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What's Trending in Real Estate Around the World? United Kingdom

Russell Field, partner with BDO UK LLP discusses how the lead-up to the June 23 EU Referendum, nicknamed "Brexit," is impacting the U.K.'s real estate market.

What trends are you seeing in the lead-up to the June 23 vote in London and other key markets? We're seeing conservatism in property markets, which is typical right before elections or votes (i.e., the slowdown in the lead-up to the 2014 Scottish referendum).

However, Brexit has wider implications across Europe and across continents, so investors are even more cautious this time around. Because London is the capital, the caution is perhaps felt most strongly there, but the nervousness resonates around the U.K. Manchester is leading a group of cities firmly rooted in the "stay" camp: Leeds, Sheffield, Cardiff, Glasgow, Nottingham, Birmingham, Liverpool, Bristol and Newcastle. These "second cities" are enjoying a surge in their local property markets as a result of high and climbing prices in London—a trend they do not want to stagnate come June 23, no matter the vote. There is also concern overall about a potential gap in skilled labor in the construction industry should the Brexit happen, as the workforce is heavily supported by immigrants granted free movement to the U.K. from other parts of the EU.

What are the potential negative consequences of a "leave" vote?

The industry's general consensus is that property values are likely to decline by about 10 percent, with London bearing the brunt of the hit. Valuers would have a tough time for the second quarter, since quarterly valuations for a whole host of funds will be prepared right after the vote. Some banks are considering moving their head offices to Paris in the event of a "leave" vote, while others said they would scale back their U.K. activities.

If the U.K. votes to leave, there would be a two-year negotiation period between the U.K. and the EU, so no major changes would happen immediately. It would be a period of uncertainty—not just for the U.K., but also for the EU as a whole. Should we stay, there's a general feeling that the market would pick up pretty quickly as confidence in the U.K. returns.

Are there any potential positive consequences that could arise from a "leave" vote?

If values were to drop by the projected amount, it may present certain opportunities. First, homes would be more affordable, allowing some buyers who had hesitated as a result of the 3 percent stamp duty increase on purchases of additional buy-to-let residential property to get back in the game. A decline in values would also benefit first-time buyers who are currently unable to get on the ladder in what is fast becoming a totally unaffordable city for the younger generation.

Second, many funds have built up a significant amount of cash in the event of an investment pullout. So if there's an exodus from funds by individuals in response to a "leave" vote, the funds will have the cash needed to pay down the withdrawals. If the U.K. stays, however, and the cash is not withdrawn, the funds will have the additional cash to invest into the property market.

How are commercial property companies protecting themselves ahead of the vote?

In general, people are waiting until after the vote to decide their next move, so property transactions have slowed over the last few months. Some investors are adding break clauses, or "Brexit clauses," to their contracts (particularly buy-to-let landlords and those buying off-plan) so that in the event of a "leave" vote in June, they have the option to exit the deal. Several new London residential developments are taking Brexit deposits, which off-plan buyers would get back should the vote not go the way they wanted. IPOs on the London Stock Exchange for U.K.-based companies have also noticeably slowed down.

In addition, some Asian investors have withdrawn their money from the markets, as their currencies have declined and calls to invest domestically increase. This is another drag on the market.