BREXIT & PROPERTY
THE ULTIMATE GUIDE

KEY DETAILS FOR THOSE INVESTING IN THE UK'S PROPERTY MARKET BEFORE AND AFTER BREXIT

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THE FACTS

On 23 June 2016, the British public voted to leave the European Union, of which Britain had been a member since 1973. The campaigns in the run-up to the referendum were hard fought and bitter, with the flow of people and money between the UK and the EU becoming increasingly emotive issues.

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51.89%

British public vote in favour to leave

21%

Average fall in share price on the morning of referendum

5806.13

FTSE 100 fell from 6338.10 within 10 minutes on day after Brexit decision

The ‘leave’ vote carried by a narrow margin – 51.89% to 48.11%. Its impact was immediately felt as then-Prime Minster David Cameron resigned. Across the five largest British banks, share prices fell by an average of 21% on the morning of the referendum. The value of sterling plummeted, dropping 8% on 24 June, to its lowest level against the dollar since 1985.

The London Stock Exchange also suffered, with the FTSE 100 falling from 6338.10 to 5806.13 within 10 minutes of trading opening on 24 June. Standard & Poor’s, Fitch Group and Moody’s all cut the UK’s credit rating/outlook.

Since then, much has changed. This brochure looks at what has taken place over the 18 months since the referendum and what it means for the UK’s property market, particularly from an investment perspective.

THE BREXIT TIMELINE

2016

23 June
British public votes to leave EU

24 June
Pound falls to lowest rate since 1985, UK PM resigns

11 July
Theresa May chosen as PM

4 August
Pound tumbles further after interest rate cut

7 October
Pound falls further as government announces 'hard Brexit' plan

2017

29 March
British PM triggers Article 50, giving UK two years to leave EU

9 June
General election results in hung parliament; Theresa May remains as PM

19 June
Official Brexit talks begin with EU

11 December
UK and EU move into next phase of talks

13 December
MPs agree that parliament will vote on final Brexit deal

2018

19 March
Decisive progress made in UK/EU talks

29 October
UK budget

November
Possible EU summit

13-14 December
Last European Council of 2018, so last practical date a Brexit deal could be signed off

2019

January/February
House of Commons approval of Brexit deal and passing of Implementation and Withdrawal Bill

29 March
Brexit day

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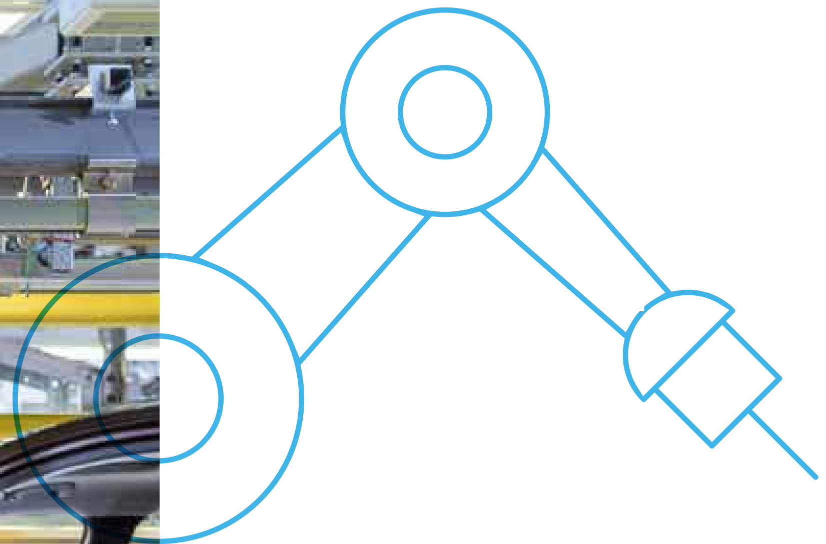
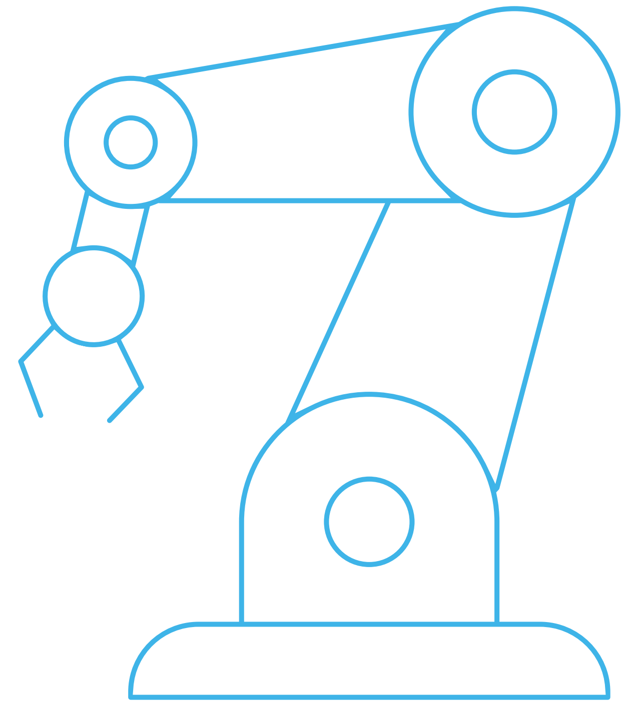
BREXIT'S IMPACT ON INDUSTRY

3.9%

3.9% overall output higher than a year previously





BREXIT’S IMPACT ON INDUSTRY

The UK’s manufacturing sector seemed largely un-phased by Brexit in terms of its output at first. By November 2017, nearly 18 months after the referendum, the sector had recorded seven months of consecutive growth, with output expanding at the fastest rate since 2008.

