FIVE YEARS **SINCE THE EU REFERENDUM**

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HOW HAS THE UK PROPERTY MARKET FARED SINCE THE EU REFERENDUM?

On 23 June 2016, the UK voted narrowly in favour of leaving the European Union (EU). The referendum remains a landmark moment in the UK's modern history, with the aftereffects still being felt.

In the five years since the vote, there have been three different Prime Ministers, two general elections, and a drawn-out process of negotiating then implementing a formal Brexit process. When coupled with the immense challenges and hardships brought about by the Covid-19 pandemic in early 2020, it has been a period of political and economic uncertainty.

No sector of the economy, nor any financial market, has escaped the impact of this prevailing sense of uncertainty. However, that is not to say the impact has been unilaterally the same for every market or industry.

It is, then, important to assess how the property market has fared since the EU referendum. After all, the build-up to the ballot itself was characterised by strong claims about what would or would not happen should the UK quit the bloc.

So, five years on, and with the eventual Brexit process having been completed on 1 January 2021, now is an opportune moment to reflect on the realities that have come to pass since the vote. In this report, **Market Financial Solutions (MFS)** delves deeper into the topic.

Bold Brexit Predictions

Just weeks before the Brexit vote, the serving Chancellor George Osborne warned that UK house prices could tumble by **almost 20%** if the country decided to leave the EU. Like much of the rhetoric surrounding the referendum, such claims made by both Remainers and Leavers tended towards the extreme, with media divisions exacerbating the polarised views that were reported.

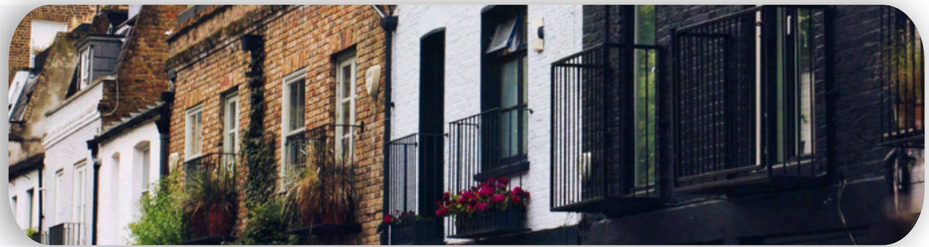
Nevertheless, articles predicting what Brexit would mean for the property market – or indeed any industry – were commonplace in the months preceding the referendum. Many commentators were downcast when forecasting how bricks and mortar would perform if the Leave campaign proved victorious.

For instance, a report released by analysts at Deutsche Bank and credit rating agencies S&P and Fitch suggested that voting to leave the EU would **instantly reduce** the value of UK houses, while the National Association of Estate Agents claimed Brexit would reduce UK house prices by **£2,300** and the average London house by **£7,500.**

PROPERTY PRICES CONFOUND PREDICTIONS

The reality has proven to be very different. According to the *Office for National Statistics*, (ONS) the average UK house price in June 2016, as the country was preparing to vote, stood at **£212,887.** By March 2021 (the most recent figures available) this number had risen by more than **20%** to reach **£256,405.**

