# Interesting times:
# Brexit Opportunities in real estate

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On 23 June the UK surprised everyone by voting to leave the European Union. Overnight, Sterling fell 10%, the FTSE fell below 6000 and David Cameron resigned as PM. Initial optimism that businesses (and politics) could carry on as usual has given way to a period of uncertainty and instability, very much proving the phrase “a week is a long time in politics”.

For the real estate industry, the most clear manifestation of instability has been the initial rush for, and subsequent suspension of, redemptions by seven of the UK's largest retail property funds which between them hold £14 billion of real estate assets. Two of those funds have gone further and revalued their funds (downward) by up to 17%.

This would not appear, as it may at first seem, to be a knee-jerk reaction by the funds, but is rather borne of experience gained over the last recession: suspending redemptions allows the funds to manage their liquidity needs better and re-valuations incentivise investors to leave their money where it is rather than taking it out at a discount. As the funds start to re-open we will see how successful a policy this has been.

## Opportunity Knocks

Whatever happens, the retail funds will need to replenish their cash reserves: some commentators have suggested that as much as £5 billion will need to be sold to do this. The need for cash will depend on levels of cash reserves which will vary considerably from fund to fund. High numbers of properties coming to the market will invariably have a downward pressure on pricing, so it will be for the funds to try to manage the process to avoid a material pricing correction.

Some funds have put their largest trophy assets on the market in an attempt to raise the required cash quickly, and by marketing fully, use competitive tension to maintain pricing. Other fund managers may look to "off market" deals to replenish their coffers.

What is clear is that there is stock for sale and as head of real estate at the accountants PwC, Craig Hughes, has commented "There is a huge amount of capital waiting".

## A Sterling Opportunity

The falling pound has delivered a foreign exchange discount to investors who operate in hard currencies other than sterling: investors operating in US dollars have seen a potential 10% saving against sterling, although there has been some recovery in recent days.

Opportunistic overseas buyers with cash reserves who are able to take advantage of the weak pound and move quickly, as well as long term investors with cash reserves, may therefore be able to secure deals at a discount to the pre-referendum cost.

However, whether investors see current pricing as attractive will depend on their medium to long term view of the UK, and in particular, the London real estate market. James Roberts, Knight Frank's chief economist, has expressed confidence that the UK's real estate market is resilient telling Forbes that by the summer of 2017 "asset prices for the more robust property sectors could be pushed back to where they were before the referendum."

Inevitably the key to this will be London: London's property market showed itself to be resilient during the rollercoaster recessionary period of 2008-2011. The rapid recovery of central London's real estate market in 2009/10 provided a real driver for opportunistic funds and purchasers to make higher returns, but at that time London's position as a world financial and business centre providing a bridge-head into Europe was never in question.

Now London's position as an attractive market for real estate investment is contingent on whether it will remain a key player on the world stage post-Brexit. Much was said in the run up to the referendum about the impact of a Leave vote on London's economy and in particular concerns about banks and financial institutions moving out of London.

The details of the UK's divorce from the EU are still unknown but the strong rhetoric from those (still) in Government suggests that retaining full access to the Single Market will be a fundamental objective of any Brexit negotiations.

London also benefits from the UK's benign labour laws and the infrastructure built up over many years required to support a world leading financial capital. None of this can be easily (or quickly) replicated by European competitors. It seems more likely therefore that the banks and financial institutions, which underpin the success of London will, in large part at least, remain, keeping London as an attractive investment market in the longer term for real estate investors.

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