How Will Brexit Impact International Investors?

Sophie Oldman, Digital Content Executive within the Content Team at SevenCapital.

While Coronavirus somewhat overshadowed the Brexit transition period last year, the UK continues to embark on 'post-Brexit Britain' with a Free-Trade Agreement. In the years leading up to the UK's departure from the EU, the possibility of a no-deal Brexit caused great economic and political uncertainty, especially amongst investors.

As a third national lockdown loomed and Brexit came into full effect, 2021 arrived with great anticipation. From potential changes in GDP, fluctuations in exchange rates and shifts in the overall performance of the economy, it's understandable that this unchartered territory caused concerns.

But with additional changes to overseas travel guidelines, how will Brexit impact international investors? As discussed in their Brexit guide, a leading UK property investment company, Joseph Mews, explores what the future could hold for overseas investors:

Exchange Rates?

The news of Brexit brought with it a plethora of concerns, while the value of the pound caused great apprehension for both UK and international investors. The fallout from the referendum alone was enough to catalyse the biggest drop in Sterling's value in a single day in 30 years, so January 1st 2021 could have signified many things for the economy.

Nevertheless, we welcomed the new year with great optimism, despite the early signs of a similar trend that we saw throughout 2016-2019. At the start of 2021, Sterling was approximately 15% weaker relative to the Euro than it was on the eve of the referendum in 2016.

While this fall was inevitably influenced by both Brexit and Coronavirus, these undeniable drops caused bleak forecasts for the year ahead, with HSBC capping the value of the pound at just 1.09 for the year.

However, as the Free-Trade Agreement began streamlining post-Brexit Britain, the subsequent effects on exchange rates have since reflected this. Not only are current exchange rates surpassing expectations, but appear to be on an upward trajectory, with GBP to Euro surpassing 1.16, while the GBP to Dollar exchange rate has hit 1.4176.

Exchange rates can have the potential to affect the future of an investment, and ultimately, the rates of return, making this a key consideration for a lot of overseas investors. However, as the UK economy demonstrates its great resilience and continues to surpass expectations, these exchange rates present a very favourable market for investors and their profits.

GDP?

GDP signifies many things, but is essentially a snapshot of the state of an economy, based on a variety of different factors. From expenditures, to production and income, a country's GDP can fluctuate depending on several components as we have seen over the past 12 months in particular.

But how could GDP impact international investors? As well as providing overseas investors with an idea of what to expect from the economy, GDP has previously been closely associated with the performance of UK investment assets. For example, during the Global Financial Crisis, falls in GDP aligned with declines across the property market, with a 30% contraction coinciding with a 25% fall in returns on property.

It's no secret that 2020 was a challenge for the UK, which was evident with a 9.9% contraction in the economy. However, the trend we saw during the previous recession has not been replicated over the past 12 months, and instead, UK property thrived, reaching record highs for six consecutive months.

While questioning the validity of this association and simultaneously highlighting the resilience of UK property, the falls in GDP over the last 12 months have paved the way for a more optimistic year. Not only could we see a pre-Covid economy towards the end of 2021, but GDP growth could reach 5.1% during 2022, providing international investors with a more accurate snapshot of the UK economy.

Mortgages and Tax?

Regardless of whether the UK exited the EU with a no-deal or a Free-Trade Agreement in place, certain changes were inevitable. For overseas property investors in particular, this could have posed many possibilities for those looking to get a mortgage, as well as paying subsequent taxes.

Brexit is yet to significantly impact the mortgage process, and it's unlikely that it will in the future. Generally speaking, lenders consider any country in the European Economic Area (EEA) to be the same as British citizens during the mortgage process. With this, overseas investors should expect to undergo the same credit checks you'd normally expect.

While taxes have long been a consideration for overseas investors, Brexit has further emphasised the possibility of facing double taxation. Depending on where investors are from, double taxation will need to be researched early on, especially when considering additional payments that come with this investment asset, such as Income Tax and Stamp Duty Land Tax.

A no-deal Brexit could have introduced significantly more restrictions for overseas investors, but for those wanting to invest in UK property, the main considerations surrounding mortgages and taxes largely remain the same.

However, one key consideration for prospective overseas landlords is the potential changes in demand. As stricter travel guidelines are a notable change to come out of Brexit, it's anticipated that less workers will be travelling to the UK for work, which could have adverse effects on the demand for property. But while the UK remains in one of its strongest markets to date, this market has remained a go-to for overseas property investors.

There is a lot to consider when investing in the UK from overseas, let alone when investing in the midst of Brexit. Exchange rates, GDP, mortgages and taxes for overseas investors could have looked very differently depending on the Brexit outcome, but as we continue 2021 with a Free-Trade Agreement, this optimism, combined with the positivity of the market further highlights the opportunities for overseas investors.