HM Treasury Call for Evidence: Business Rates and Investment

Summary

- Business Rates policy should support long-term investment in essential economic infrastructure and align with the government's growth, productivity and decarbonisation objectives. However, the high-value multiplier for warehouses risks increasing costs across supply chains, deterring investment and undermining those same growth, productivity and decarbonisation objectives.
- The high-value multiplier will extract £270 million from approximately 1,900 warehouses, around 99% of which are operated by SMEs, that serve all retail channels equally.
- Logistics businesses already face severe cost pressures from inflation and tax increases, which threatens investment.
- The £500,000 threshold deters improvements, whilst 12-month Improvement Relief is inadequate for investments with 5-10 year payback periods, particularly on energy efficiency and decarbonisation infrastructure required by 2035-2040.
- Logistics UK recommends removing the high-value multiplier for warehouses; extending Improvement Relief to 5-10 years, with indefinite relief for decarbonisation; introducing a slice-based system; and providing transitional relief.

About Logistics UK

Logistics UK is one of the country's largest business groups, and the only trade association which represents all of logistics. Our mission is to support, shape and stand up for a safe, sustainable and efficient logistics sector. Our membership of more than 22,000 includes global, national and regional businesses and SMEs spanning road, rail, inland waterways, sea and air as well as the customers of freight services, such as retailers and manufacturers. We deliver services, representation and thought leadership, helping members and policymakers to seize new opportunities for the sector and the economy as a whole, right across the country.

The logistics sector

Nothing moves without logistics. The sector employs 8% of the UK workforce in good jobs with strong career progression, contributes £170 billion in GVA each year, and underpins the resilience of the everyday economy.

Logistics plans and coordinates the movement and storage of the goods that businesses, public services and households rely on – using ports, airports, roads, railways, waterways, warehouses and smart digital systems to tie it all together.

With the right policies, logistics can drive up UK growth by £8 billion a year.[1] However, rising costs, red tape and poor infrastructure are holding the sector back – putting firms out of business, fuelling inflation, and undermining productivity and supply chain resilience. As a result, the UK has fallen from 4th to 19th in the World Bank Logistics Performance Index over the decade to 2023.

[1] https://logistics.org.uk/research-hub/reports/logistics-delivering-a-solution-to-the-uk-s-produc

Consultation response

The logistics sector paid over £7.5 billion in business rates in 2023.[2] The 2026 revaluation saw industrial property rateable values increase by 28.6%, far above the 10.7% overall average.[3] With the new high-value multiplier, an extra £270 million will be extracted over 2026-29 from approximately 1,900 distribution warehouses,[4] representing a 33% increase in the effective tax rate (from 38p to 51p per pound of rateable value[5]), despite logistics infrastructure being essential to economic growth and productivity.

The policy is fundamentally flawed. Distribution warehouses serve all retail channels equally, whether online or in-store. Approximately 99% of the UK's 5,000 warehousing companies are SMEs operating on narrow margins.[6] As a result, these costs will be passed through supply chains to all retailers and ultimately consumers. As we stated in November 2025, this will "prime the inflation pump".

Combined with the estimated £1.2 billion increase in National Insurance contributions[7], these pressures threaten investment capacity precisely when around a quarter of businesses plan warehouse expansion.[8]

Business rates also create a barrier to decarbonisation. The sector must transition to zero-emission vehicles by 2035-2040, requiring substantial investment in charging infrastructure. Distribution Network Operator fees can exceed £1 million per site, yet the 12-month Improvement Relief is wholly inadequate for investments with 5–10 year payback periods.

Response to specific consultation questions

Question 13: Do property investments typically occur on existing premises, or require relocation?

Due to changing business conditions, logistics firms must often relocate rather than expand existing premises. The sector has experienced increased demand for larger, more automated, rail-connected warehouses. Prime rents for large distribution warehouses grew at a compound annual rate of 7.1% between 2020-2024, reflecting strong market demand for strategically located facilities.[9] Older sites often cannot simply be expanded to meet modern operational requirements for automation, sustainability and efficiency.

The transition to zero-emission vehicles will also potentially drive relocations. Sites without adequate grid capacity may become unsuitable, yet distribution network constraints are widespread. Around a quarter of businesses plan warehouse expansion despite challenging conditions.

