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Investing for the future

The outlook for the London property market, and beyond, for non-UK residents

Introduction

Real estate in the UK's capital has long been a focal point for high net worth international investors. For the most part, London's property market has the unique ability to go relatively unshaken by external factors such as politics and wider economic shifts, with property value tending to grow predictably year-on-year, making it a go-to market for both domestic and international investment. However, due to the turbulence and unpredictability of 2020/2021, the London property market has found itself in unfamiliar territory, while in suburban and regional areas the market has benefited from soaring demand.

In this guide we will consider the influences of the past year, examining how major events such as Brexit and Covid-19 have impacted and may continue to impact international investment in the London property market. We will also discuss the effects of the 2021 Budget announcement, the extended stamp duty holiday, the London job market, the wider UK property situation, and more, while concluding with property and currency market forecasts.

Residential market

The turbulence of the past 18 months and the upheaval to many aspects of life that the Covid-19 crisis has caused will undeniably have lasting implications. For one, the pandemic has raised some big questions about the future of cities, and London has been at the forefront of that discussion due to a collective shift in priorities incentivising many residents to leave or plan to leave the city.

In addition, post-Brexit visa changes and financial uncertainty may have influenced the departure of international residents, contributing to the reduction in the London population.

Despite being one of the most expensive cities in the world to buy or rent a property, the London property market has long been of interest to residents and international investors alike, rising in value faithfully year on year. However, unprecedented times have called for re-evaluation, and have impacted residential, regional and commercial property markets throughout the UK in varying ways.

Following the first national lockdown in March 2020, working remotely was adopted en masse and the suitability of people's homes and their localities quickly became a top priority. Without the pull of restaurants, bars, shops and events, urban centres became eerily deserted, and with offices closed, millions of people no longer had reason or desire to be in city centres. In short, the pandemic provided the time and motivation people needed to stop putting off plans and think about what they wanted longer-term. The result was a rapid decline in demand for residential properties in central London, and a remarkable uptick in demand for those in suburban and rural areas.

A March 2021 survey conducted by The London Assembly Housing Committee found that 43% of London residents want to move to a new home and of those, 34% want the home to be outside London. It is, therefore, unsurprising that London has been the weakest performing region in the UK while regional properties have been in highest demand.

However, as London joins the global Covid-19 economic recovery and travel bans are dropped, high-end property is still very much in demand, meaning as wealthy international buyers return, a bargain could be had.

Factors facing the London property market

The property market is an investment class that is impacted by politics, regulation and market conditions. In this section, we will consider each in detail together with their potential impact on the London property market from the perspective of an international investor. Given the unprecedented global disruption of the pandemic and the subsequent uncertainty of the past year, this major event is a running theme that is intertwined with many of the factors we will discuss.

Covid-19 update

A few weeks in to the first national lockdown the London property market seemed fated to plummet. The exponential rise in remote working, which was implemented practically overnight and for some will be a lasting change, has caused a sharp shift in housing demand from the city's urban core to more peripheral locations and beyond, and moneycorp saw a trend of people using funds from foreign assets or inheritance to buy in such locations. With commutability no longer a necessity, many are opting to relocate to leafier, more spacious areas with better-presented, lower-priced, larger properties that cater to the new non-negotiables for many: an at-home office and a garden.

Combined with other factors sparked by the pandemic, such as redundancy, the furlough scheme and the departure of non-residents returning to their home country, this shift has sparked a mass exodus from London and a sudden drop in population. The effects of this shift on the property market are two-pronged at least: on one hand, mass migration out of the city has led to a sharp rise in rental vacancies and a decline in residential property value within certain areas of central London. On the other hand, mandatory remote working, which for many organisations has resulted in hybrid models being adopted in the future, means office buildings are sitting empty with surrounding businesses either closed or deserted, therefore lowering the value of commercial real estate, too.

