

Brexit implications and insights

Post-referendum Q&A with AEW Research & Strategy

25 July 2016

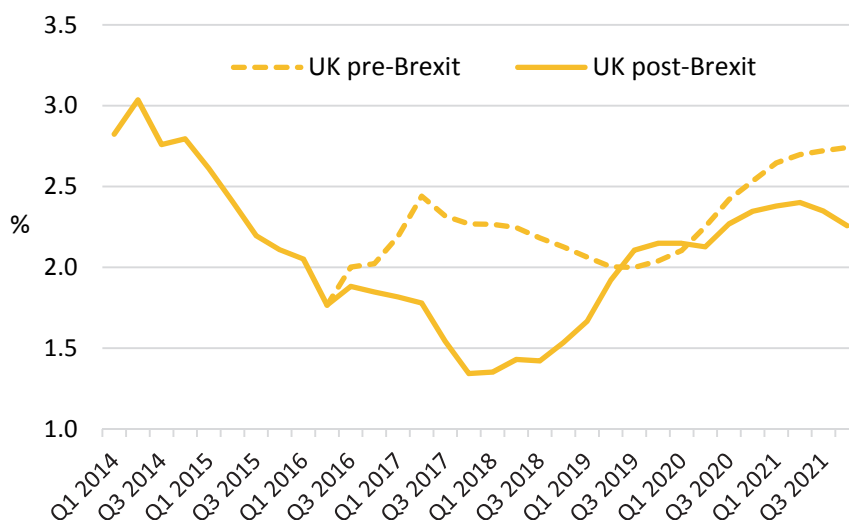
Macroeconomy and geopolitical

How is UK GDP growth likely to be affected by Brexit?

Brexit is likely to have a negative short-term effect on growth, predominantly via reduced business sector confidence and possible delays in capex deployment. It's possible a reduction in consumer spending may contribute too (more of which below). We expect that over the next four years GDP growth is likely to be 50-100bps lower than if the vote result had been to remain in the EU.

A notable number of sell-side forecasters have been forecasting GDP to either barely grow or contract in the short-term following Brexit. However, such forecasters tended to overwhelmingly be anti-Brexit in the months leading up to the referendum and most of such forecasts cannot be considered impartial. We have long been advised by independent forecaster, Oxford Economics, who forecast UK GDP growth to be negatively affected by Brexit in the short-term, but importantly, do not expect a recession as Figure 1. shows. The independent Capital Economics and Lombard Street Research have also published commentary and forecasts on the outlook for the UK economy that are notably more positive than many of the sell-side views.

Figure 1. UK GDP growth forecasts



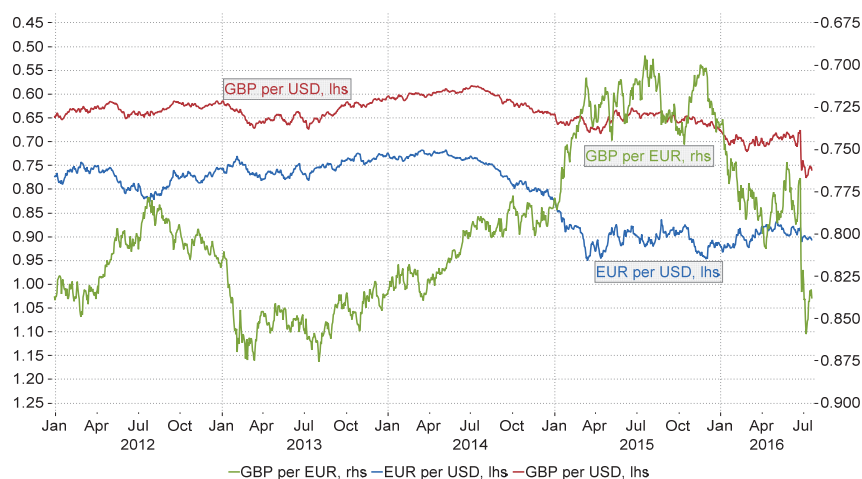
Source: Oxford Economics

How have the financial markets most notably reacted to Brexit so far?

In short - with volatility. As Figure 2. illustrates, as in the months leading up to the vote, Sterling continued to be the primary shock absorbing conduit for Brexit risk, losing considerable value against the USD and EUR between the end of 2015 and referendum day (the 23rd of June) and also in the two to three weeks following the referendum. Accurately forecasting FX movements is nearly impossible in 'normal' conditions. Given not only the ongoing uncertainty, but the flow-on political complexities facing Europe - attempting to assess even the direction of FX rates is doubly difficult.

Prior to the referendum, Gilt yields rose for a period following the announcement of the referendum in late January as Figure 3. shows and a number of commentators posited that a Brexit result would lead to a rise in Gilt yields post-Brexit. Our view has consistently been that that Gilts are unlikely to become a credit risky asset under Brexit, as there are no immediate solvency risks associated with cessation of EU membership. So while we don't expect a material rise in Gilt yields from Brexit over the short-term, Brexit has resulted in heightened economic uncertainty and downside risks to growth and inflation, and we expect Gilts to continue to reflect these traditional risk premia over the longer-term.

