

Assessing the impact of Brexit on your real estate and construction business

Published 15 July 2016

The people of the UK voted to leave the EU. What happens next and the implications for businesses operating in the UK or EU markets are unclear.

In the face of uncertainty, it is important to stay calm, review contingency plans and assess the possible implications for your organisation and the risks and opportunities this creates. But it may be that too much is unknown for you to make the biggest decisions.

The UK will first have to negotiate its exit terms with the EU's remaining 27 member states, which might take until 2018/2019. Separately, the UK will want to negotiate its future trading relationship with the EU. The EU will likely also undergo significant change in the coming months and years.

At Grant Thornton we see our role as helping you navigate and shape this environment. Our international advisers are well placed to help you achieve your ambitions and we have set out some considerations in this viewpoint. We will be sharing further insights over the coming months as the UK's path to exit from the EU and its implications become clearer.

Sian Sinclair
Global leader of real estate
and construction
Grant Thornton



Assessing the impact and developing contingency plans:

Brexit will affect different organisations in different ways. Yet there are new, common challenges facing every business. Use these considerations below in your analysis of the threats and opportunities you now face.

Market volatility

Market volatility caused by the Brexit announcement may well continue. Its immediate impact was to put many transactions on hold - some may even be aborted. Listed UK property companies also saw significant falls in share price value but with tentative recoveries.

UK house builders were negatively affected too - firstly by possible future shortages in skilled migrant workers and secondly, by restrictions on homeowner mortgages.

UK real estate market

The UK real estate market remains strong. Yield compression may have reached its peak but there's a short-term opportunity for rental growth for commercial properties.

Any future relocation of the financial services sector away from London could pose a risk to rental growth. Though outside financial services, fundamental factors still make UK real estate an attractive proposition to global investors.

Residential housing shortages still exist and demand remains strong. In fact Redrow (one of the UK's largest house builders) reported strong interest over the weekend following the Brexit announcement.

The imbalance between demand and supply won't be resolved in the short-term though, until supply increases substantially. If mortgages become more expensive or harder to get, this could dampen the 'Build-to-Sell' market. It's unlikely that the 'Build-to-Rent' market will be affected while the housing shortage continues.

Taxation

There are likely to be tax changes including a drive to lower corporation tax rates. It is conceivable that the UK chancellor would also try to support the housing market, given its close links to the well-being of the nation. That said, a price correction would be welcomed by anyone trying to enter the market.

Opportunities

Market volatility creates opportunities. In fact, we've already seen increased interest from opportunistic investors. Especially those with cash to spend.

Investment in the UK is actually 'cheaper' than it was pre-Brexit. And arguably more competitive than other European countries. This is because of Sterling's fall compared to other currencies since the announcement.

If markets steady and the currency recovers, we're likely to see that advantage evaporate. And the Bank of England and HM Treasury have both made it clear that they're willing to counteract liquidity issues, if required.

Europe and the rest of the world

Brexit uncertainty sent a ripple across Europe and other major global markets. As the fifth largest economy there are strong correlations between the health of the UK and other countries.

At this point though, it's worth remembering that the UK is still a member of the EU and still has access to the single market. That is until the UK formally leaves the EU.

Considerations

To keep moving forward in the post-Brexit environment, and while it may be too early to make the big decisions, companies must anticipate the changes it will bring and adapt to meet them. In looking at the threats and opportunities Brexit poses for your business, and in planning how you can create and protect value, you should consider:

People and talent

Short term:

- Assess how many of your UK employees are of EU or non-EU origin
- Consider what to communicate to them and what reassurance you can give
- Assess the impact of exchange rate fluctuation on global talent.

Medium term:

- Review employment contracts and take steps to protect your non-UK talent working in your UK operations
- Assess the impact on any outsourcing or teams in other EU jurisdictions.

Long term:

- Consider your current location. Where is the best place to operate from?
- Plan for the long-term impact on talent recruitment, development and pensions.

Strategic ambitions

Short term:

- Consider what to communicate to stakeholders
- Review your existing strategy and immediate impacts.

Medium term:

- Review M&A transactions and due diligence
- Identify transitional market and customer opportunities.

Long term:

- Identify new markets and commercial opportunities
- Assess the opportunities for organic growth, joint ventures and acquisitions.

Finance growth

Short term:

- Consider what to communicate to investors
- Assess the impact on any immediate refinancing.

Medium term:

- Review the impact on sources of capital
- Assess the opportunities and risks around re-financing.

Long term:

- Assess the funding requirements for future strategy
- Identify future capital markets and investors.

Master risk

Short term:

- Consider which customers or suppliers might be affected by short-term volatility
- Review the risks and opportunities across the organisation.

Medium term:

- Assess the impact on business risks including issues such as working capital management and financial reporting

Legal:

- Assess the impact on existing legal contracts and mandates, and cross border data management
- Identify what documentation will need to be changed.

Long term:

- Assess the long-term plans for business risks including tax structure and pension structures
- Review your strategies for mitigating fraud, bribery and corruption risks.

Optimise operations

Short term:

- Consider what to communicate to customers and suppliers
- Identify your current and future exposure to interest rate and foreign currency exchange rate fluctuation.

Medium term:

- Assess the impact on processes and control
- Future regulatory compliance
 - Identify which regulations critically impact your business
 - Consider the likely timescale for any change in these business-critical regulations.

Long term:

- Review your operational effectiveness and efficiency including back office and manufacturing/cost base
- Identify opportunities for developing supply chain value in different trading relationships.

Contact us

As you face a more uncertain environment we can help you work through the implications and support you to develop the best action plans for your business.

Global leader, real estate and construction

Sian Sinclair	Australia	+61 7 3222 0200	sian.sinclair@au.gt.com
---------------	-----------	-----------------	--

Global leadership team

Lee-Anne Bac	South Africa	+27 11 322 4576	lee-anne.bac@za.gt.com
Bo Mocherniak	Canada	+416 360 3050	bo.mocherniak@ca.gt.com
Kersten Muller	United Kingdom	+44 020 7728 3139	kersten.j.muller@uk.gt.com
Jeremy Toone	United Kingdom	+44 020 7865 2314	jeremy.m.toone@uk.gt.com
Alvin Wade	United States	+214 561 2340	alvin.wade@us.gt.com

Visit www.grantthornton.global for more information.