London has long been a safe haven for foreign property investors, but with international buyers kept away due to travel restrictions, the capital's property performance has been named as the weakest link in the UK according to Nationwide's latest report. The number of property sales in prime central London locations such as Mayfair and Kensington have seen the sharpest decline since the beginning of the pandemic, which is a big hit for the capital.

However, this does not reflect the whole picture. While parts of inner London may be suffering, the uptick in demand for property in the city's leafy outer suburbs such as Hampstead, seems to be providing buoyancy to the wider market. Indeed, Londoners have been leaving, but areas that straddle the perimeter and provide the best of both worlds are more desirable than ever across all age ranges and salary brackets, suggesting that people aren't ready to ditch the city life entirely yet, especially as a return to the office, at least a few days a week minimum, is likely.

It is too soon to tell whether these changes will be sustained or are simply a short-lived reaction to the pandemic, but from an international buyer perspective, the dip in value in many prime residential areas, paired with the stamp duty holiday, could offer a unique opportunity to invest in the London property market at a lower price.

Brexit

Uncertainty around Brexit threatened London real estate since 2016, causing concern for buyers and sellers alike. In our 2017 London property whitepaper, we cited the outcome of Brexit as the biggest political risk facing international investors in the London property market, not because of direct impact, but because of the ripple effect the agreement could have on financial services. Four years on, and a global pandemic has given our predictions a run for their money, exacerbating the challenges already in place and adding factors like national lockdowns to the mix. On the plus side, a deal was finally struck with the EU on December 24th 2020, eradicating the threat of a no-deal outcome and the major disruption to the property market that it would have caused.

However, with some aspects of the deal yet to be finalised, the impact of Brexit on the financial services sector is still unknown, and, therefore, still poses a threat to the London property market. In a recent moneycorp webinar, Chief Economic Advisor Vicky Pryce stated that 'so far in the agreement with the EU, the financial sector has been more or less forgotten...and we've already seen how much money is moving to other centres in Europe.' LinkedIn data says that the UK lost professionals to Europe amid Covid and Brexit, with more departures than arrivals to the country. London is the UK's hub for high-income financial services jobs, but without a deal that protects these jobs, demand for property from high-net-worth individuals could decline, exerting downward pressure on property valuations. International investors should monitor how this progresses over the coming months as an agreement that allows financial institutions to trade across the continent as before will dispel uncertainty and property value (both commercial and residential) will increase.

Trade in services and the free movement of people are intrinsically linked. Covid restrictions may mask the impact of the UK's post-Brexit immigration system, but as the economy reopens the absence of Europeans will be felt as new red tape means they must obtain a visa to live and work in the UK. London's position as a hive of multinational activity could come under threat and lose interest from European investors, and as a result, both commercial and residential real estate could decline in value. However, this could cause an uptick in interest from further afield. Hong Kong citizens are already said to have their sights set on the British capital and a new visa that may lead to permanent relocation to the UK.

Stockpiling before Brexit was a familiar sight, and while the uncertainty around trade seems to have settled down, there is still huge demand for huge warehouses. It's the latest boom in UK real estate as firms move more operations online after the pandemic highlighted the need to accommodate online operations, and could prove a worthy sector to invest in.

Another variable for international buyers to keep an eye on is the currency markets. Despite the ratification of a trade deal with the EU, there are still negotiations that may cause some instability for the GBP/EUR exchange rate, which in property sales can equate to a significant sum.

Market considerations

Although easy to be consumed by the two major players of the past year, Brexit and Covid, international investors should be aware of a number of current and future regulatory changes that could affect their property purchase. One of the areas of greatest risk to non-domiciled property investors in London is the impact of market forces and the future strength of the UK economy and its currency. In this section we will review the main issues that overseas investors should be aware of, and their potential impact on the London property market.

