How Will Brexit Impact UK Property Investment?

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The 2016 referendum not only signified the beginning of Brexit but the beginning of a period of economic and political uncertainty within the property market. The possibility of exiting the EU with a 'no-deal' shook the economy, with immediate falls in the interest rate and stunted price growth throughout the UK property market.

While this uncertainty rose and fell over the next four years, as we approached the Brexit deadline, the ripple effects of Coronavirus throughout 2020 largely overshadowed the Brexit transition period. Supported by government incentives and declining interest rates, the very real possibility of a no-deal Brexit almost became an afterthought that had minimal effects on the property market.

However, as we embark into 'post-Brexit Britain' with a Free Trade Agreement, property developer, Joseph Mews, what this will mean for UK property investment:

Short-Term Effects

So far, the short-term effects of Brexit have been intertwined with those of Coronavirus. The economic struggles of the global pandemic have been felt far and wide, with the UK officially entering a recession in Summer 2020. In an attempt to encourage consumer spending and avoid a stagnating economy, the government implemented a 0.1% bank rate and a Stamp Duty Holiday. With these incentives seeming to sustain the property market, the full effects of Brexit are yet to be felt.

However, in the coming months as Coronavirus subsides and restrictions ease, the short-term impacts of leaving the EU will become more apparent. Although international travel is currently restricted, travelling to and from the UK will become more challenging when government guidance permits it. Stricter border checks will commence and will present international investors with new considerations.

Reducing the ease of travel will mean two things for property investors: travelling to view Buy-to-Let property will become more challenging and will require more planning. Stricter travel guidelines, combined with more complex rental processes, could also impact tenant demand. Going forward, non-UK citizens looking to rent property will require either a settled or pre-settled status. Despite the potential for more demanding right to rent checks, the digital advancements within the industry over the past 12 months have accelerated and streamlined processes for both tenants and landlords.

Long-Term Impacts

The long-term impacts of Brexit, while less tangible, are easier to model predictions against over the short-term effects. While a Free-Trade Agreement has minimised the overall impact of Brexit, a decline in foreign direct investment (FDI) was inevitable, which in turn, will have implications for the UK economy. As the largest receiver of inward FDI in Europe, 86% of EU experts anticipate that the economy will be at least several points smaller by 2030.

However, based on their economic output, specific regions across the UK will feel the effect of these changes more than others. The extent of this will rely heavily on the area's exports of either goods or services, with London set to be more vulnerable to any fluctuations in the economy.

London specialises in the export of services, which when combined with the changes surrounding the free movement of people, will make this inward and outward travel more challenging. With this resulting in a lower economic output, there will be less incentive for EU workers to emigrate to the UK. The subsequent decline in GDP per capita will translate throughout the economy, and could potentially impact the demand for property, as well as price growth.

Considering the long-term prospects of Brexit can be daunting, especially compared to the minimal short-term effects we have seen so far. However, exiting the EU without a Free Trade Agreement would have had a much greater impact on the economy and subsequently, the property market. As we approached the end of the transition period and the possibility of a no-deal increased, experts were forecasting maximum public sector borrowing, extensive shrinkage to the economy and dramatic changes to the GDP.

Fortunately, this wasn't the case and instead we're seeing government incentives mitigate the challenges that could have arisen.

Will Property Remain a Reliable Investment?

From the 2016 referendum to a global pandemic, the UK property market has proven its ability to recover from unprecedented change and to survive turbulent times. Although the wider effects of Brexit will present the industry with new considerations, the technological advances from Coronavirus have streamlined processes for both landlords and tenants.

The UK property market is also in an upward trajectory, fuelled by the Stamp Duty Holiday extension and the success of the Coronavirus vaccination programmes. As a result, the prospects for 2021 and beyond are revealing significant growth. What once stood at 0%, Savills' property price forecast for the year is currently at 4%, while JLL anticipates up to 8.5% growth in the rental sector and a 14.5% increase in property prices by 2025.

The Free-Trade Agreement has inevitably influenced the positivity of these market forecasts, especially when considering the stunted growth in the market that we saw in 2016. As a result, property investment remains a key investment for the coming years. Aligning with the forecasted growth in property prices, investment volumes for UK real estate is set to total at least £50 billion – a notable increase from the £35 billion worth of transactions from 2020.

With the future growth of property prices offering more incentive for investors to choose property, the past performance of the market provides the reassurance that this asset is a reliable investment. Free-Trade Agreement or not, Brexit was inevitably going to impact the UK to some degree, however, the momentum from 2020, combined with an economic rebound, means we've seen minimal effects on UK property investment.