PROPERTY

The impact a people's vote could have on the property market

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CAROLINE TAKLA - THE COLLECTION | 22ND OCTOBER 2018

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I’m often asked about the impact of Brexit what the prospect of a People’s Vote could have on the prime London property market

It’s a market that has a sensitive climate, which has been affected in recent years by a number of challenges. The introduction of higher rates of SDLT, inability to claim mortgage interest relief, changes to the way lenders assess buy-to-let mortgages and the constant ‘threat’ of a Corbyn government have been compounded by the cataclysmic uncertainty created by Brexit.

It is true, prices have never truly recovered since the introduction of higher SDLT in December 2014. Since then prices in prime London are down 17.6%, whilst transaction volumes have dropped by 16% in the first three quarters of 2018 compared to 2017.

Ultimately, this was a good thing, whilst many in my industry are dismayed at this, the reform did actually do exactly what it was supposed to do, which was apply a controlled constraint at the top end of the market, providing relief at the lower end and, ultimately, increase revenues to the Exchequer.

But the key words here are “controlled constraint”. What we find in Brexit, and to an extent the ‘threat of Corbyn’, is a huge amount of uncertainty injected into an already sensitive market. Prices falling do not necessarily result in more deals or heightened affordability for first time buyers. In fact, it’s more likely that this diminishes the stock levels which by default means deal flow and volume is down.

This helps no-one. It doesn’t help developers build more affordable homes as there is no commercial incentive to do so. Nor does it help upsizers make the move freeing up first time buyer homes as they would be nervous about taking on a bigger mortgages. Nor does it help downsizers as they would feel that they aren’t deriving maximum equity realisation. All that it has succeeded in doing is ensue an attitude amongst sellers and buyer alike of “let’s wait and see”.

Ironically, one of the main beneficiaries has been foreign investors. The Pound Sterling is one of the worst performing currencies in the developed world and consequently foreign buyers have taken advantage of this. It's another buying opportunity the size of which has not been experienced for a decade.

They are snapping up property at even more competitive pricing when the currency play is taken into consideration. Theresa May has recognised this by threatening to tax non-resident owners an extra 1-3% on property purchases to try and fill the gaping hole in the public purse's pocket.

However, as we approach 29th March 2019, even foreign buyers are now of the opinion "let's wait and see". The Brexit negotiations are going extremely badly and we are hurtling towards a no deal, which would hinder the property market significantly. Undeniably, the reasons for the property market's speedy recovery post the 2008 crash was that London was the world's leading global financial centre and we had access to the world's largest trading block.

With Brexit we have eroded the fundamental pillars to the success of our economy and like it or not, a large part of which is fuelled by the success of revenues taken from property deals.

This all begs the question: is it time for people to "take back control" and have a final say on the Brexit deal or whether we should in fact Brexit at all?

If a People's Vote were granted the period until polling day would undoubtedly be yet another uncertain period for the market, but there would be those brave speculators that would perceive this as green shoots in the market and buy in anticipation of an upturn in fortunes for London property.

If a People's Vote were to again conclude a majority in favour of exiting the EU, prices would inevitably drop a little further, although it would unlikely be at the levels stress-tested by the BofE. The likelihood is that we would see a dip and then a sustained period of plateau during the transition period. Sterling would dip again and whilst it would certainly be yet another rocky period, there will be always be those looking to take advantage and make a deal. Most importantly, people's personal finances would be impacted, especially homeowners, with their assets almost certainly losing a chunk of their potential value.

On the other hand, if the vote falls in favour of remaining, which polls currently attribute a 4% lead, then the effects of the long period of uncertainty would almost immediately be eradicated. The UK would certainly regain its stature as a leading financial powerhouse and investment hotspot. If we Remain, the lost confidence begins to restore and investors receive the security they need to return.

With the fog of uncertainty lifted, activity in the property market would undoubtedly surge, which in turn would see movement up and down the ladder. Prices wouldn't necessarily soar at the top end of the market as we would still have high taxes to contend with, but the certainty would be enough to take the plunge and those that had adopted a wait-and-see attitude would almost certainly find themselves bidding against others competitively, when they would have had a clear run had they acted earlier.

There's no guarantee of a People's Vote, with no party committing to a stance, but with time running out and the government still in disagreement on a final deal, now might be the time to give the people the final say.