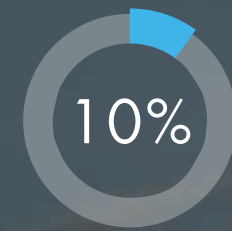
A boom in the production of boats, aeroplanes and cars for export, alongside renewable energy projects, was responsible for the growth. Overall, output in the three months to November was 3.9% higher than a year previously.

WAVERING CONFIDENCE

Despite this positive growth, manufacturing confidence hit its lowest level since the Brexit referendum in August 2018. The Manufacturing Purchasing Managers' Index, produced by IHS Markit and the Chartered Institute of Procurement and Supply, is the country's most reliable indicator of the manufacturing sector's health. In August it dropped to 53.0 (from 54.0 in July), with growth in production at a 17-month low. It was the first time since April 2016 that export orders had fallen and the sharpest monthly decline since 2011.

26th

26th Consecutive month above the neutral score



Manufacturing sector accounts for roughly 10% of UK economy

Confidence rallied slightly in September 2018, however, with a figure of 53.8 for the month marking the 26th consecutive month above the neutral score of 50. Growth stood at a four-month high, thanks to a notable increase in new domestic and export orders. Demand increased from the US, Europe, Russia, Scandinavia and Canada.

CONTINUED GROWTH

Overall, the UK's manufacturing sector has fared well since the Brexit referendum. Despite some wobbles, the sector – which accounts for roughly 10% of the UK's economy – has remained in a growth phase, which has had a knock-on effect on employment. The spectre of a no-deal Brexit is causing some anxieties, but it is hoped that confidence will surge once more as soon as a deal is agreed.

HOW HAS THE UK ECONOMY COPED?

In many ways, the UK economy has bounced back from the immediate aftermath of the decision to leave the EU. The London Stock Exchange was one of the first to recover from the shock, with the FTSE 100 rising above pre-referendum levels by 1 July 2016. In fact, it hit a ten-month high, with its largest single-week rise since 2011. By 11 July, it was officially back in bull market territory. On 27 July the FTSE 250 also moved above its pre-referendum level.

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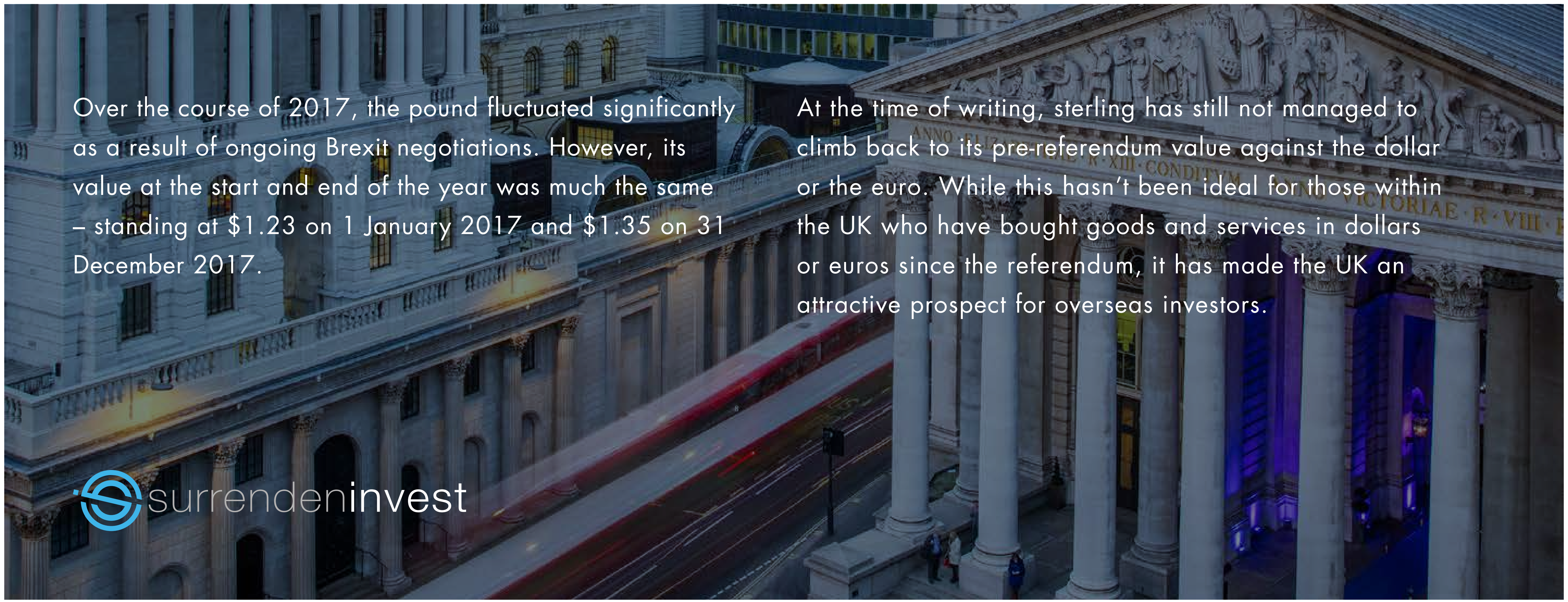
BREXIT'S IMPACT ON STERLING

The pound has fared less well. Following its fall to its lowest value against the dollar since 1985 in the immediate aftermath of the Brexit referendum, it suffered further setbacks as a result of the political decisions and wrangling that followed. Most notably, an interest rate cut to 0.25% on 4 August 2016 caused sterling's value to plummet. Speculation that the UK would be pursuing a 'hard Brexit,' including leaving the EU single trade market, caused a further drop of 6% on 7 October 2016.