Lending behaviour (The Budget)

Chancellor Rishi Sunak's Budget announcement offered some positive news for buyers and sellers of UK real estate, with the stamp duty holiday extension. However, the Chancellor faced some backlash on Budget Day as for the first time overseas buyers are to incur an additional surcharge of 2% on top of the stamp duty rate, as of 1st April. International investors are now faced with both Covid-related travel restrictions and a ticking clock when purchasing homes in Britain, which some fear will make the London property market significantly less attractive to foreign money at a time when British residents are moving out. On the other hand, many believe the extra tax will prevent wealthy international buyers from snapping up the capital's most sought-after areas, only to leave swathes of the city empty for much of the year.

The Budget also included an extension of the furlough scheme, further financial support for businesses and freezes on certain taxes such as capital gains, all of which will aid in rebuilding the economy and attracting people back to the capital – a positive sign for the property market. A new mortgage guarantee scheme set to entice homebuyers with 5% down payments to secure 95% mortgages was also included, and will provide a welcome boost for both homebuyers and the property market following a drop in low-deposit mortgages at the start of the pandemic due to lender risk-aversion.

Available on property purchases up to £600,000, options will be slimmer in London due to it being more expensive. However, with falling asking prices in the capital, first-time buyers will be particularly attracted by the scheme and may wish to seize the opportunity of the double incentive – offering a boost to the economy and the London property market.

Unfortunately for non-domiciled investors, the scheme is only intended for British residents buying to live in the property as their primary residence. However, as investment from overseas tends mainly to focus on prime real estate far beyond the £600,000 mark, the impact of this exclusion will be negligible. For international investors who still hope to make the most of lower asking prices in London, there is scope to use local currency savings or borrow in their domestic market at a more attractive rate and convert the local currency to sterling at the existing foreign exchange rate. An active hedging strategy may also be pursued through forward contracts and foreign exchange swaps. Interested readers should contact moneycorp for guidance on available transactions open to international investors.

