BREXIT PROPERTY IMPACTS

A Summary By Sector
Introduction

By various metrics, UK commercial property is looking fully priced. At the same time, ‘theoretical Brexit’ is becoming much closer to ‘real Brexit’. Consequently, investors (especially cross-border investors) are increasingly trying to understand what might be in the offing. While the shape of the economy and property market post-Brexit remains uncertain, the impacts since the vote to leave, may offer clues. This paper seeks to review the broad pattern of impact, so as to suggest where the key risks may be focused.

Dr Walter Boettcher, Colliers International
September 2018
Pattern of Impact

UK Economic Performance

In some respects, the UK economy has weathered what many would regard as the largest political shock in a generation. Nevertheless, top level GDP data shows that in the two quarters following the vote to leave, economic expansion accelerated from a 1.8% y/y rate in Q2 16 to a 2.1% y/y rate in Q1 17. The economy has weakened since. The annual rate fell to 1.2% y/y in Q1 18, reflecting the impacts of a dismal winter of weather disruption, but recovered to a 1.4% y/y rate in Q2 18. This recovery suggests that cyclical forces remain as important as any political shock.

Weaker sterling, imported inflation and the consequent falling real wages and spending are all key to understanding the post vote economy, but these top level aggregate figures do not reveal a subtler dimension. If the UK economy is carved into two basic parts – the real economy and the balance sheet economy – a Brexit vote impact looks patently clear.

“If the UK economy is carved into two parts, an impact looks patently clear”

Economic Growth Rates

[Graph showing economic growth rates for real economy and balance sheet economy over Q1 2016 to Q2 2018.]

The balance sheet economy (finance, insurance, real estate and supporting professional services) looks to have underperformed the real economy (production, construction, distribution, services and government). In short, the part of the economy that serves the physical daily needs of the UK population has proven more resilient than the outward internationally focused balance sheet economy. The real economy expanded by 7.9% in nominal terms since the vote to leave, compared to the balance sheet economy which expanded by 5.0%.

Simple logic suggests that whereas impacts on investor sentiment and investment are immediate, impacts on household spending through the effects of sterling, inflation and real wages takes time. Furthermore, the ‘rootless’ balance sheet economy is inherently more volatile, than those parts of the economy that are firmly rooted in real supply chains that service the daily needs of the population. Despite volatility, the latest data suggests that the balance sheet economy may have recently moved back in line with the real economy - in Q2 18, they grew at 3.3% and 3.4% pa, respectively.

UK Regional Economic Performance

Further evidence of the Brexit vote impact is also apparent in the UK regional IHS Markit purchasing manager output indices. If the numbers, both before and after the EU referendum, are examined, it is clear that while business output has slowed modestly UK wide, the main impact has been on London/South East and regional economies with finance sector exposures, especially Scotland (Edinburgh & Glasgow), which has significant finance exposures compared to the UK average as a whole.

Regional Monthly PMI Average

[Graph showing regional monthly PMI average.]

Despite these impacts, other ex-London regions (Midlands, North West, Yorkshire & Humberside and East) all have post EU referendum averages that are considered to reflect continued strong expansion (PMI > 55). What explains this strong expansion and Brexit resistant performance? The foregoing might suggest that it is linkage to the real economy and the demographic growth pressure that supports it. In fact, this is why the UK outperformed most other western advanced economies in the years preceding the vote to leave. The UK is the only major economy in Europe that has a combination of positive growth in both total population and working aged population. Demographically, most European countries are contracting. This is reflected in economic forecasts which shows the UK outperforming the Eurozone economies over the next five years.

Economic Growth Forecasts

[Graph showing economic growth forecasts per annum for Eurozone and United Kingdom.]

