Property Options

Briefing Note

The EU Referendum And The Buy To Let Market

Introduction

This briefing note is being published before the EU Referendum on 23rd June 2016, so the obvious question is "why not wait and see?" However whilst the referendum is hugely important for the economy in general the housing market is complex and the factors referred to in this briefing note will play out over the course of several years regardless of the result.

Immigration

A recent report entitled Migrants and Housing in the UK : Experiences and Impacts published the Oxford University Migration Observatory highlighted the following key findings:

1. The foreign born population has significantly lower ownership rates (43% were home owners in the first quarter of 2015) than the UK born (68%).
2. The foreign born population is almost three times as likely to be in the private rental sector - 39% were in this sector in the first quarter of 2015 compared to the UK born (14%)
3. UK born and foreign born individuals living in London tend to have lower home ownership rates, and a higher likelihood of being in the rental and social housing sector relative to the rest of the UK.
4. Recent migrants (i.e. those who have been in the UK for five years or less) are almost twice as likely to be renters (74% were in the private rental sector in the first quarter of 2015), compared to all migrants. Those migrants who have been in the UK longer tend to have accommodation similar to that of the UK born.
5. UK born and foreign born individuals have similar levels of participation in social housing (about 17% of UK born individuals and 18% of foreign-born individuals were in social housing during the first quarter of 2015).
6. Recent evidence suggests that immigration decreases house prices in England and Wales. This impact is likely to be the result of UK born residents moving out of the areas with a large migrant concentration.

In a recent interview with The Guardian Chris Grayling M.P. urged younger voters to consider the practical consequences of a vote to remain in the EU and said that rising house prices were partly caused by migration into the UK. He said "It is already tough to buy a house but if we are bringing a population the size of Newcastle into the country every single year and if we cannot set limits on the number of people that come and work in Britain, simple maths says it is going to be even more difficult to get on to the housing ladder. If you keep doing that it must mean you have relatively fewer houses and more people chasing not only properties to buy, but properties to rent".

His remarks triggered a furious reaction from the executive director of *Britain Stronger In Europe*, Will Straw, who said legitimate concerns on immigration would not be dealt with by "wrecking our economy". *Vote Leave* know they have lost the argument on the economy, which is why they have reached for the Farage playbook and are seeking to blame immigrants for everything" he said. "There is no evidence for Chris Grayling's claims. In fact, studies have shown the impact on house prices is likely to be negligible or even cause them to fall."

Comment

Both sides of this argument fail to acknowledge the underlying problem - the chronic under supply of housing in the UK. A report from the London School of Economics points out that two thirds of housing demand is created not by net migration figures but by a lack of social housing stock and smaller households because of increase in life expectancy and delaying marriage until later in life. The Chartered Institute of Building have pointed out that as not enough British born nationals are either trained or interested in construction careers migrants are filling the gap.

Investment

Andy Pyle, Head of Real Estate at KPMG recently said that "Since the commitment to an EU referendum the real estate community has been noticeably reticent about investing in the UK." This view was echoed at a series of presentations from a US investment bank to UK fund managers. The overall message was that Brexit would spell prolonged uncertainty for investors and developers in the housing sector which could hamper building and therefore put up house prices.

In a similar vein Samuel Tombs, Chief Economist at Pantheon Macroeconomics said that "the construction sector is in the doldrums and faring badly under the strain of Brexit risk." In the event of a Brexit a leading investment bank has warned that the FTSE 100 could fall by more than 10% in the first year. However this drop would be cushioned by an 8% to earnings from the likely hit to the pound which could fall by 15% against the dollar.

Comment

Many commentators have given the view that the uncertainty arising from the announcement of the referendum has already reduced investment in the UK and that this will continue in the event of the UK leaving the European Union. In the short term this is not good news for the construction industry or the economy as whole. However the FTSE 100 could climb by as much as 5% over 12 months in a relief rally if Britain voted to remain in the EU.

House Prices

Chancellor George Osborne has recently spoken about the Treasury forecast that house prices would fall by 10 and 18 percent following a Brexit. This view has been echoed by commentators from the industry. Richard Donnell, the Insight Director at Hometrack recently said that "a vote to leave would result in a 5 to 10 percent fall in housing turnover with London bearing the brunt. A vote to remain will the greatest upside for house prices in regional cities where the recovery has been more short lived and affordability less stretched."

However Cameron Ewer, Head of estate agents Strutt and Parker in Cambridge said that "shortage of supply is outweighing the uncertainty of the EU question in Cambridge." A report by credit agency Moody's said that Brexit would have the biggest impact on the capital's housing market and would lead to fewer sales to EU nationals in central London which would lead to lower house prices with properties worth more than £1m most affected.

Comment

This is a quote from Simon Robinson, Chief economist at the Royal Institute of Chartered Surveyors (RICS). "All indications suggest that whatever the outcome of the forthcoming elections and referendum, in the long term the imbalance between supply and demand will still exert a strong influence on the market, with house prices expected to rise by close to 25% over the next five years."

Interest Rates

A top Bank of England policymaker recently warned that even if Britain votes to stay in the EU underlying weakness in the economy could mean that more support is required from the Bank. Jan Vlieghe, one of the nine policymakers who vote on interest rates, has previously floated the idea of them being cut below zero. He again raised the prospect of rates coming down further from their record low of 0.5%, when he said the economy could require "additional monetary stimulus" if it does not rebound after a remain vote in the EU referendum on 23 June. "The reason expected future real rates are low is that monetary policy has responded and is expected to continue to respond appropriately to persistent forces weighing on demand and inflation. Interest rates are low because that is what the economy needs in order to keep inflation expectations anchored," he said.

Vlieghe also raised the prospect of decades of low borrowing costs. "Persistent effects from debt de-leveraging, demographic shifts and changes in the distribution of income have created an environment where a given level of growth might be consistent with substantially lower interest rates than in the past. This environment might persist for years, even decades," he said.

Comment

Property investors can feel relatively confident that interest rates will not increase as a direct result of the EU referendum.

The Industry View

David Cox, head of the Association of Residential Letting Agents ARLA says tenants should not get too excited about potential rent falls, as Buy to Let landlords may quit the market after a vote for Brexit. Rent bills are likely to fall if Britain exits the EU and property will become more affordable to first-time buyers, according to the bodies that represent the UK's estate agents and landlords. The National Association of Estate Agents (NAEA) said that Brexit would cut levels of immigration and depress future price rises, leaving the average UK house worth £2,300 less in 2018, and £7,500 less in London.

"Lower immigration would mean less people looking for accommodation which would lessen the demand and, potentially, the upward pressures on housing prices, especially in those regions popular with EU migrants," said the report. "Lower immigration would also impact rental prices. UK residents born in other EU countries are far more likely to be private renters. Therefore if fewer EU nationals move to the UK in the long term there may be a noticeable impact on demand levels."

It said an out vote “could provide first time buyers with breathing space as demand for housing eases off”. But it warned that Brexit would also hit the construction industry hard, jeopardising plans to build more houses. One in 20 workers in Britain’s construction industry were born in non-UK EU countries, said the NAEA, and they are vital in filling the skills gap.

The NAEA and ARLA which together have about 15,000 members, have refused to endorse either the remain or leave camps, saying that their members are split on the issue.

Comment

We leave the final comment to Mark Preston, the elect executive trustee of the Grosvenor Group as reported in the Daily Telegraph. “We absolutely should not be having a referendum. It shows an extraordinary lack of spine on behalf of our politicians.”

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