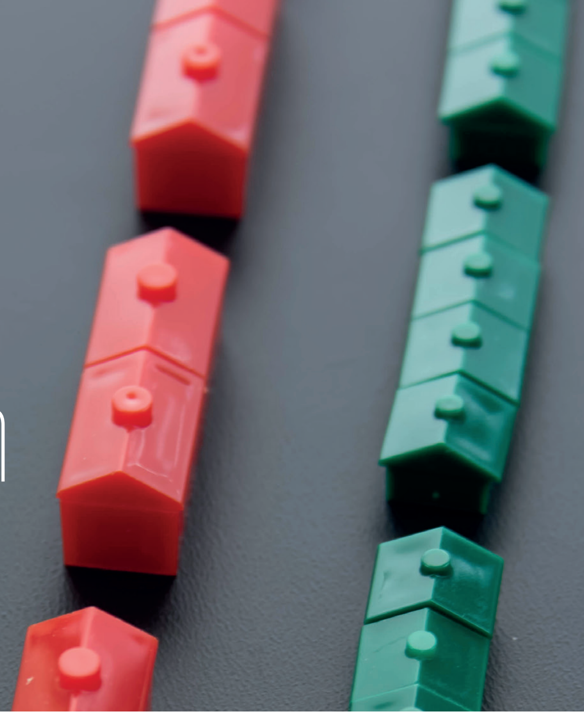

Global real estate investors take a position on Brexit Britain

Andy Pyle

Andy leads our Real Estate practice in the UK, and is responsible for overseeing all of KPMG's services to Real Estate clients. Andy is a Chartered Accountant, has been a partner for eight years and is a Deal Advisory specialist.

E: andy.pyle@kpmg.co.uk

T: +44 (0)7968 987345

At a glance:

- Attitudes vary hugely by investor according to factors such as origin of capital, investment strategy and opinion on Brexit
- Many private and overseas investors view Brexit as an opportunity, due to the cheaper pound and less competition from other buyers
- Overall 2016 UK transaction volumes were relatively healthy and significantly higher than some predicted
- Several commentators expect London to remain a global financial centre regardless of Brexit – the factors that make London attractive are not going to change overnight

Our survey of global real estate investors at the recent RE-Invest Summit at MIPIM 2017 revealed that nearly half (46 per cent) of respondents intend to continue with the same level of investment in UK property following the triggering of Article 50. Meanwhile, of the remaining respondents, 44 per cent said their organisation is likely to slow down investment, whilst just 10 per cent said they expected to stop investment altogether.

Since the Brexit vote there has been a noticeable dip in transaction volumes. Yet, the fall is nothing like the levels predicted prior to the vote, with many investors still very eager to invest in UK property. The reality is that what Brexit will mean for the real estate sector continues to unfold on a daily basis, and much still unknown – as the recent announcement on a general election demonstrations, we need to be prepared for the unexpected. This level of uncertainty is clearly having an impact on the industry's attitudes towards investing in the UK. Not surprisingly, these attitudes vary by investor according to the origin of capital, investment strategy and their own opinion on Brexit.

Global real estate investors' views on Brexit

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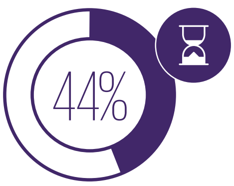

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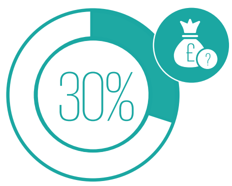

did not believe Brexit would have a material benefit on any other city

1st Frankfurt

2nd Dublin

Most international investors pointed to Frankfurt and Dublin as the main EU cities to potentially benefit from increased inward investment as a result of the UK leaving the EU.

"However, many respondents argue London will remain a global financial centre regardless of whether the UK is in or out of the EU."

This small sample of global real estate investors, albeit with a combined real estate portfolio of $600 billion (USD), is by no means conclusive. Yet, it does suggest investors are split when it comes to the future merits of investment in UK property. Conversations in the market indicate that division over sentiment is driven, at least in part, by whether Brexit is viewed as an opportunity or as a threat. With Article 50 now triggered, the uncertainty that follows is likely to prolong this polarisation.

This is demonstrated by UK transaction volumes in 2016, which showed a dip following two very strong years in 2014 and 2015, but overall remain relatively healthy and significantly above the drop that followed the global financial crisis.

Private and overseas investment has certainly been a contributing factor to this, with the cheaper pound and less competition from other buyers marking an opportunity. In their Q4 review of the Central London market, Cushman and Wakefield reported that overseas investors accounted for nearly three quarters of buyer activity in Central London in the second half of 2016, and 2017 is showing a similar trend. Regional markets, such as Birmingham and Manchester, have also attracted interest from overseas buyers.

When asked which cities would be likely to benefit from increased inward investment as a result of the UK leaving the EU, as many as a third (30 per cent) stated they did not believe Brexit would have a material benefit on any other city, with other respondents pointing mainly to Frankfurt (23 per cent) and Dublin (22 per cent).

As two of the EU's main financial centres outside of London, it is perhaps unsurprising that our survey highlighted Frankfurt and Dublin as cities with the potential to benefit from Brexit. Equally noteworthy, however, is that many respondents - and indeed many of my clients - strongly argue London will remain a global financial centre regardless of whether the UK is in or out of the EU.

The factors that make London attractive to occupiers remain in place and are not going to change overnight – language, timezone, transparency, rule of law, an established ecosystem of expertise and a history of adapting to global change. Furthermore, there are questions over whether other European financial centres could realistically absorb the vast financial services sector should these businesses look to move jobs out of the City.

Decisions about the future structure of businesses and their locations will undoubtedly be based on the expected out-turn of the Brexit negotiations, with particular attention on market access. While to date companies have generally looked to defer key decisions in areas that have potential to be affected by Brexit, this will change later this year as more businesses begin executing their Brexit plans.

With the Brexit countdown having now begun, it is vital that real estate investors now look at their assets on a granular level and understand the logic at work that will shape the wider real estate investment landscape.

About this survey

KPMG conducted this survey at the RE-Invest Summit at MIPIM in March 2017. The 60 delegates comprised of global real estate investors from 45 institutions across 23 countries, with combined real estate investment portfolios worth in excess of $600bn.

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