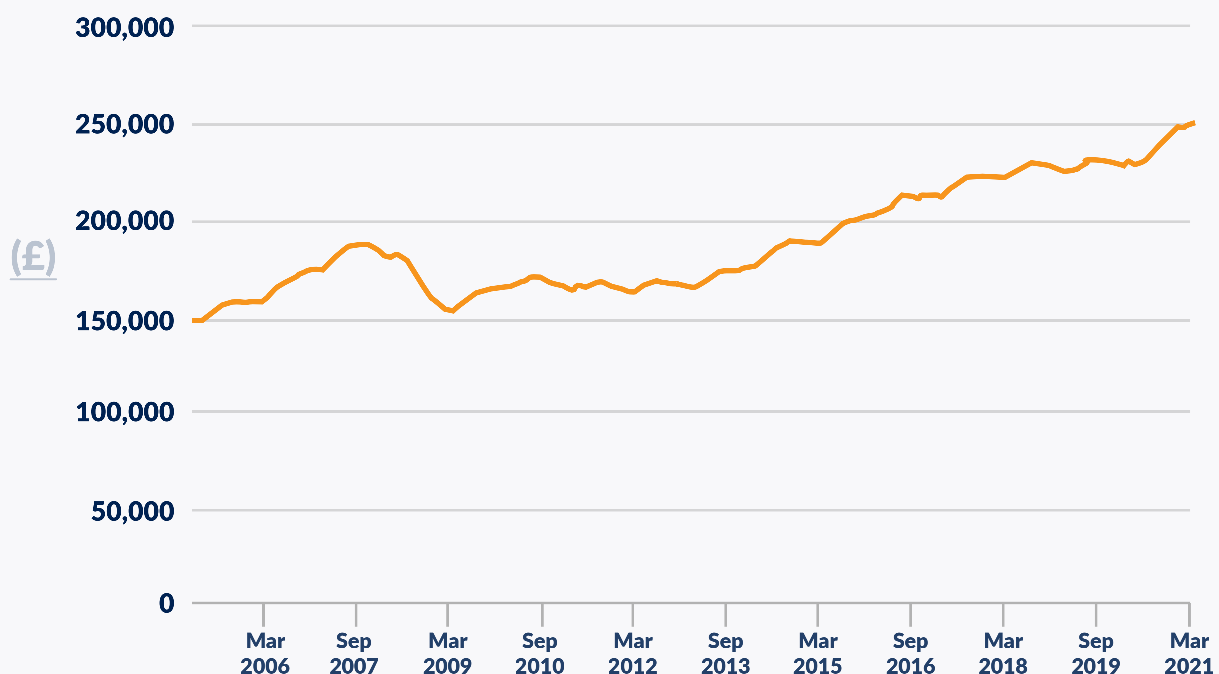
20%
£256,405



Regardless of the aforementioned political and economic uncertainty that has lingered since the start of 2016, **property prices have risen at a considerable rate**. The most pronounced growth has occurred since mid-2020, with the stamp duty holiday catalysing market demand, transactional activity and, ultimately, price increases.

That said, even in the immediate aftermath of the EU referendum, house prices held flat or, in most cases, continued to rise steadily. This can be seen in the table below, courtesy of the ONS.

Average house prices, UK: January 2005 to March 2021



DEMAND FOR BRICKS AND MORTAR

The ONS data demonstrated a steady upward trend in house prices over the past 15 years, with the exception of a sharp dip prompted by the global financial crisis in late 2007 and into 2008. In fact, the historic data on house prices is more remarkable still. At the start of 1991, the average UK residential property value stood at £57,000 – as noted above, 20 years later this figure had more than quadrupled, exceeding **£249,700.**

The long-term capital growth of property investments is fundamental in understanding its strong performance in more recent years. UK residential real estate is regarded as a safe asset among both domestic and international buyers; therefore, during periods of uncertainty and transition, such as the past five years since the EU referendum, investors are likely to gravitate towards bricks and mortar.

In January 2020, MFS commissioned an independent survey of over 750 UK real estate investors, all of whom own three or more residential properties across Britain and Northern Ireland.

We found that:

79% intended to invest in more properties in the year ahead

61% saying that bricks and mortar was, in their eyes, a safer investment than most other options available to them

The research is indicative of investor sentiment.

There are, however, several other important factors at play. Coupled with this consistently high demand has been the well documented shortage in available housing. This imbalance between supply and demand has been critical in driving UK house prices upwards over many decades.

In more recent years, record low interest rates have played their part, too. Between March 2009 and August 2016, the Bank of England's base rate remained at 0.5%, far below the levels prior to the global financial crash (the base rate in July 2007 was 5.75%).

It fell to a historic low of 0.25% in the summer of 2016, with the fallout from the EU referendum contributing to this slight dip, before then recovering slightly to reach **0.75% by the start of 2020**. But the onset of the pandemic resulted in the BoE cutting the base rate to 0.1%, where it remains.

The base rate existing at below 1% for the past 12 years has contributed to the property market's continued growth. It has meant that borrowing is relatively cheap for homebuyers and investors, spurring on demand.

The positive sentiment towards bricks and mortar as a safe asset (driven by historic data), the lack of supply and low interest rate environment have all come together to fuel property investment activity in recent years. Add to that the introduction of the stamp duty holiday in July 2020, and the market has performed remarkably strongly over the past year.

Buy-to-let market also undergoes changes

When assessing the evolution and performance of the property market since 2016, it is important, certainly from a property investment perspective, to establish the wider context of other reforms that have taken place.