UK Commercial Property Performance

From an economic perspective, commercial property has two key components: the occupational market (tenants) and the investment market (landlords). UK occupier markets provide further evidence that the real economy has been less sensitive to the Brexit vote than the balance sheet economy. Likewise, UK investment market data leads to a similar conclusion, although, in both instances the data has suggested, so far, that the initial impacts of the ‘vote to leave’ are already fading for a variety of reasons, some to do with the vote, and some to do with cyclical forces. This is the subject of the following sections.
Brexit Property Impacts September 2018

Occupier Evidence

Office Markets

In line with the regional PMI averages detailed above, regional office leasing demand, as measured by take-up in the top six CBDS, has been resilient across the UK. In Q3 16, immediately after the EU Referendum, the mantra from the regional markets was ‘business-as-usual’. The data suggests that this mantra may be justified.

Take-up in 2016 was 4.7 million sq ft across the Big Six CBDS, which may have been down by 3.5% against 2015, but was up 20% on the 10-year average. In 2017, take-up rose by 20% against 2016 to 5.3 million sq ft with several markets reporting record take-up levels. Record headline rents topped £30 psf for the first time in Bristol and Leeds, while in Manchester there is talk of £40 psf by the end of the decade. This may in part be driven by the ongoing ‘north shoring’ or ‘back officing’ of routine functions to lower cost areas, a trend that may have been strengthened by the vote to leave as companies begin to review in earnest their operational footprints.

Office leasing demand has been resilient across the UK regional CBDs

Industriial Markets

Given its close links with the ‘real economy’, industrial occupier markets showed very limited signs of a slowdown in the immediate post-referendum period. In fact, 2016 proved to be a record year for industrial take-up as a whole. Across all industrial market segments, take-up fell just short of 100 million sq ft up by 2% on the previous record in 2015 of 97.7 million sq ft and up by 10% on the 10-year average of 88.6 million sq ft. Demand remained strong in 2017 and preliminary data from 2018 suggests another strong year is in the making. The industrial sector has also seen uncharacteristically high rates of rental growth. In the two years to the end of Q2 18, rental growth has averaged 4.9% per annum compared to an average annualised rate of 1.1% over the last 18 years.

This reflects the impact of structural change within the industry, especially the impact of internet trading. The phenomenal take-up in 2016 was driven, above all, by Amazon which completed large leasing deals in Q3 16 immediately after the EU referendum vote. These structural and technological factors are weighing in on the sector far more than any fallout from Brexit. The phenomenal performance also reflects the demands arising from demographic growth factors as mentioned above.

Retail Markets

If any sector has been directly impacted by the EU vote to leave, it is the retail occupier markets. In this instance, though, the impact has simply aggravated a sector already stressed by major transformations arising from changes in consumption patterns, technology and an unfortunate cocktail of inflexible tax and regulatory controls. Without the Brexit vote, retail would be struggling as it has since the Great Recession in 2009. With the Brexit vote, and the consequent devaluation of sterling, whatever slim profit margins may have been on offer, are all but wiped out by increased input costs, higher labour costs as well as the indirect impacts of imported inflation on real wage growth and household disposable income.

In London, the story differs. Take-up fell in 2016 to near a four-year low of 10 million sq ft, down by 16% y/y and was also down by 15% against the 10-year average. It is hard to say, whether this slowdown was strictly cyclical given that rents peaked in 2015 at £125 psf in the West End and in 2016 at £75 psf in the City and were partly impacted by the announcement of new higher commercial rates.

Nevertheless, the slowdown, especially in the City, was consistent with a general ‘wait and see’ sentiment by businesses, that was disrupted primarily by US tech companies seeking Central London premises. Demand recovered significantly in 2017 and increased by 22% to 12.2 million sq ft, reflecting a wide diversity of demand, including North American and European occupiers whose take up in 2017 exceeded their respective ten-year averages by two and three times, respectively.

Retail Failures

A perfect storm has arisen and is most apparent in the numerous recent retail operator failures and the rise of CVAs (company voluntary arrangements) which has impacted landlords directly. Simple extrapolation of the figures to date suggest that the number of shop units impacted by operator failures in 2018 may approach the previous peak in 2015.

