

Big Shed Briefing - Freeports



What is a 'freeport' and what can be gained from operating within one?

United Kingdom freeports are special economic zones that have various unique rules. Globally, freeports have existed for centuries to drive inward investment and job creation in disadvantaged communities through incentives for eligible businesses, although the first examples in the UK did not appear until the 1980s. Companies located within freeports receive tax and customs incentives such as enhanced capital allowances and stamp duty relief, and lower employer National Insurance contributions. Though controversial, freeports have been successful in attracting businesses and boosting employment. An analysis by Mace predicted they could generate over 150,000 jobs and add £9 billion to the UK economy.

The ideal result was to create a list of incentives that encouraged businesses to locate within the freeport boundary, which, in the process, would boost employment in disadvantaged communities. The benefits on offer include Stamp Duty Land Tax (SDLT) relief, enhanced Structures and Building Allowance (SBA), enhanced capital allowances, employer National Insurance contributions rate relief, business rates relief and both simplified and faster planning processes. There is also the potential to benefit from infrastructure funding to open up sites.

Those businesses that locate in the freeport will receive full SDLT relief until 30 September 2026 for properties used for a qualifying commercial activity. The relief comes with a three-year clawback if the land is not used in a qualifying manner. In addition, there is a 100% first-year allowance for capital expenditure on plant and machinery until 30 September 2026 for those incurred in a trading activity or in connection with specific activities such as mines, quarries, gasworks, etc. The plant and machinery must be primarily used within a freeport tax site at the time of expenditure.

Employers located within the freeport could also enjoy some

major savings on employee costs: they have the advantage of paying 0% NICs on the salaries of new hires for up to three years. This applies to earnings up to £25,000 per year, as long as the employees spend 60% or more of their working hours on site. This attractive tax relief is available for up to nine years starting in April 2022 and will be subject to a review no earlier than April 2026.

Manufacturers operating within freeport customs sites may benefit from initiatives such as duty deferral while goods remain on site, and duty inversion if the finished goods exiting the freeport attract a lower tariff than their component parts. This provides a more favourable environment for manufacturing businesses to import, process and export goods within the freeport customs site.

As occupiers deal with inflationary pressures such as rising energy and labour costs, the incentives offered by freeport sites are generating interest from occupiers looking to take advantage of the benefits of locating within these designated areas. The combination of tax benefits and favourable customs environment can provide a more cost-effective and efficient environment for businesses to operate in.

Occupiers of certain business premises within freeport tax sites are eligible for 100% business rates relief on their premises from the date they occupy for five years, provided they occupy on or before 30 September 2026. This relief can provide significant savings, especially considering that analysis from Savills shows that business rates will rise by an average of 27-32% dependent on use class later this year when the latest revaluation comes into effect.

As we move into 2023, our agency teams have observed a notable uptick in occupiers enquiring about the benefits of locating within a freeport and the costs-savings that are available.

Key benefits of freeports



Employer National Insurance contribution relief



Stamp Duty Land Tax relief

on commercial leases until March 2026

100%

Business rates relief for five years



Enhanced capital allowances; tax relief on new plant and machinery



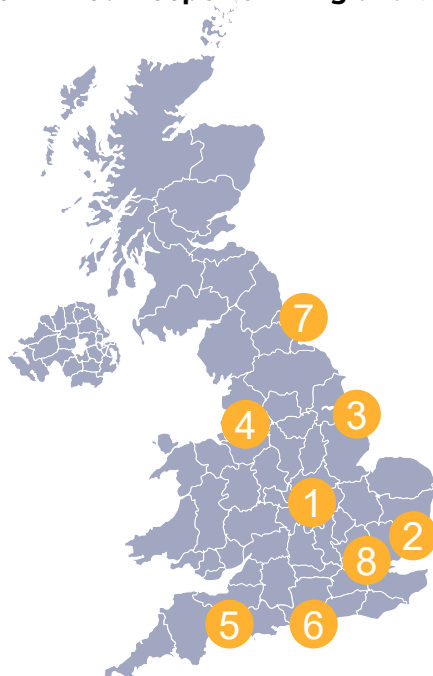
Benefits include duty deferral, tariff inversion plus VAT suspension