Figure 2. GBP per EUR, EUR per USD and GBP per USD



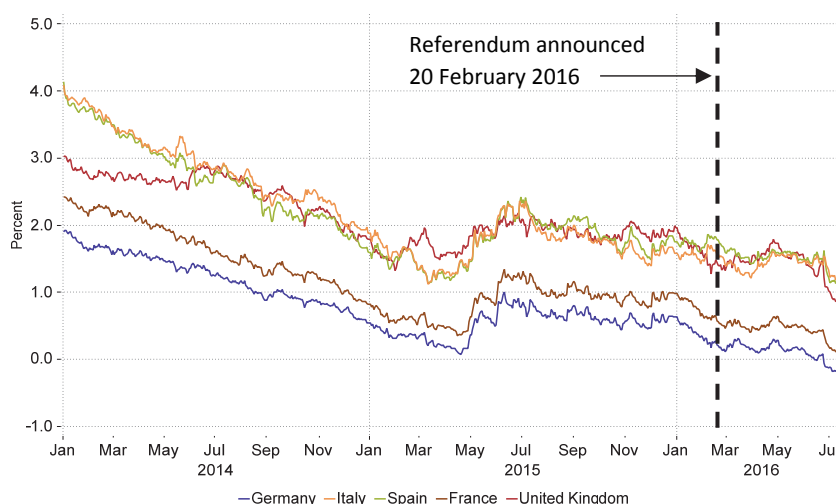
Source: Macrobond

Following the referendum, 10 year Gilt yields dramatically moved to their lowest level ever at around 1%. Subsequently they have further compressed to around 80bps. So far predictions that Gilt yields would rise under Brexit have been proven wrong. We continue to believe that Gilts will continue to be perceived as a safe haven asset and don't foresee a material rise in Gilt yields in the short to medium-term.

On the Continent, following the Brexit vote result, at the 10 year duration the Bund yield quickly moved lower before going negative as Table 1. shows. Similarly the French OAC yield also moved dramatically lower in the immediate aftermath of the vote. This yield compression suggests that not only are German and French government bonds still regarded as safe haven assets, but also that interest rate expectations are for lower-for-longer (more of which below), GDP growth expectations may have lowered and risk-off sentiment among some investors may have increased.

Table 1. also shows that while the FTSE 250 and FTSE 100 saw notable drawdowns in value immediately following the vote result, the FTSE 100 has since exceeded its pre-vote peak (due to the currency effect from foreign revenue) and the FTSE 250 (deriving more of its income domestically) has recovered considerably. After dropping c22%, the UK REIT index has recovered around half of this lost value. After losing c5% of value, the Continental REIT index has recovered to around its pre-vote level. On the Continent, the CAC dropped by c11% and the DAX by c10% immediately after the vote, but both have since recovered to just below their pre-referendum levels.

Figure 3. Selected 10 year government bond redemption yields



Source: Macrobond

Table 1. Financial market performance following the referendum result

Equity index	Immediately prior to vote result: 23/06/2016 (at stock market close)	27/06/2016 (% change on 23/06/2016)	01/07/2016 (% change on 23/06/2016)	18/07/2016 (% change on 23/06/2016)
FTSE 100	6,338	-5.6%	3.8%	5.6%
FTSE 250	17,333	-13.6%	-5.0%	-2.7%
DAX 30	10,257	-9.6%	-4.7%	-1.9%
CAC 40	4,466	-10.8%	-4.3%	-2.4%
EURO STOXX 50	3,038	-11.2%	-5.1%	-2.9%
S&P 500	2,113	-5.3%	-0.5%	2.6%
EPRA/NAREIT Europe (EUR)	2,227	-13.1%	-7.2%	-6.2%
EPRA/NAREIT Europe ex-UK (EUR)	2,813	-5.0%	-0.2%	0.7%
EPRA/NAREIT UK (GBP)	1,889	-21.9%	-13.0%	-12.4%
Exchange rate	23/06/2016	27/06/2016	01/07/2016	18/07/2016
GBP per USD	0.676	0.761	0.754	0.753
GBP per EUR	0.767	0.834	0.839	0.833
EUR per USD	0.881	0.911	0.898	0.904
10 year government bond yields	23/06/2016	27/06/2016	01/07/2016	18/07/2016
UK	1.49%	1.08%	1.00%	0.93%
Germany	0.08%	-0.11%	-0.12%	-0.08%
France	0.44%	0.31%	0.16%	0.21%
Spain	1.47%	1.46%	1.14%	1.24%
Italy	1.40%	1.51%	1.22%	1.25%

Source: Macrobond, Bloomberg

Are there any obvious possible upsides from Brexit for the UK economy?

Yes. Given the considerable loss in the value of Sterling, there are logical flow-on benefits for goods produced inside the UK for export. A weak Sterling may also attract higher levels of tourism activity from abroad and also boost holidaying inside the UK from residents.

Aside from these more obvious benefits in the short to medium-term, in the longer-term Brexit may prove beneficial from two key perspectives:

Firstly, the EU has a poor record in negotiating free trade agreements (FTAs) of note with the rest of the world, and in particular, it has no FTA with the USA, India or China. This is probably due to the difficulty in getting agreement from all 28 members and also the reality that counterparties tend to want a FTA with some EU members more than others. These realities can mean that resultant FTAs with the EU can take a long time to finalise and can have over-compromised terms. Singularly, the UK is likely to be more nimble in negotiating FTAs with the rest of the world. And in the long-term, if more attractive FTAs can be implemented, there are clear upsides to economic growth.

Secondly, for some time the UK has had a serious current account deficit - which essentially means that country has been consuming more than it produces (and funding this consumption through a capital account surplus). This has pushed the UK's net foreign liabilities to a record 25% of GDP. Brexit could prove beneficial in reducing this current account deficit¹.

How is Continental GDP growth likely to be affected by Brexit?

