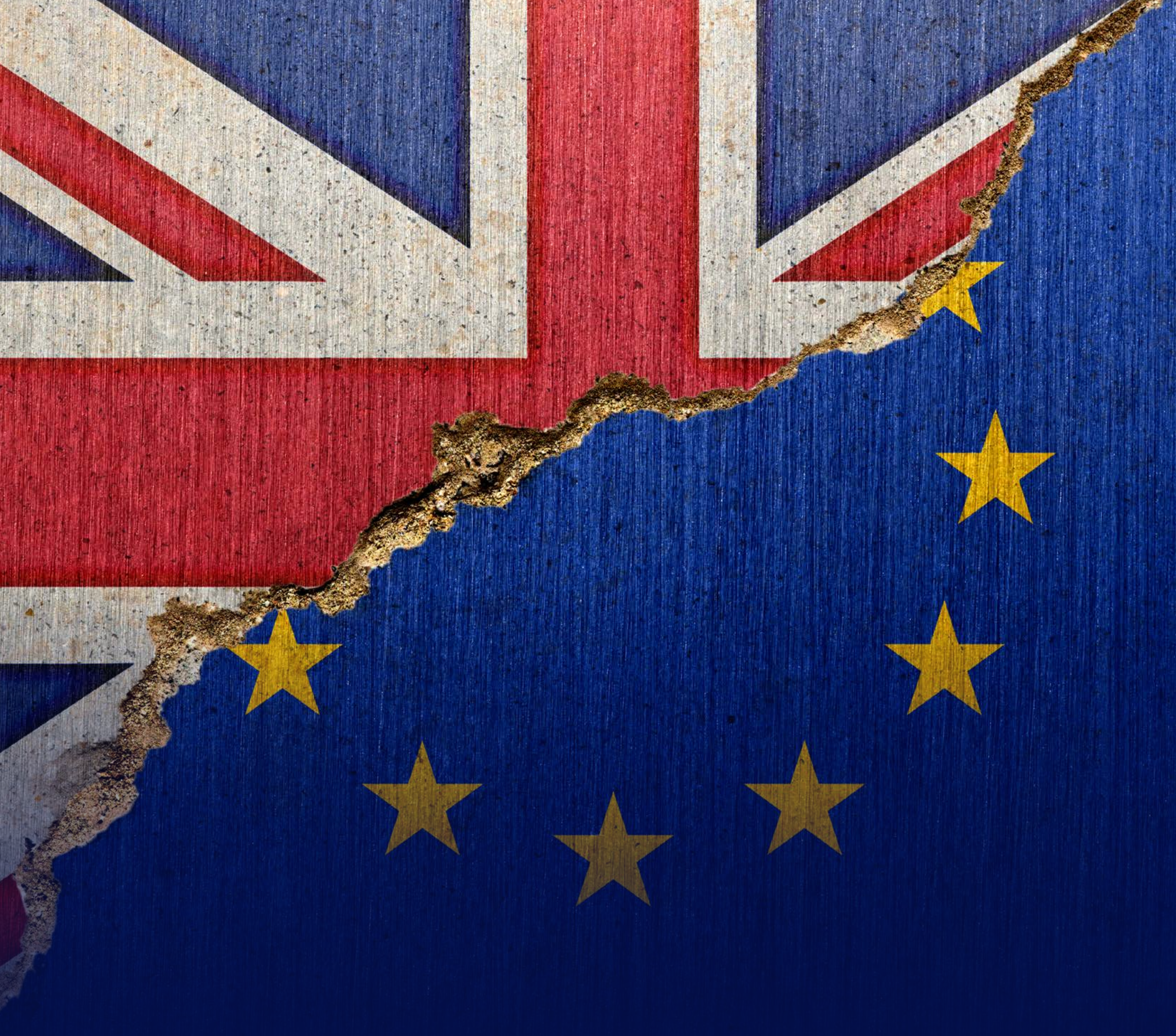

EXPERIENCE INVEST

UNDERSTANDING PROPERTY INVESTMENT IN A POST-BREXIT WORLD

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On 23rd June 2016, the UK public voted – albeit by a narrow margin – in favour of leaving the European Union (EU). It was one of the most significant moments in recent British history, and during the two-and-a-half years since the referendum, the topic of Brexit has never strayed far from the media spotlight.

