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# BREXIT

## BEYOND THE UNCERTAINTY



VIVA

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# VIVA Sotheby's International Realty and the UK



## A NOTE FROM THE DIRECTOR

The Sotheby's Auction House was founded in 1744 in the heart of London. Our values and our brand cannot be fully understood without making reference to our British heritage. We are Spanish firm with British roots, a juxtaposition of tradition, prestige and the Mediterranean; a brand who understands that these two countries share a bond beyond legislation and politics.

From the VIVA Sotheby's International Realty group, with offices in Mallorca, Menorca, Ibiza and Madrid, we have always respected our heritage and made sure that our special link with Great Britain is never lost. We will fight to make sure Brexit is no exception.

This report originates from that desire: to help Brits and Spanish residents know that Brexit will come and go, that we were here before and that we will be here after. We want to inform buyers and sellers of all the possibilities. We want to make them see above all the noise. Our desire is for them to know that our multilingual team will be guiding buyers and sellers during this process with the same commitment for which our brand has always been renowned for.

## Alejandra Vanoli

Managing Director  
VIVA Sotheby's International Realty

INDEX

QUICK FACTS ..... 4

A STRONG AND MUTUALLY BENEFICIAL RELATIONSHIP ..... 5

CURRENT POLITICAL SCENARIO ..... 7

CITIZENSHIP AND RIGHTS ..... 9

TAXATION ..... 11

THE POUND ..... 12

SPAIN AND OTHER EU COUNTRIES ..... 14

CONTACT ..... 15

## QUICK FACTS

### THE UK IN SPAIN

#### THE NUMBER 1:

##### INVESTOR IN SPAIN

The UK is the nation which has invested most in Spain during the last 5 years (2014-2018) with an average of 1.425 million euros per year.

##### PROPERTY INVESTOR

British residents remain the top foreign investors in the Spanish Property Market. 10,127 houses were sold in 2018, representing a 10.7% increase from 2017.

##### HOLIDAY DESTINATION

18 Million tourists travelled to Spain in 2018. Most out of all nationalities.

##### EXPATS IN SPAIN

Over 300,000 brits live in Spain, although some stats suggest it could be much more. This represents the number one country for expats.

### SPAIN IN THE UK

##### SPANISH RESIDENTS IN THE UK

According to the National Institute of Statistics (INE), 240,934 Spanish people are living in the United Kingdom.

##### SPANISH INVESTMENT IN THE UK

In the period from 2007 to 2016 the UK has been the N°1 country where most capital has been invested in 7 out of the 10 years. In 2018 the UK was the second top destination of Spanish investment, only behind USA.

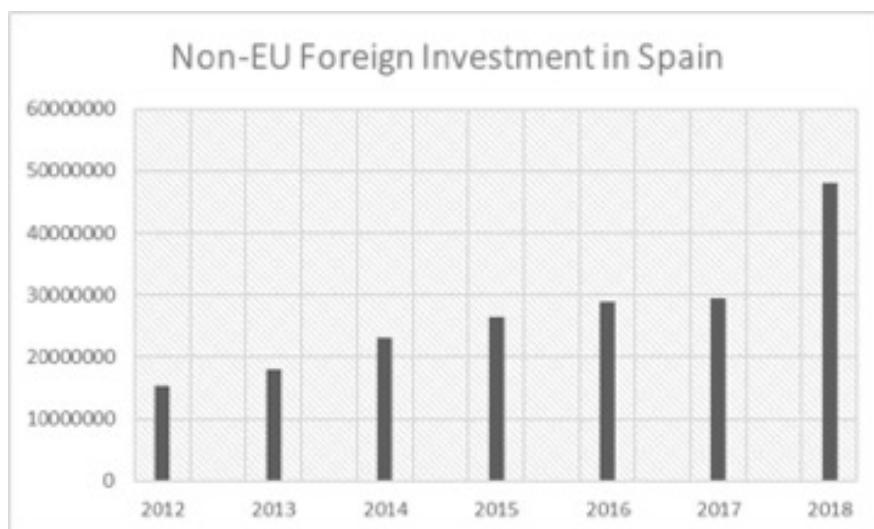
## A STRONG AND MUTUALLY BENEFICIAL RELATIONSHIP

**W**hen debating the consequences of Brexit many people have expressed their opinion, yet not many have been able to support it with facts or statistics. In this article we are going to provide supporting evidence and numbers, and yet, we will start with the most convincing argument, namely common sense.

Much of the fear-mongering surrounding Brexit ignores the most obvious rational argument: that Spain needs the UK, that the UK wants to invest in Spain and that its population is not simply going to stop investing in Spain. Spain and the UK will fight to maintain what they have always been, a strong and mutually beneficial relationship.

