Brexit woes

Gloom, doom or boom?

Andrew Symington, Managing Director, Symington Elvery looks at Brexit and the long term impact on residential property.

There has been much speculation about the impact the UK's exit from the European Union is having on residential property. The word Brexit is being bandied around as one of the reasons behind the current fall in property prices, specifically in Prime Central London. So, with this in mind, what will be the long-term impact on property prices and for investors?

It is thought that residential property values will be determined by the UK Government's success in negotiating a fair but favourable exit from the EU.

If the cynics' predictions come true then London, a financial centre and conduit between mainland Europe and the USA, will find itself thrown back into the dark ages. Multi-national corporate institutions will reduce their employee count and may even remove themselves from London altogether, or retain just a small satellite office. This will result in a decline in the demand from corporate tenants.

It is likely that areas which have a high concentration of City workers or European Nationals will be particularly affected.

FALLING YIELDS, SURPLUS STOCK

Yields on these properties will fall as the rental market becomes demand rather than supply driven due to the surplus stock. This may encourage investors to reconsider their position in the London property market, with commercial property also taking a pause. The phased reduction of mortgage interest rate relief may further encourage investors to sell, who are likely to be more commercially minded than owner/occupiers who have less realistic expectations in terms of disposal.

Furthermore, an oversupply of new build properties, which includes the latter phases of Nine Elms and Earl's Court, together with significant development in an around Canary Wharf, compounds a significant surplus of stock. Some of these units are already failing to achieve prices agreed in 2013. Some buyers are forfeiting deposits and simply walking away.

"Oversupply of newbuild in parts of London means some units are failing to achieve 2013 prices."

This will result in a significant change in the balance between supply and demand in the sales market too, leading to a sharp correction in prices to a level where the PCL market will appeal to more traditional, non-City related buyers. A 'Lehman' 25 per cent correction but without the subsequent sharp recovery.

The good news is that demand for PCL rests on a number of drivers, most of which are unaffected by the results of the Referendum. The scale of London's business cluster, depth of skills, culture, lifestyle, language and education ensures the city will remain a great and vibrant place in which to live or stay. Indeed, many UK and even international buyers will be ambivalent to the vote to leave.

We have already seen price falls (Savills recorded an 8.7 per cent drop and many believe this figure could be higher) within PCL prior to the vote to leave and as we have seen, Brexit is only one of the many factors that have acted against the market over the past 24 months. By far the most prevalent being the new rates of SDLT announced within the Autumn Statement of 2014 and the subsequent Buy to Let levy which came into effect from 1st April. The ONS shows that the number of transactions in London fell from 14,783 in March to 4,368 in April.

Interestingly the fall in PCL prices and the devaluing of the pound sterling is ensuring that property looks more affordable to overseas investors than at any point in the last five years.

A typical three bedroom Chelsea house would have been worth £3 million at the start of summer 2014, the equivalent of US $5,130,900 based on exchange rates at the time. The property is now worth approximately £2,700,000. Assuming the market falls in the short-term to £2,575,000 (five per cent) this equates to US $3,364,000 as at the exchange rate of 8th August 2016. That represents a US $1,766,900 saving, which must be an incentive to buy. Rents have barely changed and London as a desirable destination and financially-secure centre remains the same.

EXPECTATIONS AND OPINION

There is an expectation that, in a bid to be competitive, our property taxation measures will have to be addressed. A reduction in SDLT to a more palatable rate (perhaps a maximum of nine per cent) would remove a huge barrier to entry into the PCL market.

In our opinion, if Brexit is suitably managed then London will remain attractive to property investors. After a short-term further price fall of circa five per cent, leading to a total of 15 per cent, an increase in demand can be expected, thanks to more attractive prices and a weaker pound sterling.

This increase in demand will be modest if property taxation measures remain unchanged but significant if they are addressed. ■