Exactly what impact the UK's departure from the EU will have on the property market, and how investors can best plan for the future amidst the uncertainty it has caused, both remain topics of great importance.

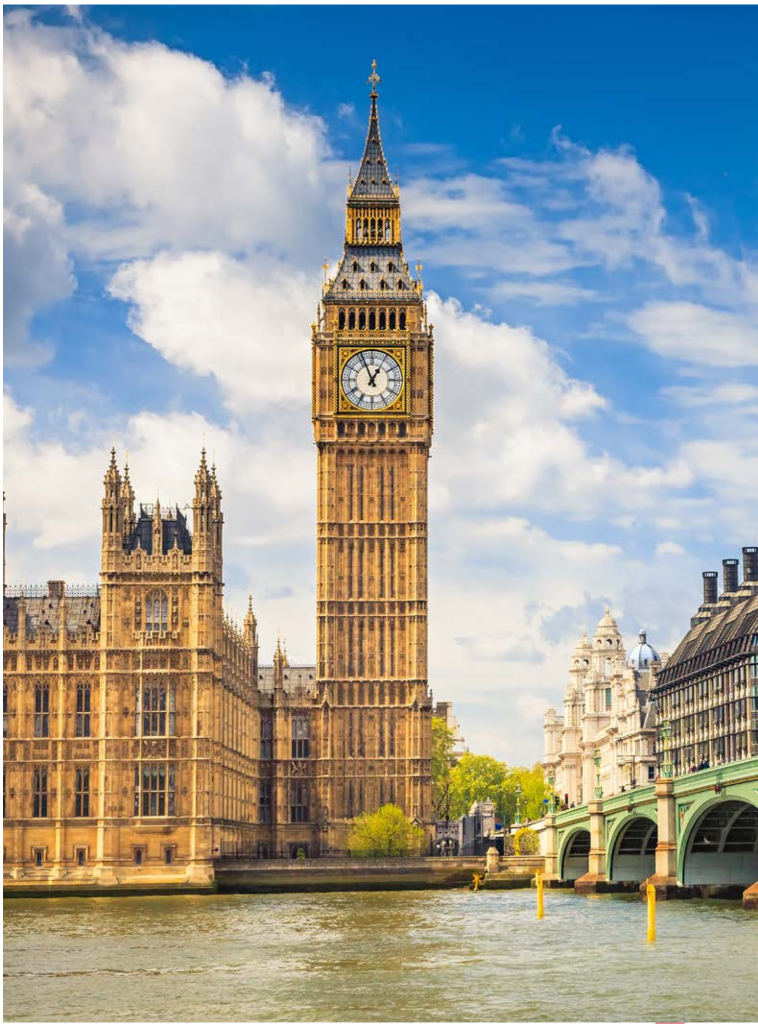
These unanswered questions have been a source of uncertainty for people not only in Britain but internationally. Businesses, consumers and investors alike have been naturally hesitant in making major decisions, conscious of how economic landscapes and financial markets will change post-Brexit.

