



The impact of the EU referendum on house prices

There's a fair amount of scare stories bandying around to encourage us to vote in a particular way at the moment, so At Home Estate Agency have decided to look at the possible impacts on the market with an In or Out vote. Property markets are influenced by a small number of key variables and we'll address these in turn. However, I believe that the scare mongering is hype and simply scare mongering. There are other factors at play that will have a greater effect on our property market. The analysis does not look at the rights and wrongs of property prices being as high as they are, merely the potential effects of Remain or Leave.

Remain

Interest rates: there should be no significant immediate impact on interest rates. However, if our economy and inflation grows because of our decision to remain, this could force upward pressure on the rates, which is always a negative for property.

Currency: (although this is usually linked to interest rates and GDP and of no great bearing, in isolation, this has been used as part of the recent scare mongering) markets hate uncertainty and we have seen a drop in sterling. If our currency strengthens as a result of remain, then we may see reduced overseas demand but the confidence in Sterling would lead to lower long term interest rates, which is good for the property market.

Credit availability: increased confidence in our economy would mean that lenders have a healthy access to international sources of funding and so current levels of access to credit should remain positive, which is encouraging for property.

Wage increases: if the economy grows, as we constantly hear it will do, then this could potentially lead to real after inflation wage increases leading to excess money to put toward property, which is positive. However, increased levels of low skilled and low pay labour would have the reverse effect, so these forces potentially negate each other.

Demand: the current levels of migration do put upward pressure on property, which is a positive for prices and rents.

Supply: potentially this could increase if the confidence of construction companies increase. This sector does suffer from labour shortages and immigration helps to fill this gap. Increased supply can reduce the potential for further increases. However, supply is a lot lower than demand at the moment.

Leave

Interest rates: if investors take flight from our currency and government bonds, this could force interest rates up, a negative for property. However, we are seen as a safe haven currency and if our economic growth was clipped as a result of leaving, then an interest rate rise would be highly unlikely.

Currency: we hear about the negative impact on our currency if we leave, which could have a positive impact on property if this leads to more overseas interest seeking a low cost investment. However, I feel that most of the bad news is built into the currency strength, or lack of, and so I feel any drop will be short term and the currency will likely rebound if we remain or leave.

Wage increases: Shorter term, a Brexit would undoubtedly leave some turbulence in our economy, being negative for wages. However, in the medium term this could reverse as the EU is a stagnating economy and we are the fifth largest global economy that buy a lot from the EU, so it is hard to see that retaliatory trading conditions would make sense from the EU and we can increase our trade with other countries, putting upward pressure on wages over the medium to long term. So short term pressure on prices could ensue, but longer and medium and term this pressure should dissipate.

Demand: less migration would mean less demand. This is a negative for prices and rents.

Supply: less migration to fill construction roles and less certainty for builders may reduce growth of supply, dampening the impact of demand shortage.

In conclusion, gains or losses from Remain or Leave are hypothetical and the scare mongering is just that. I feel the greatest impacts will be on topics previously discussed in my blogs, such as the imbalance of supply and demand, tax implications for investors (who have been the biggest buyers of one and two bedroom properties over the last few years) and credit cycles of overseas economies that have seen swathes of city property bought leading to the sellers of said property radiating outward into suburbs and commuter towns. Leave or Remain, the impact on property of either decision will be small in comparison with the other factors at play.