The Referendum on British membership of the European Union

Survey Results | June 2016

What do occupiers and investors think?

On 23rd June there will be a referendum on whether the UK should remain within or leave the European Union (EU). The outcome of the vote will have significant implications for the UK's economy and its relationship with its main trading partners and the rest of the world. At the time of writing, opinion polls are very close, with a narrow lead for remain - although betting odds more strongly favour the status quo.

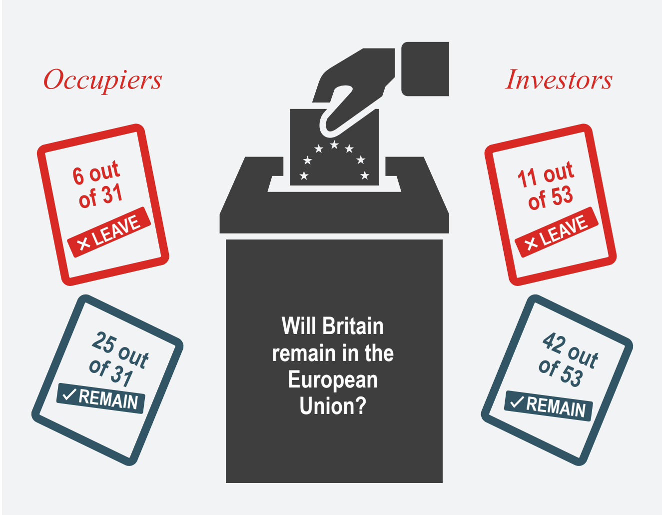
As part of an attempt to understand the potential impact of the outcome on the property market, JLL has carried out two separate surveys. The first, in March, asked 31 respondents from international corporates about their views. The second, in April, asked similar questions to 53 major UK-based investors. Both covered their predictions on the outcome of the vote, their strategy as the referendum approaches, and the likely effect of a 'leave' vote on property decisions.

The sample is clearly not large enough to make robust conclusions about how a much wider range of businesses and investors will behave both before and after the referendum. However, the respondents included a number of major international corporates as well as some of the UK's most significant institutional investors. They have an influence on the market far beyond that suggested by their numbers alone, and their views should prove a useful – if not definitive – guide to what key players in the property industry are thinking about the EU referendum.

Key Points

- Around 80% of this 84-strong sample thought that the UK would vote to remain within the EU, with no significant difference between investors and occupiers.
- Nevertheless, 10 out of the 31 occupiers and 24 of the 53 investors said that they would put property decisions on hold.
- Almost half of the occupiers – 14 out of the 31 – thought a vote to leave would lead to a review of UK space requirements. Only 6 thought it would have no effect on strategy.
- Of the 31 occupier respondents, 10 thought a vote to leave would lead to increased caution and reduced leasing activity, with 9 indicating that it would lead to a lower UK headcount.
- Investors are more positive, with 33 out of 53 stating that they would make no changes to strategy if the UK were to leave the EU. However, 41 thought that London offices were the most vulnerable sector.
- This may be due to investors being more aware of the wider long-term reasons for UK property's attractiveness to global capital.
- While a vote to remain will provide more stability, the medium and long term economic and property market implications of a Brexit can be exaggerated.
- However, it would lead to uncertainty and a reduction in leasing and investment volumes, particularly in the office market, in the short term.

What do occupiers and investors think will happen?

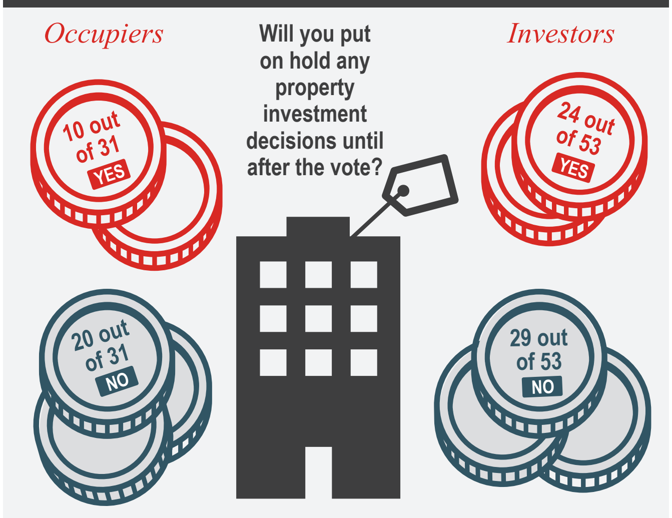


Property Market Impacts

The market has seen some weakening of sentiment over the past few months, although this also reflects the slightly gloomier outlook for the world economy. Investment volumes fell back during the first quarter – they were 31% lower in the UK as a whole compared to Q1 2015, and 11% lower in London. However this is part of a wider slowdown in activity that was already evident towards the end of 2015.

Our survey results show that, with the majority of our sample believing that we will remain in the EU, and most continuing with acquisitions and disposals during the run up to the vote, transactions volumes are unlikely to fall even more dramatically in Q2. The higher proportion of investors putting activity on hold probably results from

What will they do between now and the referendum?



* One occupier respondent did not answer this question

a greater ability to pause and restart acquisitions or disposals rather than a gloomier view of market prospects.

However, the survey provides some evidence that it is in fact occupiers that are somewhat more negative about the potential impact of a Brexit on their business in both the short and long term. Almost half foresee a review of business space; a third think it will reduce leasing activity in the short term and lead to reduced headcount in the longer term, with only a slightly lower proportion thinking it will lead to more immediate reductions. Only six think it will have no impact on strategy in the short term, a figure that falls to four in the longer term.