Question 14: What is a typical investment that affects business rates?

Warehouse development

Large warehouse developments typically cost tens of millions of pounds and generate substantial business rates liabilities under the high-value multiplier. For example, a major distribution centre might have a rateable value of £3-4 million, generating annual rates of approximately £1.5-2 million under the new 51p multiplier.[10] The higher multiplier adds £200,000-300,000 annually to operating costs, which must be passed through supply chains. These facilities serve retailers of all types, including high street businesses with both physical stores and online operations.

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[2] HM Treasury: Business rates forward look
[3] Vickery Holman 2026 Rating Revaluation: Complete Guide to Business Rates Changes.
[4] HM Treasury Business Rates and Investment: Call for Evidence, paragraph 4.2
[5] Hansard Business Rates Volume 779: debated on Tuesday 27 January 2026
[6] https://logistics.org.uk/media/press-releases/2025/november/business-rates-reforms-will-prime-the-inflation-pu
[7] Logistics UK, Spending Review 2025 representation (7 February 2025), page 5
[8] Logistics UK: Logistics Performance Tracker Q3 results
[9] Savills Mind the Gap: why the gap between prime and secondary industrial & logistics rents is growing
[10] Illustrative calculation based on industry construction cost averages of £1,000-1,130 per m² for distribution warehouses (Shepherd Commercial, 2025), applied to 500,000 sq ft (~46,500 m²), with rateable value estimated at typical 7-8% of development cost and rates calculated using the new 51p high-value multiplier.

Decarbonisation infrastructure

A depot serving 50-100 electric HGVs requires £2-5 million in charging infrastructure, plus Distribution Network Operator fees potentially exceeding £1 million for grid connections.[11] The business rates treatment of this infrastructure is unclear, deterring investment when government policy requires diesel vehicle phase-out by 2035-2040. The DfT's Freight Energy Forum has established that decarbonising road logistics alone will require an additional annual 32 terawatt hours of electricity by 2050.[12]

Question 15: What is the typical lifecycle for these investments?

Warehouse development can take 3-5 years from site identification through planning, construction and into operation. Business rates become payable once completed, but operational benefits can take 2-3 years to fully materialise. The high-value multiplier creates immediate cashflow pressures before businesses realise returns.

Energy efficiency improvements have 5-10 year payback periods. Solar panels typically achieve payback in 7-10 years, meaning business rates treatment throughout this period significantly affects investment viability. The 12-month Improvement Relief is inadequate.

Question 16: How do business rates influence investment decisions versus other factors?

For large warehouse developments, business rates can represent 3-5% of annual operating costs. The £270 million additional burden over three years[13] affects investment decisions alongside other cost pressures.

The 2026 revaluation saw industrial property rateable values increase by 28.6%, substantially above the 10.7% overall average.[14] Combined with the new high-value multiplier, some large warehouses face total rates increases of 40% or more, despite no change in operational capacity or profitability.

Question 18: How do you factor revaluations into business planning?

Logistics businesses make investment decisions with 10-20 year horizons but can only forecast rates to the next revaluation. The combination of a 28.6% revaluation increase with the new high-value multiplier creates a severe impact that could not have been anticipated when investment decisions were made 3-5 years ago[15].

Question 21: Do you have examples where 'cliff-edges' impede investment?

The £500,000 threshold creates significant problems. A property improvement increasing rateable value from £495,000 to £505,000 results in a £18,940 rates increase under the slab system (£4,940 under a slice system).[16] This creates perverse incentives to limit improvements or lease second facilities elsewhere, increasing operational inefficiency and carbon emissions.

More fundamentally, the policy is flawed. Approximately 2,600 distribution warehouses will be affected, representing 21% of all properties hit by the higher rate.[17] These are not luxury properties but essential infrastructure. Approximately 99% of the UK's 5,000 warehousing companies are SMEs.[18] These facilities serve all retail channels equally, yet the policy claims to rebalance between online and physical retail.

