Discount (popularly termed a "rates holiday") for 2020/21 and offering phased discounts through 2022. These temporary, emergency relief schemes have since concluded, but their after effects are still washing through the system.

The Discount was a temporary measure, but its gradual withdrawal nevertheless remains a source of consternation, particularly in the Hospitality sector.

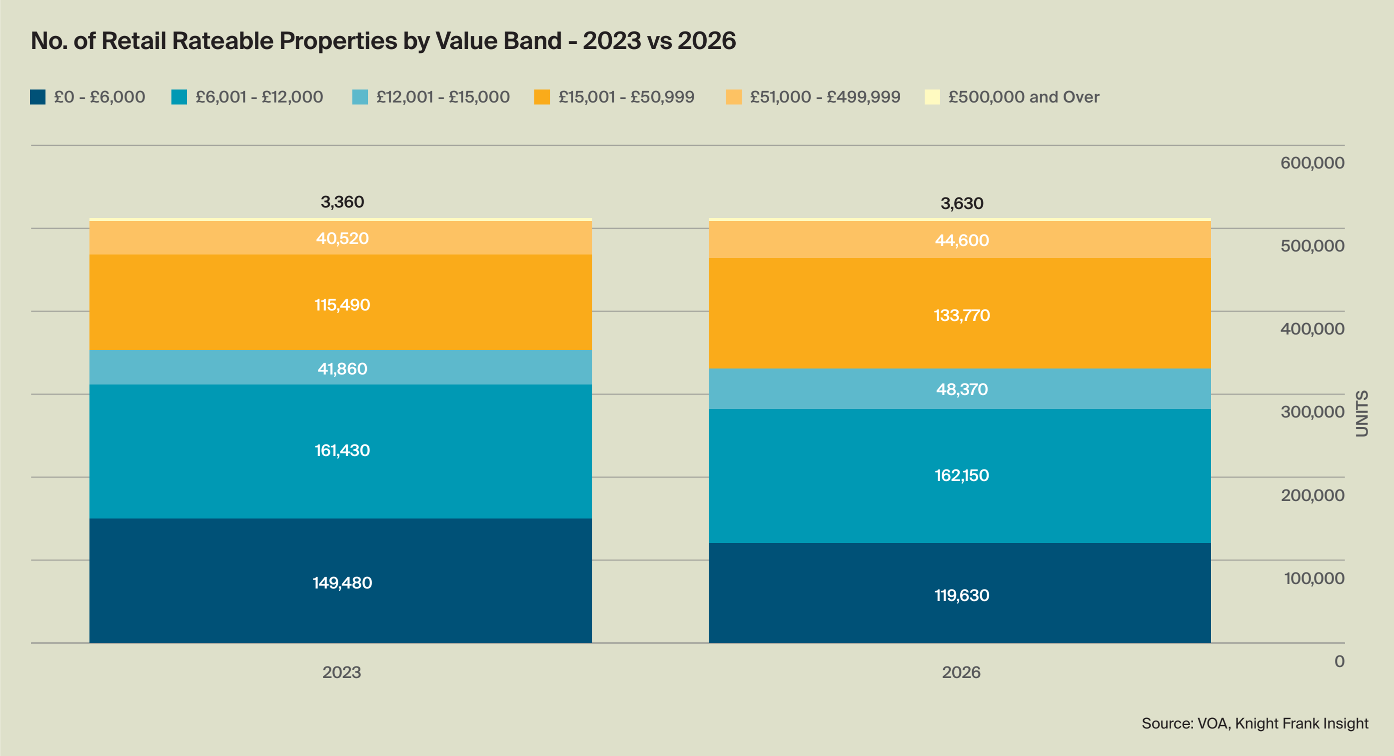
OUTCOME OF THE 2026 REVALUATION

The 2026 Draft List was released in tandem with the Autumn Budget in November 2025. The new Rateable Values (RVs) reflecting the change in rents between April 2021 and April 2024 and almost every commercial real estate sector saw an increase, as the country recovered from the pandemic. Overall, the total RV has increased by +19.2%. This has allowed Government to reduce the Standard Multiplier (applied to RVs to calculate a ratepayer’s liability) from 55.5p to 48p.

