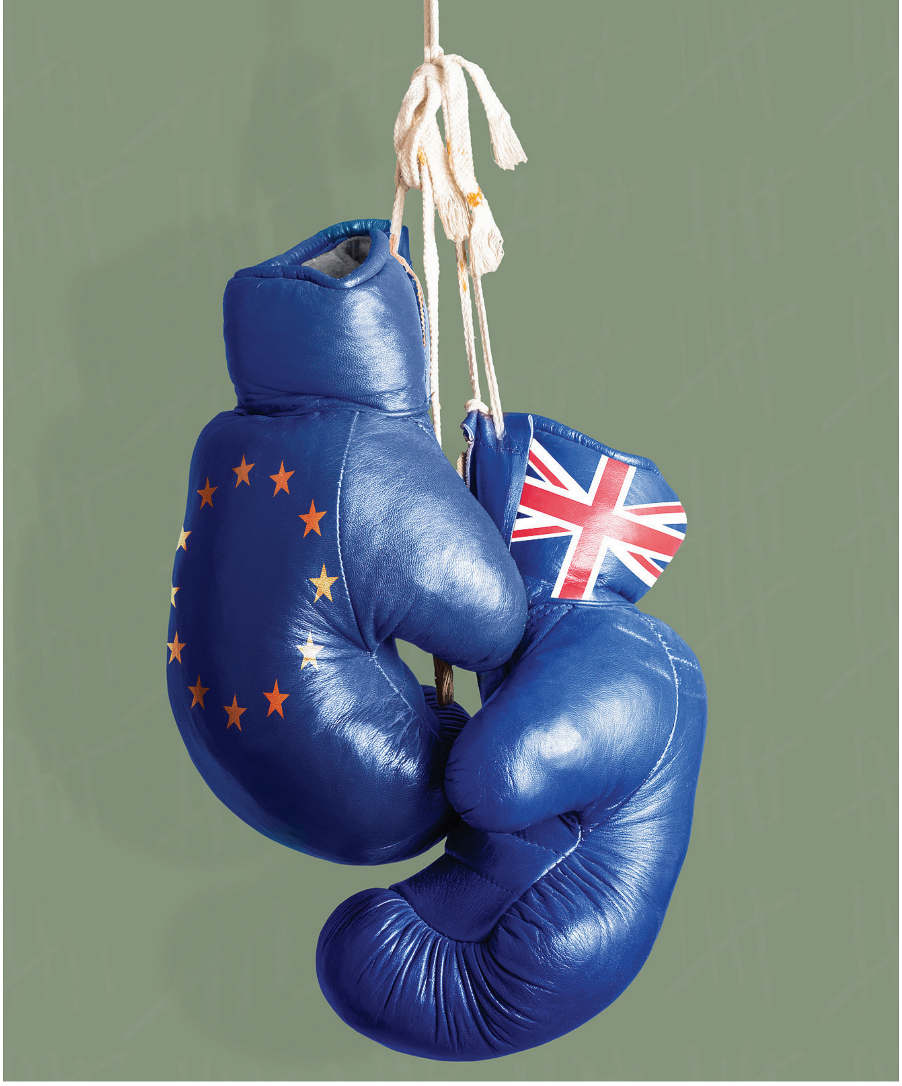

The gloves are off!

The gloves are off as politicians, pundits and business leaders hit us with a barrage of opinion on EU membership. In all the uncertainty, a lull in property transactions is anticipated. **Marc Da Silva** reports.

It has been a strong start to the year for the UK housing market, with property prices, rents and market activity rising across many parts of the country, driven partly by a surge in demand for buy-to-let properties from investors keen to beat the new three per cent stamp duty surcharge on second homes and buy-to-let investments.

Record-low borrowing rates, a stable economy and a widening supply-demand imbalance helped to drive up house prices across much of the UK in the early part of 2016, as reflected by the latest Knight Frank/Markit House Price Sentiment Index which hit a 16-month high in February.

"While pay growth has been sluggish and the economic outlook weakened in recent months, a resultant expectation that interest rates will stay low for longer seems to have boosted UK house price perceptions at the start of 2016," said Tim Moore, Senior Economist at Markit.

But greater confidence in the market may be short-lived, with various analysts forecasting that the market will cool in the coming months as landlords adjust to April's stamp duty changes. "It is inevitable that April's stamp duty changes will take a little of the heat out of the investor market," said Simon Rubinsohn, RICS Chief Economist.

However, there is another major issue that is set to reduce the appetite for property purchases: The EU referendum.

There are ifs and buts, but as in the run-up to last year's General Election, when the housing market ground to a halt, nothing spooks the markets more than uncertainty.

The looming referendum creates uncertainty, delaying decisions, impacting housing transactions as buyers and sellers adopt a "wait and see" approach until after the vote.

A poll of 1,000 homeowners conducted by Bishop's Move found that 47 per cent of those in London, for instance, will delay their decision on whether to buy property until after the EU Referendum. Only 20 per cent said it would not affect a decision.

> "If it's 'out' the UK will suffer less than the 'in' camp suggests and a bit more than the 'out' camp says, but it'll be a bump in the road not an enormous event." **Saul Empson** Haringtons UK

SITTING ON THE FENCE

The referendum has sparked a major debate but amid the spin, scaremongering, derision and contempt, few facts have materialised.

Crystal ball gazing is an uncertain task, but would the UK property market benefit if the people of Britain do vote to exit the 28-member block?

"I'm currently sitting on the fence. Emotionally I think we should be out, but financially I'm not so sure," said Vivienne Harris at Heathgate. "Nobody really understands the repercussions of exiting because it's a leap into the unknown, so to stay in seems an easy option."

