UK property stocks and real estate funds suffered as news from the referendum count rolled in. Some investors rushed to withdraw their money, causing several funds to suspend redemptions. But while that story grabbed the immediate headlines, most investors have been far more level-headed in their reaction. Soon after, most suspensions were lifted, and it seems likely some investors were switching from real estate funds to over-discounted property shares — not exiting the sector all together.

Since then, stability has started to return, helped by Theresa May’s swift appointment, support from the Bank of England, and a recognition that Brexit is unlikely to trigger any substantial credit crunch or market crash.

If anything, the Brexit decision led to a welcome correction for UK real estate, both residential and commercial. Prices for both sectors eased around 10% to 15% — accelerating an existing trend of cooling transaction volumes, particularly in London. That cooling should help to sustain a cycle, which had appeared to be overheating, right through to 2018.

Opportunity knocks

The pound’s dip to around $1.30 — an almost 15% devaluation — has delivered a significant further win for overseas investors. Combined with lower pricing, foreign investors can snap up opportunities in the UK real estate market.
up property for up to 30% less than a
couple of months earlier. Suddenly the
UK market offers better value than in
three or four years.
We have seen some opportunists
respond. For example, a client closed
the funding of a West End development
to an Asian investor, the week after the
referendum, firmly at the pre-Brexit
price. But so far, many are in ‘wait and
see’ mode, at least during the summer
lull. So are people right to hover on the
sideslines?
In some respects, Brexit has helped
the market. The Bank of England cut
interest rates in August and it has
signalled they will be lower for longer.
This will help to underpin asset prices.
Bond yields have similarly slipped to
all-time lows. That means that with
property yields moving out, the spread
between property yields and ‘risk-free’
government bonds is the widest it's
been for several years.
The Bank has also signalled its
willingness to support lending by
providing liquidity to the market.
Although lending terms have inevitably
become a little more expensive, there
are few signs of banks withdrawing
from the market and they remain well
capitalised. Meanwhile demand from
investors is strong.

The economy remains stable, despite
gloomy predictions of an immediate
meltdown after an ‘out’ vote. GDP
growth is expected to slow to below
2% in 2017. We don’t see inflation
becoming a concern, despite the
exchange rate devaluation, not least
while oil remains sub-$50 a barrel.
While some developers may slow the
number of projects in the pipeline,
most will want to take full advantage
of lower land prices. Most have low
gearing, so there is little chance of
damaging exposure there.

Questions over the City
The big question mark remains
occupational demand, particularly
for London offices and in financial
services. The extent to which
financial institutions will need to
base more people in the EU — and
less in London — will depend on the
course of EU-UK negotiations around
issues such as passporting and bank
settlement. It is impossible to say
right now what proportion of London’s
office stock that will affect, directly
or indirectly, but there is bound to
be some negative impact. How
significant that is, and how far other
positive impacts counteract it, time
will tell.

Most deals that had been in
motion before the referendum are
completing. We are also hearing
increasing reports of interest from
Asian investors looking to take
advantage of better value. Meanwhile,
lower construction activity is actually
helping correct the serious under-
capacity and skills shortages in the
market, which had been pushing up
construction prices significantly.
Despite these concerns, the UK's
historic strengths should endure.
Britain is the most sophisticated and
best-researched property market
in the world. And importantly, it is
a market that needs a lot of new
housing. Theresa May’s government
has already re-committed to major
infrastructure projects such as the
High Speed 2 rail link, plus greater
development outside London in the
shape of the ‘northern powerhouse’
and the ‘Midlands engine’ initiatives.
The referendum exposed some deep-
seated social issues, and we expect
tackling these issues by investing
in, and rebuilding communities, to
become an important objective for the
new government.