Mexico, in 2018, invested 1.108.842,53 thousands of euros in Spain, USA boasts similar numbers. And yet both of these countries are not, and have never been, in the EU. So, what is this trying to tell us? Why are they buying in Spain?

The Spanish property market is not only allowing foreign (Non-EU) investment, it offers interesting policies for both investors and buyers looking at a second home. Plans such as the Golden Visa and Double taxation fiscal policy have always been very popular among non-residents. Even countries which don't have a historical relationship with Spain (e.g. Norway, Sweden or Luxembourg) report increases in acquisitions of properties during the last decade. The following graph represent the trend of foreign investment in Spain.



Source: Ministerio de Industria, Comercio y Turismo, Spain

And yet when dealing with Brexit, people are afraid of a daunting scenario where all relations are lost. Regardless of the political outcome these 3 common sense reasons force the relationship to continue:

**1 NON-EU COUNTRIES** As expressed earlier, non-EU investment has been growing and is at one of its highest points in Spain's history. There is no reason why the UK should be different to non-EU countries.

**2 SPAIN NEEDS THE UK AND THE UK NEEDS SPAIN** British nationals represent the highest percentage of foreign investment in the Spanish property market. Hundreds of thousands of workers from the UK are pushing the Spanish economy forward. 18 Million tourists visit Spain every year from the UK, more than from any other country. Even if Spain could turn it's back on such a strong source of income, it wouldn't, and to make things even more blatant, it can't. Moreover, the fact that Spain is the country which hosts most British Expats suggests that the UK will also need to negotiate with Spain.

**3 GIBRALTAR** Despite being a sensitive topic, it's mere existence forces both countries to negotiate: 13.000 Spaniards cross the frontier every day to go to work. Gibraltar needs the Spanish residents and the Spanish residents need to be able to work in Gibraltar. Trade deals would also need to be necessary. Gibraltar, being a British overseas territory, would fall under UK-Spanish regulations, and thus, be another motive pushing for certainty and optimum deals.



## CURRENT POLITICAL SCENARIO

Perfectly represented by the graph from the BBC, the political scenario is currently still at a deadlock. There are many completely opposite scenarios still on the table (Cancel Brexit, No Deal, General Elections...) forcing analysts to not be able to assure what the outcome will be. This is what is truly catching everyone's attention and causing all the media noise; instead of letting people see and analyse what has already been agreed, everyone is concentrating on what hasn't been agreed.

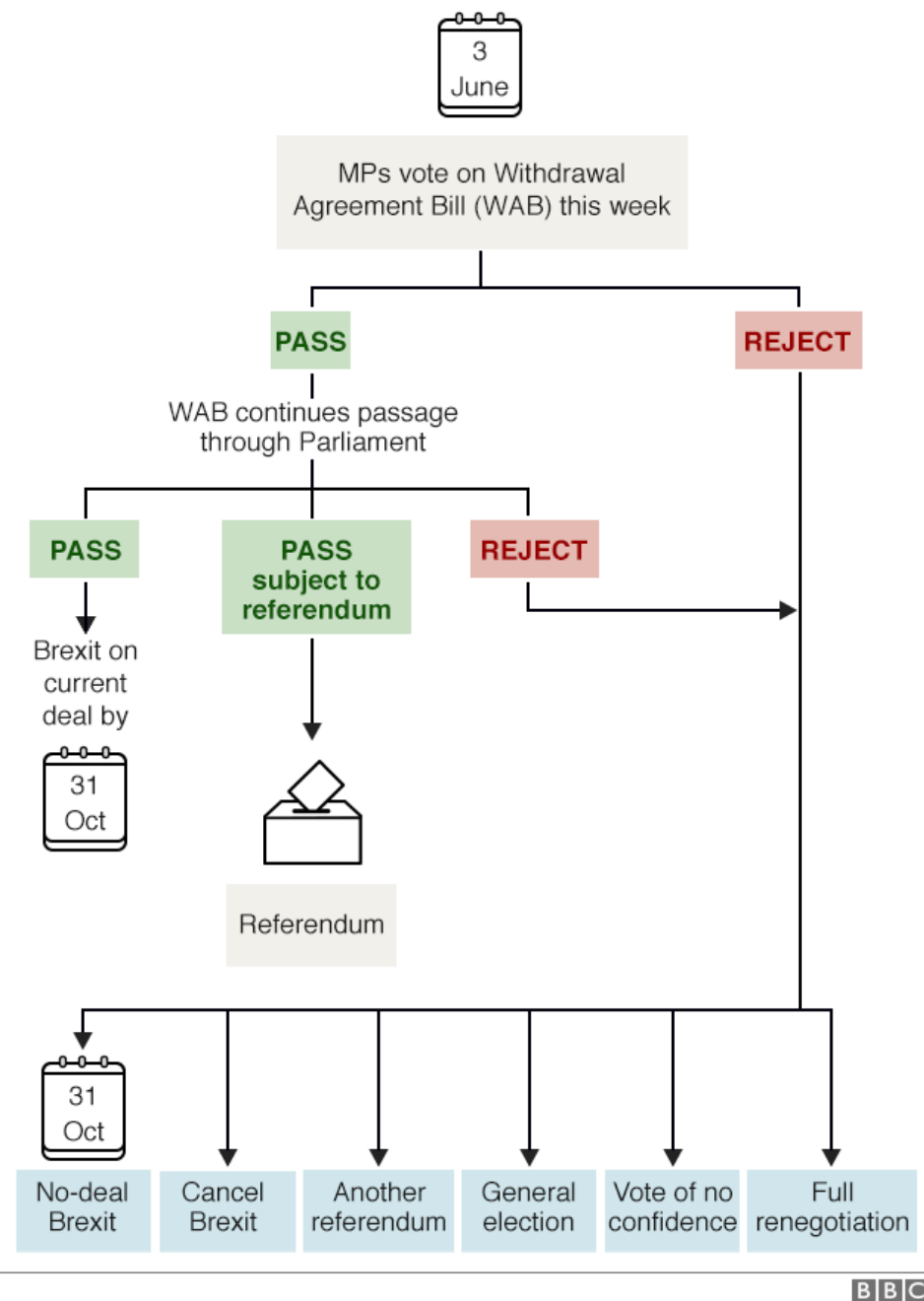
The original plan was for the UK to leave the EU on the 29th of March, it was then shifted to the 12th of April. Another extension was then requested by Theresa May and granted by the EU in order to avoid an unwanted "No-Deal" scenario. The current extension is until the 31st of October, but it could still be cut short in case of a deal being agreed before then.

