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A&R Legal Briefing

The Brexit effect on property – one month on

After just over a month since the UK unexpectedly voted to leave the European Union, what has been the impact on the main players in the property market?

Housing

Despite a spike in interest in the more upmarket areas of London from overseas buyers keen to take advantage of the weak pound, estate agents are making gloomy forecasts for the rest of this year reporting that the mainstream markets are showing that prices and interest have both cooled.

Here in the regions, we have experienced re-negotiations of prices on property transactions over the £1m mark, indicating that buyers are keen to take advantage of the current uncertainty. There are even reports of 40-50% price reductions in some London boroughs and 30% on development land values.

In general, with less demand, values will fall.

Housebuilders

Shares in housebuilders fell by 40% immediately after the Referendum result revealing that investors feared an economic slowdown would affect their businesses even though interest rates are at an all time low.

Commercial Property

All of us in the professional property sector reported that the commercial property market was stalling in the run up to the Referendum as investors put deals on hold to await the result. Just after it, a third of property deals collapsed or were re-negotiated.

The Royal Institution of Chartered Surveyors (RICS) commented that both investors and tenants had shown a "considerable drop" in confidence and demand since the vote. Rent and capital values have gone down, with offices and the retail sector hardest hit.

In particular, funds invested in commercial property had to raise the drawbridge for a while as savers tried to withdraw their cash in a panic. Some larger funds refused these withdrawals and even now are restricting them.

In time the property market will find its level. The market has had a good run but the fundamentals of property have not changed and the market is not about to collapse entirely. People invest in property to diversify their investments and to obtain a good income stream. These features will not disappear overnight. As always, if you can keep your eyes on the long term, UK property will remain a permanent fixture in investors' portfolios.

Banks

With a combination of low interest rates, worries about access to European financial markets and a possible general downturn, the banking sector has been hardest hit, but try to resist any feelings of Schadenfreude, as we will all be affected by this. With another expected rate cut in August, some banks are even looking to charge interest to their business customers, the first time this has happened in centuries.

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In general, there has been a knee-jerk reaction to Brexit, and it has tested the faith of property investors, but don't underestimate the long-term impact of change. There are challenges in the short term but it is now up to government and business to bring stability and calm to the economic markets. Interesting times lay ahead.

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This article should not be taken as definitive legal advice on any of the subjects covered. If you require legal advice on any of the subjects covered please contact Sophie Macarthy of A&R's Property Team.

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