Unfortunately, this is much more difficult to quantify or even qualitatively assess in any meaningfully comprehensive way at this early stage. Particularly because, many of the downside risks from Brexit are likely to be transmitted through geopolitics - which are inherently difficult to predict in times of acute flux and can evolve rapidly. That said, Oxford Economics is forecasting that Eurozone growth is likely to fall to 1.5% next year, rather than the 1.7% that was forecast pre-referendum. This is only a marginal decline, but clearly further downside risks may precipitate given the extant contagion risks from geopolitical sources and the still partially unresolved structural issues within the Eurozone.

Does Brexit threaten the long-term stability of the EU? Given the Brexit vote result, what are the biggest risks facing Continental Europe?

No, Brexit alone does not necessarily threaten the long-term stability of the EU. However, to the extent that the long-term stability of the EU is under threat - the underlying risks were already in place pre-Brexit. Brexit may have merely made these more apparent.

Currently the biggest known-unknown risk is the growing populism and support for former fringe political parties, and the political and economic consequences. Populism is becoming an increasing risk to the markets and geopolitical landscape. (Such phenomena are becoming more prevalent elsewhere in the world too, not just in Europe.)

The Italian banking crisis is also a significant current risk and is a product of other even more serious risks than stem from Italy. The Italian banking sector's non-performing loans now exceed 20% of GDP. However, recapitalising the banks (as Prime Minister Renzi has proposed) will not solve the underlying problems - as the banking troubles are a symptom, not a cause of these. The cause being a perpetually stagnant economy and deflationary pressures (ameliorating borrowers' solvency) which are significantly a result of the Eurozone structure. Italy appears unable to grow inside the Eurozone, and indeed has barely grown since joining the bloc in 1999. This reality combined with a high unemployment rate is providing fuel for increasing disaffection and support for the Eurosceptic and populist Five Star Movement (M5S) political party. According to a series of recent polls, M5S is now the most popular party in Italy, 58% of Italians want a referendum on EU membership and 48% say they would vote to leave the EU if given the choice. Given this, Italy is currently a serious source of risk to the stability of the EU and the Eurozone. Similar Eurosceptic views are becoming increasingly widespread in France, Denmark, the Netherlands and Austria too.

The symptomatic Euroscepticism aside and given its design, for the Eurozone to remain intact and these underlying problems to be materially addressed - the bloc still needs to evolve into a proper banking and fiscal union.

¹ As Sterling depreciates and volatility rises, foreigners may become less willing to fund the current account deficit (via the capital account surplus). The domestic savings ratio will have to increase as a result and a weaker Sterling means exports are more competitive. Theoretically this should result in resources diverting away from the construction to the traded goods sector and a higher cost of capital (which is yet to be seen) should improve the allocation of capital. Over time interest rates should normalise, the economy will rebalance and become more productive, which in turn should lead to faster income growth.

How is Brexit likely to change the future path of BoE and ECB base rates?

Figure 4. illustrates how forecasts for ECB and BoE base rates have changed with the referendum result.

Prior to the vote, we expected gradual rates rises from the BoE beginning late 2016 or early 2017. Given the likely short-term negative affect of Brexit on economic growth (as covered above), the BoE has stated it is ready to support the economy with further policy accommodation. This may mean a lowering of the base rate during the second half of this year to or near zero, and/ or it could mean further asset purchases. The significant depreciation in Sterling and the dramatic compression of Gilt yields and market interest rates, has already given the economy policy accommodation by proxy, which may partially explain why the Bank chose to not raise the rate in July. In any case, the base rate is likely to remain lower-for-longer than previously anticipated, with a first rate rise now expected during 2019 or early 2020.

Given the mild negative impact expected on Eurozone growth from Brexit (as covered above), it's unlikely that Brexit will directly cause the ECB to alter their previously anticipated rate path. The ECB remains likely to only start raising rates in 2019. However, given the other extant risks to Eurozone stability and growth (also covered above), and ongoing downside risks to inflation, it remains quite possible that the ECB may ultimately loosen policy further during the next five years.

Does Brexit mean that the Eurozone is now more likely to be a risk of entering a Japanese style, extended period of deflation?

Only recently has the trajectory of CPI generally started to edge upwards across much of the Eurozone. And the ECB is acutely aware of the serious downside risks a sustained period of outright deflation could bring. Indeed, with the so called 'currency wars', and in particular Japan via Abenomics exporting waves of deflationary pressures around the world that the Eurozone has been notably vulnerable to, the ECB has been very interested in suppressing the value of the Euro. With Abenomics looking like it will get an expansion and China engineering further Yuan devaluations, such exogenous deflationary pressures could once again become a prime focus of the ECB. Particularly when coupled with the endogenous deflationary pressures that stem from the painful internal devaluation still occurring in the Crisis Countries², in an attempt to regain competitiveness.

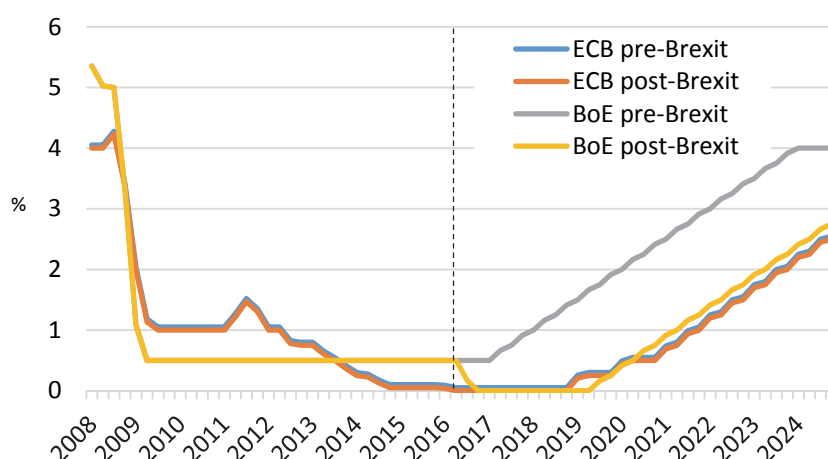
In so far as the Eurozone is at risk of a prolonged period of outright deflation, Brexit is highly unlikely to be a direct cause. There are also notable differences between early 1990s Japan and the Eurozone currently: the Eurozone banking sector is considerably stronger; overall the Eurozone private sector is considerably less leveraged; the Crisis Countries are already a good way through a necessary period of deleveraging, internal devaluation and growth has returned; the ECB has managed to achieve a significantly weaker currency much sooner; and the ECB implemented a much bigger program of QE much earlier (and this was 'proper' QE, where the central bank bought assets from sources other than just the banking sector). So the Japan-Eurozone comparison is a specious one.