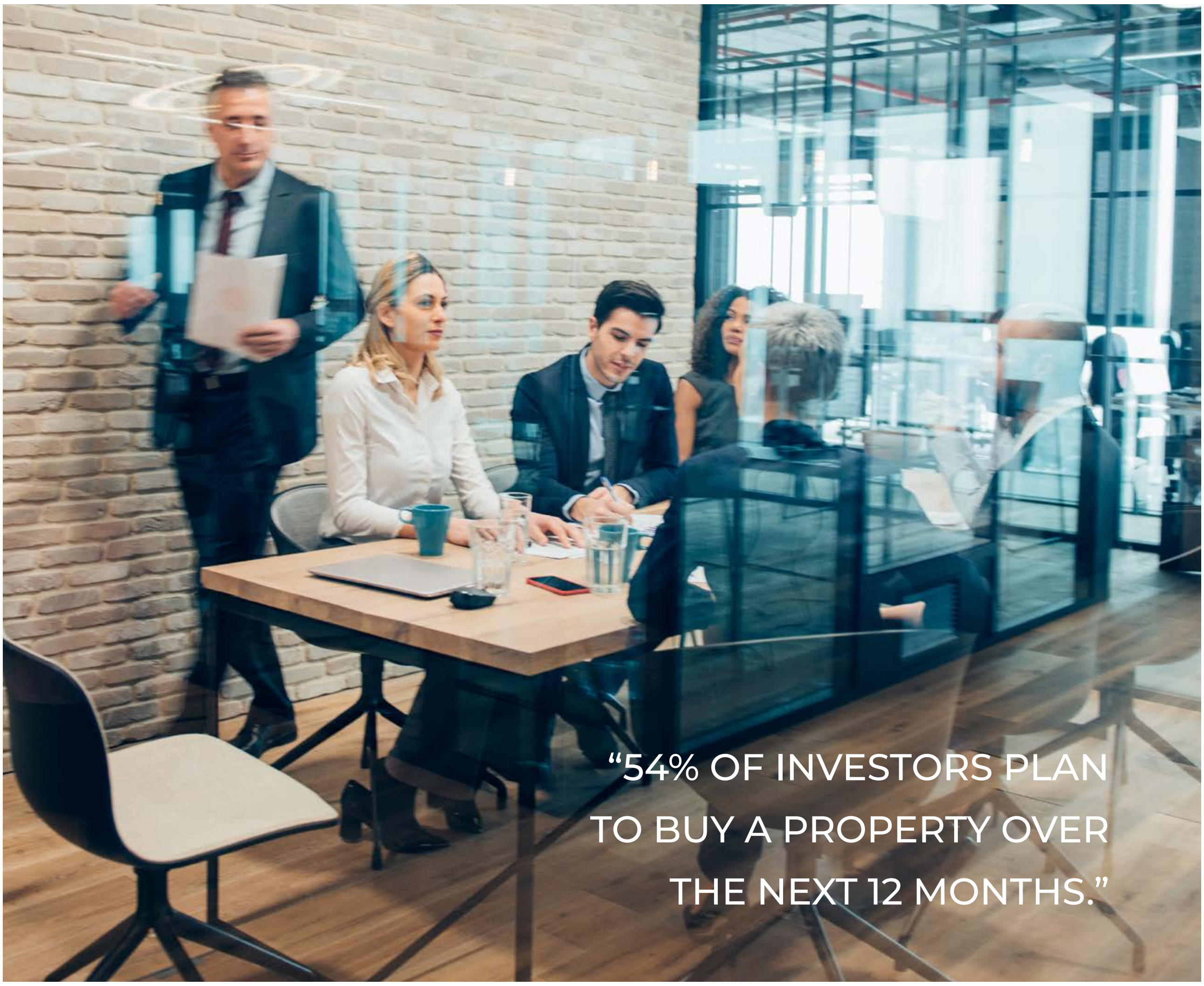
Appetite for property investment remains

Positively, independent research commissioned by Experience Invest in February 2019 demonstrates that even amidst the palpable sense of Brexit frustration – or BoB (bored of Brexit) as it has become known – property investors are not going to allow this single issue to derail their financial plans.

The survey of more than 500 UK-based real estate investors (all of whom own two or more investment properties) found that 39% plan to increase the size of their portfolio over the coming 12 months, compared to just 11% who intend to reduce theirs. Of the others, 25% do not intend to buy or sell any property in 2019, while 15% will be selling some assets to reinvest in new properties.

You can read all the findings from this research in our recent report: Uncovering the UK's 2019 property investment hotspots.





With 54% of investors looking to buy a property over the year ahead, and 89% either maintaining or growing the size of their portfolios in the next 12 months, the appetite for bricks and mortar investment evidently remains strong.

Nevertheless, set against the backdrop of on-going Brexit discussions and the eventual realisation of this very public divorce, property investors must keep a keen eye on how these events will impact their financial decisions. Specifically, investors have to cogitate about how they can successfully navigate the real estate market in a post-Brexit world.

To that end, calling on its years of experience and unique insight into pertinent industry trends, Experience Invest has created a list of five of the most important factors to consider for post-Brexit property investment.

1. Consider all the assets available

Investors should avoid viewing property investment as a black and white decision between residential and commercial real estate. While these two umbrella categories incorporate the overwhelming majority of properties available on the market, there is also a growing demand for non-traditional property investments.