Innovation, skills and low carbon technologies support

Confirmed freeports in England

Wales & Scotland locations to be announced



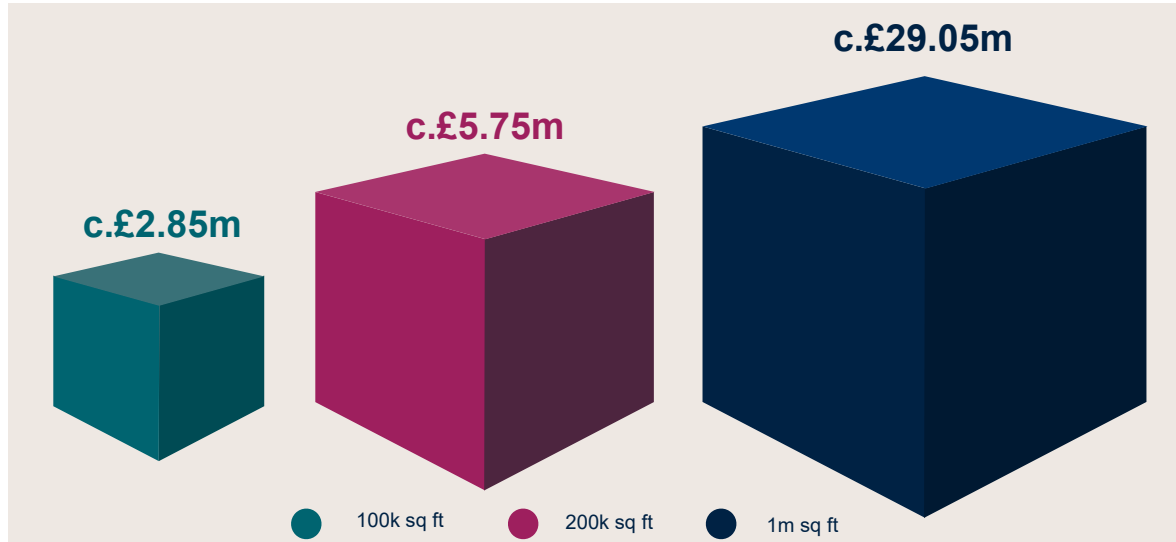
1. East Midlands Airport
2. Felixstowe and Harwich
3. Humber Region
4. Liverpool City Region
5. Plymouth
6. Solent
7. Teesside
8. Thames

“ The recent announcement that ABP’s Humber International Enterprise Park has been designated as a freeport has caused a lot of buzz. People are talking about the potential benefits for both tenants and landlords, and there’s been a surge in interest from tenants now that we know more about how these freeports will work. A preliminary cost analysis shows some pretty big savings on warehousing, and the new planning rules for freeports are also expected to bring in more innovation and investment ”

Tom Asher, Director, Industrial & Logistics, Leeds

Freeport Incentives - Worked Examples

Potential cost-saving for the first five-year period, excluding plant and machinery capital expenditure allowance



Suppose the company is a manufacturer that is planning to invest £1 million in plant and machinery for use in the freeport. Until the 30 of September 2026, the company will be eligible for 100% first-year allowances for capital expenditure on plant and machinery, so it will receive £1 million in tax relief in the first year.

The company is also planning to hire 62 new employees with an average salary of £25,000 per annum. As a result, the company will pay 0% employer NICs on the salaries of these employees for up to three years, saving it approximately c.£233,000 in NICs per year.

The company is leasing a warehouse

within the freeport tax site, and it will receive 100% business rates relief on its premises from the date it occupies for five years, provided it occupies on or before 30 September 2026. Based on the anticipated recent average rise of business rates for warehouses by 27-32% and now being valued at almost 50% of the rentable value, the company could expect to save approximately £400,000 per year in business rates on a 100,000 sq ft property at £8 psf.

The company will also receive tariff benefits, such as duty deferral while the goods remain on site and duty inversion if the finished goods exiting the freeport attract a lower tariff than their

component parts, which can result in additional cost-savings.

Based on these cost-savings, the company could expect to save over £2.85 million over five years just by locating within a UK freeport boundary plus the capital expenditure on plant and machinery, taking the total to over £3.85 million.

However, it's important to note that actual cost-savings may vary based on individual circumstances and factors such as the company's specific location within the freeport, the type and size of the business, and the type of activity being carried out.

“ In light of the 2023 business rates revaluation, the benefits of locating on a freeport are enhanced, and we believe this is likely to be a key driver of requirements going forward. Savills is already seeing this across a number of freeport sites ”

John Madocks Wright, Associate Director, London & the South East

What are the impacts on developers and landlords?

While the incentives should directly help attract businesses, the benefits for both property investors and landlords remain less direct. However, all of the above benefits combined provide landlords with a number of key USPs to market their schemes and attract potential occupiers with swifter delivery and shorter voids, while also being better placed to negotiate terms such as smaller rent-free periods. Also, freeports provide a supportive planning environment for the development of tax and customs sites through locally led measures such as Local Development Orders or permitted

development rights.

Depending on nearby competition, there could also be a case for pushing up quoting rents, provided this does not negate the benefits already on offer. After all, time is money, and even a slight adjustment to the development appraisal in any of these areas could result in positive pressure on land values. When it comes to investment, the fact that many of the incentives are limited to a five-year period may not necessarily impact yields, particularly as investors tend to take a longer-term view. However, for those with land already situated in

freeport locations, the benefits should only serve as a positive when it comes to future development.

Ultimately, freeports are designed to help occupiers when they need it most at the start of a lease, especially for new businesses. When making the decision between a conventional development and an incentivised freeport, it seems to many like an obvious choice. With access to land and labour at a premium in many prime warehouse property markets, portside locations will continue to make operational sense for many companies with large initial capital costs.

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