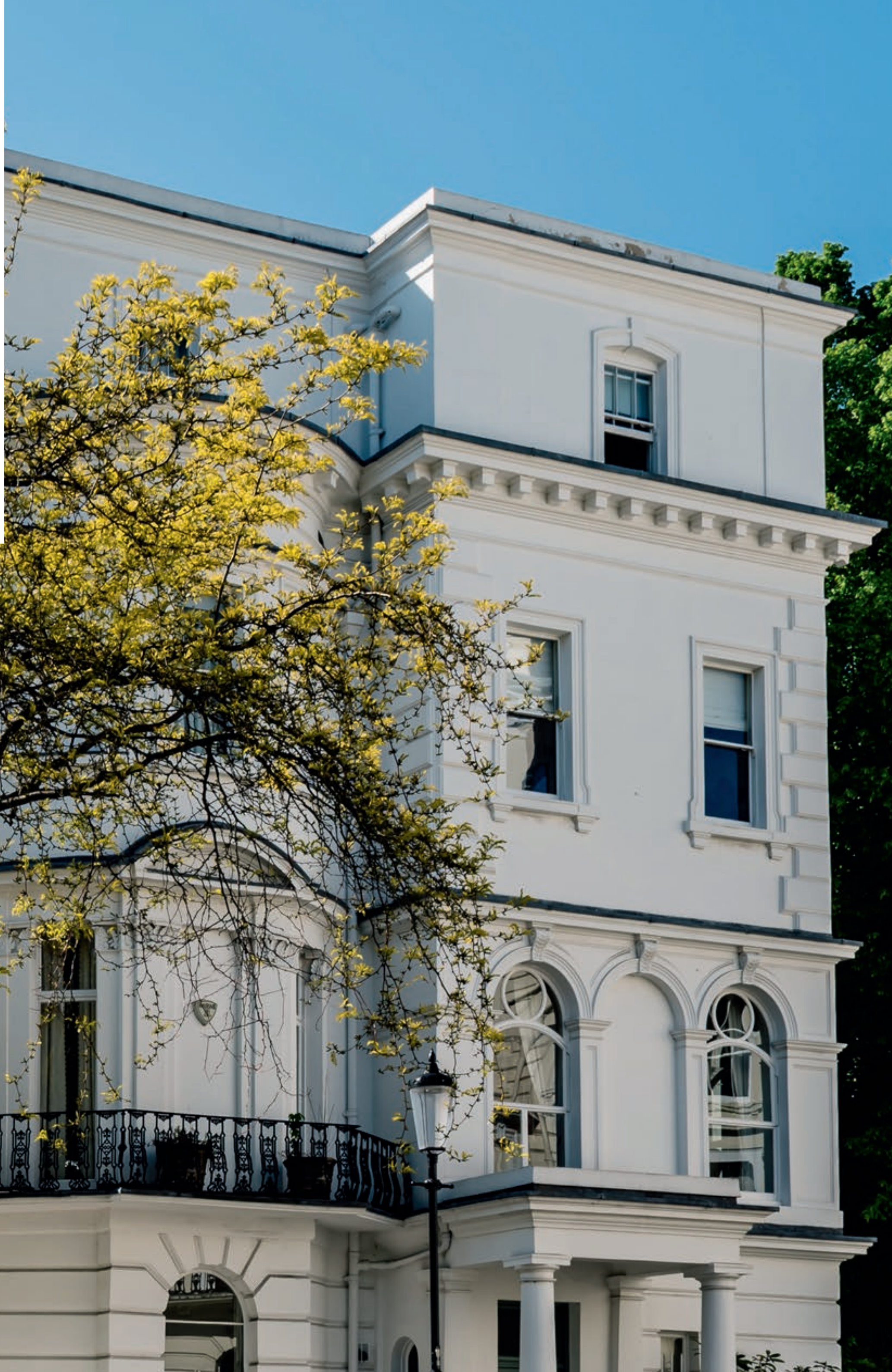
Currency market impacts

While the announcement of an additional surcharge of 2% for overseas buyers on top of the stamp duty rate was not well received, from a currency market perspective, it is not uncommon for the pound to move 5% against another currency within a short window. Therefore, with the right planning, this additional surcharge could be netted off with a currency gain.

Exchange rates are unpredictable by nature as there are three separate forecasts that must be accurately made in order to do so: how well economy A will perform, how well economy B will perform, and what the relative strength of both economies will be. For international investors, a future appreciation in sterling would increase the local (that is, non-sterling) currency value of their property. This could be substantial and dominate any increase in sterling value of the property itself.

For example, if prime central London prices fell by 1.2% in the year to April, and sterling increased in value from $1.22 to $1.37 over the same period, if an international investor purchased a £1 million property at the beginning of 2020, the dollar value of the investment would have appreciated by 10 per cent (from $1.23 million to $1.37 million). Whilst at the time of purchase this is less than ideal, if sterling continues to strengthen (as we have witnessed in line with the UK's successful vaccination program amongst other factors), investments in London property will produce a positive return for non-domiciled investors.

Managing currency risk exposure is a must as soon as the decision has been made to invest in property in a foreign currency. Risk can be minimalised and a strategy pursued via hedging tools such as forward contracts. The outcome can be considerably more positive if the timing of the exchange is managed properly too.




Property & currency market forecasts

London & the UK

The fate of the UK property market following its recent boom is a topic of much speculation. As restrictions lift and a return to normal life inches closer, we may see a reversal of the London exodus, which to an extent is already evident. As urban centres reopen, the gravitational pull of festivals, food, exhibitions and shopping is back and so living close to the action could incrementally regain its allure.

Property website Zoopla reported that when restrictions eased in April 2021, home sales in areas of London experienced a surge greater than anywhere else in Britain. Indeed, London was the weakest link in the UK property market following the hit from the pandemic and other factors, such as Brexit, so the spike in sales started from a lower base, but April's turning point is still significant and could be a sign of confidence returning to the market.

On the other hand, the influx of remote working that has remained in place outside the confines of lockdown and the subsequent re-evaluation of work-life balance that has ensued en masse indicate that a widespread return to the office five days a week is firmly off the table. Therefore, while people may be pulled to areas of London that are close enough to the action, within easy enough reach of the office to commute once or twice a week, but that crucially offer enough space and greenery, the London property market as a whole may struggle to find the momentum it needs to climb anywhere close to pre-pandemic growth levels.