In line with the regional PMI averages detailed above, regional office leasing demand, as measured by take-up in the top six CBDS, has been resilient across the UK. In Q3 16, immediately after the EU Referendum, the mantra from the regional markets was ‘business-as-usual’. The data suggests that this mantra may be justified.

Take-up in 2016 was 4.7 million sq ft across the Big Six CBDS, which may have been down by 3.5% against 2015, but was up 20% on the 10-year average. In 2017, take-up rose by 20% against 2016 to 5.3 million sq ft with several markets reporting record take-up levels. Record headline rents topped £30 psf for the first time in Bristol and Leeds, while in Manchester there is talk of £40 psf by the end of the decade. This may in part be driven by the ongoing ‘north shoring’ or ‘back officing’ of routine functions to lower cost areas, a trend that may have been strengthened by the vote to leave as companies begin to review in earnest their operational footprints.

Office leasing demand has been resilient across the UK regional CBDs

Industriial Markets

Given its close links with the ‘real economy’, industrial occupier markets showed very limited signs of a slowdown in the immediate post-referendum period. In fact, 2016 proved to be a record year for industrial take-up as a whole. Across all industrial market segments, take-up fell just short of 100 million sq ft up by 2% on the previous record in 2015 of 97.7 million sq ft and up by 10% on the 10-year average of 88.6 million sq ft. Demand remained strong in 2017 and preliminary data from 2018 suggests another strong year is in the making. The industrial sector has also seen uncharacteristically high rates of rental growth. In the two years to the end of Q2 18, rental growth has averaged 4.9% per annum compared to an average annualised rate of 1.1% over the last 18 years.

This reflects the impact of structural change within the industry, especially the impact of internet trading. The phenomenal take-up in 2016 was driven, above all, by Amazon which completed large leasing deals in Q3 16 immediately after the EU referendum vote. These structural and technological factors are weighing in on the sector far more than any fallout from Brexit. The phenomenal performance also reflects the demands arising from demographic growth factors as mentioned above.

Retail Markets

If any sector has been directly impacted by the EU vote to leave, it is the retail occupier markets. In this instance, though, the impact has simply aggravated a sector already stressed by major transformations arising from changes in consumption patterns, technology and an unfortunate cocktail of inflexible tax and regulatory controls. Without the Brexit vote, retail would be struggling as it has since the Great Recession in 2009. With the Brexit vote, and the consequent devaluation of sterling, whatever slim profit margins may have been on offer, are all but wiped out by increased input costs, higher labour costs as well as the indirect impacts of imported inflation on real wage growth and household disposable income.

In London, the story differs. Take-up fell in 2016 to near a four-year low of 10 million sq ft, down by 16% y/y and was also down by 15% against the 10-year average. It is hard to say, whether this slowdown was strictly cyclical given that rents peaked in 2015 at £125 psf in the West End and in 2016 at £75 psf in the City and were partly impacted by the announcement of new higher commercial rates.

Nevertheless, the slowdown, especially in the City, was consistent with a general ‘wait and see’ sentiment by businesses, that was disrupted primarily by US tech companies seeking Central London premises. Demand recovered significantly in 2017 and increased by 22% to 12.2 million sq ft, reflecting a wide diversity of demand, including North American and European occupiers whose take up in 2017 exceeded their respective ten-year averages by two and three times, respectively.
Investment Market Evidence

Transitional Activity

The impact of the vote to leave on UK commercial property investment has also been equivocal and, like occupier markets, is confused by cyclical forces that were already at work shaping sentiment. An enduring force has been the phenomenal weight of global capital and the ongoing international search for yield that continues to exert substantial pressure on all global real estate markets. This is very evident in the UK. The broad post-vote investment pattern includes a sharp decline in UK institutional investment and a simultaneous sharp increase in cross border inward investment. UK institutions were in the line of fire, especially the retail funds, which were confronted by redemption pressure as investors sought to exit the market.

"The post vote pattern includes a decline in UK institutional investment and an increase in overseas investment." 

