REAL ESTATE

Brick by brick: rebuilding the UK property sector, post-Brexit

By Paul Simmons

The UK is not the only country to be feeling gloomy in the face of uncertainty, post-Brexit. Its European neighbours are also wondering 'what next?'

The UK's decision to leave the European Union in June sent shockwaves across the world. But as the political posturing and uncertainty continues across the continent, life and business must go on.

UK Prime Minister Theresa May is still considering when to invoke Article 50 and officially kick-start the two-year leaving process – but it won't be until 2017 at the earliest. Meanwhile, UK residential and commercial property markets are in a state of flux due to the uncertainty.

Feeling right at home

One of the main indicators of Brexit-induced pressure on the UK property sector has come from leading estate agent Countrywide, which warned in July that full-year profits will be lower than last year.

Housebuilders are not having an easy time either. Berkeley Homes experienced a 20% fall in reservations for its houses in the first five months of 2016, and a £60,000 reduction in its average sale price from £575,000 to £515,000.

A study by Rightmove also found that average house prices in some areas of London fell significantly from July to August in 2016. For example, in Kensington and Chelsea, there was a 12.5% reduction in average prices. And the City of Westminster fared even worse, with a 14.5% month-on-month drop.

Another indicator of the post-Brexit

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'wait and see' mood is that large house builders such as Barratt Homes have indicated they will defer land contracts where they can –until there's more clarity on Article 50 and its repercussions.

Doing nothing is likely to be a widespread strategy in the sector until the precise terms of our departure start to emerge from the current fog that's engulfed the country.

The lack of new homes being built of course then impacts on the rest of us, dampening employment levels, demand for property and our ability to pay mortgages. There will be less regular work for everyone, from concreters to carpenters.

A growing interest in what's to come

It's not all doom and gloom, however. Immediately after the EU Referendum, the Royal Institution of Chartered Surveyors (RICS) polled estate agents and surveyors in the UK and found that the majority expected house prices to fall during 2016. However, its subsequent research in July unearthed a significant rise in those who believed prices would increase over the next 12 month (from 0% in June to 23% in July).

In the run-up to the historic vote, very few people in the UK seemed to consider what would happen if we decided to leave. All the polls and bookmakers were telling us we'd be remaining. As a result, there's still a sense of shock and I think there has been a major loss of confidence in the economy because the short-term view is unstable.

The City of London certainly has a different mindset since the vote. Lloyds Bank has announced that it plans to cut 3,000 jobs and close 200 branches.

As a result, we are likely to see people struggling to pay their mortgages, which will have a knock-on effect on house prices. As the Bank of England recently cut interest rates in the UK to 0.25%, I'd expect these will remain low for some time to come.

An international view of property

The big picture, from an overseas investor's perspective, is confusing. London was once the number one property market for wealthy people or organisations with spare cash to burn, but that time is over.

The foreign exchange rate collapse may have reduced the value of Sterling and made it cheaper for overseas investors to buy in London, but longer term

implications of Brexit, such as future travel restrictions and the threat of a recession in the UK, have reduced its appeal outside our borders.

That's quite a change in outlook when you consider London property prices have increased by 25% over the past five years and, pre-vote, were expected to continue that trend over the next five.

What we're now seeing is a market which is trying to work out 'what's next'. But a slow in residential property prices is not necessarily a bad thing, as it could finally provide more opportunity to those who are struggling to get a toe on the property ladder, especially if mortgage interest rates remain low.

Commercial slowing down

Turning to the commercial property sector, the big question being asked is why would anyone invest in infrastructure in the UK when there's so much uncertainty?

There's a hesitation among businesses to take on leases. Companies will stay where they are or move out – they won't downsize, but they won't get bigger. And terms are likely to be favourable for those that choose to move due to the lack of demand – there's a significant amount of commercial property available in the Thames Valley unrented, for instance.

There's been a noticeable slowdown in new building proposals in London since the vote. Someone I spoke to recently in the concrete business said that advance tenders have dried up completely, where there used to be on average of one opportunity per day.

Until the terms of the UK's exit from the EU become known, investors in commercial property will likely adopt a conservative approach. If the economy post-Brexit brings higher unemployment and businesses looking to move away from the UK, then investors will rightly be looking seriously at how easy it will be to find a reliable tenant for their commercial property.

The only real certainty we have at the moment is that the sooner negotiations begin, the sooner the residential and commercial property sectors in the UK can begin to lay their foundations for a future outside of the EU.

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