Theresa May's resignation does not change anything agreed up to this point. The extension remains, as well as all the unilateral treaties agreed between countries.

In the following sections we will be representing why in fact it is irrelevant for the UK - Spanish relationship that politicians have yet to agree a deal regarding UK's EU exit.



## Brexit: Next steps

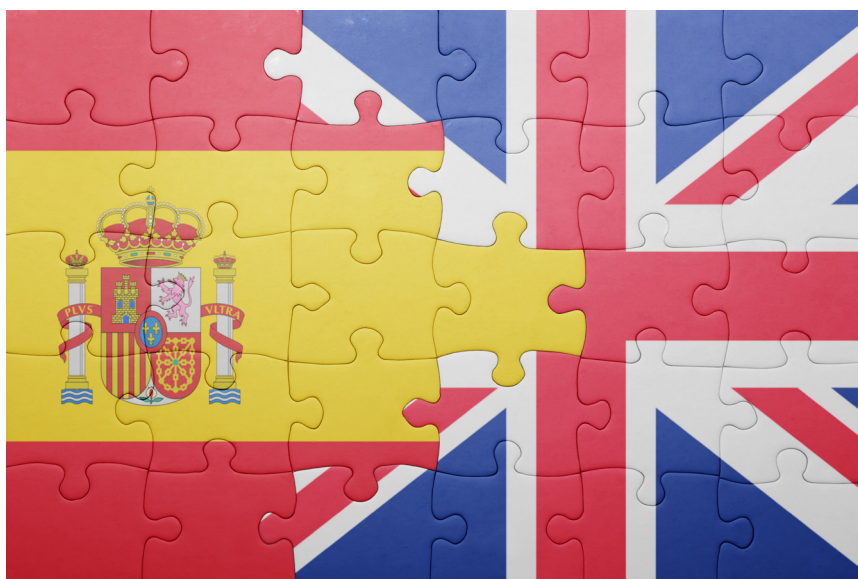


## CITIZENSHIP AND RIGHTS

**M**r. Borrell, Spanish minister of foreign affairs, sent out a simple yet significant message from the Spanish Government: "The British living in Spain will continue as before and the Spaniards who live there will as well." The discourse represents the general collaborative climate surrounding all unilateral negotiations between the two countries during this process.

On the 1st of March the Spanish Government passed the Royal Decree-Law 5/2019 adopting contingency measures in order to guarantee the rights of British Citizens regardless of the political outcome. This agreement will only be necessary if in fact there is a no deal Brexit (for many the worst case scenario) but will help us give answers to most of the questions currently being asked. They give us the certainty and stability which come from knowing that there is a plan and that, regardless of the political outcome, the relationship will prevail. They would start being applied on the date of the no-deal exit.

If on the other hand there is a deal and an "orderly exit" from the EU, then conditions will most likely be even better than the ones which Spain has already unilaterally agreed to with the UK.