Net UK Investment by Investor Type

This proved short-lived, but many funds sold proactively, encouraged rapid write downs in property valuations so as to prevent overpaying departing investors and, ultimately, introduced gating to stem the outflow of funds. They used the opportunity to ‘rebalance’ and ‘refocus’ their portfolios, especially since foreign investors were ready buyers, encouraged greatly by the 15% to 20% devaluation of sterling that occurred post vote. Together, especially since foreign investors were ready buyers, encouraged greatly by the 15% to 20% devaluation of sterling that occurred post vote. Together, these two groups have ‘made’ the UK market since the vote to leave.

In cyclical terms, the market peaked in early 2015 and investors were already anticipating a reduction in investment. In many respects, the vote to leave simply accelerated a slowdown that was already in progress, but only for a short period.

"Counter-intuitively, the Brexit vote looks to have boosted the UK property investment market through its impact on sterling." 

Investment Yield Movements

The movement in commercial property prices mirrors the transactional volume movements and are impacted by the same driving forces. Once again, the global weight of capital and sterling’s devaluation figure prominently. In the immediate post vote period (Q3 16), UK all property equivalent yields (MSCI) moved out by a very modest 14 bps from 5.77% to 5.91%, before recombination began again in Q4 17. Overseas investor demand has since driven yields down to 5.47% (Q2 18) a full 30 bps lower than the level at the time of the EU referendum vote. While overseas net investment began to fall in 2017, driven primarily by the exit of US investors, UK institutional investment has recovered and, in net terms, began expanding again in Q2 18. Despite Brexit uncertainties, demand for UK commercial property is generally stable and is supporting prices.

"By the end of 2016, volumes began to recover and the data suggests that a counter-cyclical peak may have been achieved by Q3 17 driven primarily by the weight of overseas capital and weaker sterling. In 2018, investment volumes have been strong (£27bn+) and by the end of Q2 18, volumes were down by only 3.5% against the same period of 2017. Counter-intuitively, the Brexit vote looks to have boosted the UK property investment market through its impact on sterling. Furthermore, the well-known liquidity of the UK property market has attracted safe haven capital flows that were stimulated in part by the very uncertainty created by the UK’s decision to leave the EU."
The Brexit Path

The White Paper

The government white paper detailing its vision of the future relationship of the UK and the EU was published on 12th July 2018. The only clear message that arises is that the UK government will seek to have a clean institutional break from the EU in order to exercise full political autonomy in social, economic, judicial and international affairs. Within this framework, it will seek to negotiate an ‘exit agreement’ that will govern future EU relations, especially with respect to commercial relations. This has been the subject of great domestic political wrangling that shows few signs of abating. This has given rise to a question of the degree to which commercial relations will be interrupted, that is, whether there will be a ‘hard’ or ‘soft’ Brexit.

Most recently, there is a growing sense that a negotiated settlement may not be achieved which will result in a complete breakdown in relations, save for the rules of trade as defined by the World Trade Organisation. This might be described as the ultimate hard Brexit. While it is likely that failure to find a settlement will result in an unfortunate postponement, it is useful to ask what the UK experience, so far, tells us about the likely impact of a hard Brexit.

The Epi-Centre of Impact

The key question for UK commercial property is how will the various exit agreement outcomes impact the various markets that make up the UK commercial property sector. As argued above, the impacts observed since the EU referendum in June 2016 give good indications as to how the impacts may be felt after a UK departure from the EU in 2019. The logical conclusion of the foregoing argument might be summarised as follows:

• The main impact, as suggested by sectoral GVA data, is focused on what theCityUK aptly describes as the FRPS sector (financial & related professional services).

• Regional business survey data (PMI) suggest that the geographical epicentre of impact has been London, although Edinburgh (with a financial services exposure) may have also felt some transient effects.

• From a commercial property point of view, this suggests that the focus of future impact is likely to be concentrated on the London and Edinburgh office sectors. Regional CBD offices, even those with a financial services exposure, are less at risk, especially given the diversity of tenants and lower cost offers.

