



Tuesday 14 March 2017

New Rateable Values and Compensation for Terminating Leases

Rateable Values

New rateable values will be imposed on 1 April 2017 based on valuations as at 1 April 2015. The Valuation Office Agency has published the new rateable values within its Business Rates guidance note.

The new rateable values are primarily assessed by reference to the market rent for a hereditament on 1 April 2015. A hereditament is normally a single premises. The valuation assumptions are that the market rent is the amount the property would have let for, year on year, in the open market. When there are not sufficient comparables to calculate an open market rent, the rateable valuation can be based on an assessment of profit or on the interest on the capital sum that would be needed to provide a similar hereditament. In most cases, the rateable value is based on rent. A multiplier is applied to the rateable value to calculate the amount of rates payable yearly. This reflects inflation and is likely to be between 45% and 50% from 1 April 2017.

It will be possible to appeal rateable values after 1 April 2017.

Compensation under the Landlord & Tenant Act 1954 ("LTA 1954")

Compensation payable to tenants who enjoy security of tenure under the LTA 1954 is calculated by reference to rateable values. If a tenant has occupied business premises on its own or together with a successor to its business for more than 14 years, the compensation payable if the lease is determined by the landlord on one of the compensation grounds will be twice the rateable value. If occupation has been for 14 years or less, it will be the rateable value.

The statutory compensation grounds that entitle a tenant to compensation on termination are:

- i) where a landlord requires possession because rents payable under sub-tenancies are substantially less than the rent obtainable on the letting of a property as a whole;
- ii) the landlord intends to demolish and reconstruct; or

TRAVERS SMITH

iii) the landlord intends to occupy at the end of the existing tenancy.

This amount of compensation may be significant. Compensation is calculated on the basis of the rateable value at the date a section 25 notice is served or the date at which a landlord provides a counternotice to a tenant's section 26 request for a new tenancy. By serving an LTA 1954 section 25 notice terminating a tenancy before 1 April 2017 for a tenancy with a term date before 1 April 2018, it will be possible to pay compensation by reference to the 2010 rateable values.

The best time to serve the LTA 1954 notices depends on the change in rateable values:

- **If the rateable value of business premises will increase on 1 April 2017, compensation will be less if the notice is served before that date.**
- **If the rateable value decreases on 1 April 2017, compensation will be less if the notice is served on or after that date.**

Please let us know if you would like more information on this.

FOR FURTHER INFORMATION, PLEASE CONTACT HEAD OF PROPERTY LITIGATION, ANDREW ROSS

10 Snow Hill
London EC1A 2AL
T: +44 (0) 20 7295 3000
F: +44 (0) 20 7295 3500
www.traverssmith.com



Andrew Ross

Head of Property Disputes

E: andrew.ross@traverssmith.com

T: +44 (0) 20 7295 3272



Lucy Thomas

Associate Property Disputes

E: lucy.thomas@traverssmith.com

T: +44 (0) 20 7295 3415



Sarah Quy

Real Estate

E: sarah.quy@traverssmith.com

T: +44 (0) 20 7295 3368