London remains one of the most expensive places to buy a property in the UK but according to the latest house price index by the Office for National Statistics (ONS), for six consecutive months to July 2021, London also saw the lowest annual growth (5.2%). Uncharacteristically low price growth may continue based on the re-evaluated priorities of domestic buyers and could leave some attractive buying opportunities for long-sighted international investors. However, lingering travel restrictions and the 2% stamp duty surcharge for overseas buyers may cause a slight hiatus in activity.

Meanwhile, the rest of the UK is still trying to keep up with the demand for more rural properties, with coastal locations, such as Cornwall, amongst the most popular places to buy a home. But could the regional UK property market be overheating? Many are of the view that the soaring demand and house prices are unsustainable and a mere reflection of current priorities that won't necessarily be the same in the coming years.

International property and currency market forecast

While the UK property market has continued to grow over the past year despite two major disruptors: Brexit and the pandemic, international investor demand has wavered and domestic buyers have provided buoyancy to the market. On a global scale, the exceptional challenges of Covid have caused travel restrictions and widespread economic insecurity. Moneycorp customers exchanging euros into pounds have cited Brexit uncertainty as a leading motive for selling up on the continent and returning home to the UK, impacting the likes of the Spanish property market, which has historically benefitted from British investment.

However, the arrival of a UK/EU trade deal, expansion of global trade and the distribution of a vaccine have brought new hope for 2021/22, and sterling has already been one of 2021's best performing currencies, reaching fresh highs against both the USD and EUR. Plans for sustained economic global recovery have been made, led by larger economies where vaccination programmes were quick to be implemented. According to Oxford Economics, 2021 is predicted to see global GDP return to its pre-pandemic state, growing faster than it has in 40 years.

On a domestic level, the latest economic projections from the British Chambers of Commerce (BCC) forecast UK GDP growth of 5.1% in 2022. Consumer spending is expected to drive growth as pent-up demand will be released, helping, in turn, to boost UK business investment into next year. With these upward projections, we may see a strong rise in international interest and investor confidence in the UK/London property market.

Some analysts are concerned that as Europe, the US and other major economies catch up in terms of recovery, the pound may not be able to continue the relative gains we have seen thus far.

In 2021, we predict an uptick in global government incentives (within advanced economies) of the same ilk as those included in the UK's Budget. President Biden's US stimulus package is one such example and is providing a substantial boost for the USD. Factors such as ultra-low interest rates will likely boost investment in property markets around the world well into 2021 and beyond. Serious investors should keep an eye on expanding global trade, too, as some comprehensive deals, for example amongst Commonwealth countries, have potential to change the landscape for international property investment due to new policies around freedom of movement and the exchange of professional services.