These conclusions are not meant to suggest that there are no important impacts to other property asset classes – every asset class has its own exposures, both upsides and downsides, over both the short- and long-terms. This is summarised in the accompanying table. Furthermore, there is evidence to suggest that the EU referendum, uncertainty and weaker sterling have contributed to substantial increases in the cost of property development which, in turn, may be supporting values for standing assets across all UK property asset classes and geographies. Likewise, structural changes in occupation and the trend in shorter lease lengths are also impacting. The conclusions, though, are meant to suggest where the ‘epi-centre’ of impact is likely to be found, and that is clearly London. The UK indirect property investment market is also worth considering in this respect, as it offers further evidence of the impacts across asset classes.
In June 2016, the share prices of REITs in the main commercial property sectors (offices, industrial and retail) all fell dramatically (between -15% to -30%) in immediate aftermath of the EU vote. The sectors have recovered at different rates.

• London offices (Derwent). After an initial 30% decrease, Derwent remained down by 25% at the end of 2016. This was followed by a very slow recovery, leaving the share price still down by around 6% in August 2018 against the pre-EU vote level. This performance is linked to slower growth of financial services and lingering worries about the sectors future.

• Industrial (SEGRO). After an initial 30% decrease, SEGRO recovered the lost value within a month and finished 2016 up 5% on the pre-vote level. As of mid-2018, SEGRO is up by over 50% against the pre-vote level. This reflects the tight link with the ‘real’ domestic economy which has fared well, driven by population growth, as well as favourable sector tail winds from structural change in retail distribution.

• Retail (New River Retail) also recovered its lost value within two months and remained buoyant through 2017, rising to 15% above its pre-vote level. The decline over the last year is not linked by NRR’s performance, which remain robust, nor to Brexit, but rather to negative sentiment for the retail sector. Increased operator failures, CVAs, structural headwinds and little evidence of tax and regulatory relief have encouraged several hedge funds to ‘short’ NRR shares. In August 2018, NRR is down by around 18% against its pre-EU vote level.

Of these three sectors, only London offices performance (Derwent) looks to be linked unequivocally to Brexit related issues. Other tax, regulatory, structural and demographic changes look to be the key drivers of retail and industrial property fortunes.
London Offices – Final Thoughts

Without repeating the arguments detailed above about the resilience of the London office leasing market, an unapologetic ‘glass half full’ view is offered here with respect to potential impacts of Brexit. While it is indisputable that London’s financial sector has had a comparative advantage over other international financial centres in offering services to the EU market, it is also indisputable that the EU market will continue to require these services, irrespective of whether the UK is ‘in’ or ‘out’. Given the scale of the requirement, setting up an independent EU financial services offer capable of satisfying the EU’s own legitimate internal demands will very likely take at least, a decade, and more likely, a generation. In the interim, the EU will rely on a full range of global finance centres to support their financial needs.

In the event of a ‘hard Brexit’, it is hard to see the UK selling financial services to the EU under terms that are any more restrictive than those imposed on other global centres. While setting up an independent EU finance function may lead to a substantial boost to UK financial consultancy services to the EU, the real challenge for London may not be simply trying to maintain access under existing terms, but rather to differentiate its offer from other global centres by harnessing new technologies to offer advanced, competitively priced services.

The role of artificial intelligence will grow and is likely to be transformative. London will maintain a great advantage over rivals, by offering services that are outgrowths of relations that stretch back 25 years to the formation of the single market in 1993. Furthermore, London will continue to provide a platform for global financial services that are not as politicised as other venues and will not suffer as greatly from regulatory and judicial overreach of other supplier countries.

