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EDITORIALS

What the UK's anti-EU vote means for luxury

June 24, 2016

The United Kingdom, by 52-48, voted to split from the European Union

By MICKEY ALAM KHAN

The United Kingdom's 52 percent vote yesterday to divorce the European Union will have repercussions for luxury brands and retailers as their high-net-worth customers and prospects scramble to figure out what this referendum's results means to them.

Chief among the concerns will be the fate of the rich and super-rich's investments in the U.K., especially the performance of the London Stock Exchange and European and American bourses to which their net worth is indexed.

Also worrisome is the issue of free movement of labor within the E.U. Border controls may deter impulse travelers from day or weekend trips to the continent and vice versa for visitors to the British Isles.

Visa requirements may also return. And free movement of skilled labor will be affected as part of an anti-immigrant backlash that fueled the no-E.U. vote.

Mickey Alam Khan is editor in chief of Luxury Daily

While the knock-on effect of this anti-E.U. victory may not be immediate, it will cause concern to luxury brands and retailers with a presence on London's Bond Street and Regent Street, among other popular shopping venues in that city and elsewhere.

Likewise, favored British vacationing and second-home locations in the E.U. may see loss of business as affluent Britons figure out the tax implications for investments in an E.U. where they do not share benefits of membership.

Paris, Milan, Rome, Geneva and Berlin may also see lower retail revenues if fewer well-off Britons visit, or, as many fear, this British vote is the beginning of the end of the E.U. project as other countries start clamoring for similar referendums in a populist wave.

High five?

The vote's immediate casualty is the resignation of U.K. Prime Minister David Cameron, who will have the dubious honor of not just taking his country out of the world's most ambitious union but also provide the trigger for Scotland's independence.

Scotland and Northern Ireland voted overwhelmingly to stay within the E.U., while England and Wales threw their support behind the Vote Leave campaign. The U.K. joined the EU in 1973.

Getting down to brass tacks, what does this anti-E.U. mandate mean for luxury brands and retailers as well as high-net-worth consumers? Here are some issues to ponder:

1. The U.K.'s status as a safe sanctuary for parking wealth is a key attraction for the affluent.

Investments span luxury homes in cities and stately homes in the countryside, cars such as the Rolls-Royce, Bentley, Jaguar and Range Rover, children going to private schools and colleges, art and antiques, and involvement in the stock market.

Amending laws such as exemptions for non-dominion status may influence affluent foreigners' decisions to consider other more stable and tax-favorable locations. New York could be a major beneficiary of capital flight down the road, more so than high-tax Paris.

2. Investment in London and British properties may slow as marketers wait for the U.K. to renegotiate the 55 percent of E.U. laws that currently govern the country.

Unraveling the thicket of E.U. laws will take effect from the time the U.K. invokes Article 50 that triggers the split from the union.

3. Free movement of labor, including skilled artisans, highly compensated employees and investment bankers, could be jeopardized.

One of the siren calls of the Vote Leave campaign was its angst with untrammeled immigration from Eastern Europeans and other parts of the E.U., causing great disaffection to the labor class across England.

Loss of non-British hardworking labor, including skilled shop assistants, tailors and those working with their hands, may affect British luxury retailers and manufacturers.

4. London's future as the financial capital of the world a title it vies with New York is uncertain as banks reconsider their European base. Frankfurt and Dublin may start looking more attractive as the months go by.

But the key is what favorable terms will the U.K. extend to multinational banks and corporations to retain their business, although what may override pure taxation is the ready availability of talent in London.

5. Tariffs on British-made goods and services and similar duties on E.U.-made products will be the direct result of an exit from the European single market.

This, among all other considerations, is a major worry for luxury retailers and brands, and something they will have to figure as the pound grows weaker and saps British spending power overseas. The flip side of a weaker currency, though, is making British exports cheaper.

Of course, these are just some of the many considerations for luxury retailers and brands to take into account as the U.K. eases out of the E.U. and negotiates new terms and policies.

Remaining members of the E.U. may not reward Brexit. Plus, many other issues may pop up as the law of unintended consequences kicks in.

Stiff upper lip

Hours after this referendum's results, without the knowledge of what comes next, is not the right time to sound the alarm bells certainly not for luxury brands and retailers whose job is to look long-term.

The U.K. has a strong domestic tradition of luxury manufacturing and hospitality, leaving its imprimatur on luxury goods and services produced worldwide. Nothing can take away the U.K.'s excellence in leather goods, hotels, cars, housing, fine dining, tailoring and banking.

Savile Row, for example, has held its own through the centuries, through Italian tailoring, readymade and Casual Fridays. Similarly, Rolls-Royce and Bentley, while foreign owned, are bywords in automotive excellence.

So for all the Sturm und Drang in the immediate fallout of the U.K.'s no to the E.U., this is not the end of the road for luxury retail and manufacturing in the British Isles. Nor would it call for knee-jerk reactions.

HIGH-NET-WORTH individuals are no doubt consulting their advisors on next steps, as are senior executives at luxury brands and retailers and those serving the ecosystem. It pays to wait to see how the U.K. negotiates its exit from the E.U. in the next couple of years.

A phlegmatic response is the call of the hour. Come Monday, stock exchanges across key markets will have crawled back some lost ground and the pound may have recovered to some extent.

Some luxury marketers will take their lumps and adapt, others will vacillate and stall. What will be key going forward for them is to put the great back into Britain.

The United Kingdom votes against a continued union with the European Union