UK real estate perseveres

The uncertainty after the unexpected vote to leave the EU has cooled property markets, but all is not lost as house prices rally and investors hold steady

Though life before the Brexit referendum might seem like a distant memory, the seasons have barely changed since that fateful vote. The consequences of Brexit are still largely unknown, and are likely to remain so until Article 50 is invoked and an exit plan devised, but for the time being at least, it seems that the vote to leave was not quite the harbinger of economic apocalypse many had forecast it to be. However, one sector has been disproportionately hit by the referendum already: real estate and development.

Consumer confidence in the property market has been severely eroded in the aftermath of the vote: nearly one in four Britons expect to see a fall in house prices and only 46% expect house prices to rise in the next 12 months, according to the ING International Survey on Homes and Mortgages. Though the latest figures by Nationwide building society found average house prices in the UK actually increased by 0.6% between July and August, Rob Gardiner from Nationwide says the rise in house prices could be explained by dwindling housing stock, as the number of homes available on the market remains close to a 30-year low. ▶

There is a great need for all types of housing across the country – particularly in London

£213,927
The average UK house price in June 2016

8.7%
How much average UK house prices have risen since June 2015

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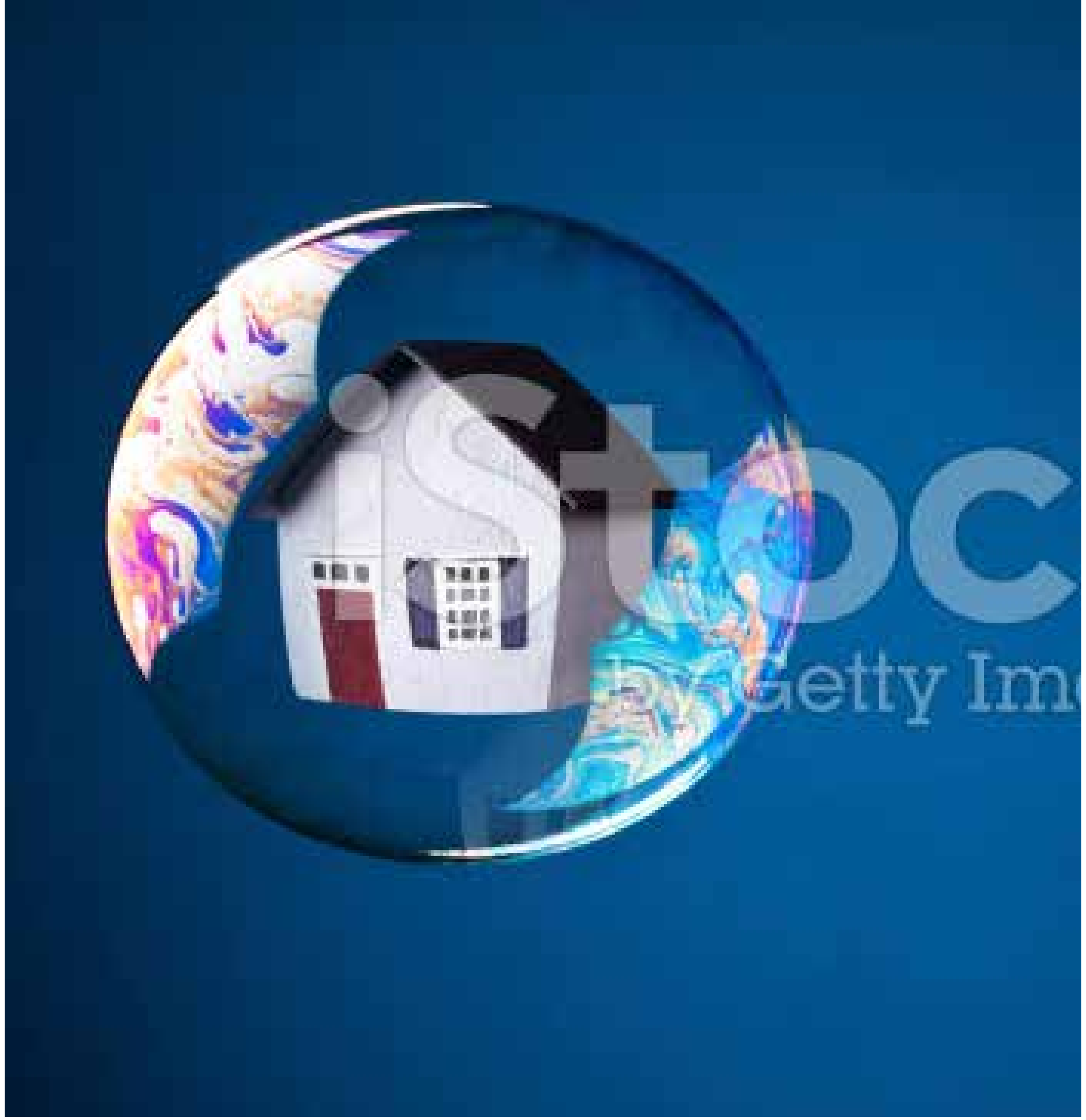

