



BREXIT WOULD SHAKE UP THE HOUSING MARKET

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As three separate polls show that the Leave campaign is creeping ahead, is it time to consider that the UK could be on the brink of an exit from the European Union? If so, what would be the likely impact on the housing market?

We have already seen a quarterly drop in the number of house sales, which is quite understandable given the uncertainty created by a barrage of hyperbole and posturing from both camps. The general consensus is that if, as had been expected, the Remain vote will win out, then demand for UK property will return.

There is a surplus of capital amongst investors who are waiting for the right time to reinvest in the market. Whilst 81% of investors polled by surveyors JLL favour the UK remaining in the EU, a Leave majority could actually result in a rise in the number of transactions in the UK and in London in particular.

If the UK does leave the EU, there are two key ingredients that could combine to create huge demand in the UK property market:

1. A (temporary) fall in house prices of up to 18% (as predicted by the Chancellor); and
2. A sharp fall in sterling would make assets more affordable for overseas investors.

House prices in Greater London have risen by 432% in two decades so any temporary drop in prices would create an opportunity for investors and owner-occupiers to pick up assets at a significant discount. The prospect of affordable home ownership is a carrot that the Leave campaign are dangling in front of renters and the polls suggest that the argument is gaining traction.

At the upper end of the market, there has been a reduction of 50% in the number of sales in Mayfair and the West End in the first quarter of 2016 as against the first quarter of 2014. Uncertainty around Brexit and a sharp increase in Stamp Duty Land Tax has cooled the top end of the market.

In a Brexit scenario, we would expect to see a fall in sterling which, coupled with a temporary price drop, would incentivise overseas buyers back into the London market. An increase in demand would inevitably lead to a rise in prices, rendering any correction in the luxury market temporary.

However, whilst any temporary drop in UK property prices will be welcomed by "Generation Rent" and first-time buyers who are being subsidised by the Bank of Mum and Dad, regardless of the result of the EU referendum, the long-term growth forecast for UK property prices remains strong.

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