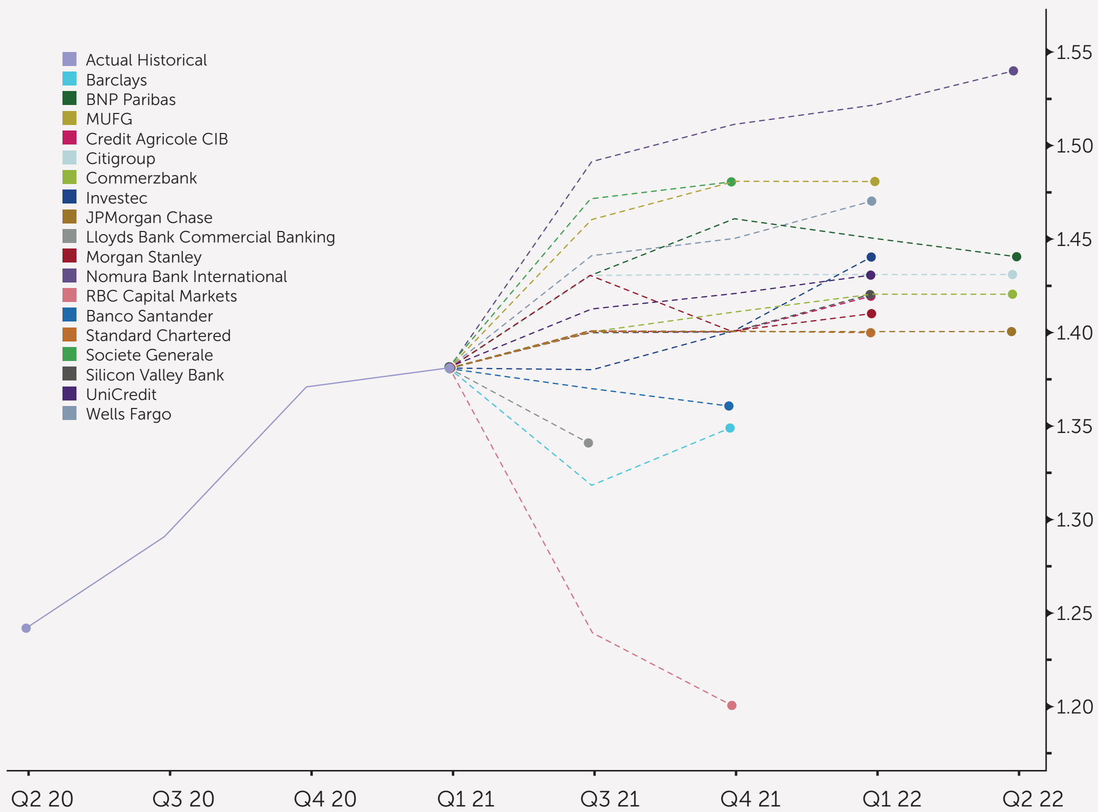
The innately unpredictable nature of both the virus and the FX market means that predicting exchange rates is more difficult than ever. However, as future appreciation is expected for the pound, this could incentivise UK residents to invest in other property markets around the world (depending on the relative strength of that economy), while non-domiciled investors could enjoy a favourable return on a UK property purchase.

Managing exposure to currency risk is imperative when investing in property in a foreign currency. Interested readers are encouraged to seek expert guidance when navigating the fluctuating currency markets. Moneycorp can help mitigate the risk involved with international property buying or selling, providing access to hedging tools and specialist knowledge.

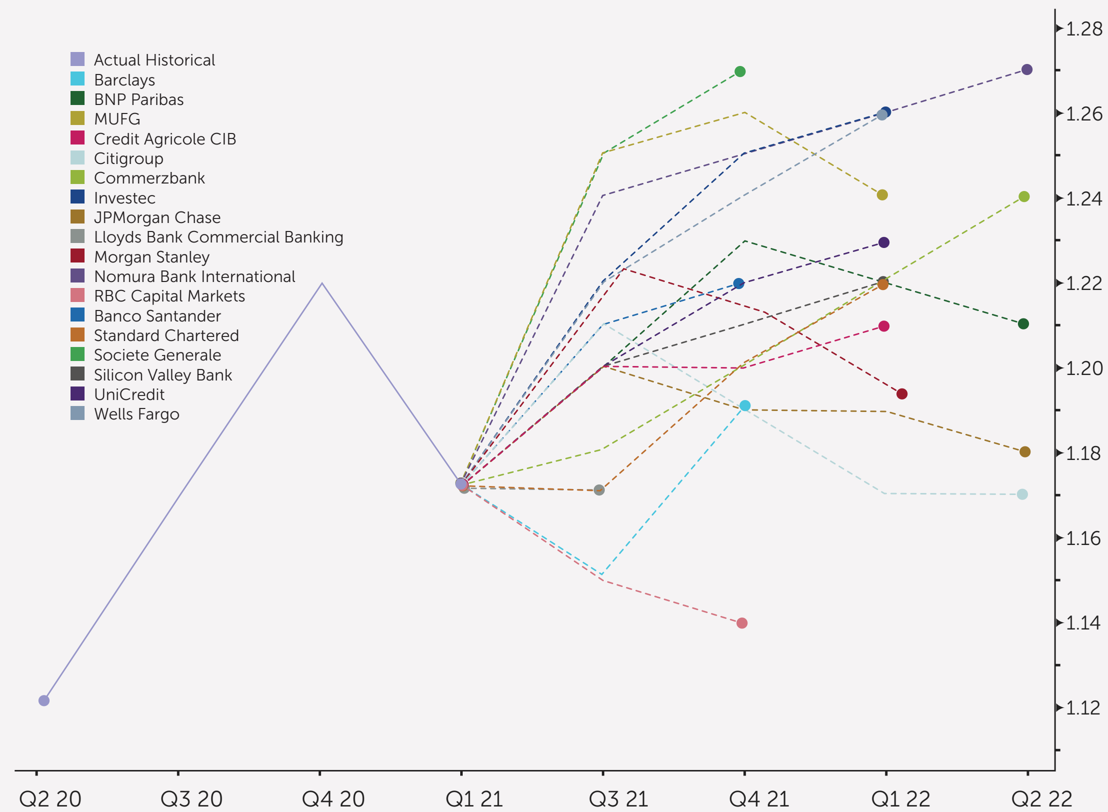
International property and currency market forecasts