How might Brexit affect Scotland's ambitions to leave the UK?

As in the months leading up to the referendum, in the immediate aftermath of the vote the Scottish National Party (SNP) stated that if the UK leaves the EU then Scotland will seek to join the EU independently. Whilst there is a clear emotional aspect to this among many Scots, from a macroeconomic and fiscal view point, it appears that it will be very difficult for the Scots to achieve EU membership any time soon.

This is because: Scotland is forecast to have a budget deficit of 9.2% by 2017; Scotland requires oil to be priced at around USD110 per barrel to balance the national budget; 70% of Scottish trade is with the rest-of-UK; and Spain has publicly stated that it would block any application by Scotland to join the EU (due to Spain not wishing to support any

Figure 4. ECB and BoE base rates



Source: Oxford Economics

² Greece, Italy, Spain, Portugal and Ireland

succession that could successfully lead to EU membership, given the flow-on ramifications for the Catalonia succession movement).

Has the loss of the UK's AAA sovereign credit rating affected asset pricing?

No, not at least yet, and we do not envisage this loss to affect pricing in the foreseeable future. As covered above, bond investors still consider Gilts as a perceived safe haven asset and Gilt yields compressed in the wake of Brexit and the rating downgrade. Moreover, the rating agencies have a somewhat patchy record as the GFC and sub-prime crisis revealed - and it seems the market considers the downgrade largely immaterial.

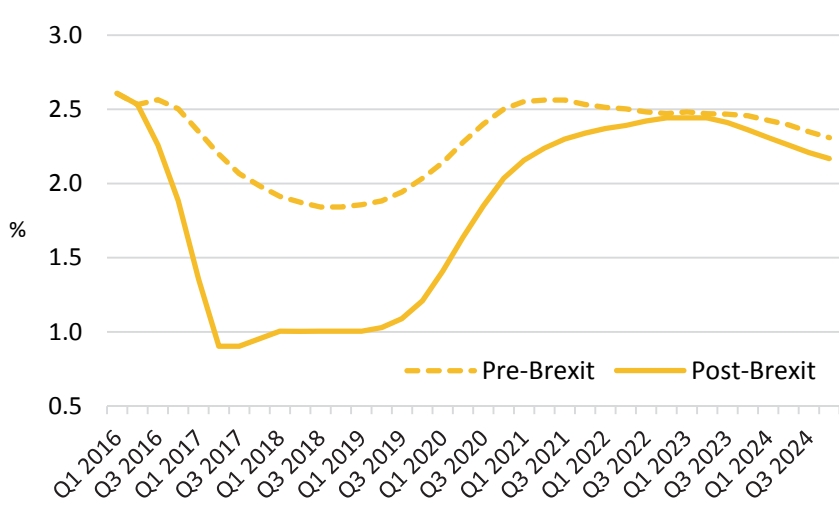
Furthermore, UK CDS premia remain low (and considerably lower than during the GFC and subsequent Eurozone crisis); there is little widespread fear of immediate-term contagion like there was in 2009 and 2013; there are no fears for interbank liquidity; the short-term funding for banks is unchanged and there has been no increase in such interest rates; and there hasn't been much change in the yields for lower and sub-investment grade corporate debt either.

How might Brexit affect consumer spending in the UK and on the Continent?

Historically political uncertainty hasn't usually negatively affected consumer spending.

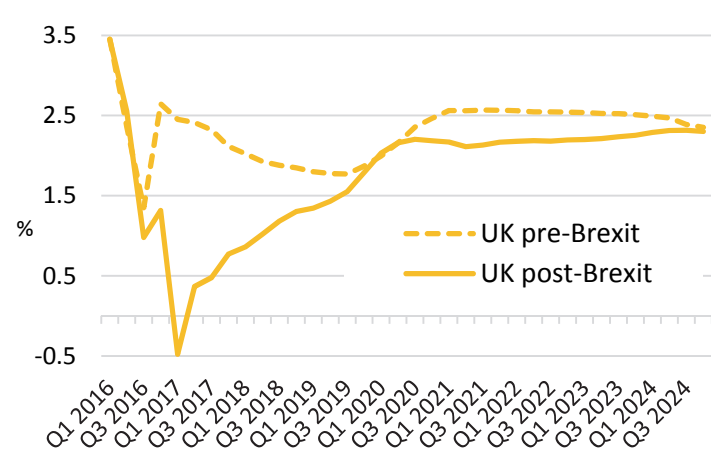
However, Brexit also has non-political ramifications, and (as covered above) in the UK Brexit is expected to have some short-term negative impacts on GDP growth for which reduced consumer spending will likely be both a symptom and a contributing cause. As Figure 5. shows, Oxford Economics is forecasting around a loss of 100bps of UK consumer spending growth over the next few years, albeit growth will still be positive. This short-term reduction is firstly and significantly a result of a short-term shock to personal disposable income growth as Figure 6. shows, which is in turn predominantly a result of the likely short-term economic slowdown. And secondly, it is also a partial result of the expected increase in the UK personal savings rate as Figure 7. demonstrates, which itself is largely a result of increased uncertainty in the economic outlook and downside risks to consumer confidence. So whilst Brexit is unlikely to be beneficial to consumer spending levels in the short to medium-term, a steep slowdown in growth or contraction is not expected.

