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A&R Legal Briefing

The Brexit effect on property – one year on

With the promise of a "hard" Brexit and now the result of the snap General Election, what is the effect on the UK property market?

Reactions within the property markets are mixed following the shock loss of the Conservative majority after the recent General Election, coupled with the looming Brexit negotiations. Some think uncertainty will return while others think the market will remain strong.

Housing

House prices stalled and even fell in some areas in the weeks leading up to the Election. But, the Guardian has already reported that house prices have risen for the first time in five months, although only by 0.4%, due mostly to the shortage of properties on the market. That's just natural. Over the course of the rest of the year Halifax predicts house prices will rise by 6.5% although not all commentators agree with that figure.

Zoopla boss, Alex Chesterman, voices the popular opinion that "buying a home is one of the biggest and longest term decisions that people make so they tend to hold off making such important decisions in times of heightened uncertainty. 2017 is unlikely to see any material improvement in sentiment until we have clarity around what Brexit actually means".

What has happened to the Housing White Paper that disappeared after publication in February? Housing is a priority across all the parties and thankfully the policy decision set out in the White Paper, to build more homes across the range of tenures, will be upheld. Exciting new methods of delivery such as build-to-rent and off-site construction are emerging that will expand the pace of housing delivery.

Housebuilders

Housebuilders really dislike uncertainty and the outcome of the Election will cause many to put the brakes on some investment decisions. But this is the wrong time for construction to slow down. We desperately need new homes. Only the swift formation of a new government who is ready to work with the sector will get us building again.

Commercial Property

Let us not forget that immediately after the Referendum result, property funds panicked. Trading in some property fund assets were suspended and penalties were placed on investors trying to take money out. Now, most funds have reopened and the penalties have been removed, but needless to say it has left investors slightly cautious and property investments rose by only 2.8% in 2016.

Last year saw the London exodus of some major banks leading to a drop in demand for office space. But nothing like those following the mass redundancies seen in the 2008 downturn. The London market is certainly sensitive to change in central government. However, the imbalance of supply and demand in the overall UK commercial property market persists and so capital growth for investors will remain. It is now expected that a more detailed risk analysis will be carried out by the industry to ensure deals are structured correctly and values are accurate.

Banks

It is felt amongst some banks that major projects will be put on hold. Sterling will fall sharply on the prospect of Brexit talks falling into turmoil putting further pressure on inflation as import prices rise. Banks, as ever, will be cautious about financing new developments. As an asset class, property will fall out of favour amongst overseas and institutional investors. But longer term, with a weaker pound, international cash buyers will have an opportunity to purchase with a favourable exchange rate.

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The key word here remains – uncertainty - which is bad for the property market. Any redemption will depend on how quickly a new government can come together to stabilise the market and raise confidence amongst lenders, owner/occupiers and investors.

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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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