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REAL ESTATE

Brexit implores foreign investors but provokes domestic caution: Knight Frank

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One Kensington Gardens, London Knight Frank listing

By FORREST CARDAMENIS

Despite immediate damages, the Brexit referendum's long-term impact on the United Kingdom's housing market will be minimal, according to research from Knight Frank.

Knight Frank anticipates near-term volatility and declines, some of which are already visible in the form of devalued currency and stock market drops, but real estate will likely remain a stable long-term investment. Real estate has always been a sector whose strengths must be examined in the long-term, and low supply and other underlying strengths of the U.K. bode well for the market.

"Ultimately, it should be remembered that the U.K. is a country with 60 million wealthy consumers, and a high-skill workforce," said James Roberts, chief economist at Knight Frank.

"Consumer goods firms such as Coca-Cola and BMW will always want to access a market this big," he said. "Skills based employers such as PwC and Google will always want to access such a large pool of talented workers."

Independent U.K.

Knight Frank expects that the Bank of England will respond quickly, likely by cutting interest rates and possibly via quantitative easing, the introduction of new money into the money supply. A technical recession is also a high probability consequence.

Wildwood Road, London home

When news first broke that the Brexit vote would succeed, the British pound dropped approximately 10 percent. The moment of weakness in the traditionally strong currency will invite foreign investors to purchase properties, confident of the country's consistent economic growth.

More broadly, Knight Frank predicts that the devaluation will lead to inflation and push investors toward growth assets, including real estate. Asset prices are expected to reach pre-referendum levels within a year.

While the overwhelming consensus among economists is that Brexit will hinder growth, the U.K.'s high population and rate of education means that consumer goods companies who might see strained relationships when the U.K. withdraws will still be interested in accessing the market.

The long-term outlook is by no means assured, however. The manner in which Britain gradually withdraws from the E.U. a process without precedent and brokers new trade deals will be significant.

Palace Street, London building

Prime residential real estate will continue to stagnate among domestic consumers in the short-term as delays and uncertainty redirect investors to other markets. On the other hand, low interest rates will help equity-rich buyers borrow at good rates, with interest rates presumably rising in ensuing years to spur value appreciation.

U.K. residents who see Europe as a base for second homes will likely be deterred to some extent, with the degree dependent on negotiations between the U.K. and E.U. Britons are no longer as large a proportion of second-home buyers as before the market, however, with northern Europeans, Middle Easterners, Americans and Asians becoming more common.

Consumers are also expected to tighten spending on retail, but Knight Frank notes that the prospect of inflation is actually an opportunity for retailers. Sales volumes and sales values are too disparate, and by passing on price increases to consumers a courageous but potentially ineffective step retailers can narrow that gap.

U.K. voters to leave the E.U. on June 23

Hotels will also see a mix of positive and negative effects. Hotel trading performance will bear the brunt of Brexit damage, but falling Sterling value will make U.K. hotels more attractive to foreign investors, while a weaker pound will encourage tourists.

Era of uncertainty

Britain's exit from the E.U. was spurred largely by economic and political issues across the continent.

Among E.U. members, there has been a struggle on policy surrounding the migrant crisis and terrorism. Now, having left the E.U., Britain is free to set its own policies surrounding immigration, rather than having rehousing of migrants delegated to it.

The EU has also had to deal with economic issues, such as Greece's debt crisis. Those who argued for Brexit were unhappy that the U.K. pays more toward the E.U. than it was receiving back from the alliance, with funds going toward members that were more in need.

While Britain may not have received economic support, being part of the E.U. had financial benefits. Proponents of staying argued that Britain's membership was recouped in the benefits it got from trade (see story).

Fear of Britain's exit was making itself visible in the market even in the months leading up to the referendum.

A previous Knight Frank report showed that the then-impending Brexit referendum caused London's housing market to falter.

The city's annual growth rate slowed to a mere tenth of a percent in May, its lowest rate since October 2009. Despite the anxieties of a potential withdrawal from the European Union, signs of pent-up demand and a new mayor cast a more hopeful outlook on the market (see story).

"The underlying strengths of the U.K. economy remain in place, and ultimately real estate is an investment that works best for those who pursue long-term goals," Mr. Roberts said.