Despite the uncertainties brought on by the Brexit vote, the latest data, as detailed above, hints that the balance sheet economy may have recently moved back in line with the real economy. The initial shock has passed. Economic performance is still not what it might otherwise have been. In 2017, it UK GDP underperformed the G7 average, but, interestingly, UK GDP is forecast by reputable forecasting houses to outperform the Eurozone over the next five years. While the vote to leave may have been an economic shock to many, it has not proven seismic, as many (including the author) believed. It may be that the logic of the day was summed up nicely by a senior property veteran who said around the time of the vote: ‘Politics do not really matter, provided that we are left alone to get on with our businesses.’ It is easy to counter that politics has not made things easier. In fact, according to a recent poll, business people assess the prospect of a Labour government as almost as daunting as Brexit (BritainThinks), but this is a topic for another, possibly post-Brexit, day.

For the moment, one conclusion that arises from a wide consideration of the foregoing, is that for businesses, the details of a final Brexit agreement may prove less important than simply having a fixed agreement with terms of business that are clear. Such a fixed agreement will allow businesses, unencumbered by uncertainty, to begin their planning processes anew. In turn, this will lead to a new period of business investment and a new expansionary phase in the UK economy. For commercial property, business movement is the essential ingredient, for it is sometimes seemingly forgotten, that business occupation is the key driver of all commercial real estate value.
## Brexit Impact

### by UK Asset Type

<table>
<thead>
<tr>
<th>Impact since referendum vote</th>
<th>Industrial/Logistics</th>
<th>Office</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Very limited impact.</strong> Logistics linked to real economy, demographic growth and basic national supply functions. Performance enhanced by sterling devaluation and positive impact on exports and also supported by cost advantages of internet retail sales and the ability of internet operators to absorb increased import costs.</td>
<td><strong>Limited impact.</strong> Focused on London financial services with leasing take-up falling below 10-year average in 2016, but recovering in 2017 to above 10-year average performance. Rental weakness in London in 2016 followed by stabilisation in 2017 and increases in some submarkets in 2018. Office demand in London has expanded well beyond financial services companies. Regional CBD leasing was not greatly affected; take-up increased in 2016 and 2017 along with rental growth, especially in prime segments. Several markets topped £30psf for the first time in 2016 and 2017.</td>
<td></td>
</tr>
<tr>
<td>Rents continue to rise. Yields remain compressed with no signs of outward movement.</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

### Future short-term impact

<table>
<thead>
<tr>
<th>Hard Brexit</th>
<th>Downside. Disruption to existing supply chains. Increased costs due to customs clearing, VAT and related logistics issues. Opportunities for large-scale corruption in goods movements.</th>
<th>Downside London. Limited risk from relocation of existing business, but greater risk of loss of new business expansions and new service offers. Greater competition from other global financial venues.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td><strong>Upside.</strong> Development opportunities for new distribution facilities to handle custom clearing, maintain UK’s ‘just in time’ delivery model and support existing supply chains. Continued domestic demographic growth will also keep the supply chain pressured and support demand for industrial logistics space, especially new formats to handle new distribution technologies.</td>
<td><strong>Upside London.</strong> Expansion of financial consultancy services to assist EU in setting up their own financial services offer. New financial services business with non-EU regions, especially Far East.</td>
</tr>
</tbody>
</table>

| Soft Brexit | Little impact save for pressures arising from any friction introduced into customs clearing and cross border processing. | Minimal impact. |

### Future long-term impact

<table>
<thead>
<tr>
<th>Hard Brexit</th>
<th>Downside. Contraction in long-term investment in new large-scale manufacturing and assembly businesses linked to restricted EU market access (eg. automotive, aerospace, pharmaceuticals, steel, etc.). Potential closures and relocations out of UK with substantial job losses and regional economic impact.</th>
<th>Downside. Erosion of London financial, investment and asset management sectors with EU exposure. Increased competition from New York and other global finance centres when London’s advantageous EU market access ends.</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td><strong>Upside.</strong> Domestic consumer goods manufacturing looks resilient due to forecast population growth and import substitution arising from increased import costs. This is predicated on UK supplier base upping its game to ensure servicing of major manufacturers.</td>
<td><strong>Upside.</strong> Cost-effective locations in UK will look increasingly attractive to multinationals to house low value add functions and administration, especially if the UK creates a favourable regulatory and tax environment.</td>
</tr>
</tbody>
</table>