Over the course of 2017, the pound fluctuated significantly as a result of ongoing Brexit negotiations. However, its value at the start and end of the year was much the same – standing at $1.23 on 1 January 2017 and $1.35 on 31 December 2017.

At the time of writing, sterling has still not managed to climb back to its pre-referendum value against the dollar or the euro. While this hasn't been ideal for those within the UK who have bought goods and services in dollars or euros since the referendum, it has made the UK an attractive prospect for overseas investors.

1985

The pound fell to its lowest value against the dollar since 1985

↓0.25%

Interest rate cut to 0.25% on 4 August 2016 caused sterling's value to plummet.

$1.35

The pound fluctuates significantly standing at $1.35 on 31 December 2017

BUSINESS GROWTH

The International Business Times flagged up British aerospace and defence firms, pharmaceutical companies and professional services companies as some of those most likely to benefit from the weaker pound. The Office for National Statistics (ONS) has confirmed that the level of business in the UK grew during 2017, with quarters two and three (covering the period of April to September 2017) proving the strongest.

UNEMPLOYMENT

The UK's unemployment rate has fallen steadily since the Brexit referendum, dropping from 4.9% in June 2016 to a rate of 4% in the three months to August 2018. That 4% represents the lowest unemployment rate in the UK since 1975.

GDP

Gross domestic product (GDP) has also continued to rise since the referendum. It has been on an upward trajectory since quarter one of 2013, according to the ONS. The latest quarter for which figures are currently available (quarter two of 2018) saw GDP growth of 0.4%.

While nobody can know what the Brexit process will bring when the UK leaves the EU in March 2019, the country's economic progress since the referendum means that it is in solid shape. The raising of interest rates by the Bank of England in November 2017, for the first time in a decade, is testament to that.

4.0%

4% represents the lowest unemployment rate in the UK since 1975

0.4%

Increase in GDP growth of 0.4% for Q2 2018

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THE RETAIL SCENE

Britain's retail sector was one of the most affected industries following the Brexit referendum. The sector is the country's largest private employer, with some 3.3 million employees in 2017, according to The Retail Appointment. With around a third of those employees under the age of 25, the retail sector is particularly important to younger workers. Overall, more than a third of UK consumer spending goes through the country's shops.

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3.3m

Largest UK private employer with 3.3 million employees in 2017

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RETAIL SALES OVERVIEW

While buyers from overseas have kept the property market buoyant and enjoyed the weaker pound since the Brexit referendum, British consumers have been tightening their belts. Sales have still been rising – they were up 1.6% in January 2018 compared to January 2017 – but at a slower pace than expected. Retails sales by volume grew by 0.1% in January compared to the month before, when a Reuters poll of analysts had projected 0.5% growth.

High inflation and stagnant wage growth were cited as the causes of the retail slowdown, with mention of Brexit never far from the explanations of the worse-than-expected figures.