[11] Logistics UK, Spending Review 2025 representation (7 February 2025), page 14
[12] Logistics UK, Spending Review 2025 representation (7 February 2025), page 14
[13] HM Treasury, Business Rates and Investment: Call for Evidence (January 2026), paragraph 4.2
[14] Vickery Holman, "2026 Rating Revaluation: Complete Guide to Business Rates Changes" (December 2025)
[15] Vickery Holman, "2026 Rating Revaluation: Complete Guide to Business Rates Changes" (December 2025)
[16] HM Treasury, Business Rates and Investment: Call for Evidence (January 2026),
[17] Property Investor Today: Business rates burden could damage London investor appeal
[18] Logistics UK: 'Business rates reforms will prime the inflation pump'.

Question 22: What types of investment would be supported by a slice-based system?

A slice system would reduce cliff-edge effects for warehouse expansions, additional loading bays and building extensions.[19] However, it does not address the fundamental problem that large distribution warehouses face a premium simply due to their scale, despite being necessary infrastructure for economic activity.

Question 24: What improvements have you not taken forward because of business rates?

Energy efficiency improvements (solar panels, LED lighting, insulation) are sometimes deferred due to uncertainty about rates impact. With 5-10 year payback periods, the 12-month Improvement Relief is inadequate. Building extensions may be avoided to stay below the £500,000 threshold, leading to operational inefficiency. Enhanced welfare facilities may be limited, conflicting with the need to attract workers in a tight labour market.

Question 25: Are there other aspects of Improvement Relief that would support investment?

The 12-month relief period should be extended to 5-10 years to align with investment payback periods. Decarbonisation investments (EV charging infrastructure, solar panels, battery storage) should receive indefinite relief to support government objectives and enable the sector to meet 2035-2040 diesel vehicle phase-out targets. Relief should also cover landlord improvements to leased properties, as many significant upgrades to logistics facilities are undertaken by property owners.

Question 27: What factors contribute to bringing empty property into use?

Location and transport connectivity are primary factors. Properties with good strategic road and rail access, proximity to ports and adequate labour supply return to use quickly. Modern facilities with adequate height, loading provision and sustainability credentials let faster than older properties. Market conditions also determine letting speed; vacancy rates rose to 6.7% in 2024 as the market stabilised. The 6-month Empty Property Relief is often insufficient for marketing specialist logistics property and completing refurbishment and/or modernisation.

Question 28: How can government reform Empty Property Relief while tackling avoidance?

Extend the relief period to 12 months for industrial property to reflect genuine marketing and refurbishment timeframes. Provide enhanced relief for properties undergoing substantial refurbishment, subject to evidence of genuine works. Tighten the definition of 'beneficial occupation' to require genuine business use, preventing artificial short-term occupation.

Conclusions and recommendations

The high-value multiplier fundamentally misunderstands logistics infrastructure. Distribution warehouses are essential to supply chain resilience and serve all retail channels equally. The £270 million cost[20] will be passed through supply chains to all retailers and consumers, failing to achieve the stated objective of rebalancing between online and physical retail.

The characterisation of the policy as targeting "online giants" is inaccurate. Approximately 99% of the UK's 5,000 warehousing companies are SMEs.[21] The sector is a significant regional employer, particularly in the Midlands, North West and Yorkshire and Humber.

[19] HM Treasury, Business Rates and Investment: Call for Evidence (January 2026),
[20] HM Treasury, Business Rates and Investment: Call for Evidence (January 2026),
[21] Logistics UK: 'Business rates reforms will prime the inflation pump'.

The cumulative burden is severe. Combined with £1.2 billion in additional National Insurance contributions[22] and a 28.6% revaluation increase for industrial property,[23] logistics businesses face unprecedented cost pressures that threaten investment capacity.

The government previously considered and rejected an online sales tax as impractical.[24] Using warehouses as a proxy for online retail is equally flawed, while imposing real costs on essential infrastructure.

Penalising the infrastructure that enables economic activity serves neither the government's growth objectives nor its stated aim of supporting the high street. Instead, the policy will increase costs throughout supply chains and ultimately for consumers.

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[22] Logistics UK, Spending Review 2025 representation (7 February 2025), page 5
[23] Vickery Holman, "2026 Rating Revaluation: Complete Guide to Business Rates Changes" (December 2025).
[24] HM Treasury: Online Sales Tax - Response to the consultation