### Impact since referendum vote

<table>
<thead>
<tr>
<th>Retail</th>
<th>Residential</th>
</tr>
</thead>
<tbody>
<tr>
<td><strong>Significant impact.</strong> Physical retailers’ impacted through sterling devaluation - increased import costs (higher shop prices) have led to weaker sales aggravated by stagnant real wage growth and stagnate growth in household disposable income. The impact is also the result of weaknesses that are attributed to structural change in the sector and a dysfunctional mix of tax and regulatory policies. Rental growth has been limited primarily to London and prime pitches where tourism (which has been supported by weaker sterling) is important. Commercial rating system is an impediment to recovery in many ex-London markets.</td>
<td><strong>Limited impact.</strong> UK mass market residential is driven by long-term demographic pressure, household formation rates and government housing policy. House prices and demand is related more to stamp duty, help-to-buy and other policies, than to Brexit specific impacts. Nevertheless, Brexit has affected the mass market through supply side impacts (increased costs of building materials and labour shortages), but also through demand side impacts (stagnate real wage growth and affordability constraints). High end residential has not been impacted by Brexit despite weaker sterling. Government policies that have actively sought to cool the market (non-dom taxation, clamp down on offshore structures, stamp duty revisions, inheritance tax reforms, unexplained wealth orders) are having far more impact than Brexit drivers.</td>
</tr>
</tbody>
</table>

### Future short-term impact

| Hard Brexit | **Downside.** Further sterling devaluation and further imported inflation acting as a new drag on a sector already struggling from dysfunctional tax and regulatory policies. More retail failures would be likely and a further sustained period of weak retail property performance would be assumed by investors. | **Downside.** Sterling devaluation creates new inflation pressure leading to a sustained period of stagnation in real wage growth and affordability in the mass market. **Upside.** Sterling devaluation and greater political certainty leads to greater interest in high end residential sector by overseas investors looking for safe haven investments. Increasing domestic pressure for tax and regulatory reform to support house markets in general given the role that housing and the ‘wealth effect’ pays in supporting household spending – a mainstay of the UK economy. Look for a new round of housing policies and tax adjustments after the next post-Brexit general election (2022). |
| Soft Brexit | Sterling recovery will begin to relieve cost pressures on UK retailers. Real wage growth would strengthen and access to the EU labour would likely be supported. Profit margins would improve, but tax and regulatory policies would still be the decisive market impediment. | Greater certainty with respect to the terms of a Brexit trade agreement should lead to a partial recovery in sterling (5% to 10%). This will slow inflation and lead to stronger real earning growth that will support the mass market. High end residential will benefit from greater certainty by foreign ex-pats working in London and the preservation of financial services sector ‘bonus’ culture that supports high end residential directly. |

### Future long-term impact

| Hard Brexit | **Downside.** Sterling weaker becomes structurally weaker due to fundamental changes in global trading position. UK retailers at a permanent disadvantage, although reform of tax and regulation could mitigate the downside. | **Downside.** Long-term weakness of sterling impacting real wage growth and sustainability of mass market house prices. This may reinforce the emerging trend in renting for longer and see sustained investment focused on ‘affordable social housing’ and the ‘private rental sector’. **Upside.** Economic weakness may be compensated by new reforms targeting the housing market in general. |
| Soft Brexit | The long-term impact of Brexit on retail looks to be minor in comparison to structural change in the industry driven by changes in consumer behaviour and cultural shifts and aggravated by dysfunctional tax and regulatory policies. | **Limited impact.** |
This report gives information based primarily on Colliers International data, which may be helpful in anticipating trends in the property sector. However, no warranty is given as to the accuracy of, and no liability for negligence is accepted in relation to, the forecasts, figures or conclusions contained in this report and they must not be relied on for investment or any other purposes. This report does not constitute and must not be treated as investment or valuation advice or an offer to buy or sell property.