RETAIL WINNERS AND LOSERS

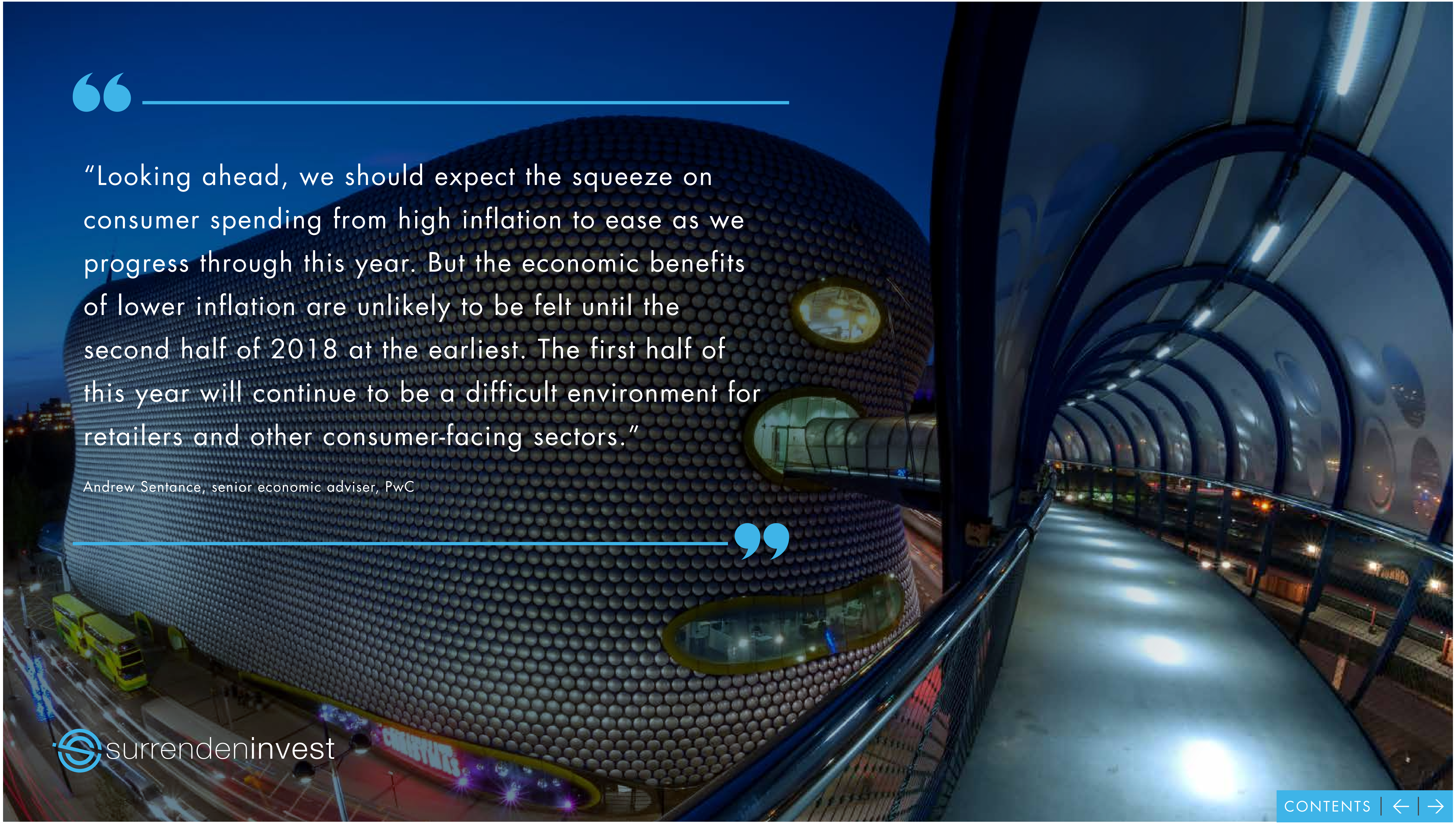
Interestingly, it has been clothing and food that UK consumers have cut back on in the run up to Brexit. August 2018 figures from the Office for National Statistics show a 0.6% drop in the quantity of food bought, when compared to the month before, while clothing sales dropped by 1.9%. Growth in other areas though (notably household goods stores, which enjoyed an increase in sales of 4.5%), meant that the retail sector continued to grow in August, with the quantity of goods purchased up 0.3% month-on-month. Indeed, many analysts are still hopeful that the UK retail sector can end 2018 on a more positive footing.

Retail sector was one of the most affected industries following the Brexit referendum

1.6%

Retail sales up 1.6% in January 2018 compared to January 2017

1/3 of employees under the age of 25



"Looking ahead, we should expect the squeeze on consumer spending from high inflation to ease as we progress through this year. But the economic benefits of lower inflation are unlikely to be felt until the second half of 2018 at the earliest. The first half of this year will continue to be a difficult environment for retailers and other consumer-facing sectors."

Andrew Sentance, senior economic adviser, PwC

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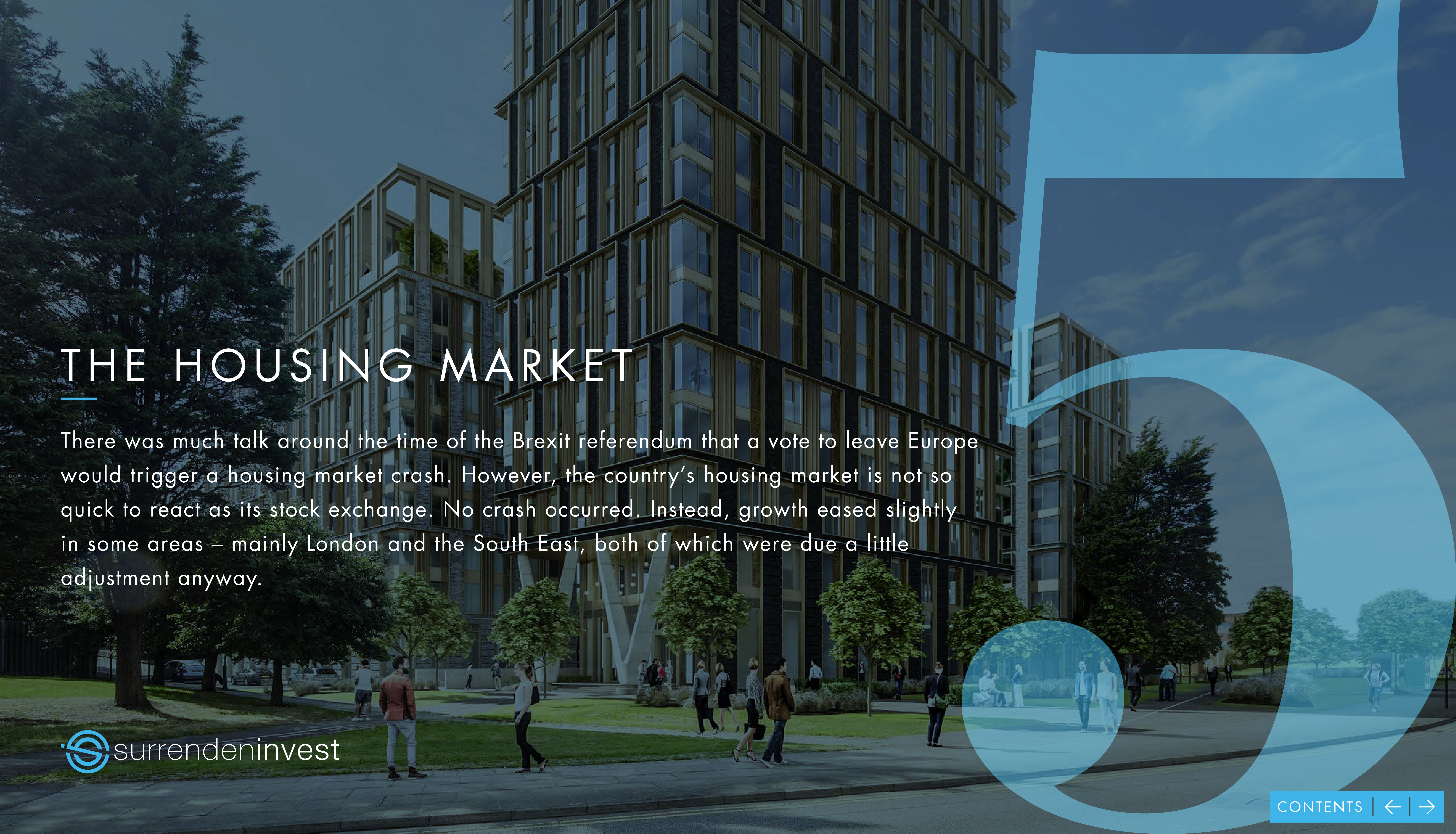