% change in Rateable Value 2023 - 2026 by Sub-sector



Source: VOA, Knight Frank insight



Dressed up as a way of helping the High Street, the Government also announced permanently lower multipliers for occupiers of Retail, Leisure & Hospitality (RHL) premises, as follows:

- RV below £51,000 – multiplier of 38.2p
- RV £51,000 to £500,000 – multiplier of 43p

These lower multipliers will be funded by a 2.8p supplement on RVs above £500,000, applicable to all commercial properties (including supermarkets, despite extensive lobbying on the basis that this would lead to high grocery price inflation).

In theory, a mindset of big retail businesses fitting the bill to the benefit of smaller operators. Those that can supposedly afford it helping out those that may struggle. Robbing Big Peter to pay Little Paul, if you will. The practice very different, as legacy COVID discount relief was also phased out completely, having been reduced to 40% at the previous revaluation. The new lower multipliers replace any residual RHL relief. So take, by way of example, a shop with a Rateable Value of £25,000. Last year, its rates bill after the 40% relief would have been £7,485. This year, with the lower multiplier, its rates bill will be £9,550, an increase of +27.5%.

In effect, many small-scale operators will be worse off than before. Big Peter and Little Paul robbed in equal measure?

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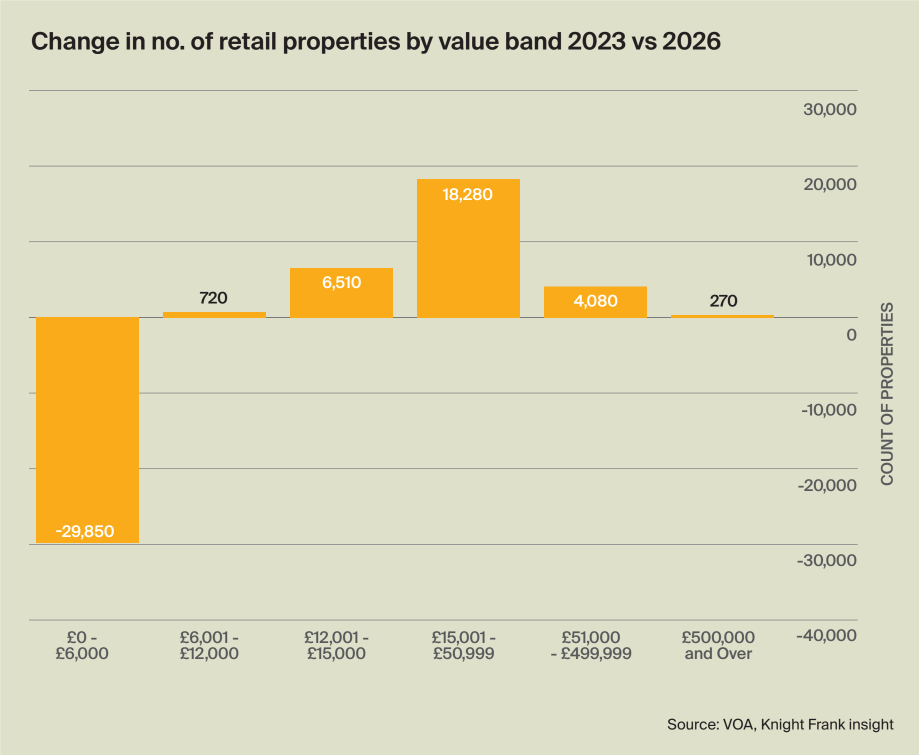


