RESIDENTIAL RESEARCH

EU REFERENDUM UPDATE

Knight Frank

THE EU REFERENDUM AND THE UK HOUSING MARKET

A referendum on the UK's membership of the European Union has been a possibility since January 2013 when David Cameron pledged to hold a vote on the issue. This possibility became a certainty with the election of a majority Conservative government in May last year and the subsequent announcement that the vote will be held on June 23rd 2016.

Key headlines, March 2016

Economic uncertainty due to the unknown implications of the vote is the key issue

Transactions and development volumes have risen steadily since 2013

The mainstream UK housing market is primarily driven by domestic dynamics

An exit from the EU would not affect the demand/supply imbalance which is a key feature underpinning current housing market trends

"Experience from the 2014 Scottish Referendum shows that we probably should expect a slowdown in housing market activity as we get closer to the poll date."

Pre-referendum

Rising economic uncertainty due to the unknown implications of the upcoming EU vote is the key issue. This lack of clarity could lead to fewer residential transactions and could even weigh on development volumes.

Can we see evidence of these trends in existing market data? Figure 1 confirms that both transaction volumes and development starts have seen healthy growth since David Cameron's 2013 referendum pledge, and again following the Conservative Party victory in May last year.

Despite the resilience of the market to date, experience from the 2014 Scottish Referendum shows that we ought to expect a slowdown in housing market activity as we get closer to the poll date. The extent of this slowdown is, in reality, guesswork at the current time.

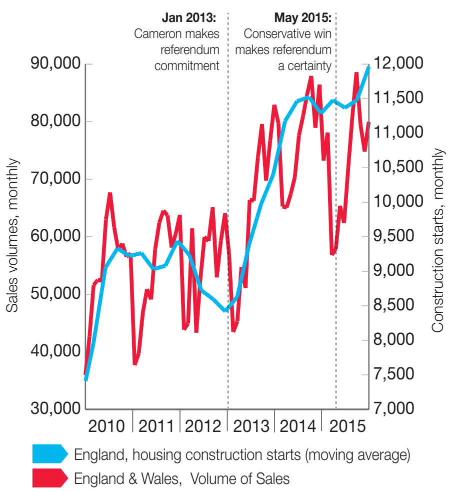
One issue we have seen develop in recent weeks is the weakening of the pound. This trend has potential implications for the central London market, where foreign home buyers are more active. If anything the weakening of the pound could provide a short-term boost to demand in the Capital.

Post-referendum

There is no doubt that a clear "remain" vote would remove immediate economic uncertainty and market activity might be expected to recover any lost ground relatively rapidly, this was certainly the experience in Scotland following their referendum.

FIGURE 1
Housing starts and completions

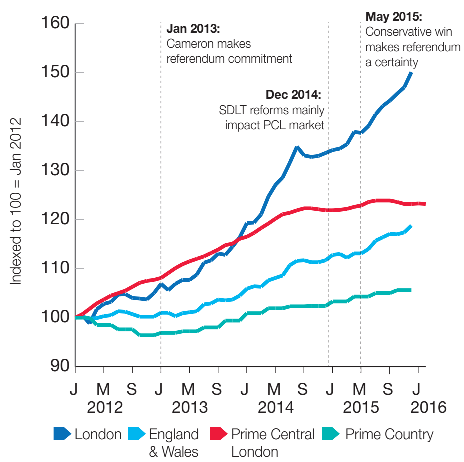
Sales volumes and new construction starts have risen steadily since 2013, confirming the EU referendum announcement has not, so far, led to a slowdown in housing market activity.



Source: Knight Frank Research

FIGURE 2
What has happened to prices?

Price growth in the prime central London market has slowed over the last year, especially when compared to mainstream markets, but this is the result of recent stamp duty reform rather than the EU referendum announcement.



Source: Knight Frank Research / Land Registry

The prevailing assumption is that a "leave" vote would necessarily require a period of negotiation to settle the UK's new relationship with the EU. During this period it would be fair to assume that uncertainty would continue to influence investment decisions for businesses and individuals, particularly if the question of Scottish independence is raised again.

While the speed and terms on which this new settlement is made remain unclear, one factor suggests there will be some urgency in the process. With the Irish economy so closely linked with the UK's the EU will be under pressure to ensure trade for Ireland is maintained. The UK's bargaining position may also be bolstered by pressure from other organisations and countries like China, with whom the country has strengthening trade ties.

Looking beyond the immediate settlement, an analysis of whether leaving the EU will result in a slow decline in the UK economy or herald a new expansionary future is well beyond the ambitions of this paper. There is a fundamental reason to assume the impact on the UK housing market should be relatively benign whatever the outcome.

The mainstream UK housing market is primarily driven by domestic dynamics. An exit from the EU would not affect the demand/supply imbalance which is a key feature underpinning current housing market trends.

This imbalance is most noticeable in London and the South-East, where decades of undersupply contribute to the on-going need for a considerable uptick in construction activity.

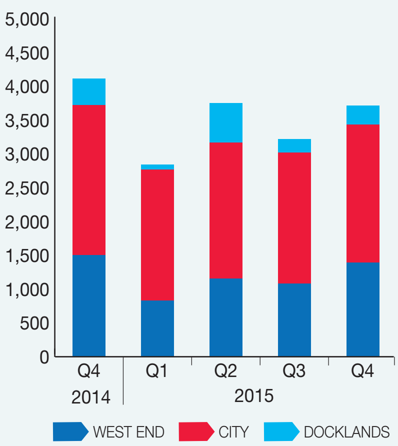
LONDON OFFICE MARKET RESILIENCE

An additional indicator of market sentiment surrounding the forthcoming referendum comes from office market take-up, reflecting confidence from employers around longer-term economic conditions in the UK. This data reveals plans for expansion and employment growth from businesses. Following last May's General Election result, which made the forthcoming referendum an inevitable event, there is clear evidence that firms have remained committed to London, with some even strengthening their presence. In H1 2015, 672 firms acquired offices in central London totalling 6.8 million sq ft, which increased in H2 to 743 firms acquiring 7.1 million sq ft of offices. The supply of available offices also fell throughout 2015, and currently stands at a 14 year low (see the Central London Quarterly for more insight). Data for Q1 and Q2 2016 will be closely watched.

FIGURE 3

Central London take-up by quarter & sub-market

Q4 2014 - Q4 2015 (000's sq ft)

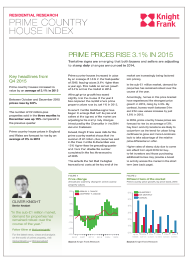


Source: Knight Frank Research

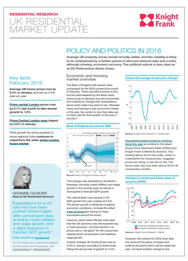
RECENT MARKET-LEADING RESEARCH PUBLICATIONS

UK Housing Market Forecast - Nov 2015

Prime Central London Sales Index - Jan 2016



UK Prime Country House Index - Q4 2015



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