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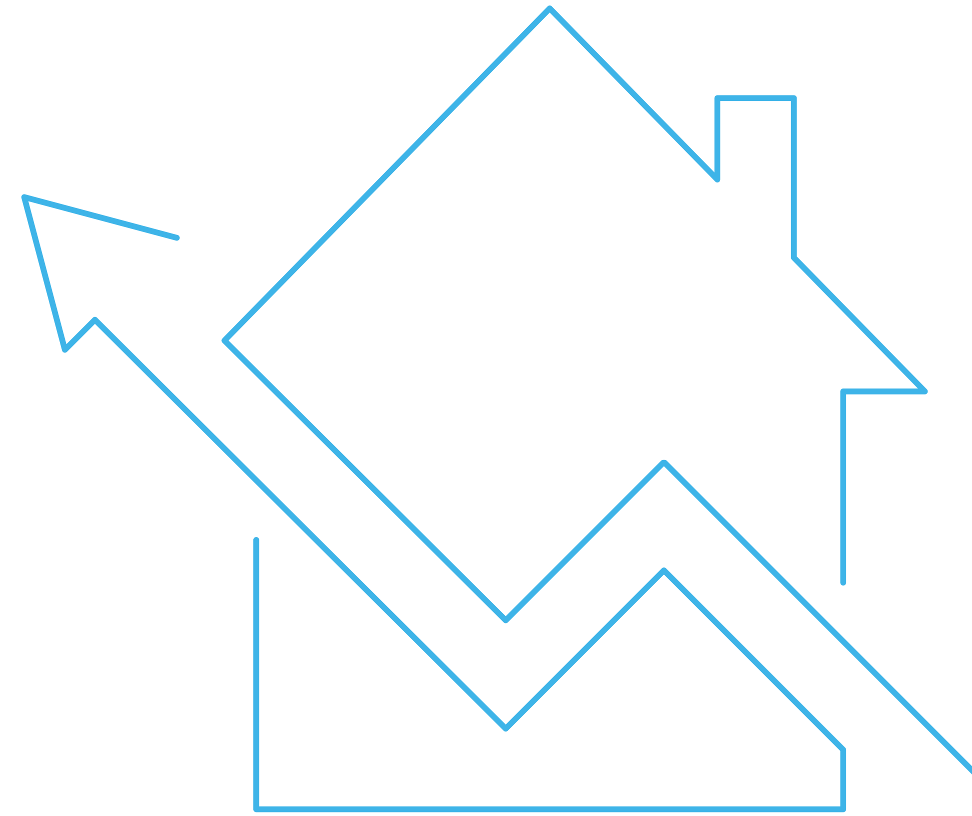
THE HOUSING MARKET

There was much talk around the time of the Brexit referendum that a vote to leave Europe would trigger a housing market crash. However, the country's housing market is not so quick to react as its stock exchange. No crash occurred. Instead, growth eased slightly in some areas – mainly London and the South East, both of which were due a little adjustment anyway.