Though the plummeting value of the pound should have been bait to foreign buyers, investors have instead been losing confidence in the market. In July, Singapore-based lender UOB suspended loan applications for London residential properties citing uncertainties caused by the Brexit vote to investors. There is also the risk that the decreasing value of the pound against the Singapore dollar could erode any profits made from increased property values.

There has also been a decrease in the number of mortgages approved in the UK since the vote. Bank of England figures reveal the lowest monthly total of approved mortgages since 2015 in July, while other surveys showed a sharp fall in the number of enquiries by new buyers from the end of June. While many factors have contributed to the slowdown of the market since Brexit, including additional taxation for buy-to-let landlords, there is very little doubt that the uncertainty has pushed institutional investors to take a step back from UK property while the post-Brexit chips fall into place.

In the immediate aftermath of the vote, a number of UK-focused real estate funds, including Standard Life, suspended withdrawals following a run of redemption requests. Some open-ended UK property funds, like Henderson Group and Aberdeen Asset Management, o cut their market value to reduce clients' exposure.

While the dust has largely settled for those funds, a survey by Preqin of more than 90 institutional investors with exposure to UK real estate found that the unexpected out vote made it more likely that they will decrease their investments in the UK over the next year, and 37% of respondents expected a negative impact on their overall real estate portfolios in the next twelve months. "It is clear that institutional investors are adopting a wait-and-see approach to the UK real estate market in the wake of the Brexit vote," says Andrew Moylan, Head of Real Estate Products at Preqin. "Over half of the investors surveyed by Preqin expect to invest less capital in the UK in the coming year than they would otherwise have done, and over the longer term a third of institutions may look to reduce their exposure."

"It's clear that institutional investors are adopting a wait-and-see approach to the UK real estate market in the wake of Brexit"

However, there are still a number of factors that make the UK real estate market appealing to investors. There is a real shortage of homes in the market, and the Bank of England's recent interest rate cut may whet the appetites of buyers desperate to get on the property ladder. The housing shortage affecting most areas of the country has meant that housebuilders have continued to report good sales and earnings - after an initial shock following the EU referendum that sent shares plummeting. There is a great need for all types of housing across the UK - and in London in particular - that although the increase in house prices may slow, it is unlikely prices will drop.

A recent RICS survey suggested house prices will actually rise over the next five years. Valuations depend on the rate of cash being returned to investors, but Persimmon has said it remains "confident in our ability to deliver the capital return plan to our shareholders". Persimmon is one of the housebuilders reaping big rewards from government programmes aimed at helping struggling first-time buyers, with half of its buyers relying on the Help to Buy scheme. As more buyers continue to take advantage of the myriad of opportunities offered by Help to Buy and the low numbers of property available on the market, it is hard to see prices dropping significantly anytime soon.

Overall, the devaluation of the currency has served as a monetary stimulus, even if only in the short-term. Though there are some risks, particularly of a sterling crisis, property seems to endure as a good-value option for investors. "With the fall in the value of the pound, real estate and private equity transactions remain attractive," says David Bailey, Director of Marketing and Communications at private equity fund administrator Augentius. "The UK is one of the largest economies within Europe, its one of the largest economies in the world, and as a consequences I fail to see why investment in the UK will not remain an attractive proposition to global investors.

"Uncertainty always creates risk, and uncertainly always created up-and-down in the market. The UK has to find it's place in the new world, but it is still a strong economy. We have strong services, and we are a leading country in tech and innovation and that's not going to change" ■

£22bn
Worth of investment in UK property by Asia between 2014 and 2016

-27%
Fall in investment from overseas in commercial property post-Brexit

£4.77bn
How much Singaporeans invested in UK property between 2014 and 2016

3.3%
Annual UK house price rise expected over the next five years