Figure 5. UK consumer spending growth forecasts



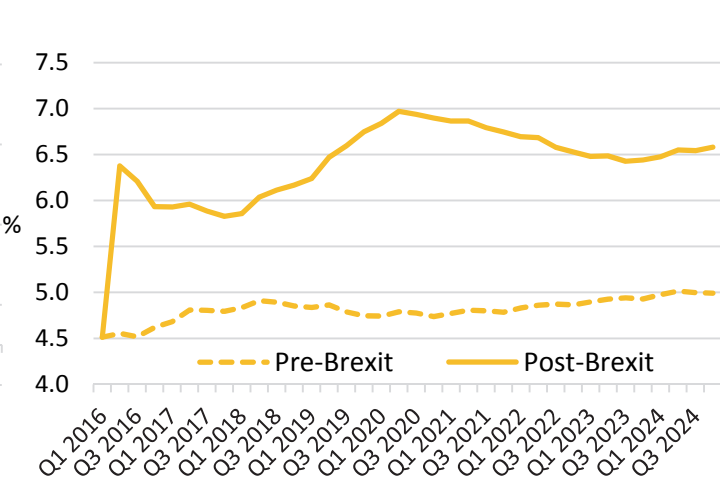
Source: Oxford Economics

Figure 6. UK personal disposable income growth forecasts



Source: Oxford Economics

Figure 7. UK personal savings ratio forecasts

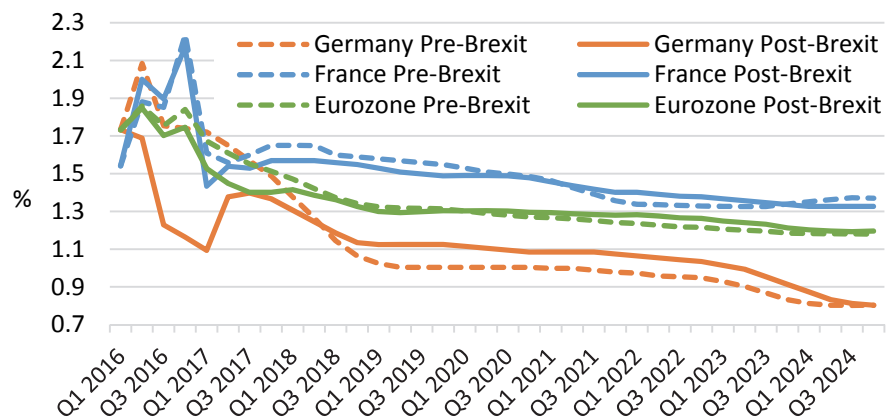


Source: Oxford Economics

As with our comments on the possible Brexit effects on Continental GDP growth, it is much more difficult to foresee how Brexit might affect consumer spending on the Continent. However, given some of both the negative and positive flow-on effects from Brexit to the Continent, it's likely that consumer spending in some parts of some Continental economies will be affected at the margins.

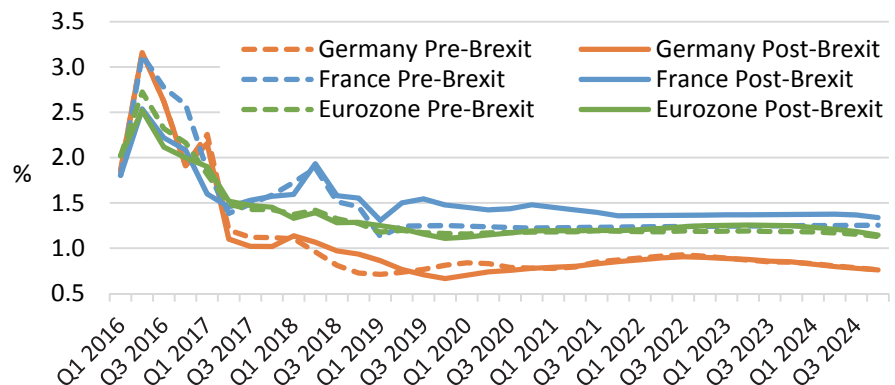
As Figure 8. shows from the post-Brexit forecast, there is a minor increase in German consumer spending growth through the medium-term due to a 'catch-up' effect after Brexit and other factors causing a small reduction in spending in the short-term. However, in most economies and at Eurozone-level, Brexit is likely to have negligible impact (and the differences between the pre and post-Brexit forecasts for France are unrelated to Brexit). It is a similar picture for personal disposable income growth as Figure 9. illustrates, though France might see slightly higher levels of growth in the medium-term due to the labour market responding faster to the ongoing French economic recovery and the subsequent positive flow-on effects to disposable income.

Figure 8. Selected European countries' consumer spending growth forecasts



Source: Oxford Economics

Figure 9. Selected European countries' personal disposable income growth forecasts



Source: Oxford Economics

Real Estate

What are the likely ramifications of the redemptions facing UK commercial property funds by retail investors?

In the days following the vote result, a number of managers of UK open ended funds announced they were either reducing the value of the fund prices by 5% to 15% or suspending redemptions. Whilst these decisions somewhat surprised the market it is likely that these were pre-emptive actions to avoid a run on the funds and ensuing liquidity problems as occurred during the GFC.

