

# CAAV

Professionals in the Countryside



# Property Quality Valuation and Brexit

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# Three Great Challenges So Far

- We have had the vote but Brexit is yet to happen
- Three challenges we have seen
  - How to value property the day after the vote? The issue of valuation certainty
  - What has actually happened? The real world
  - What might happen? Market risk

# Valuation Certainty?

- Question posed as sharply as it could be
  - June 24<sup>th</sup> was a quarter day for fund valuations of property
- What was the effect of that morning's result?
  - Not transactions evidence
  - How would clients see it?
  - How should valuers handle it?
  - Issue remained for several weeks

# Guidance



- CAAV and RICS each issued guidance
- CAAV said:
  - Could not assume values had changed
  - Review issue in commentary
- Valuation uncertainty clauses developed
  - Then slowly unwound as transactions evidence accumulated
  - Italicised sentence dropped first
  - Largely abandoned by late September

# Valuation Certainty Clause



Since the EU referendum on 23 June that went in favour of exit, we have monitored market transactions and market sentiment in arriving at our opinion of market value/fair value.

There is still a shortage of comparable evidence of arm's length transactions since the vote. Therefore we have had to exercise a greater degree of judgment than would be applied under more liquid market conditions.

*The probability of our opinion of value coinciding exactly with the price achieved, were there to be a sale, has reduced.* We would, therefore, recommend that the valuation is kept under review and that market advice is obtained should you wish to effect a disposal.

# Funds Behaviour

- Some funds preferred to mark values down for prudence – but not by much
- Some major investment funds were under liquidity pressure from investors
  - Forced disposal of some prime property
  - Even so only at discounts of 10% or so
  - Closed for withdrawals of money
  - Several now reopened, the rest are soon
  - Values marked back to per-vote levels

# Systemic Issue



- Better experience than 2008
- But open ended funds are still a systemic risk
  - Mismatch of illiquid asset with doubting investors wanting money out of funds
  - Risks of forced sale devaluing properties
- Funds' defence is to stop withdrawals
- Vicious loop, trapping investors
- This fund structure needs review

# Markets and Values

- Initial volatile reactions but fundamentals held
- Consumers spending strongly
- Housebuilders find sustained demand
- Employment rising
- Business – a little uncertain but not as much as it thought
- Markets have stayed on their previous paths
  - Short run confusion stabilised
  - More confidence reported in areas voting to Leave
- Now for the negotiations and the long run

# The Immediate Story

- *“UK Property Markets in Summer 2016: Brexit, Values and Valuation”*
  - Royal Agricultural University/CAAV publication launched today with this conference
- All markets stayed on their previous trajectories
- Deals not done by June 23<sup>rd</sup> saw purchasers stand by or improve bids
- Few used Brexit to cavil unless already not happy with the deal
  - An occasion to bury bad news about a business

# What Has Happened?

- The fall in the £ (offsetting risk)
  - Making UK assets, goods and exports cheaper
  - Imports (and holidays abroad) more expensive
- Renewed the Government - swiftly
  - Fresh start aiding confidence
- Good liquidity for lenders and markets
  - Supporting demand
- Valuers held their nerve
  - The financial crisis was sufficiently recent

# Housing

- Figures distorted by tax change earlier in 2016
- General picture is of sales and values having held or improved
  - Continuing underlying trend
  - Similar patterns for residential lettings
- Main housebuilders reporting good markets
- Sense that markets might be stronger in areas that voted to Leave

# London Housing

- Market had already been weakening under weight of tax changes on company owned properties, higher value properties and “non-doms”
- Vote was another occasion to recognise that:  
“brought pre-existing dynamics into sharp relief”
- Fall in £ balanced the result for foreign buyers
- London house builders more cautious

# Commercial Property

- London market easing back from earlier 2015
- Still had strength with active investors and liquidity
  - British Land (fund needing liquidity) failed to sell a store in Sept 2008 for £115m, sold it after this result for £400m
- Overall index of values for July down 3.3%
  - City offices down 6.1%; national industrial 2.1%
- The reality showed a lesser impact than initially feared

## ... And Then

- Even with the summer as a quiet period, transactions evidence accumulated
- Values were seen to be on previous trends
- Regional markets held
- London recovered
- Significant foreign investment has continued
- Retail sector was far more aware of pressures from the internet, wages and taxes than the result

# Rural Property

- Agricultural land - After long bull run had been easing back since late 2014
  - As low product prices have limited activity
  - Fewer buyers but usually enough
- That pattern has simply continued
  - Competition for land in some areas
  - Little in others
  - Good land sells
- Market for good country houses is stable

# Looking Ahead

- Those were the first reactions of UK markets
  - Resting on fundamentals with aid of liquidity
- Now to look ahead through the process of position taking, negotiations and change
- Assume volatility in financial markets
  - As seen in recent days
- Assume slowly clarifying knowledge of changes to the economy
  - May be no new sudden events for whole economy
  - Sectors will have more time to adjust to news

# UK Economic Management



- Managed the short term this summer
  - Lower £ and Bank decisions helped
- Prospect of more uncertainty/issues ahead
- For 2016 Autumn Statement to look at:
  - Demand issues – fiscal policy
  - Supply issues especially – including infrastructure
- Possible fiscal measures – 2020 target slips
  - Reduction in Corporation Tax? Or VAT?
  - Easing of SDLT on lower value property?
  - Stimuli for investment, construction, productivity

# Business



- Some 43% of UK trade is with EU (1991: 61%)
  - Anyway likely to fall further – long run to 30%?
- Issues over trade (a proxy for politics) are about terms of access to Internal Market
  - More about regulations and recognition than tariffs
  - Just as with trade with all other countries
- What will be effects on business activity and investment?
  - How cautious will businesses be?
  - How attractive will the UK be?

# The City of London



- A very large, complex and varied ecology with specialist infrastructure and London's vitality
  - Reducing the cost of capital to EU businesses
- Attitudes vary between
  - concerns for greatest ease of access to EU markets
  - seeing EU as a problem in dealing with the world
- Some businesses in some sectors will look to establish offices elsewhere
- If London remains a global city, City will stay
  - If not, is New York the winner?

# Some Issues

- Very limited housing supply in tension with population growth
- Limited capacity of the construction sector for all property and infrastructure
- Will lease structures change over this period?
- How to understand markets with low/negative yields, much quantitative easing and deflation
  - What does long term or sustainable value mean?
  - UK's fiscal and monetary freedom within markets
  - UK property remains a safe haven

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## Questions?

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