continued

GBP/USD



EUR/USD



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Summary

This report has reviewed the main factors affecting the London property market with a focus on international investor sentiment and currency market activity. In keeping with the two major disruptors on both a domestic and global scale, Brexit and Covid-19 are featured as the main driving forces behind the discussed impact on UK real estate - past, present and future.

Downside risks include repressed property demand and a decline in rental values in inner London as urban centres lost their allure alongside a mass shift to working from home. Travel restrictions and additional tax charges for non-domiciled investors are cited as potential deterrents to foreign interest in the London property market, while Brexit may weaken ties within the financial services sector that attracts so many high-income buyers to the capital, diverting them instead to EU markets.

However, domestic buyers have plugged the gap as the escape to the country trend continues to dominate. In seeking more space and greenery, UK-based buyers are propelling demand to suburban and regional markets and adding considerable strength to the wider UK market. Furthermore, with sterling predicted to recover quickly, due mainly to the success of the vaccine rollout in the UK and the ratification of a UK/EU trade deal, there is substantial hope for 2021 and beyond.

International investors have the unique opportunity to benefit from buying in London, or to turn their attention to the increasingly popular leafy suburbs that offer larger homes and better access to green space – two priorities for a population of potential remote workers. Global trade is also cited as one to watch, as the UK's relationship with other nations will impact the strength of the pound, the London job market and interest from overseas property investors.

About moneycorp

As award-winning, expert providers of international payments services, moneycorp's mission has always been to be the first choice for those with international interests. Aside from having over 40 years of experience and industry knowledge, we believe that what sets us apart is our cutting-edge digital payments technology underpinned by human-led customer service, expertly tailored to the individual requirements of the people who choose us.

Headquartered in London with presences across Europe, North America, South America, Australasia, Asia and the Middle East, we are a global company providing a specialist and easy-to-access service for tens of thousands of customers worldwide.

Having carved out our own space in the middle of the market, we constantly challenge the rates and limited services offered by high-street banks, as well as the impersonal, online only nature of new challengers to the space. We are uniquely positioned to assist with many different international payment needs, including but not limited to business payment solutions, currency risk management, supporting the global supply chain of wholesale banknotes, and personal overseas payments, such as property buying/selling.

