

Brexit and the Implications

Notwithstanding the uncertainty in the market with the EU referendum looming on 23 June, the UK remained the 2nd largest commercial real estate market globally in Q1 2016. However, the direct investment figure of £10.7bn during this period did represent a 31% decline from the same period in 2015.

Considering the amount of speculation around the impact of June's referendum, Q1's volume of transactions could be interpreted as respectable, and reflecting a natural easing in activity from the bullish nature of the market in 2014 and 15. Q1 did see a sharp drop off in activity following a strong January in which volume was in fact at a record high for that month.

This strong start declined sharply in the following two months with this being attributed to a) the announcement that the referendum would take place in June and b) the chancellor's Spring budget and resulting application of new levels of Stamp Duty & Land Tax, which made any acquisition over £1.05m more costly than under the previous rules.

Institutional investor volume at £2.8bn was the lowest quarterly level for almost three years. Revealingly, 70% of this activity came in January, strongly suggesting that the announcement of the referendum signalled the change of appetite. Overseas investors were the other big 'group' accounting for the fall with the £4.7m being the lowest since Q3 2013 and prime central London and Portfolios being particularly hit. Clearly both groups have decided too cool activity until the result of the Brexit vote is known.

Current polls are predicting the vote is going to be quite tight with many not far of 50:50 as things stand. Should the electorate vote to stay in the EU, most commentators predict a quick rebound in investment activity as demand is released and liquidity restored, particularly amongst the institutions.

The picture is far more speculative with a Brexit vote as the situation will be unrepresented but most predict a prolonged period of uncertainty which will not help the market, thought with a predicted fall in the value of Sterling some overseas investors may be tempted into the market.

Happily for the strength of the market, a far more accurate and credible indicator of future events than the polling companies (the bookies) take a different view and their predictions lean heavily in favour of a remain vote at about 70% probability.

Focus on Finance

Lenders continue to improve upon their interest only or light amortisation loans for an increasing range of properties and loan to values.

Key finance market features:

- Historically low fixed interest rates
- Interest rate margins fall further for well-located properties
- Finance available for primary and secondary multi-let sub five-year lease terms
- Higher loan-to-values for low-yielding commercial investments with strong covenants
- Finance available for offshore companies including CI, IOM, BVI, Gibraltar, Mauritius and Hong Kong
- Prime residential investment loans at higher LTVs
- Lower interest rates for development finance
- Pension fund finance available



What they're saying

"The economic fundamentals remain sound, as seen by continued rental growth, and should the UK vote to remain part of the EU, we expect a positive outlook for values in the second half of the year."

CBRE UK monthly index, April 2016

"Prime yields are at either cyclical or historic lows in the Central London retail and office markets. The improving wider-UK economy and, by extension, occupier demand is helping to drive rental growth, particularly in chronically under-supplied office and industrial markets and in turn is providing investors with the confidence to venture out of the Central London markets and into the regions."

BNP Paribas Real Estate, April 2016

"I can see deal completion slow a little in June as is to be expected because parties might as well wait for the result. However, overseas buyers will still be attracted to the capital in the event of a vote leave, attracted by favourable currency conditions and a good tax environment."

Fergus Keane, Senior Director, Cushman & Wakefield, May 2016

"Some have suggested the real estate market is pausing ahead of the vote, but we are seeing plenty of deal activity. While some investors are holding back, there are many who see a slight softening in the market and less competition as an opportunity to buy."

Nabarro senior partner Ciaran Carvalho, April 2016

Sector-by-sector

Office: Offices saw a significant fall in activity with Q1 volume of £4.5bn down 40/5 on Q4 2015. This was largely due to a very quiet time for Central London offices, where volume halved quarter-on-quarter to £2.2bn. Given that financial services are regarded as the most exposed sector to a Brexit vote, this sector appears to have suffered the most from investor caution.

Retail: In the first quarter of 2016 there was £1.8bn invested into the retail sector, significantly below the 5 year average quarterly volume. The amount transacted was 45% down on Q1 2015. It would appear that the uncertainty created by the upcoming EU referendum has caused a pause for breath amongst some investors in this sector as well.

Industrial: Industrial activity continues to be driven by retail and the e-commerce sector, and buildings to suit this requirement will continue to be in demand in the longer term regardless of the result of the Brexit vote. Speculative development continues to rise across the more active regions, such as the South East, Midlands and North West, and there is now a definite appetite for newly constructed buildings outside of the M1 and M6 corridors. Developments have been announced along other main trunk roads such as the M4, M5 and M62.

Any Questions

We hope that this has provided some food for thought and if you have any queries about the investment market or property management please:

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