Investors are slightly more optimistic. Around two thirds foresaw no changes to strategy in the short or long term as a result of a leave vote, with only one third expecting reduced allocations to UK Property. There is also a reasonable minority who thought that in the long term allocations might increase.

Brexit – Effects on Investor Decision Making

	SHORT-TERM (UP TO 2 YEARS)	LONG-TERM (2-5 YEARS)
Make no changes to strategy	33 out of 53	31 out of 53
Reduce allocations to UK property	17 out of 53	14 out of 53
Increase allocations to UK property	3 out of 53	8 out of 53

Brexit – Effects on Occupier Decision Making

	SHORT-TERM (UP TO 2 YEARS)	LONG-TERM (2-5 YEARS)
Result in a review of business space needs in the UK	14 out of 31	14 out of 31
Increase caution and act as a brake on UK leasing activity	10 out of 31	4 out of 31
Result in reduction of headcount and/or real estate footprint	9 out of 31	10 out of 31
Have no impact on our corporate real estate strategy	6 out of 31	4 out of 31
Result in portfolio growth	1 out of 31	3 out of 31
None	1 out of 31	

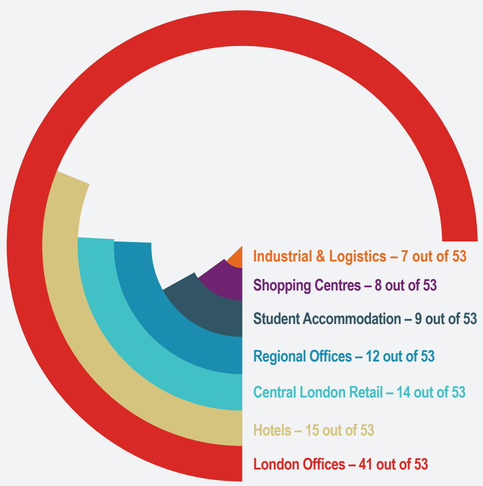
Some respondents gave more than one answer to this question.

Finally, moving to sectors, London Offices were seen as being by far the most likely to be affected. This may reflect an acknowledgement that financial services, which are important for London and the City market in particular, are most immediately vulnerable to Brexit. The most obvious issue is the potential withdrawal of ‘passporting’ rights allowing them to offer services throughout the EU from London. Other international companies may be concerned about the risk that an out vote could lead to reduced access to the single market.

However, the potential loss of financial services business is comparatively small. For many the advantages of London will remain mostly intact whatever the outcome of the referendum. Indeed, the Central London leasing market has proved resilient, with take-up in Q1 roughly in line with the 10-year average. This includes two City deals over 100,000 sq ft to financial services companies.

On the other hand, if the UK remains within the EU – as looks likely at the time of writing – both leasing and investment volumes should recover strongly across all sectors over the remainder of 2016.

Brexit – Which sectors would be most affected



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Potential Impacts

If the UK does decide to leave the EU, the immediate legal and regulatory impact will be minimal. There will be no 'bonfire of the regulations', and the terms of our trading relationship will remain intact. However, there will be even greater uncertainty as article 50 of the Lisbon Treaty is invoked, and a two-year period of negotiation over the terms of exit begins.

There are several options on the table, ranging from a Norwegian-style agreement in which the UK moves into the European Free Trade Agreement (EFTA), through a more negotiated Swiss-style approach, to a full departure pending a later free trade agreement.

It is unclear which would be more likely, although all have their advantages and disadvantages – however it is clear that any attempt to remain part of the single market would require some contribution to the EU budget and some acceptance of free movement of labour. This could be problematic if these – particularly the latter – are seen as the key reasons for a vote to leave.

The final terms must be unanimously agreed by all the other 27 member countries. Given that upon exit, the UK would become the EU's main trading partner, there would seem to be some incentive to reach an arrangement that would benefit both parties. Together, this implies that some sort of free trade deal that combines a more limited freedom of movement with access to the single market would be likely.

However, this would take some time to agree (potentially after the two-year period). It is also important to recognise that such a deal would not necessarily provide complete access, particularly in services, which dominate the UK's economy and exports. The British trade relationship with the Eurozone is heavily orientated around a few countries, such as Ireland, Germany and the Netherlands, just three of the 27 countries who have to provide the final agreement.

The UK would, at the same time, have to negotiate a series of new deals with its major trading partners outside the EU, such as the US and China. While it is likely that this would default to the EU agreement post a potential Brexit, it would take time to negotiate new deals that could allow the UK to trade more freely and competitively with these economies in areas of relative strength, particularly given that the major blocs are concentrated on agreements such as TPP and TTIP. The UK currently has no dedicated staff and little experience in this area.

Against the background of this uncertainty, however, London's key attributes as a business location will remain unchanged – the huge talent base, the English language, the time zone advantages, the international connectivity and the networks of businesses and institutions, as well as its cultural and entertainment base.

There is likely to be a slowdown in investment and leasing in the short term, possibly compounded by fluctuations in other markets. The weakness might be most keenly felt in certain manufacturing clusters as well as London's office market, given the size and global nature of requirements.

However, demand for offices in the capital is very diverse in both sector and size terms, and in recent years Technology, Media and Telecommunications (TMT), which would be less affected by a Brexit, has been the single strongest sector. This suggests that while volumes would fall compared to recent years, take-up would remain relatively robust. Any potential negative impact on rents will be mitigated by the low supply levels in both the City and West End as well as the main regional cities.

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