3.6%

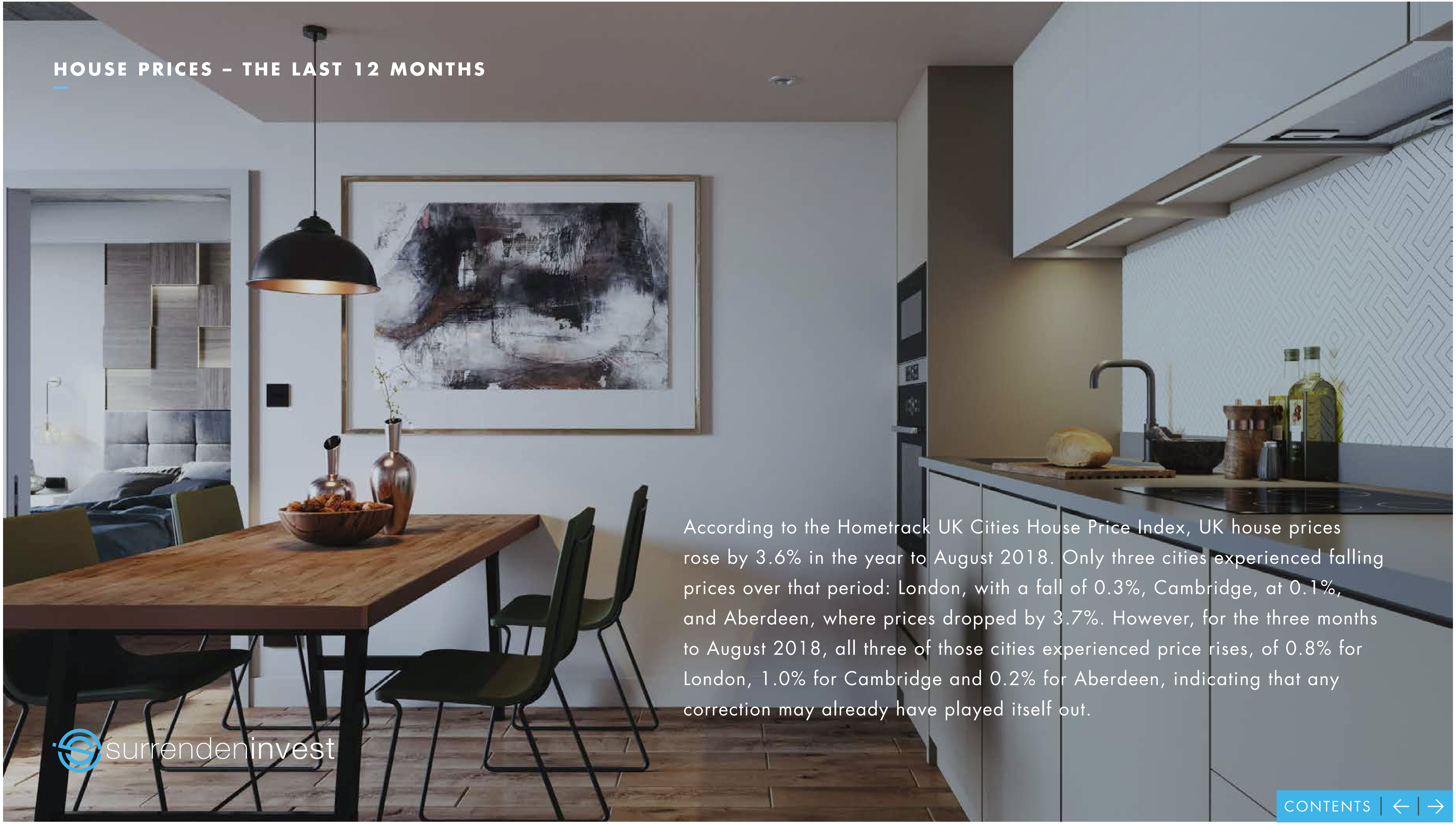
UK house prices rose by 3.6% in the year to August 2018



HOUSE PRICES AFTER THE REFERENDUM

House prices had been on an upward trajectory before the Brexit referendum and largely continued on that trajectory following the vote. Halifax recorded a two-month dip, with the average value reducing from £216,829 in June 2016 to £213,829 in August 2016 before rising once more.

Land Registry data shows a relatively flat period from June 2016, when the average value was £215,182, to March 2017, when it stood at £215,216. Nationwide's figures reflect similar small fluctuations, from £204,967 in June 2016 to £205,846 in February 2017. All three indices then show prices continuing largely on an upward trajectory to date.



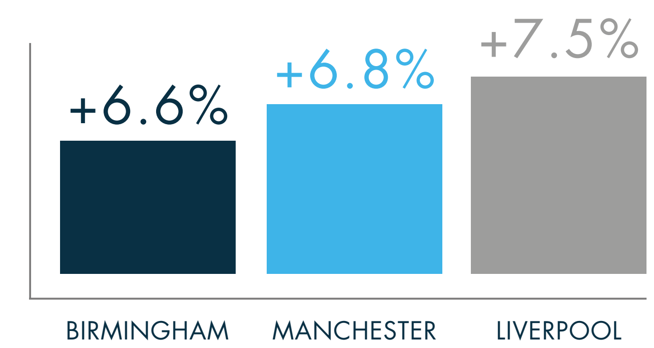
HOUSE PRICES – THE LAST 12 MONTHS

According to the Hometrack UK Cities House Price Index, UK house prices rose by 3.6% in the year to August 2018. Only three cities experienced falling prices over that period: London, with a fall of 0.3%, Cambridge, at 0.1%, and Aberdeen, where prices dropped by 3.7%. However, for the three months to August 2018, all three of those cities experienced price rises, of 0.8% for London, 1.0% for Cambridge and 0.2% for Aberdeen, indicating that any correction may already have played itself out.

REGIONAL SUCCESS STORIES

At the other end of the housing market, regional cities such as Birmingham, Manchester, Newcastle and Liverpool have been enjoying healthy property price increases since the Brexit vote. Prices in Liverpool rose by 7.5% in the year to August 2018, while in Manchester they rose by 6.8% and in Birmingham by 6.6%. In Newcastle, property price growth stood at 3.3% for the year.