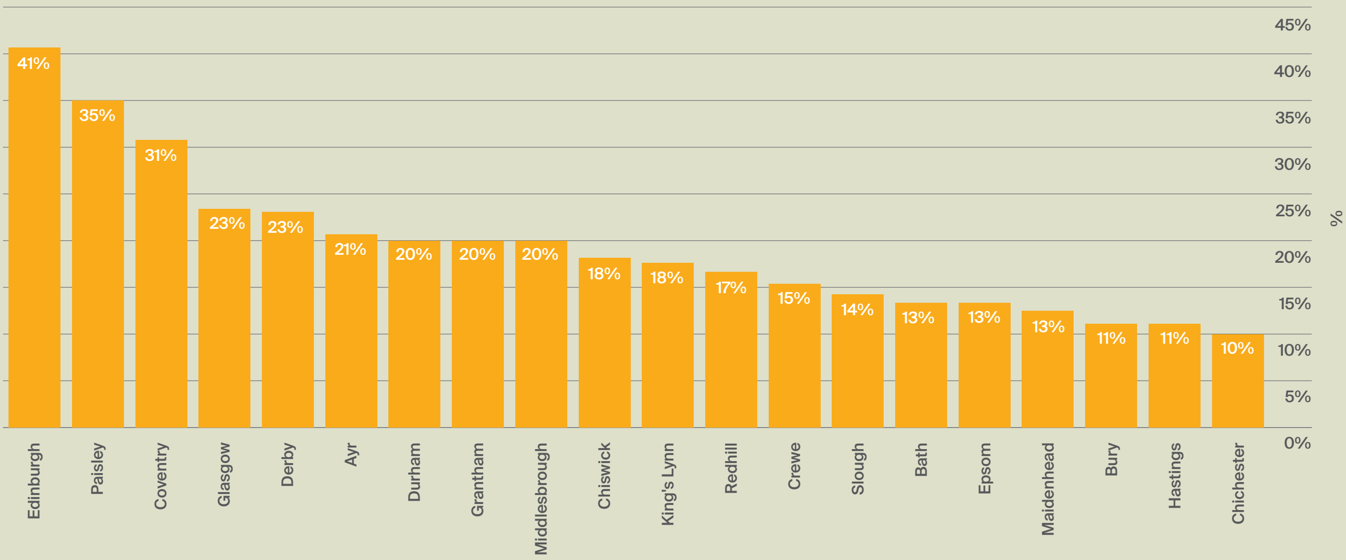
THE LIMITATIONS OF "LEVELLING THE PLAYING FIELD"

The narrative around making business rates fairer has often made reference to "levelling the playing field" between high street and online retailers. The previous Conservative Government even went as far as launching a formal inquiry through the "Fundamental Review of Business Rates" report which concluded in 2021. This later evolved into the Treasury's broader "Transforming Business Rates" and business rate retention inquiries. No fundamental reform and an implicit general conclusion that "this is a lot more complicated than we thought".

> "Many of the large retail operators will have the double whammy of higher rates bills on both their stores and their logistics sites."

Top 20 Increases in Zone A Rents 2021 - 2024

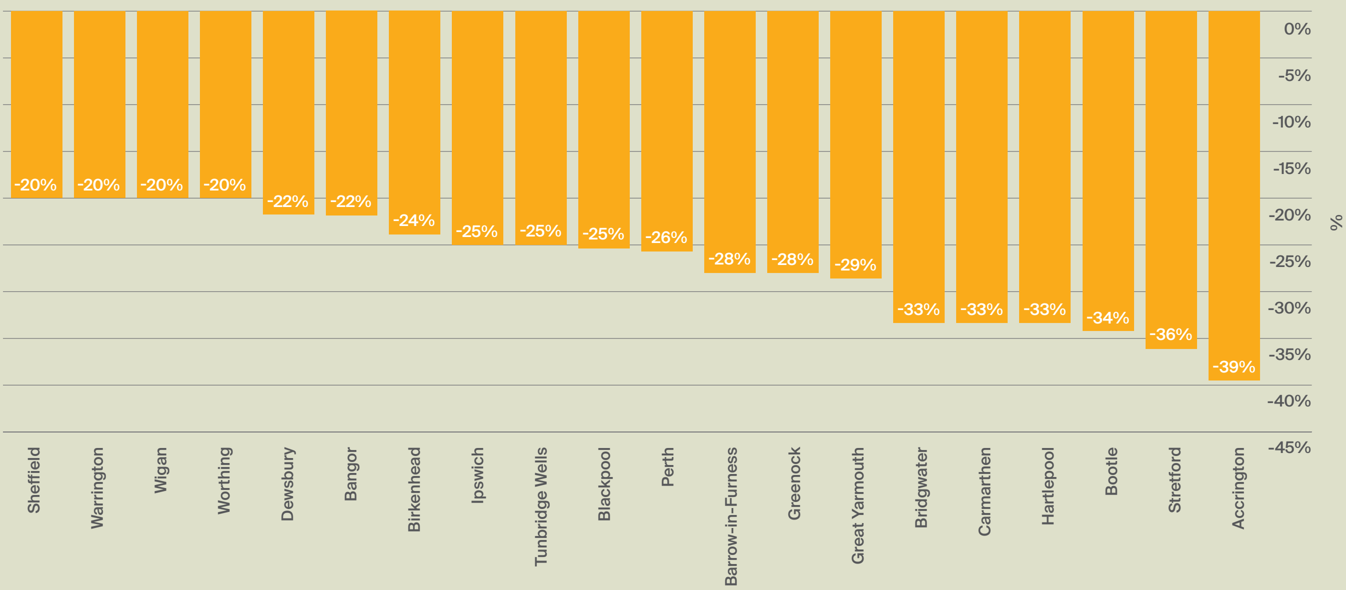
Change Mid 2021-24 (%)



