European Union Referendum

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With the UK voting to leave the European Union, we are in a period of uncertainty, for what might be several months, which will impact occupier and investment markets. As it stands, the result is a shock to global financial markets which have seen share values hit and currencies, notably the pound, down sharply. The notion of a major sovereign country leaving the EU is unprecedented in the EU's history. So while markets are clearly worried about what this means for UK and EU growth, there are also worries about what this means politically for both.

It is challenging to understand what this means for real estate markets. The sooner there is a road map for how and when the UK and the EU separate, the better. For now it's not clear when or if the UK will trigger Article 50, which begins the two-year transition period for it to leave the EU. The UK is already expected to wait until a new Prime Minister takes office in October. Delays will only add to uncertainty. Even then, if the UK triggers Article 50, it is a long road in terms of replacing 80,000 pages of EU Directives, setting up new trade agreements and establishing new rules on EU migration and so on.

Several weeks, if not months, of pronounced uncertainty as the outlook remains clouded points to sluggish take up and a retreat to the bigger, more liquid markets. Economic forecasts of a Brexit have UK growth prospects affected by faltering sentiment in the second half of this year. The negative economic impact still looks more likely a near term challenge to the UK than the rest of the EU, who may now see a rotation out of the UK in terms of occupier and investment demand. Nonetheless we expect central banks across Europe to inject liquidity or cut rates if necessary to try and stimulate growth.

What does all of this mean for real estate markets?

- Until there is a clearer picture for the future of the UK and EU we will continue to see nervous and hesitant occupiers and investors resulting in reduced market liquidity, at least in the short term.
- For the UK we see transactions volumes taking a hit as investors digest the news and price in what is set to be a weaker near-term growth outlook.
- Pricing will come under pressure, more so for UK markets most exposed to the EU and to the finance sectors. Demand, however, for core assets in the best locations are well positioned to maintain value.
- There is a lot of capital that will continue to value the strong entrepreneurial spirit, pro-free market and favourable language and geography of the UK. That said weaker locations and poorer assets could see some re-pricing over the coming months.

Across the rest of Europe, a retreat to core in what will remain a slow growth, low supply, low interest rate environment will continue to see values hold up in the major markets. We believe that investors will keep to a defensive mind set and focus on high quality income producing assets in line with the ongoing slow recovery in occupier markets. Opportunities around value-add and debt investing should also open up as investors react to fears over the cohesion of the broader EU, and banks exposed to EU financial services are likely to have a reduced risk appetite.

Without doubt the UK's decision to leave the EU is a significant market event. It has generated huge uncertainty that could last for some time. We expect policy makers to do all they can to ease market fears. Nonetheless, as we remain aware of the risks that uncertainty brings, it is likely to also give rise to many new investment opportunities.