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“Exchange rate

movements tamed.”

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Londoners faced the attacks of 7th and 21st July with typically British stiff upper lips and defiant aplomb. The Pound, after initially being sold in fright, found a similarly defiant mood and stood its ground.

Sterling strength kept many overseas property buyers from losing their shirts on the exchange rate but, despite the miraculous speed with which the security forces apprehended the perpetrators of these vile acts, the problems may not yet be behind us and the Pound may still face some bad days ahead.

This is clearly not the news that a UK based buyer of European or US property would want to hear. Bad news is never palatable and in this case, a spoonful of sugar might not make the medicine go down but a spoonful of risk management might cure your ills completely. And by risk management, I am not suggesting anything too complicated; just the process of making sure you're the cost of your property doesn't escalate as a result of a decline in the exchange rate.

Currency risk management is rather simple really, as long as you have the right tools for the job. Whether buying a new build property with a series of stage payments or awaiting the completion on a resale property, the only way to remove any risk from exchange rate movement is to buy the necessary currency on forward contracts.

A Forward contract is an agreement made to buy a set amount of currency for an agreed delivery date at a preset exchange rate. This means that whether the exchange rate rises or falls after the contract has been agreed, the buyer and seller are not affected by any further variances in the exchange rate and hence any fluctuation in the Sterling cost of the property.

This can be done for a single lump sum or for smaller amounts to coincide with the staggered payments usually required for new property purchases. Many international property investors, especially where they have to plan up to two years ahead on new build properties, use Forward contracts to guarantee their expenditure in Sterling rather than leaving themselves exposed to the changes that two year's worth of exchange rate movements can inflict upon their costs.

Of course the exchange rate could rise but it's a 50/50 chance and, when there is no need to lose out, why run any risks at all?

It may be that you have more of an appetite for a gamble and would like to see here the exchange rate goes. That is great but I would always urge caution. Sterling fell against the US Dollar by 11% in just 7 months from December to July. Who knows how much it could fall in the next 11 months; an 18 month time frame is typical of a new build payment plan. I am sure few of us would happily accept a 15% surcharge on a property – or anything for that matter – and yet, this is exactly what happens when the exchange rate moves against you on a delayed completion.

However, if you do want to play the market on the exchange rate, at least place an order to protect the minimum level you can comfortably afford. If you can still pay for the property at €1.40, then tell your currency dealer to set a 'Stop Loss' order at €1.40 to make sure you get this exchange rate as a bare minimum and avoid losing out if the GBPEUR rate collapses. This may sound like scare mongering but this exchange rate dropped 5.5% in just one month from June to July 2005 and has struggled to recover ever since. Putting this into monetary figures, assuming you were looking to buy a property which you had expected to cost you £200,000 in June, the very same property would have cost you £211,000 in July, only one month later.



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As you can see, managing the currency on your property investment isn't complicated as long as you have better facilities than a high street bank offers and doing so, even in a simple way could save you a lot of money and even more stress in the long term.

Sophie Stride is an FX Consultant with Halo Financial Ltd, a specialist foreign exchange company providing expert currency exchange services to both companies and private individuals. If you are at the start of buying an overseas property or in the process of buying currency to migrate, it is never too soon or too late to save money on foreign exchange. Halo Financial can be contacted on +44 (0)20 7350 5474 and their website can be viewed at www.halofinancial.com