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Brexit: Leisure and hospitality

Buoyed by tourists dollars

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John Taylor
John is an associate partner in KPMG's real estate and hospitality advisory team. He has over 20 years of global property experience.
John.taylor@kpmg.co.uk

At a glance:

- London remains in top three for real estate and hospitality
- Investors remain interested despite initial nervousness about Brexit
- A number of large deals are still going through

The pessimism of 'Brexit day' seems like a distant memory. The UK, and London in particular, has been remarkably robust. Attracted by the weaker pound, tourists have flooded into hotels, restaurants and shops. But a number of concerns persist.

Business focused hotels will have to wait for people to get back to work after the summer to truly gauge the impact of the vote. There is a strong correlation between the regional hotel market and GDP, so if, as expected, Brexit impacts GDP growth, it can expect to take a hit.

That said, anecdotally, regional performance continues to be robust while London hotels are down on last year (though broadly still performing well). The hotel market may also be affected by costs that are dollar based and therefore higher since the drop in value of the pound.

New investors in town

Equity and debt investors remain cautious but open for business. It has been heartening to see a number of new Asian clients since Brexit, particularly from Singapore and China. From a global perspective London continues to be a top three city for real estate and hospitality investment and is seen as a safe haven economically, legally and from a security perspective.

A number of existing and potential clients made it their business to be in London on 24 June so they could understand the implications of the

referendum result. This is a good sign, underlining their interest in doing business here. Indeed, several have been trying to get into the market for some time and are encouraged that some less well-financed and robust investors have backed off. But they also want to get their timing right, to benefit from the weakness of the pound but avoid a rapid fall in prices after completing their deals.

Right now, we are seeing a number of large hospitality transactions, some of which have bridged the Brexit vote. Not many sales processes have collapsed and we expect key deals to close soon, after the summer break.

It is fair to say that the debt markets paused for breath in the immediate aftermath of the referendum. Lenders needed time to get their heads around the potential impact of the vote on their books and clients, and to decide their appetite for risk linked to uncertain valuations.

Cheaper to borrow, cheaper to buy

In light of this initial nervousness, credit processes are taking longer, debt pricing has increased and terms are tight in comparison to the fluid market of 2015. But investors remain open for business and, crucially, deals are getting done in the bank market.

Another effect of the vote is that benchmark interest rates have fallen to historic lows. For borrowers with pre-existing fixed debt this has increased the cost of breaking arrangements and refinancing. But for those with sufficient credit strength there are opportunities to borrow money at historic low rates. An example is IHG's recent issuance of a 10 year £350 million bond with a 2.125% coupon.

The market is paying close attention to real estate valuations, though post-Brexit transaction evidence is limited. Norges Bank announced a 5% drop in the valuation of their portfolio. We have heard examples of banks asking potential borrowers for revaluations and reductions in values of above 5%, but not of investors succeeding chipping prices down by 30%. I would say a 5 to 10% recalibration is more typical.

So the feared seizing up of real estate and hospitality has not transpired. If the UK continues to attract tourists and capital from Asia there is every chance that the economy will weather Brexit and even emerge stronger.

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