Notwithstanding the above we are aware that some managers have been looking to rapidly increase liquidity. Whilst we believe that the value of UK real estate is likely to reduce in the coming months, we know from experience during the GFC that markets tends to overshoot on the downside in times of significant volatility and risk aversion.

By mid-July some of these fund managers had lifted redemption suspensions after facilitating liquidity and, one fund manager, Legal & General had reduced the "fair value adjustment" discount they were charging investors from 15% to 10%. Furthermore, a considerable number of retail investors that had requested redemptions had cancelled their requests.

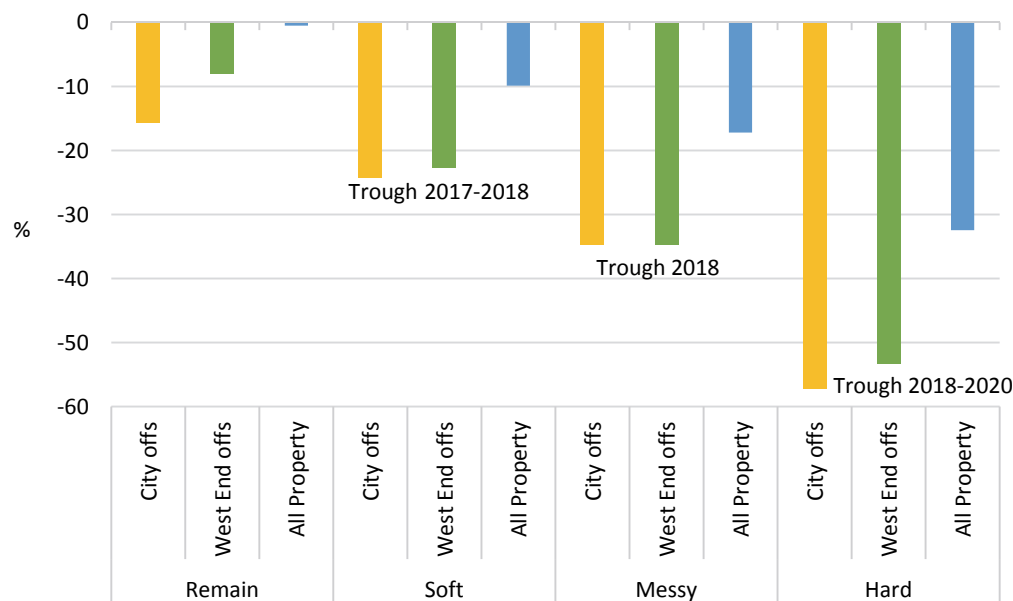
Following their GFC experiences, these funds are better equipped to deal with large numbers of redemptions over a short period - for example via liquidity provisioning on the secondary market and/ or suspending redemptions for longer periods than was possible during the GFC. Such actions mean, that while the value of these funds can reduce to meet the market, it is not necessary to initiate mass forced sales to meet redemptions. And it is a large number of such forced sales over a short period of time that can provide transactional evidence of considerable declines in market value in particular (rather than value re-rating from portfolio valuations) that can trigger a vicious cycle of subsequent forced sales and debt covenant breaches (begetting further forced sales).

So, in so far as these funds do need to sell assets in an orderly fashion, we expect these sales to put some downward pressure on pricing (which may ultimately get off-set by other factors). But for reasons covered elsewhere here, it is debateable how much property values will decline.

Which UK property sector and/ or segments are likely to most notably suffer due to Brexit?

Prime central London offices are likely to suffer most due to Brexit, with the biggest negative impact forecast for the City, closely followed by the West End. As Figure 10. shows, depending on the form and how quickly the UK manages to agree on new trade arrangements with the rest of the EU and the rest of the world, PMA are forecasting prime City office capital values to decline by between 24% and 57% by 2018. Prime West End office capital values are forecast to decline by between 23% and 56% over the same period. (Scenario definitions can be found in the footnote below³.) Clearly these prime Central London office forecasts are dramatic. In order to arrive at such declines in capital values, PMA are assuming between 40bps and 140bps of negative yield shift for both the City and West End (depending on scenario). And losses in rental values of between 12-25% for the City and 7-20% for the West End.

Figure 10. UK property capital value decline to trough under various Brexit scenarios



Source: PMA

We believe all three of these scenarios to be too bearish. A considerable portion of these declines in capital values is predicated on negative yield shift, notably driven by the assumption that 10 year Gilt yields will expand by between 40bps and 100bps. But as covered elsewhere above, we don't believe that Gilts will become a credit risky asset under Brexit and believe they are likely to remain a perceived safe haven asset. To date the market shares this view and Gilt yields have significantly compressed. As we don't agree with PMA's rising Gilt yield assumptions, we don't agree with the magnitude of the consequent property negative yield shift either. Indeed, the post-Brexit Gilt yield decline leaves property even more attractive on a relative value basis, which all things being equal, will add to investor demand. The large depreciation in Sterling is likely to attract non-Sterling denominated investors and add to this demand.

The other main driver of PMA's forecast prime central London office capital value decline are their assumptions on rental values. These assumptions are in turn materially based on financial services occupiers vacating and/ or not taking up further space in the City. And in the West End, occupiers vacating and/ or not taking up further space, the occupier market having a higher beta to the UK economy in general, and a higher proportion of global and European headquarters being based there that may be at risk of relocating to the Continent.

Whilst we believe these PMA rental value forecasts are more possible than the negative yield shift forecasts, we think these also are too bearish. The City office market is instructive in this respect. Much of forecast occupier market

³ 'Hard' Brexit Scenario: a protracted and acrimonious negotiation between the UK and EU, resulting in trading under WTO rules, further depreciation of Sterling, loss of passporting rights/ regulatory equivalence for financial services and weaker economic growth in both the UK and EU.

