

IMPLICATIONS OF BR3XIT ON THE PROPERTY MARKET

BR3XIT

To be or not to be...in Europe?

A simple summary

Much is being made of the likely implications of Brexit in the press. In this simple summary, R3Location explains the likely costs of Brexit and in particular how a Brexit would affect the property market, adversely or otherwise.

Three implications

In doing so, the implications are split into three broad categories (Figure 1):

- **Financial Market:** The Financial Sector is a dominant sector in London and any uncertainties impacting the financial markets and related industries has an impact on the rental market.
- **Economic impact:** the property market is linked to the economy as a whole, and the impact on the property market of any Brexit would depend on the impact of such event on the economy as a whole.
- **Political impact:** As well as being an economic event, Brexit is also intrinsically a political one and any decisions to stay or leave would impact the UK political scene materially – and therefore impact the economy in turn.

FIGURE 1

Summary – See Figure 1.1 overleaf for details

Financial Markets	Economic Impact	Political Impact
<ul style="list-style-type: none"> ■ Short-term uncertainty ■ Pound to depreciate ■ Return to stability 	<ul style="list-style-type: none"> ■ Re-negotiating terms ■ More of the same? ■ Goods, but not services 	<ul style="list-style-type: none"> ■ Domestic crisis ■ Succession to PM ■ Knock-on effects?

Should I stay or should I go?

R3Location votes to stay

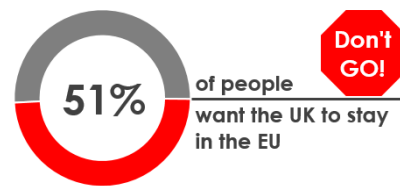
Many large organisations do not believe a Brexit would have a long-term material **adverse** impact on their financial positions. Many believe it would create short-term uncertainties and disruptions, but it is likely that most already have plans in place to mitigate the effects that a vote to leave would have.

While opinions are tight (see Figure 2), R3Location is on the side of several economic think-tanks who believe that the majority of the electorate will vote to stay come June of this year as fears about leaving the EU rise in the period leading up to the referendum.

But let's not forget that all opinion polls got it wrong at the last general election...

FIGURE 2

Latest exit Poll for Brexit



And what if we don't stay?

If many of the current opinion polls and experts are wrong, and the UK voters choose to go, the likely impacts can only be speculative at this stage. Much will depend on the details of the renegotiation that will take place in the two years post June 2016.

Currently, EU laws on the likes of the free movement of workers and the

environment are relevant to the UK real estate market.

Under a 'Norwegian option', as many would anticipate would happen, for a post-Brexit UK/EU relationship, these laws would continue to apply, so there would be a lot of continuity with the current real estate position. Under a 'World Trade Organisation option', the UK would in principle be free to make its own laws in these areas. But the effect on the property market would obviously depend on the nature of the changes made.

It's too soon to know

Better in or out?

With a few exceptions, big businesses, tends to be in favour of Britain staying in the EU because it makes it easier for them to move money, people and products around the EU and the world.

Whether the UK would be better in or out much depends which way you look at it - or what you believe is important. Leaving the EU would be a big step but no one really knows if it would set the nation free or condemn it to economic ruin. The answer is probably neither – or also nobody knows!

Uncertainty

The only certainty, in the meantime, is uncertainty; now and in the lead up to June. And with it, the most likely impacts are those relating to all the many ambiguities that exist in the pre-referendum period.

Uncertainty spooks markets and this in turn can lead to a likely stalling of the property market as the in/out vote approaches – as was the case in the period leading up to the UK general election in 2015.

Only in the short-term


Brexit may slow the property market down as well, but R3Location expects a full recovery to business as usual post June of this year.


R3Location Company Profile


With offices in St James's Park, R3Location offers a range of bespoke destination services, ranging from pre assignment and home finding support through to ongoing tenancy and departure support.

10 Grevcoat Place | London | SW1

FIGURE 1.1: Overall impact and property market impact of potential Brexit

AREA	OVERALL IMPACT	IMPACT ON PROPERTY MARKET
 Financial Market	Uncertainty One of the more immediate response of Brexit will be the impact of uncertainty on the economic outlook. This will, in the short-term, disrupt the Financial Services Market.	<ul style="list-style-type: none"> ■ Negative impact on the Financial Sector leads to a negative impact on the rental market The Financial Sector is a dominant sector in London and any uncertainties leading to possible lags in demand for rental properties would have a negative effect on the market.
	Pound to depreciate It is likely that the pound will depreciate in the run-up to the referendum, and would continue to do so in its aftermath.	<ul style="list-style-type: none"> ■ A similar effect to the one produced during the run-up of the last general election Uncertainty will spook the market and rental demand will flat-line over the first six months or so post referendum.
	Return to stability There would likely be a gradual return to stability after the referendum, and while financial market volatility may persist during the period of re-negotiation of UK terms in Europe, uncertainty would reduce.	<ul style="list-style-type: none"> ■ London hit the hardest but would still remain attractive London in particular would continue to be a dominant force within the Financial Services world and any negative impact on the rental market is likely to be temporary.

AREA	OVERALL IMPACT	IMPACT ON PROPERTY MARKET
 Economic Impact	Re-negotiation of terms The economic impact, in the long term, would depend on the details of the exit agreement and this would happen over a period of two years post referendum.	<ul style="list-style-type: none"> ■ A 'leave' vote may undermine the UK as a safe haven, however... In the long-term it is likely the UK would retain a strong economy (and therefore rental demand) by virtue of its language, time-zone, stability, current interconnectivity of business activity and schooling.
	More of the same...? The UK may well have to accept a large amount of EU legislation as concession to being able to agree terms of membership that would enable some freedom of movement and trade (e.g. like Norway).	<ul style="list-style-type: none"> ■ A drop in Foreign Direct Investment may occur This would be as a result of foreign companies seeing London as a gateway to Europe. Limiting freedom of services may see some negative impact on demand.
	Trade in goods but not services? This may create a Norway-like situation which may damage the Financial Sector in limiting its ability to service EU markets from London. Some companies may need to relocate as a result.	<ul style="list-style-type: none"> ■ Not enough to matter in the long-term Despite the above, as mentioned, the UK, and London in particular, would still be seen as an attractive location for business.

AREA	OVERALL IMPACT	IMPACT ON PROPERTY MARKET
 Political Impact	Domestic crisis An 'out' vote would make it untenable for David Cameron to remain as Prime Minister and he would have to resign. A leadership race would ensue.	<ul style="list-style-type: none"> ■ The property market may stall as it did prior to the last general election This is likely to be only temporary until details of re-negotiation are known.
	Succession to PM Boris Johnson (current Mayor of London) or George Osborne (Chancellor of the Exchequer) would look to take power, with the latter a more likely probability, as he may be seen as a more responsible candidate.	<ul style="list-style-type: none"> ■ Freedom from EU rule would dictate impact on property market And it is a difficult area to speculate on – much will depend on any restrictions to property ownership that a Brexit government would seek to implement.
	Knock on effects? The referendum may well have knock-on effects for the rest of the UK with a possible revival of the Scottish Yes/No referendum to leave Great Britain.	<ul style="list-style-type: none"> ■ Limits to foreign investment may hurt London Brexit may lead to more regulation in the housing market creating additional costs and restrictions which may affect rent levels and supply.