Tax the lucky landlords who get windfall benefits from public investment

The pending closure of Villandry, the classy restaurant and bar conveniently close to the RIBA on Great Portland Street, has made headlines because it is a favourite of Amal Clooney: cue newspaper photographs of her, rather than the restaurant. Needless to say, it is not the quality of the restaurant which is causing a problem, but the new rent: double the current level.

Amid the row about business rates causing problems on the high street – because stores pay through the nose while online companies like Asos and Amazon pay relatively little – it is worth remembering that rents are invariably a far bigger cost to businesses than rates. However, the relationship between them is little discussed beyond the circle of surveyors who specialise in these matters.

That relationship should be better understood, because it has profound effects on the built environment. The fall of Mrs Thatcher as prime minister had far more to do with her misunderstanding of 'rates' than her negotiations with Europe; the MPs who turned on her were far more worried about losing their seats because of council tax changes than they were about stalled negotiations in Brussels (then as now).

When John Major succeeded her, one of his first actions, not much now remembered, was to reverse the 'poll tax' policy. Unfortunately, Conservative politicians continue to have a blind spot about taxes on property. David Cameron, one of the world's great procrastinators, not only kicked a decision about a new Heathrow terminal into the long grass, but also vetoed the regular rating revaluation, which should have taken place before the last election of his era.

The result was that suffering northern businesses continued to pay a disproportionate sum, while the richer south was protected.

This politicisation of local authority finance rarely turns out well but continues to this day – because politicians are generally utterly ignorant about these matters, in the same way that they are ignorant of other broad property and construction issues. Note the cretinous pronouncements about the 'failures' of modular construction last week. Where can we give these people a brain transplant?

Admittedly, it is not at first glance easy to understand the obscurities of the rating system. The easy assumption is that if rateable value skyrockets, then so too will the amount a business has to pay, but that is not the case. That amount is determined by the 'rate' set by the local authority, that being the rate in the pound of rateable value charged.

If that sounds confusing, consider the way rent reviews work: based not on inflation but on 'comparables' being paid by other tenants for the same sorts of properties in the general area.

This wrongly assumes a perfect market with freely available information. Whether it is a review, or the lease has run out, the increase in cost can be huge as a result of fashion – or, these days, as a result of the effect of new infrastructure, which increases the desirability of a location.

This last point has become increasingly significant because of the implications of the 'Elizabeth Line' and of its possible successor, the highly necessary Crossrail 2, now going through the political wringer. London certainly needs transport capacity; but how to pay for it?

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It is surely time to do something about taxing the lucky landlords who get windfall benefits from public investment and promptly sting their unlucky tenants because of an increase in values to which they have contributed precisely nothing.

'Beneficial owners' should stump up. Nor should they be able to reclaim the tax from occupants of their properties, who generally do something useful for the real economy.

Can the Conservatives finally get their minds round a sensible policy on this matter?

First published in the AJ, with kind consent

BELOW: Image of Tower Hamlets