Over the past five years, the buy-to-let (BTL) market has experienced a number of notable changes, which will have impacted on property investors and landlords. Below is a timeline of the major events:

- **April 2016:** an additional 3% stamp duty surcharge is introduced for second homes
- **April 2017:** a tapered reduction in mortgage interest tax relief is introduced, leading to its removal in 2021. Landlords now receive a 20% tax credit, meaning those paying basic rates will be unaffected, but landlords who pay higher and additional rates will be charged more
- **October 2018:** new regulations are brought in for houses in multiple occupation (HMOs). The changes included prohibiting landlords from renting rooms with less than 6.51 square metres to single adults. For two adults, the figure increased to 10.22 square metres
- **April 2019:** the Government tables a motion to abolish section 21 of the Housing Act 1988, announcing "private landlords will no longer be able to evict tenants from their homes at short notice and without good reason". In May 2021 it was confirmed that the Bill was to be brought forward to establish this reform
- **March 2020:** in response to the Covid-19 pandemic, with many tenants placed on the Furlough scheme, the Government introduced The Coronavirus Act 2020, which protected tenants by delaying landlords' ability to evict. Landlords had to provide six months' notice before starting the process (this was in place from August 2020 to June 2021)

This series of reforms has, to an extent, affected the property investment sector and caused landlords to reassess how they are managing their portfolios. For instance, the new HMO regulations have resulted in significant refurbishment and renovation activity, as landlords sought to bring their properties in line with the new regulation.

Nevertheless, as with the property market as a whole, the real estate investment sector has remained buoyant since June 2016. The reforms detailed above, while providing much-needed protection to tenants, have not dampened demand for BTL investment opportunities.

The National Residential Landlord Association measures landlord confidence in its quarterly Landlord Confidence Index. The organisation reported increased levels of confidence in both **Q4 2020 and Q1 2021.**

Further, a survey in May 2021 by The Deposit Protection Service found that:

34% of UK landlords had either purchased another buy-to-let property in the past year or intended to buy one within the coming nine months.

The aforementioned price growth has been a critical factor in attracting more investors into the BTL market, as well as encouraging existing BTL landlords to either maintain or grow their portfolios. This price growth has been supported by improved rental returns of late – the ***HomeLet Rental Index*** shows that in May 2021 the average rental price for a **new tenancy in the UK was £997 per calendar month, which is a 4% year-on-year increase.**

THE PROPERTY MARKET MARCHES ON

As with many predictions made by both the Leave and Remain campaigns in the lead-up to the 2016 EU referendum, many have since been proven to have had little substance. When it comes to the property market, suggestions that Brexit would result in crashing house prices or an exodus of investors from the real estate sector have been exposed as wildly inaccurate.

The property market does, however, look different today than it did in the middle of 2016. Importantly though, this is more the result of the aforementioned reforms to the buy-to-let sector, coupled with the more recent changes in homebuyers' preferences and priorities, which have been affected by the Covid-19 pandemic (see MFS' report – ***The Homebuyer Wishlist 2021*** – for more information).

As outlined in this report, in the five years since the referendum, property prices have marched upwards, in much the same way they have for decades. Inevitably, major political turbulence and ongoing economic uncertainty have brought about a degree of short-term hesitancy; however, now 60 months on from the vote, the overall trend has been one of continued growth and progress.

The thoughts of our CEO

" There's no denying what a significant moment the EU referendum was in the UK's modern history. It has had, and will continue to have, a major bearing on the country's political and economic status, even if it is likely to be many, many years until we can truly understand its full implications.

"What we can say with more confidence is that the property market has performed strongly since the Brexit vote. Some might say that the market has progressed in spite of Brexit; however, in my opinion, Brexit has actually contributed to the appeal of bricks and mortar investment. Just as we have seen in the midst of the Covid-19 pandemic, investors (both domestically and internationally) tend to gravitate towards real estate in times of uncertainty, owing to its historic track record of delivering long-term capital growth.

It will be fascinating to see how the market evolves from here. As we emerge from the pandemic and the realities of Brexit become better known, investment flows are likely to change and we may also see different segments of the property market – the commercial sector, for instance, or residential real estate in rural areas – expand or contract at markedly different rates.

Brexit or no Brexit, the focus at MFS remains the same. We must ensure that we support our property investor clients as best we can by ensuring they have access to bridging loans that meet their particular needs and circumstances. That has been the case for the past 15 years and will continue to be the case for many years to come. "

Paresh Raja, *CEO, MFS*

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