Source: PMA, Knight Frank Insight

Top 20 Declines in Zone A Rents 2021 - 2024

Change Mid 2021-24 (%)



Source: PMA, Knight Frank Insight

“The playing field between online and high street operators could only be truly levelled if the business rates system differentiated between multi-channel operators and online pure-players and applied higher multiples to the latter’s distribution sites.”

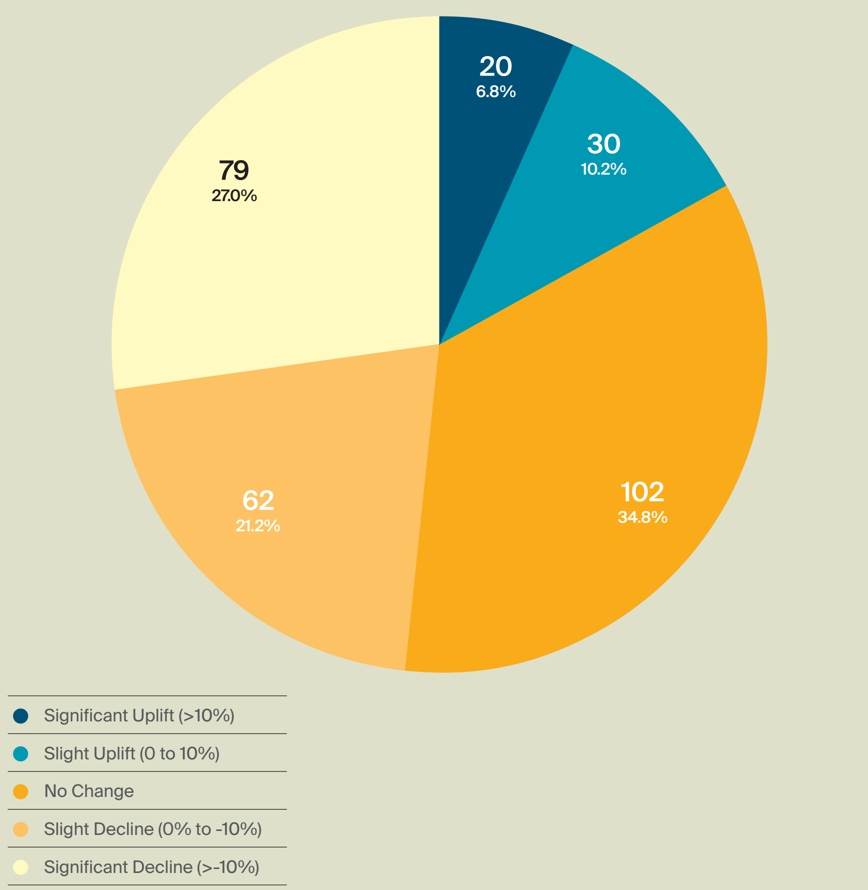
Fast forward to the incumbent government. In the words of the Chancellor at the Autumn 2025 Budget: “The high street will benefit from permanently lower business rates for retail, hospitality and leisure, funded by higher rates for the most expensive properties such as warehouses used by large online retailers”.

The sentiment may be touching, but the thinking is flawed on two counts. Firstly, many retail properties have a RV of more than £500k, particularly (but not exclusively) supermarkets, retail warehouses and stores in Central London. They are as much a part of the “high street” as any other retailer and are clearly not going to see any benefit – quite the opposite.

Secondly, as we explored in Paper #1 of this series, retail is not binary, it is multi-channel. “Warehouses used by large online retailers” are also used by many high street operators. So, it’s just as likely to impact the likes of John Lewis, M&S and Next as it is Amazon. Many of the large retail operators will have the double whammy of higher rates bills on both their stores and their logistics sites. And the fact that they are “large” and can stomach this just doesn’t wash.

The playing field between online and high street operators could only be truly levelled if the business rates system differentiated between multi-channel operators and online pure-players and applied higher multiples to the latter’s distribution sites. But again, very hard to impose decisive dividing lines. Is Amazon an online pure-play or not (it also owns Whole Foods), likewise Schein with its pop-up stores? A whole new rulebook would be required, which would probably be deemed too difficult to deal with.