"If the outcome is to remain in the fold, then the market will continue in the same vein, be it more cautiously. If the vote is for Brexit then nobody can foretell. If I had to guess I would say that the property market will suffer turmoil for one to three years until Britain finds its feet again."

THE GRASS MAY NOT BE GREENER

The impact of a Brexit on the housing market would depend upon its impact on the economy. A survey by accountants KPMG found that 66 per cent of property experts believed that Britain leaving the EU would have an adverse impact on inbound cross-border investment, as investors survey the new landscape.

Saul Empson from the buying agency Haringtons UK points out that we have had "quite a basin-full" to deal with over the last 18 months, including the threat of a mansion tax, the Scottish referendum, big rises in stamp duty, a General Election, and now an EU referendum. "These have been turbulent times and uncertainty is the very thing that the property market hates," he noted.

Saul describes himself as a "slightly irritating agnostic on the subject of Europe" – he believes that here should be a European Community, but that an EU based on the supposition that all European countries are basically the same, and subject to an overarching Federal Government without the inconvenience of the democratic process does not seem like the answer.

"My private suspicion is that leaving the EU would be a worse option compared to a wholesale reform of the EU but, failing that, it's difficult to see what else could happen? I suspect that London and the Country will suffer less than the "in" camp suggests, and a bit more than the "out" camp says, but I think that it'll be a bump in the road, rather than an enormous event."

"80% of the people working on our sites are not of British descent – outside it is 60%. Who's going to build the 100,000 homes a year that we need?" Bob Weston Weston Homes

BRITAIN COULD FLOURISH

Despite concerns that the housing market will be hurt by a Brexit, others argue that the market may actually benefit from more inward investment if freed from EU regulations.

"Although 'Project Fear' will try and make us believe otherwise, frankly, as we have thrived by not joining the Euro, I think, we will do very nicely outside of Europe particularly where we can expand, at will, our trade with India, China and the US," Trevor Abrahmsohn, Director of Glentree Estates, commented.

"Following Brexit, after a period of renegotiation with the EU, I believe inward investors to the UK will want to benefit from the new and beneficial labour laws that will come into force that will be pro-business, employment and growth. The UK will effectively become 'Treasure Island.'

"We think, behave and govern ourselves differently to mainland Europe and we should have greater belief in our own ability, no one will protect our future and control our own destiny better than ourselves."

EARLY IMPACT

Uncertainty in the market ahead of the referendum has led to a notable drop in sales transactions, if this trend continues it will inevitably impact on the sustainability of house price growth in the near term.

Hometrack's latest UK Cities House Price Index shows that the annual rate of price growth in cities across southern England is starting to plateau as sales slow and affordability pressures on would-be buyers increase, with a Brexit likely to impact future volumes.

Richard Donnell, Insight Director at Hometrack, believes that the EU referendum adds further complexity to an already complex outlook.

"A vote to remain in the EU should see a return to business as usual whereas a vote to leave will create additional uncertainty," he said.

UNSAFE HAVEN

London's housing market may be affected more than the rest of the country in the event of a Brexit, particularly the upper end of the market which is more reliant on foreign investment.

London's 'safe haven' status among investors has long made it a wealth magnet for foreign investment, especially when financial and political turmoil wreaks havoc across the globe.

In the short-term, a predicted fall in the value of the pound caused by concern about leaving the EU may benefit overseas nationals seeking a safe haven for their money.

With sterling's value – currently at a seven year low against the dollar – falling against a number of major currencies, and with a Brexit set to weaken it further, some buyers, particularly overseas nationals, may be wise to run with the window of opportunity that this currently creates.

"In recent weeks, the pound has hit a seven-year low against the US dollar and softened against the euro as a result of uncertainty," said Louisa Brodie at Banda Property.

"Whilst uncertainty can be bad for the market as investors adopt a 'wait and see' attitude, we expect bolder foreign buyers to see this as an opportunity."

On the other hand, it has been suggested that a Brexit may cost London property its safe-haven status among Europeans, at least, as some of those already invested could sell up and look elsewhere in the EU, while others may be deterred from investing altogether.

Property tax expert at Cornerstone Wealth Protection, David Hannah, commented, "An exit from the EU sends a clear message to foreign investors and corporations, one group of which is housebuilders looking to enter the UK market, that they are not welcome. Many of these interested parties will not only be large property tycoons looking to build luxury prime location residences; but are in the business of building affordable homes for regular people too."

FEWER NEW HOMES

Concern about a Brexit has contributed to a sharp fall in housebuilding. In February, the level of construction of new homes dropped to its weakest growth rate since June 2013, with housebuilding data from Markit/CIPS construction purchasing managers' index suggesting that developers are less willing to commit to projects due to the uncertain economic issues on the horizon.

Despite the need for more homes, Bob Weston, Chairman of housebuilder Weston Homes, fears that fewer properties will be built if free movement across Europe is restricted.

"The single biggest challenge to us is the supply of labour," he said. "Great Britain Plc needs the people and an EU exit must not exacerbate the problem. Of the people working on our sites inside the M25, 80 per cent are not of British descent – outside the M25 it's 60 per cent. Who is going to build the extra 100,000 new homes a year that the Government says we need?"

BRIEF CAMPAIGN

Although confusion and doubt will inevitably enter the property market ahead of the EU referendum, some opportunist buyers may view this as a window of opportunity to negotiate a good property deal. But overall the referendum looks set to suppress activity in the market, at least in the short-term, with transactions likely to drop, as they did in the run-up to the Scottish referendum in 2014, as uncertainty dominates the debate ahead of the poll. However, given that the EU referendum is a short campaign in comparison, the impact may be less pronounced. What happens thereafter will largely depend on the outcome of the vote. ■