BREXIT UPDATE

LONDON VOTED IN BUT THE UK VOTED OUT.

In the wake of the Conservatives' general election victory, we cautioned against the hyperbole of much of the London property market. At the time we wrote "transaction costs remain high, capital gains tax is now a factor for everyone and, most importantly of all, much of the current stock is relatively poor (over-priced, recycled, compromised and/or illiquid)", warning also of the upcoming challenge posed by the "inevitable in/out European Union referendum (pledged by the Conservatives)".

Since the general election and prior to today's referendum decision, the London property market had been buffeted by a number of additional headwinds with a raft of further tax changes, a mayoral election and a significant slowdown in transactional volumes as the referendum approached.

We now know the outcome of that referendum: the UK will leave the EU (notwithstanding that London voted overwhelmingly to remain).

It is far too early to comment sensibly about the longer term implications for the London property market. All that is clear is that there will be a period of uncertainty as the UK negotiates its exit from the EU (with such negotiations unlikely to commence until October when a new Prime Minister is named). The most immediate factors affecting the London property market are the unprecedented fall in Sterling and very significant dents in the share values of some of London's biggest housebuilders.

As the dust begins to settle in the weeks ahead, we anticipate a further fall in transactional volumes (exacerbated by the annual Summer slowdown). Aside from international investors taking advantage of the fall in Sterling (we imagine these will be limited in number) and potential safe haven buyers (should the EU descend into crisis in the wake of the UK decision), we expect the only activity in the short term to be from 'needs driven' buyers taking a long term view of London based on their personal circumstances. The timing may be opportune for these buyers but they must also be careful to avoid the vast amount of poor stock that continues to clog up the property portals. Interesting new stock is likely to be thin on the ground in the coming months as vendors await a more clement market. Meanwhile, in value terms, it is very early days but we expect a continued softening of prices in pockets of the prime market with some significant volatility in the new build market.

Despite the inevitable media speculation and short term uncertainty, we must remember that the majority of drivers behind London's popularity remain regardless of our impending exit from the EU (in terms of its place as a global financial centre, pool of skills, legal system, education, lifestyle, language, time zone and attractive lifestyle). Will these drivers prove sufficient to counter the many negative factors of withdrawing from the EU? We believe that, in the medium and longer term, they will.

If you or any of your contacts, clients or friends would like to discuss the post-referendum London property market or a specific property-related issue, please do get in touch with any of our directors (our full contact details are on our website).

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