'Soft' Brexit Scenario: a rapid conclusion of an association agreement with the EU, involving membership of the single market, minimal change to financial services regulation. Any new limits on EU migration would likely have to be similar to the temporary restrictions used as part of the accession agreements following EU enlargement.

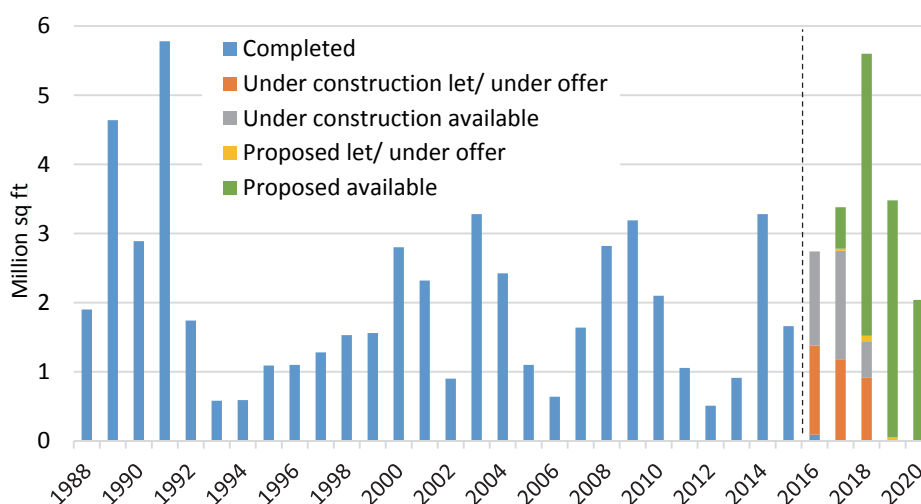
'Messy Compromise' Brexit Scenario: Assumes Article 50 invoked later in 2016, departure from the Common Market and some new restrictions on EU migration. An extended period of uncertainty as EU laws and regulations are reviewed, and new trade deals negotiated.

impact in the City is from financial services tenants losing their EU passporting rights and the City losing stature as global financial services centre. However, London has been one of the world's preeminent global financial centres for decades pre-dating the formation of the EU for reasons that will not change under Brexit. And it's far from clear that passporting rights would be lost under Brexit, given that MiFID II regulation due to be implemented in January 2018, will likely give such firms outside the EU passporting rights under 'regulatory equivalence'.

Furthermore, as Figure 11. shows, the City has not seen a great deal of space reach the market since the GFC and the majority of the future pipeline is not yet under construction. So it is relatively easy for this space to be postponed or cancelled. In addition to this mild supply situation, the City has a vacancy rate at multi-year lows.

We expect some central London office occupiers to prevaricate over taking up new space in the coming quarters. However, it's highly debateable as to whether central London will see large numbers of occupiers downsize and/ or move to the Continent, and we do not believe this is the most likely outcome. It's also clear that the central London office market is in a strong situation to avoid a supply shock that has exacerbated capital value declines during market cycle troughs in the past. These occupier market views coupled with our views above on yields, leave us not bullish on the central London office market, but certainly much less bearish than the consensus view.

Figure 11. New City office supply

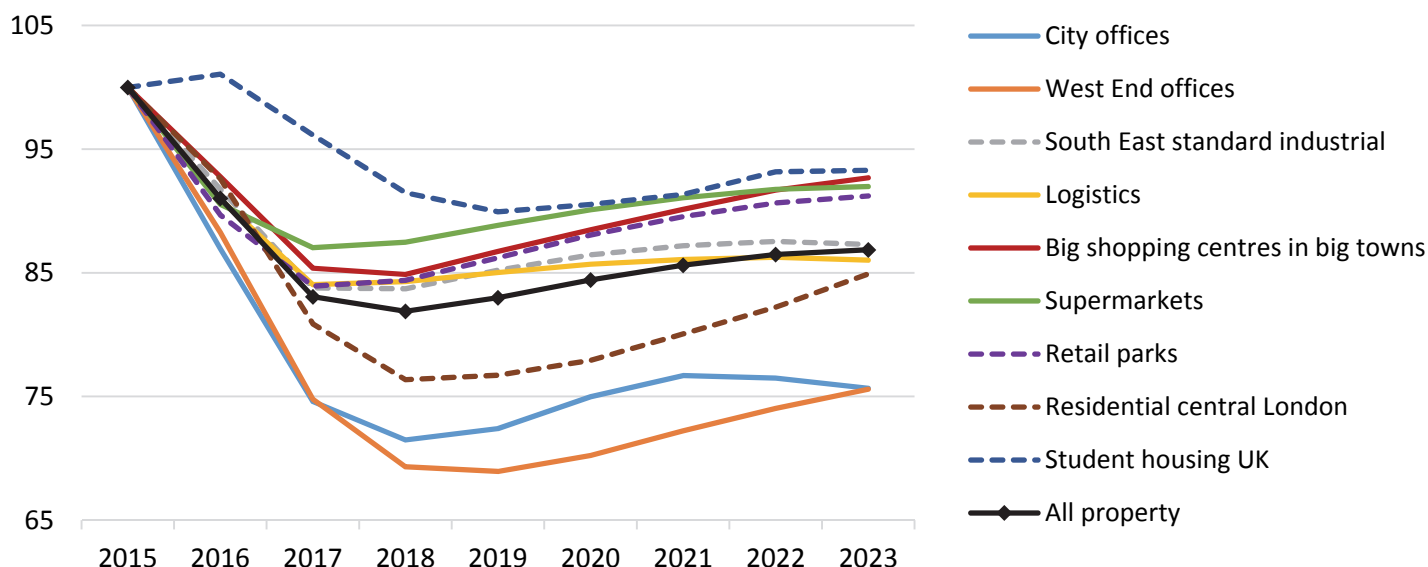


Source: CBRE

Which UK property sector/ segments is likely to most notably benefit due to Brexit?