Zone A Rent Movement 2021- 2024
Count of Centres



Source: PMA, Knight Frank Insight

Levelling the playing field – or just perpetuating the minefield? Robbing Peter, Paul and Mary too??

ALL BAD?

Are Retailers and Hospitality operators fully deserving of sympathy? None should be totally taken by surprise at movements in their business rates obligations, they are able to look up their current Rateable Value at the VOA and will be aware of rental movements between the two revaluation dates. Scenario modelling awaiting confirmation of the Base Multiplier should provide a range of what to expect.

Likewise, COVID discount relief was never going to last forever and RHL businesses should have built in contingency to this. Many apparently didn’t, assuming that temporary measures were in fact the norm. This is perhaps truest of businesses that started up over the last five years and have never known the full-force of business rates without relief. This is perhaps only fully appreciated when it becomes a reality, as it is now.

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Transitional relief

RV BAND	YEAR 1 CAP	YEAR 2 CAP	YEAR 3 CAP
Small (up to £28,000)	5%	10% + inflation	25% + inflation
Medium (£28,001 - £100,000)	15%	25% + inflation	40% + inflation
Large (over £100,000)	30%	25% + inflation	25% + inflation

Source: Knight Frank

But the 2026 rating list did potentially provide some respite for some. While the previous 40% RHL relief was more generous on a single property than the new lower multipliers, retailers could only claim a total of £110,000 worth of relief across their business. This benefitted smaller retailers with one or two stores who could claim the full 40% discount without hitting the cap. However, this was to the detriment of national retailers who would hit the £110,000 cap quite quickly and had to pay full business rates without a discount on most of their portfolio.

The new lower multipliers are uncapped. Whilst they are less generous on a single property, across a large portfolio the total level of discount is now likely to exceed the £110,000 they could previously claim. The previous RHL relief gave greatest support to SMEs at the expense of larger retailers. The changes made from 1 April 2026 now reverse this, with greatest support now going to larger retail chains at the expense of SMEs.

Although most retailers are seeing an increase in their rates bills, transitional relief will provide some support, capping the amount by which rates bills can increase over the next three years on the scales illustrated in the table above.

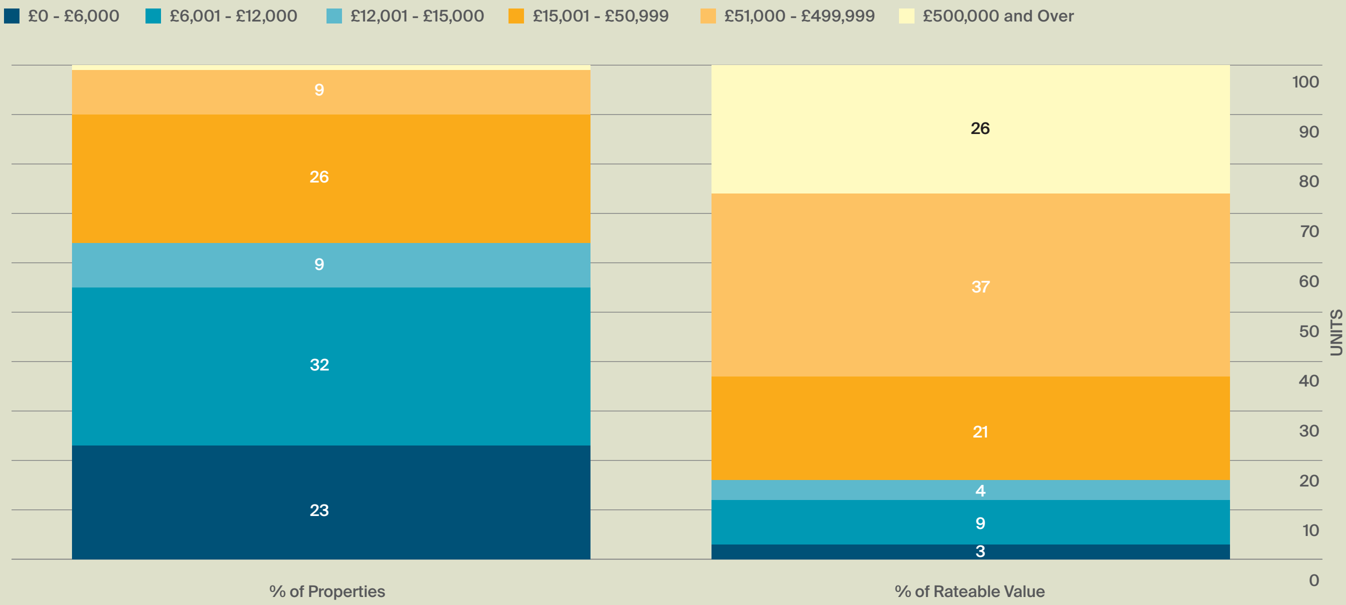
LEISURE – AT THE SHARPEST END?

