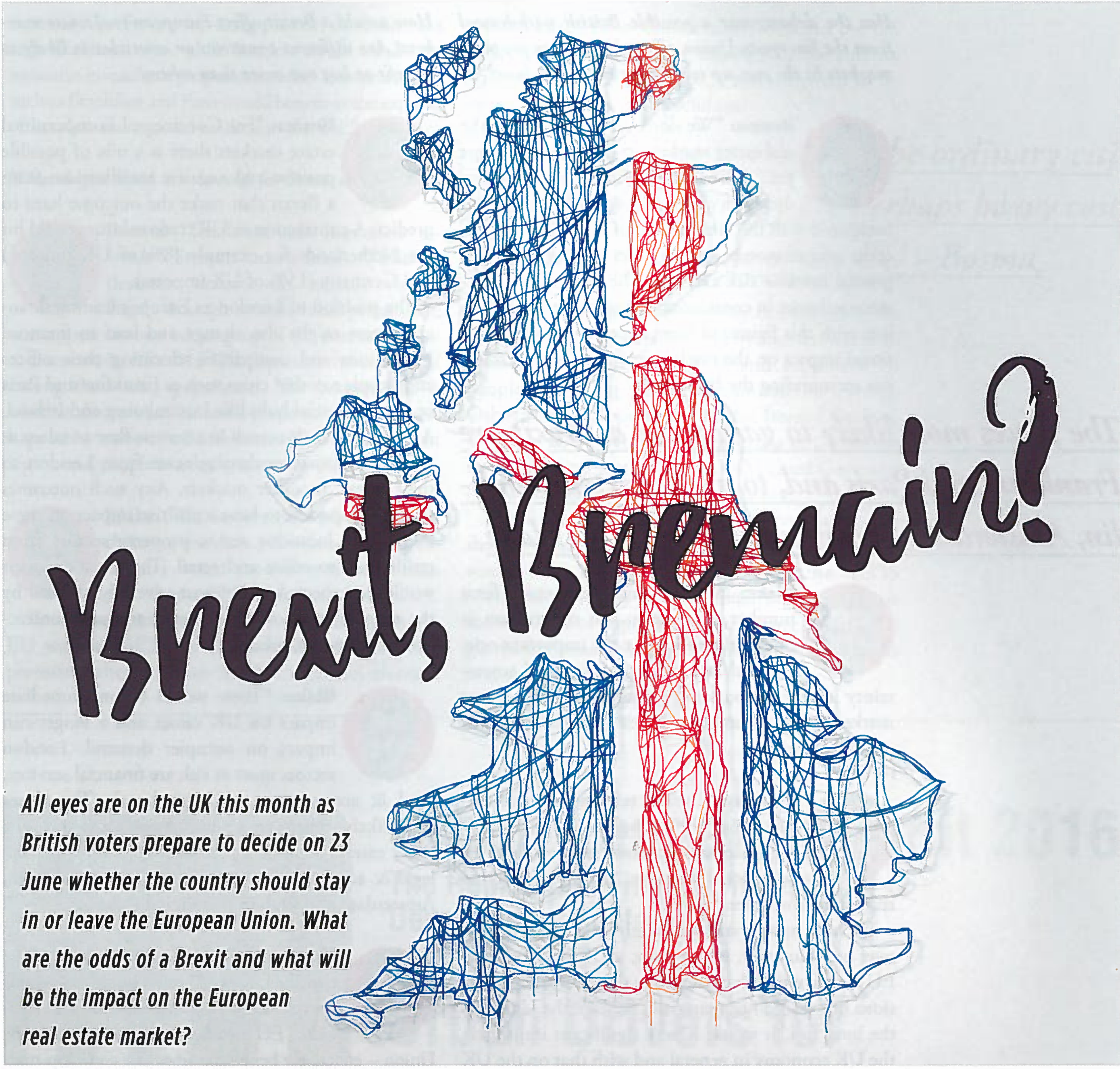

Brexit, Bremain?

All eyes are on the UK this month as British voters prepare to decide on 23 June whether the country should stay in or leave the European Union. What are the odds of a Brexit and what will be the impact on the European real estate market?

Wulf Meinel, CEO of Dutch logistics firm Genaba and one of the speakers at our Netherlands Property Breakfast in London last month, jokingly said that cultural similarities between the UK and the Netherlands – including a taste for sandwiches for lunch – means that British businesses would feel at home in the Netherlands, as well as Belgium, whether relocating or doing business. He also highlighted the fact that Holland has significantly less red-tape than Germany or France, with most business conducted in English. Willem-Jan Pelle, global director for private equity and real estate at TMF Group, also a speaker at the event, added: "If I read that Britain will become less dominant as financial hub, then thinking about it very simply it will mean the possibility for other cities to get a bite of that pie. Frankfurt and Amsterdam will definitely be candidates for that."