UK CITY HOUSE PRICE GROWTH INCREASE



CONSTRUCTION OUTPUT

Construction output did not fare so well following the Brexit vote, falling by 2% in the three months to November 2017 and by 1% in the three months to January 2018. According to the Office for National Statistics, "The largest downward contribution to change in the rate came from prices for motor fuels."

Despite construction being down overall, the housing sector again showed its resilience. In the three months to November 2017, when construction output overall fell by 2%, there was a 1.2% increase in the construction of new housing. The figure is testament to developers' continued faith in the potential of the UK housing market, irrespective of Brexit. After all, the market fundamentals have not changed. The UK still has a rapidly growing population and a chronic undersupply of housing, particularly in busy urban areas. These factors remain the same, whether or not the UK is a member of the EU.

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+1.2%

Increase in the construction of new housing in the 3 months to November 2017

INVESTMENT

Investment in the UK has been something of a mixed picture since the Brexit vote. On the one hand, figures show that investors have withdrawn £10 billion from UK equity funds since the referendum (according to October 2018 figures from the Investment Association).

"As the March 2019 Brexit deadline looms, investors are seeking to diversify and manage their risk with global and mixed asset funds attracting strong inflows, as did volatility managed funds."

Chris Cummings, Chief Executive, Investment Association

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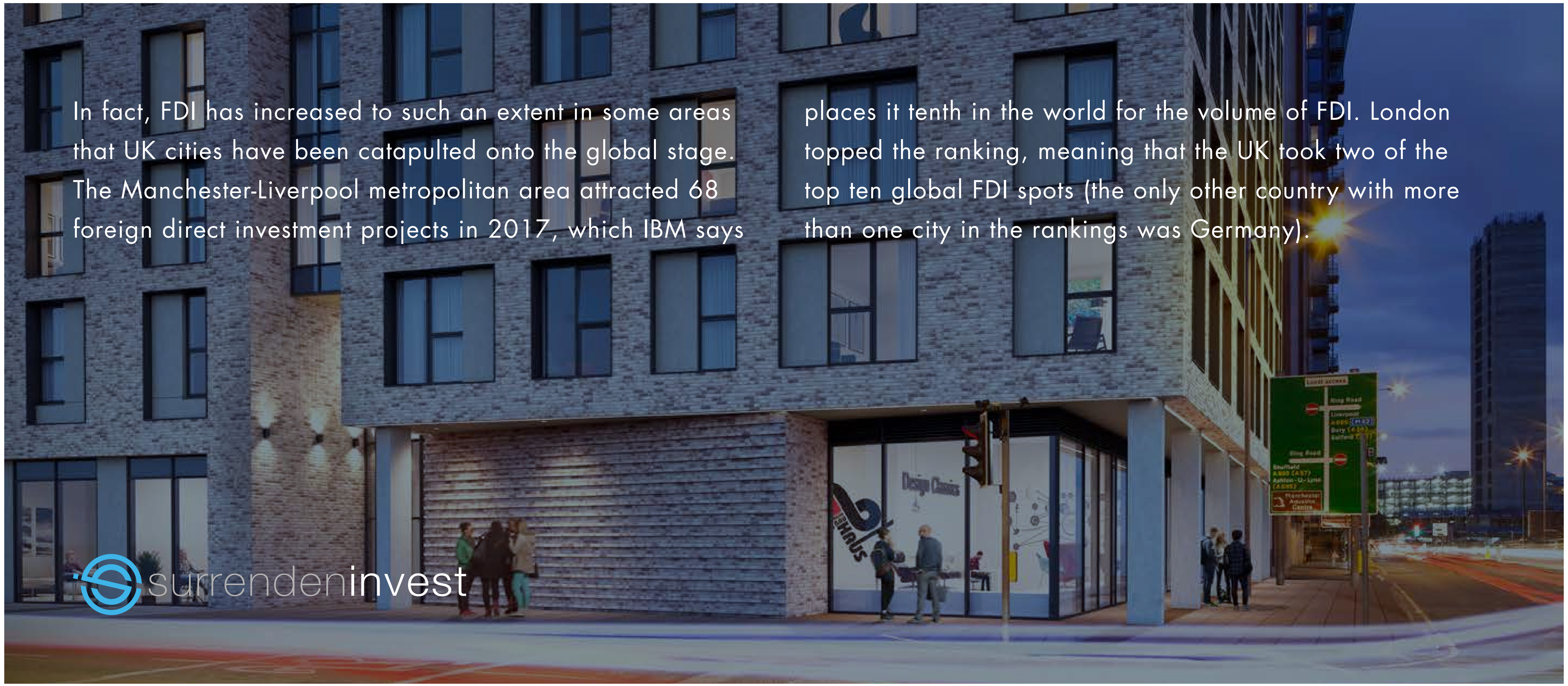
FOREIGN DIRECT INVESTMENT

At the same time as equity funds have suffered, the number of foreign direct investment (FDI) projects in the UK has risen. According to Trading Economics, with the exception of the first quarter of 2018, UK net foreign direct investment has risen every quarter since the Brexit vote. Quarter 2 2018 recorded a rise of £22199 million – the highest level since the end of 2016.