If the British Retail Consortium is merely vocal in its criticism of the current business rate regime, UKHospitality is decidedly vociferous. Unsurprisingly, the hospitality industry body is supportive of any move to “level the playing field” and claims that hotels and restaurants faced the most significant increases to business rates following the most recent revaluation, with three-year increases of 115% and 54% respectively.

There is a significant dividing line between Leisure sub-sectors

> “Why should restaurants be afforded relief over retailers, when both are subject to the same market forces and competitive pressures?”

2026 List: retail properties and rateable value by band



Source: VOA, Knight Frank Insight

“Those properties at the sharpest end are likely to be those in the RV › £500k bracket?”

and how their business rates are calculated. Restaurants/cafes are largely consistent with retail and are effectively bracketed together. In contrast, business rates for hotels, pubs and nightclubs are based on Receipts and Expenditure (R&E), rather than point in time rateable values, largely due to a lack of open market evidence. In simple terms, the premise of the R&E method is to be profit-based and analyse the trading accounts (usually a 3-year average) to determine gross income, before deducting operating expenses to derive an appropriate rateable value.

The “fairness” of this is subject to perennial debate. Pubs and nightclubs would have been disproportionately affected at the latest revaluation on the basis of timings. April 2021 marked the tail-end of the third COVID lockdown, receipts would have been significantly down on averages. By April 2024, trade would have fully normalised. Big differences in receipts, significant hikes in business rates.

Extensive lobbying resulted in some concessions. In January, it was announced that all pubs and live music venues would benefit from a 15% business rates relief in 2026/27 and their bills would then be frozen in real terms for a further two years. The new Andy Burnham administration has already increased this figure to 20% for next year (and beyond?). The general response: from pubs “not enough” from restaurants “what about us?”. To the latter point, where do you draw the line? Why should restaurants be afforded relief over retailers, when both are subject to the same market forces and competitive pressures? Rather than pointing fingers at fellow occupiers from other sub-sectors, surely a united front would be the most effective response?

Whether Retail or Hospitality has the strongest case for grievance is a moot point. Those properties at the sharpest end are likely to be those in the RV ›£500k bracket. According to the VOA, there were 3,630 retail properties that crossed this threshold in 2026, up from 3,360 in 2023. In both cases, this represented only 1% of overall retail properties. 1% of properties contributing 26% to retail rateable values. Central London retail and foodstores nationally are likely to account for a large proportion of the ›£500k RV properties – maybe they have the most to object to in the whole business rate debate?

THE FUTURE – FINAL THOUGHTS

Without significant reform, business rate pressures are likely to intensify going forward rather than ease. The next revaluation in England, Wales, and Scotland will take effect on 1 April 2029, based on rental values from 1 April 2027. While rental growth between April 2021 and April 2024 was uncertain and by no means universal, between April 2024 and April 2027 it is likely to be much more consistent. The “reward” for a more stabilised occupational market, higher business rates for many operators.

The current system is broken and in need of total reform. But as successive governments have discovered, business rates are highly complex and the most convenient place for them is in the long grass.

Rather than tinkering with multipliers and papering over the cracks with temporary or selective relief packages, deep reform is needed. There can be no panacea to a system this complex, but plenty of avenues to explore.

Relatively “quick fixes” that are simple and would relieve some of the pressure are more regular revaluations – a lot can happen within three years, as many occupiers have found to their cost. Reducing the revaluation period would help to smooth out some of the hefty rises and nasty shocks many properties are currently subject to.

Levelling the playing field? A sound notion on paper, but highly convoluted in practice. As already alluded to (and explored fully in Paper #1), the dividing line between online and multi-channel retailing has become blurred to the point of no longer existing. Simply applying higher multipliers to warehouses is not the solution, as this would affect high street retailers as much as their online-only counterparts. The playing field could only be levelled if online-only operators (or, say, retailers that generate x% of their revenue from non-store operators) were subject to higher multipliers on their warehousing and logistics facilities than multi-channel operators. Radical, complex and no doubt controversial.