Moneycorp customers benefit from a personal Relationship Manager to guide them through overseas property payments as well as specialist tools to help them mitigate the risk of currency fluctuations. From tracking, targeting and even locking in desirable rates, our wide range of tools is designed to help people save money on international payments, while our team is there to provide guidance and a safe pair of hands every step of the way

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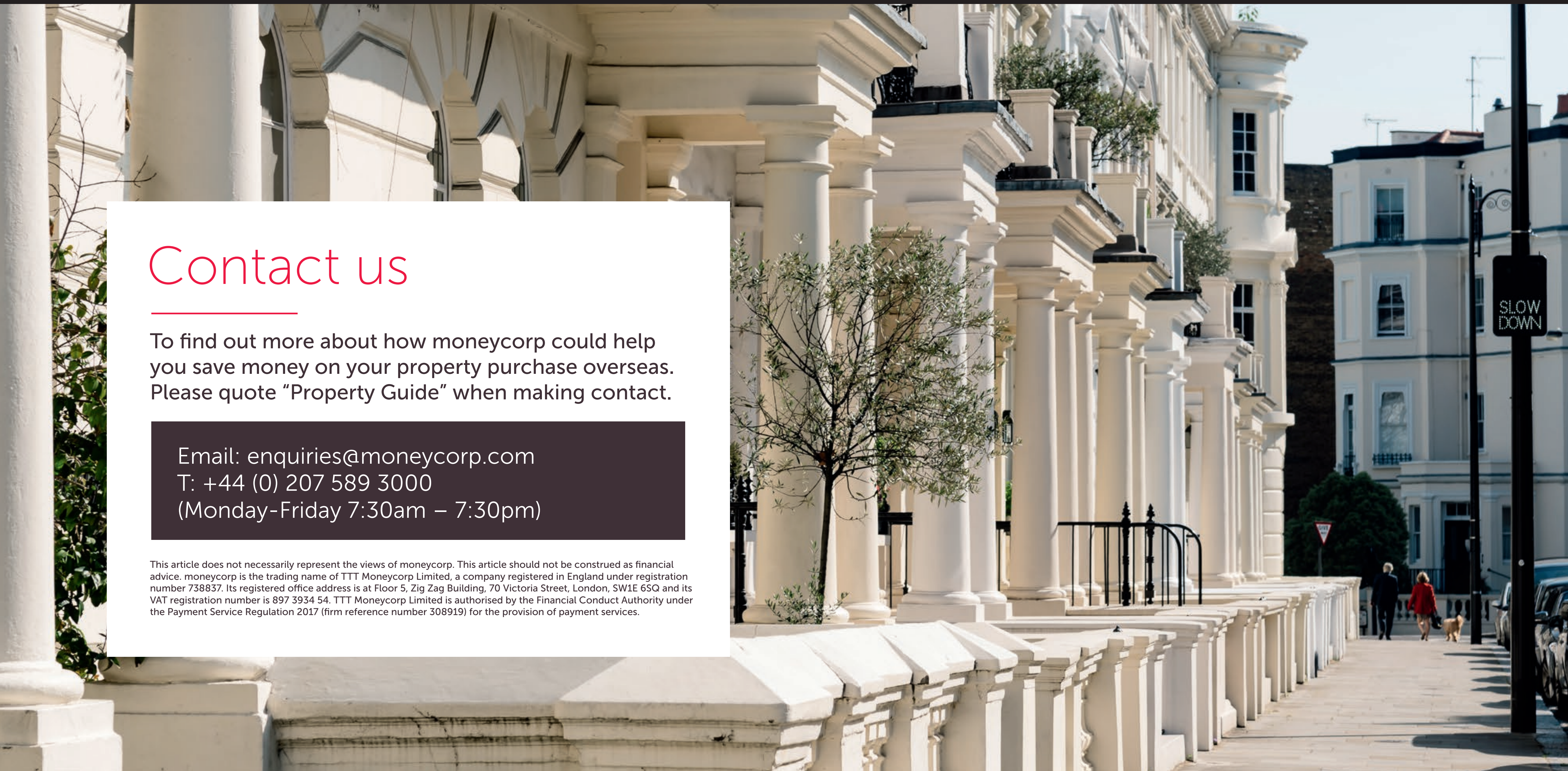

Contact us

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