## WHAT HAS ALREADY BEEN AGREED:

- 1 RESIDENCY** Madrid is expected to already grant residency to 400,000 Britons. Previously registered UK residents in Spain will have until the 31st of December 2020 to apply for residency as non-EU citizens. Unregistered Britons in Spain will have until the date of Brexit to register; once registered, they can begin the residency application process. The eligibility requirements will be very straightforward and similar to those currently required of EU nationals. Moreover, any citizen who arrives in Spain before the 31st of December will have the right to register under the current EU rules.
- 2 HEALTHCARE** Part of the decree released last month guarantees continued healthcare access not only to British residents but also to its tourists. This would apply after Brexit and relies on the UK giving the Spanish a reciprocal treatment (which is expected).
- 3 FLIGHTS** This has been regulated directly by EU Ministers. This past 19th of March 2019 they formally adopted laws allowing UK airlines, hauliers and passenger bus and coach operators to continue to be able to provide services to and from the EU even in a 'no deal' scenario.
- 4 PENSIONS AND BENEFITS** If the UK leaves the EU without a deal, the Spanish government has proposed that they will still take into account periods of work in the UK before it leaves the EU when calculating pensions and other contributions-based benefits.
- 5 RIGHT TO WORK** Independently on whether you are employed (por cuenta ajena), self-employed (por cuenta propia), a Spanish civil servant (funcionario) with British nationality or you have been using UK qualifications, you will be able to continue your employment even though you are no longer an EU citizen. The Spanish government have assured that you will be able to continue working in the same manner as now.

## TAXATION

**T**he UK has a double-taxation agreement with Spain ensuring people do not pay tax on the same income in both countries. This is a unilateral agreement completely independent from the EU, and thus, Brexit will not affect it.

### PROPERTY TRANSACTION COSTS

There will not be any changes with regards to the costs and tax from the acquisition or selling of a property. These taxes and costs are completely independent from the nationality of the buyer and seller and therefore will never be affected by Brexit.

Some taxes which must be paid after the property is already acquired might be susceptible to change, although there are some countries which are not in the EU but are treated with the same fiscal conditions. This will depend on the final deal, but transaction costs will certainly remain the same.

### NON-RESIDENT AND INHERITANCE TAXES

Brexit may affect inheritance and estate taxes. This, however, seems unlikely. We are already seeing cases of Law Courts ruling in favour of nationals from 3rd Countries which argue that they should pay as if they were residents (you cannot discriminate against them). Non-Resident tax may also be affected, although again, the trend is clearly heading in the same direction: one cannot discriminate against them fiscally.

## THE POUND

The pound's value has decreased since the Brexit referendum in relation to the Euro by 12%. In relation to pre economic recession value (2007), the pound is down by 25%. This has a significant impact on the buying and selling process for those exchanging currencies and is therefore relevant for this report.

Brexit GBP To EUR Effect



Source: European Central Bank

Advantages of buying and selling in EUROS:

## BUYERS

Given uncertain macroeconomic times, there is no reassuring that the pound will be rising in value in the near future. In fact, buying Euros (a property in Spain) could end up being a very good investment if the pound keeps on depreciating.

Another currency related positive argument in favour of buying a property in Spain is that one diversifies risk "not putting all the eggs in the same basket". Regardless of what happens, having a diversification of one's capital is generally considered a prudent investment strategy and will be appreciated by those owners who don't want to be worrying about what is going to be happening with the currency exchange market.

## SELLERS

If one is planning on selling their property and relocating back to the UK, this could also be a good time to do so. As one can appreciate from the ECB graph the pound is at one of its lowest points it has ever been in relation to the EURO. It could be a good time to cash-in on a past investment and reinvest in the deflated UK market.



## SPAIN AND OTHER EU COUNTRIES

**M**any EU countries have taken a similar stand to the one taken by the Spanish Government. It must be said that Spain has been one of the most proactive countries, its contingency plan is one of the most generous and it has been one of the first to ratify deals such as the one which maintained the right to vote for Spanish and British citizens living in each other's countries after Brexit. Signed in January, it was the first such agreement between the UK and one of the bloc's 27 remaining member states.

Other countries have set up far more complex systems and have been showing more opposition to the reintegration of UK residents. The French prime minister's speech during May's last extension request was the most hostile out of them all. Official sources from the Élysée quoting: "The default position is no deal. Endangering the functioning of the EU is not preferable to no-deal."

Germany has also hardened its policy with regards to UK residents, its government has recommended you allow plenty of time when re-entering Germany and to make sure you have documentation to hand that proves that you are a long-term resident.

Despite this, most EU countries have already adopted similar contingency plans to the ones detailed in this report guaranteeing future relationships between the United Kingdom and EU countries prevails.



## CONTACT DETAILS

Please do contact [brexit@vivasir.com](mailto:brexit@vivasir.com) if you have any personal queries or if you simply want to know more about the ongoing situation. You may also call +34 971 72 10 00 where John Kinloch, author of this report, will be more than happy to attend you.

We are also constantly giving updates on the Brexit situations in our monthly newsletters and at our websites:

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