In fact, FDI has increased to such an extent in some areas that UK cities have been catapulted onto the global stage. The Manchester-Liverpool metropolitan area attracted 68 foreign direct investment projects in 2017, which IBM says places it tenth in the world for the volume of FDI. London topped the ranking, meaning that the UK took two of the top ten global FDI spots (the only other country with more than one city in the rankings was Germany).

£22,199m

Quarter 2 2018 recorded a rise of £22,199 million, the highest level of FDI since the end of 2016

10th

The Manchester-Liverpool metropolitan placed tenth in the world for the volume of FDI in 2017

London topped the ranking, meaning that the UK took two of the top ten global FDI spots

PROPERTY INVESTMENT

8.2%

Highest yield in Liverpool since Brexit Referendum

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In terms of property investment, the UK's credentials have remained sound since the Brexit referendum. Regional cities continue to offer healthy yields to those looking for the right properties in the right locations.

CITY LOCATION	LOWEST YIELD	HIGHEST YIELD
MANCHESTER	3.3% ↓	7.2% ↑
BIRMINGHAM	2.5% ↓	6.4% ↑
LIVERPOOL	3.1% ↓	8.2% ↑
NEWCASTLE	2.9% ↓	7.9% ↑
LONDON	2.4% ↓	5.2% ↑

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REGIONAL SENTIMENT

It's fair to say that most of the UK's key regional cities wanted to remain in the European Union. London, Manchester, Newcastle and Liverpool all voted to remain within the EU. Birmingham voted to leave, but only just – by 50.4%, with a margin of just 3,800 votes.

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FUTURE PROSPECTS

All five of these cities have a thriving, dynamic business base and a strong case for the continued viability of their housing markets. They are some of the top locations in the country for university places and all have sizeable student populations, which is good news for investors, according to Totally Money:

"Our research shows university cities have some of the highest rental yields, with Liverpool, Manchester, Middlesbrough, Newcastle upon Tyne, and Edinburgh shown to be top performers. Due to new students arriving in these cities year after year, there's no shortage of tenants for landlords to choose from, making void periods very unlikely."

Many of those students choose to stay on in the cities in which they studied, adding their talent and enthusiasm to the local urban workforce. Most young professionals rent their homes, further fuelling demand for city centre properties in these regional metropolises. Together, these demographics do much to strengthen the Brexit-proof investment case that the UK's regional cities offer.

REGENERATION WORKS

£2.1bn

Birmingham's Big City Plan will contribute to the economy each year

1.5m

Square metres of new floor-space and over 50,000 jobs

Newcastle has one of the fastest economic growth rates of any city in the UK

The UK's regional cities are also benefitting from substantial investment in their regeneration, both before and since the Brexit referendum. Birmingham's 20-year Big City Plan is creating 1.5 million square metres of new floor-space and over 50,000 new jobs, while contributing £2.1 billion to the economy each year.

Manchester's ambitious regeneration plans have seen it rise to be ranked as the UK's most liveable city in the Economic Intelligence Unit's 2018 Global Liveability Index. Liverpool, meanwhile, has seen development work valued at a minimum level of £500 million take place each year since 2008, while Newcastle has been noted for having one of the fastest economic growth rates of any city in the UK.

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THE FUTURE

Nobody can say for sure what the future will bring. Three years ago, few people would have predicted that the UK would be just months away from leaving the EU. However, experts in certain fields have become renowned for their savvy scenario planning. JLL is one such organisation – it's housing market projections are based on solid data and years of experience.

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QUIET CONFIDENCE

JLL projects that "subdued consumer and household confidence" will lead to relatively slow house price growth as the UK approaches the Brexit deadline: growth of 1% in 2018 and 2% in 2019. It projects growth of 2% per annum for rents. As consumer confidence settles post-Brexit, house price growth should rise to 3.5% pa by 2022, with rents growing at a steady rate of 2.5% pa from 2020 to 2022.

↑3.5%

House price growth should rise pa by 2022

2.5%

House rental rates pa from 2020 to 2022

Birmingham, Manchester, Newcastle and Liverpool have already seen impressive growth over the past 16 months.

EXPERT OPINION

The team here at Surrenden Invest echoes JLL's confidence. The UK's housing shortage will still exist after March 2019 and will be particularly notable in regional cities. While London's market is uniquely vulnerable – particularly the prime central London market – due to its high prices, key regional markets still have room for growth when it comes to property prices.

Investors who bought property in cities like Birmingham, Manchester, Newcastle and Liverpool after the Brexit referendum have already seen impressive capital growth over the past 16 months. With rising population numbers and affordable property prices, these markets continue to offer the same strong credentials.

8.0%

Property is an asset with an average growth per year for the past 65 years

Ultimately, Brexit may make buyers a little more cautious, which is no bad thing – it means that investors will ensure they undertake appropriate due diligence and opt for high quality developments. It's a matter of perspective and of identifying what will and won't change in terms of market fundamentals. City centre regeneration work, for example, will continue post-Brexit and will act as a catalyst for property price growth for nearby homes.

UK property is an outstanding investment asset and will remain so after the country leaves the EU. Any drop in sterling's value is likely to lead to a flurry of property purchases by overseas investors, just as it did following the Brexit referendum.

While nobody has a crystal ball, it should be remembered that property is an asset that has grown by around 8% per year on average for the past 65 years. There's no need for investors to speculate on short-term fluctuations. The UK has a mature, stable property market, regardless of its position in (or out of) the EU.

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