

RESEARCH



BREXIT AND GCC INVESTOR SENTIMENT

JUNE 2016

OPPORTUNITY IN UNCERTAINTY

IMPACT OF THE EU REFERENDUM ON GCC INVESTOR ACTIVITY

With just under a month to go until the EU Referendum vote, discussions of the impact either outcome would have on the UK economy and real estate sector have dominated professional forums. More specifically, discussions have focussed on the impact a Brexit would have on inward investment into London's real estate. While a vote to leave would extend the period of uncertainty, which would consequently influence investment decisions, a 'remain' vote would ease the economic uncertainty and see investment activity recover rapidly.

A pre-referendum overview

While some may argue that the lack of clarity surrounding the upcoming Brexit vote could lead to a slowdown in housing market activity, data reveals that transaction volumes have seen healthy growth levels since the 2013 referendum pledge and following the Conservative Party win in 2015. In fact, as figure 1 suggests, the slowdown in activity can be attributed to other policy changes such as the recent stamp duty reform, rather than the EU referendum announcement. (Fig. 1)

However despite the resilience of the market to date, we ought to expect a slowdown in housing market activity over the next couple of weeks in the run-up to the vote. This will perhaps be more keenly felt in the prime London market, which relies heavily on foreign investment.

UK fundamentals

Despite uncertainties over the outcome of the June referendum, the fundamentals underpinning the UK's economy generally, and housing market specifically, remain positive

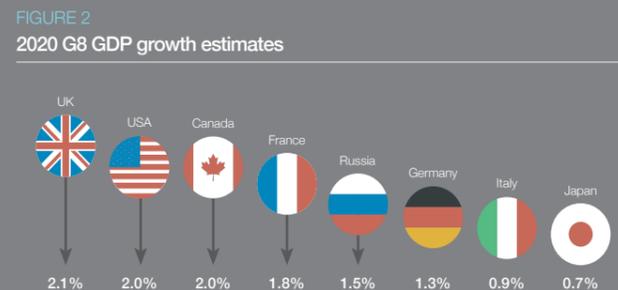
UK's Safe haven status. While we could see a period of weak foreign investment inflows into the United Kingdom, access to the single market is not the only reason investors are drawn to the UK. Based on Knight Frank's global Wealth Report, London continues to top the list of the 10 most important cities to private investors for a number of diverse reasons. Advantages include a transparent and developed legal system, stable political system and advanced education and healthcare services.

Domestic economy: Despite a slowdown in economic growth, the UK is still forecast to outperform the wider EU area and G8 countries by 2020. (Fig. 2)

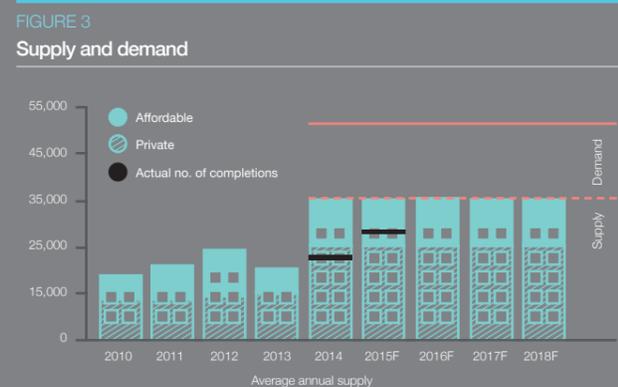
Supply/demand dynamics. Despite a significant pick-up in construction activity, the demand for housing continues to outstrip supply. This imbalance is expected to reinforce prices further. (Fig. 3)



Sources: Knight Frank Research, HMRC, Nationwide



Source: International Monetary Fund, April 2016



Sources: Knight Frank Residential / Molior / DCLG

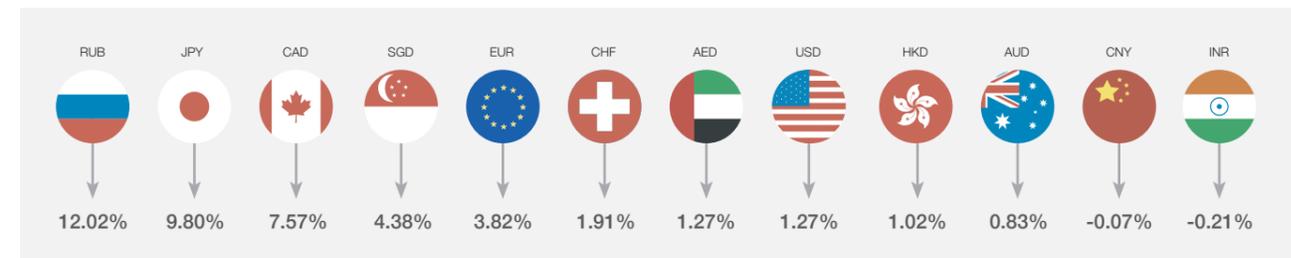
Viewpoint

A number of GCC investors are adopting a 'wait and see' approach when it comes to their real estate decisions; buyers and sellers are choosing to hold off making investment decisions until the outcome is clear. However we believe there is opportunity in uncertainty, which leads us to believe the time for action is now considering the below favourable arguments:

Favourable currency play. The UK's potential exit from the European Union has weakened 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. (Fig. 4)

Value in new markets. Sale price forecasts remain strong across the UK and more so for specific locations within London. We're witnessing a polarization of the market with higher value growth expected in East London which presents itself as a ripe investment opportunity (Fig. 5)

FIGURE 4
Major currency gains versus £ in 2016



Source: XE Currency

FIGURE 5
London sales price forecast, price growth (2016-2020)



Source: Knight Frank Research

* City & Fringe, Islington, Southbank, King's Cross & Riverside
** Notting Hill, Kensington, South Kensington, Chelsea, Knightsbridge, Belgravia, Hyde Park, Marylebone, Mayfair, St. John's Wood

Methodology Statement: House price forecasts are based upon time series regression analysis of relevant statistically significant macro-economic variables adjusted in-house to encompass externalities such as likely risk factors.



"We are seeing a number of savvy investors taking advantage of the current currency play and uncertainty, to secure very good investments. This window of opportunity may be short lived depending on the outcome of the Brexit."

VICTORIA GARRETT
Partner, International Residential Sales



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RESEARCH

Dana Salbak

Associate Partner

+971 56 4206 735

Dana.salbak@me.knightfrank.com

INTERNATIONAL RESIDENTIAL

Victoria Garrett

Associate Partner

+971 56 783 5523

Victoria.Garrett@me.knightfrank.com

MEDIA & MARKETING

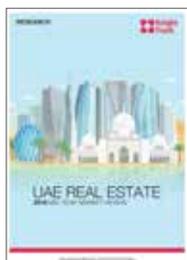
Nicola Milton

Head of Middle East Marketing

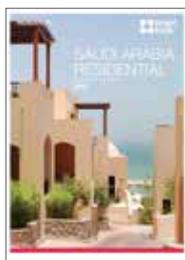
+971 56 6116 368

Nicola.Milton@me.knightfrank.com

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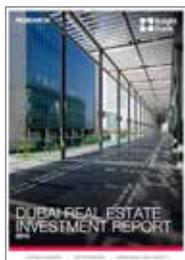
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