More radical still: a complete overhaul of fiscal policy that significantly reduces the contribution of business rates to the UK economy. Rather than offset this through personal taxes (income tax, NI, VAT) recoup any deficit through reform of corporation tax, ensuring that large multi-nationals (particularly, though not exclusively, tech giants) pay their fair share of corporation tax e.g. clampdown on tax avoidance and financial offshoring, taxation based on turnover, not profit. Very radical, very complex and very controversial.

In the meantime: *“I believe there is a case for higher business rates on warehouses and the major developments we see on the outskirts of our cities, so that we can cut business rates for pubs – I proposed a 20% cut – and lift some high street businesses out of business rates altogether.”*
Andy Burnham – July 2026

Extending rates relief from 15% to 20% for pubs in his first week in office generated huge media coverage, but is hardly game changing. But this has been telegraphed as *“just the start”*.

Hope springs eternal for deep reform - or will the new boss be the same as the old boss?

“The current system is broken and in need of total reform. But as successive governments have discovered, business rates are highly complex and the most convenient place for them is in the long grass”

THE BUSINESS RATE ADVISORY VIEW

Advice is at hand

Simon Berkley – Partner, Business Rates Advisory

Business rates have always been a key concern for retailers. The impact has been masked in recent years with substantial COVID-era packages of relief being granted and remaining in place at a 75% discount until April 2025. In recent years, the Government has gradually been turning off the tap of support with relief reduced to 40% last year and now removed altogether.

Whilst the relief has been replaced by lower multipliers, these are not as generous as the previous support provided and not as visible to ratepayers on their bills as a percentage discount. With the drop in support coinciding with a revaluation that has seen most retail rateable values increasing, the result has been a double whammy for retailers, with most seeing substantial increases in their rates liability.

From a rating advisor's perspective, the revaluation and removal of relief have once again moved business rates up the priority list for retailers, with enquiries for advice increasing substantially.

The revaluation provides a fresh opportunity to review and challenge rateable values. The latest statistics from the VOA suggest this is worthwhile. Where ratepayers were represented by professional advisors, 60% of their challenges against rateable value resulted in a reduction, compared to a 47% success rate for unrepresented ratepayers, highlighting the value of professional advice.

There is also now increased complexity in understanding rates bills. In the past, rates liability was simply your rateable value multiplied by the business rates multiplier. However, with the removal of retail relief there are now five different multipliers, a transitional supplement, a Crossrail supplement in Greater London, a further supplement in the City of London, transitional relief, supporting small business relief and potentially a 20% discount for pubs and live music venues. Navigating all these permutations has made it more challenging for retailers to have the confidence their rates bill has been calculated correctly. We have already picked up on billing errors by local authorities since the changes have been introduced.

THE AGENT VIEW

A deterrent for overseas retailers

Ollie Green – Partner, London Retail Agency

In my role as a landlord leasing agent for retail and leisure property in Central London, when we are talking to international retailers who are looking to open in London, we will always look to guide them on the total occupational costs of taking a lease. In the UK, these are typically made up of rent, business rates, service charges and buildings' insurance.

In all instances but business rates, what the occupier receives for their outlay is clear. But international retailers continue to question what value they receive for the cost of business rates. Even European retailers, who are used to similar domestic taxes, struggle to comprehend the cost which is much higher here in the UK. The problem is compounded by other taxes, such as VAT, which are also levied on retailers' sales, so it is no wonder they consider UK taxes to be punitive to the cost of doing business here.

The phenomenon is not limited to international retailers - domestic retailers with a significant trading history in the UK will question where the money goes and what services they receive. Many restaurateur in London will arrange private waste collection contracts because local authority services fail to meet demand but nevertheless pay towards these services through business rates collection on their premises.

Successive Governments have talked about an overhaul of the system, but seem fearful of losing net receipts to the income generated by the current system. Different approaches exist in other European countries and consultation with them would suggest there is a pathway to solving this long-running debate.

Business rates are, without question, a barrier to entry for many international retailers and in my career I have been faced countless times with retailers deciding against London in favour of other international destinations.

We like questions, if you've got one about our research, or would like some property advice, we would love to hear from you.

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