It is difficult to broadly see Brexit being a net-positive event for any one area of the property market over the short-term. However, there are several sectors/ segments that are likely to prove more resilient than others as Figure 12. shows. We generally expect senior assisted living, student housing, hotels and leisure, mass residential, standard industrial, logistics, dominant regional shopping centres and experiential prime high street retail to outperform on a relative basis.

Figure 12. Forecast UK capital value growth under 'Messy' Brexit scenario



Source: PMA

How might Continental markets be affected by Brexit?

As above with comments on how Brexit might affect Continental GDP growth, this unfortunately is much more difficult to quantify or even qualitatively assess in any meaningfully comprehensive way at this early stage. That said, if Continental economic growth slows in the short-term more strongly than the small amount expected, general occupier market sentiment and rental growth could be negatively affected. On the investment side, core European government bond yields have notably compressed in the wake of Brexit, so real estate is looking more attractive in relative value terms. However, it is possible that if some of the other risks described above precipitate, then property yields could rise.

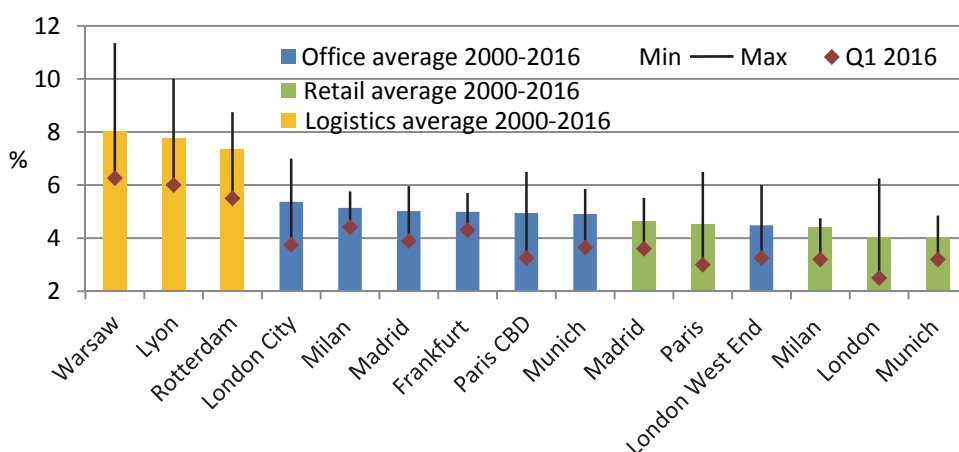
If the London financial services industry is materially damaged by Brexit (which is highly debateable as we comment above), it's possible that the office markets of Frankfurt, Paris, Dublin, Amsterdam and Luxembourg could benefit from relocating occupiers. However, it's questionable how attractive these cities will prove to occupiers pondering relocation. Dublin, Amsterdam and Luxembourg are all relatively small cities and probably lack the economies of agglomeration to broadly become an attractive alternative destination. Whilst being a notable financial centre, Frankfurt too with only a population of c730,000 (compared with the City's financial services headcount of c360,000), is also probably too small. Paris has the critical mass to be a viable option, but has perceived drawbacks in the form of higher taxation, general adherence to the EU Working Time Directive, restrictive labour regulations and robust unions. So, some of these centres might see marginal increases in office take-up from Brexit, but *prima facie* none appear to be a broadly obvious alternative.

While the retail sector is largely geared to economic factors that have been covered above, the logistics sector could suffer from supply chain disruptions if trade barriers are erected between the UK and EU. This would be particularly so for those counties that experience strong goods flows with the UK, namely Hungary, the Czech Republic and Ireland. However, given that for most of the larger Continental economies, the UK buys more of their goods than they buy UK goods, and that the UK is the EU's single largest trading partner, we tend to suspect that relatively open trade will be a priority for both sides under Brexit despite recent rhetoric from the European Commission. The EU putting up trade barriers would only harm their own exporters.

Is Brexit likely to result in prime yields in the core Continental markets compressing further than previously anticipated?

As Figure 13. shows, prime yields across much of Europe are already trading at the bottom of their historical ranges. Given that interest rates are likely to be lower-for-longer in general globally and that the ECB is not expected to tighten monetary policy until well into the medium-term, and that government bond yields are compressing to record lows, it's conceivable that prime yields will compress further. Downside risks to this view include inflation surprising to the upside and other risks described above becoming reality.

Figure 13. Selected European city prime net initial yields
(current, historical average and range)



Source: PMA

Is Brexit likely to re-orient equity previously destined for the UK market to the core Continental markets?

It's possible, but far too early to tell whether this is likely. The UK is the largest real estate investment market in Europe by a considerable margin and it's quite possible that some capital will seek to invest on the Continent instead. However, whilst Brexit poses clear and present risks, the Eurozone has its own extant risks to the downside (as described above). Moreover, most of the factors that might divert capital otherwise destined to the UK are as yet unknown and will only become clear through the medium-term onwards. These include the fate of London's standing as a global financial centre and passporting rights, the form of the relationship that evolves with the EU and trading agreements, the UK's ability to sign meaningful FTAs with the non-EU rest of the world, and the eventual path of UK growth.



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