Just a few weeks ahead of the vote, we spoke to Marleen Bosma, head of research at Dutch investment group Bouwinvest, Neil Blake, head of research for EMEA at realtor CBRE, and Matthias Thomas, CEO of European Property Fund Association INREV, to get some insight on what is at stake for European property markets.

Has the debate over a possible British withdrawal from the European Union affected European property markets in the run-up to the referendum in June?

Bosma: "We don't see any effect on the real estate markets in continental Europe yet…Global capital flows into real estate dropped about 14% in 1Q this year compared with the same period of 2015, due to concerns over economic growth, asset pricing levels and general investor risk aversion. The decline in investment volumes in continental Europe were roughly in line with this figure, so there appears to be no additional impact on the market yet from the uncertainties surrounding the Brexit poll."

The places most likely to gain from a Brexit are Frankfurt and Paris and, to a lesser extent, Dublin, Amsterdam, Berlin and Stockholm - Blake

Blake: "Markets have been weaker for a number of reasons; the referendum is one of them but not the important one. General economic and financial uncertainty largely surrounding global issues – emerging markets, weak commodity prices – are the most important factors."

Thomas: "The UK referendum on membership of the European Union is causing uncertainty across European and international markets, which is affecting real estate investment activity.

We have to wait and see exactly what the outcome may be. However, in our view, a UK exit from the EU clearly would have negative short-term repercussions but would not materially damage the Union in the long run. It would have a significant impact on the UK economy in general and with that on the UK real estate markets in particular."

How would a Brexit affect European real estate markets? Are different countries or asset classes likely to benefit or lose out more than others?

Bosma: "For Continental European real estate markets there is a mix of possible positive and negative ramifications from a Brexit that make the outcome hard to predict. A contraction in UK trade volumes could hit the Netherlands for example (8% of UK imports) and Germany (15% of UK imports).

The position of London as Europe's leading financial centre might also change and lead to financial institutions and companies relocating their offices and people to other cities such as Frankfurt and Paris or other financial hubs like Luxembourg and Ireland. A Brexit could also result in a reverse flow of talent as skilled Eurozone workers relocate from London to their home, or other markets. Any such outcomes could be expected to have a positive impact on these investment locations across property sectors from residential, to office and retail. The logistics sector would be expected to be most adversely affected by the renegotiation of trade treaties and any contraction in shipment volumes."

Blake: "There would be an immediate impact on UK values and a longer-run impact on occupier demand. London sectors most at risk are financial services, legal & accountancy and digital tech. The places most likely to gain are Frankfurt and Paris and, to a lesser extent, Dublin and Amsterdam (for financial, legal & accountancy) and Berlin, Paris, Stockholm, Amsterdam and Dublin (for digital tech)."

Thomas: "It is a bold assumption to believe that the UK would easily be able to negotiate treaties and trade agreements with individual EU member states, once outside the Union – effectively benefiting from the common market without the corresponding responsibilities of EU membership. From a real estate point of view, there is a high likelihood that, while London would remain an attractive investment proposition, other European cities such as Frankfurt and Paris would benefit at the expense of London and regional markets in the UK."

What do you think are the odds for Brexit vs. Bremain?

Bosma: "The latest polls lean more towards a Bremain than a Brexit. While the domestic debate was initially viewed largely through an emotional prism there now appears to be a better grasp of the potential negative economic effects of UK departure from the EU among the voting population. The bottom line is whether the ordinary citizen is prepared to pay the perhaps heavy costs of a Britain outside of the European Union and people normally vote with their wallets."

Blake: "The bookmakers are saying that there is a less than 30% chance of a Brexit but I would say that it is closer than that – say a 40% chance of a Brexit."

The referendum on the UK's membership in the EU was one of Prime Minister David Cameron's promises when he won the 2015 general election amid pressure from Conservative MPs and the UK Independence Party. They argued that the country had not had a say since 1975, when it voted to remain in the EU in a referendum.

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Britain Stronger in Europe is campaigning for the UK to stay in the EU is led by former Marks & Spencer chairman Lord Rose and supported by people including Cameron, Chancellor George Osborne and Labour party leader Jeremy Corbyn. The Vote Leave party has the backing of Conservatives including Justice Secretary Michael Gove and former London Mayor Boris Johnson.

A poll commissioned by the Observer newspaper showed nine out of 10 economists agree an exit would cause economic damage, while the IPSOS Mori online survey of more than 600 economists showed 88% of respondents said leaving the EU single market would damage Britain's growth prospects over the next five years. ■ **pie**

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