In recent years specialist properties – such as hotels, student accommodation and care homes – have all experienced considerable increases in private investment. According to Knight Frank, activity in the specialist property sectors grew by 40% in 2017.

It reflects the findings of Experience Invest's aforementioned research from February 2019. It found that while houses (67%) and flats (54%) are the most common assets that investors are considering buying over the coming year, commercial (34%) and semi-commercial (21%) real estate is also popular. Furthermore, it uncovered that a quarter (24%) are looking to purpose-built student accommodation (PBSA) investment.

A study from Knight Frank states that 29,000 purpose-built student bedrooms will be delivered across the UK by the start of the coming 2019/20 academic year; a 25% increase on the previous year's figures.

The PBSA market is clearly worth investors considering post-Brexit. For one, the UK has some of the world's leading universities, which results in large student communities and sizeable demand for PBSA. In fact, as of 2018 the UK had 98 institutions in the Times Higher Education rankings of the best 1,250 universities globally – only the United States and Japan have more.

Moreover, Brexit ought not to lessen demand for student properties. Of the 460,000 international students studying at UK universities, less than a third (140,000) come from the EU. And as overseas students represent the largest demographic for PBSA, this market is likely to remain buoyant after Britain leaves the EU.

More generally, for investors with large portfolios, diversifying across different types of assets – from new-build flats and traditional homes through to hotel rooms and student accommodation – could place them in a position of strength following Brexit.

Importantly, keeping an open mind to different categories of real estate will ensure an investor is well positioned to source the best and most appropriate asset for their particular goals, whether that is a regular source of rental income or long-term capital gains.

Off-plan investments, for example, can deliver regular monthly returns to the investors over a number of years while also giving them ownership of an asset that can then deliver capital growth thereafter – off-plan purchases span residential, commercial and specialist properties, and could provide the structured returns investors are looking for in the less assured post-Brexit climate.

2. Look to regions of high investment

Along with an open-minded approach to different asset classes and how to invest in them, an investor must also identify the right locations for his or her post-Brexit property purchases.

When narrowing down potential options, it is wise to consider three key trends: firstly, which areas have recorded the highest levels of property price growth over recent years; secondly, which areas do real estate experts predict will enjoy the highest price growth or rental yields in the years to come; and thirdly, which areas are due to receive significant public or private investment in the foreseeable future.

Establishing the towns, cities or counties that have experienced the highest growth in property prices is relatively straightforward given the wealth of historical data available. And while the UK market as a whole has delivered very strong returns in this regard for many years – average house prices rose by more than £60,000 between 2008 and 2018 – some markets are growing at a far quicker rate than others.

Hometrack's UK Cities House Price Index revealed that in 2018 some of the highest growth in property prices were recorded in Leicester, Liverpool and Cardiff, at 7.7%, 6.0% and 4.6% respectively. Over the same period in London, house prices had in fact contracted by 0.4%.

Tracking this past regional data is the first step. Secondly, property investors must consider the regions that are forecast to experience the most growth in the future. This is inevitably less of a science, but calculating local factors such as supply, demand and wealth can deliver some sound predictions. For example, Savills says prices in the North West are due to rise at the fastest rate (21.6%) of anywhere in the UK between 2019 and 2023, driven by buoyant professional and student communities, limited demand and higher earning power.

This forecast mirrors Experience Invest's research. The survey found that the North West was the second most popular region property investors are considering for their next purchase (behind Greater London), with Manchester and Liverpool both in the top three most popular cities for real estate investment in 2019/20.

To help inform future predictions, investors should also research regional investment plans. From transport improvements and digital infrastructure to business hubs and property developments, such investments can have a significant impact on the performance of a regional market.

Luton, for instance, is currently the subject of a £1.5 billion regeneration project to upgrade the entire town centre and build more residential properties, which will likely lead to greater demand for both rental and buying opportunities in what was crowned as London's leading commuter town for the past two years.

After Brexit, investors must weigh up the available information to explore which regions are best placed to deliver strong returns. Moreover, one should not limit his or her search just to established investment hotspots – markets that have already experienced spikes in price growth could flatten post-Brexit, as London's market has shown since the referendum – but instead attempt to identify markets that are at the start of an upward growth trend.

3. Think about the medium to long-term plan

As with any investment, when navigating the post-Brexit property market investors must be clear on their medium- and long-term plan, including how they will exit the investment.

For some investors, short-term gains are the priority – this will typically be a case of purchasing a real estate asset, renovating or refurbishing said property, then selling it on at a markedly higher price.

More commonly, however, people invest in property with a more long-term view. Indeed, the growth of UK property prices over recent decades has outperformed many other asset classes, so purchasing real estate with a view to selling it in five, ten or even 20 years' time is often the safest way to secure significant capital growth.

For overseas property investors, currency exchange rates also present a range of medium and long-term opportunities. In March 2016, one pound sterling was worth approximately 1.27 euros – today it is worth 1.15 euros. These favourable rates have helped maintain international interest in UK property, and with historical trends showing that sterling typically rebounds after periods of uncertainty, backing the future value of Britain's currency could offer an effective means of achieving capital growth over five to ten years.

With Brexit uncertainty likely to hover overhead even once a deal has been agreed and the deadline has passed, having both a medium and long-term plan is advisable. This ensures the investor is prepared for different eventualities.

Furthermore, investors must consider both the immediate returns and future capital growth. As referenced earlier, off-plan property investments can deliver healthy returns on a monthly or annual basis.

The long-term benefit is that investors can also capitalise on the increase in value of the asset; but should they not want or need to sell it, they can still receive a rental income from the property. Off-plan opportunities are often provided at discounted rates, too, which provides investors with a degree of protection in case Brexit has a negative impact on property values in the short- to medium-term.

Having a clear plan that accounts for various market fluctuations and also provides multiple means of achieving financial returns will be of particular importance when investing soon after Brexit; a period when it will be hard to predict for certain how the industry will react to the challenges leaving the EU presents.

4. Choose the right partners to work with

Brexit uncertainty does not just impact investors and their decisions – for better or worse, most businesses will also feel some effect of the UK's decision to leave the EU.

It is, therefore, important that investors choose the right businesses and partners to work with. This includes mortgage providers, estate agents, construction firms, developers and solicitors. Investors must select service providers that have the confidence and assurance to deliver what is expected of them irrespective of Brexit.

This will involve working with firms that have a positive track record over a number of years, including overcoming turbulent situations such as the global economic crisis in 2008. Companies that have weathered such storms will have done so thanks to the resilience of their product or service, as well as the skills they have and their overall financial strength. And during times of uncertainty, such experience and expertise becomes even more valuable.

After Brexit, property investors must select the businesses they work with wisely. Again, this requires due diligence and research to establish their past record – one must have absolute confidence that the other people involved in a real estate deal can all deliver what is needed of them.

5. Do not abandon the basics

Due diligence in finding the right asset, the right location and the right partners is essential; however, for all of the factors outlined in this report that ought to be considered, it is equally important for property investors not to lose sight of the basics.

Whatever rumours or predictions surface in the media regarding the impact Brexit could have on the UK's property sector, the fundamentals that govern this market are unlikely to alter dramatically. Namely, returns will be shaped by the balance between supply and demand along with the relative attractiveness of a particular property or location.

As such, the same principles that applied when investing in property before Brexit will apply once it has come to pass. For example, location will remain of vital importance – the desirability of a property, whether commercial or residential, cannot be separated from its location.

For residential properties, one must consider local amenities and schools. For commercial properties, the connectivity – both physically and digitally – will be key.

Similarly, the quality and condition of the property itself is also an important factor. If investors are considering an off-plan residential purchase, they ought to study the plans carefully, see any available show homes and also request access to previous developments completed by the same firm. This way they can gain assurances regarding what the finished article will look like.

Alternatively, if investing in student accommodation, then investors should consider whether it has the features and modern facilities (or modcons) that the modern student comes to expect – if not demand – of the place they live. They should also think about the size of the student market and how high demand therefore is; doing so will provide insight into how easy it will be to fill the property and the yields they can anticipate.

Ultimately, one must remember that for all the attention it receives, Brexit will not irrevocably change the property market. And to make sensible investments post-Brexit, investors must still base their decisions on fundamental, diligent considerations about the location, quality and appeal of a particular property.

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