



# WHAT DOES THE BREXIT DEAL MEAN FOR UK REAL ESTATE?

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A CBRE RESEARCH REPORT

**CBRE**

## BREXIT: REAL ESTATE PROSPECTS AFTER THE DEAL

With the dust now settling on the Brexit deal, this report explores the effect of the deal on real estate.

On the following pages we look, in turn, at each of the key aspects of Brexit – including trade in goods and services, labour markets, and a selection of other key issues.

Of course, Brexit is not actually fully settled yet. A range of **grace periods, transitional timelines, and unfinished business** mean that some sectors of the economy, notably financial services, are still (at least partly) in the dark about what Brexit means for them.

Furthermore, the arguments either way about the effect of a specific aspect of the deal can be complex **and in many cases it's not possible to say with any certainty whether Brexit will turn out to be a good thing or a bad thing**, especially in the longer term.

So, in this report we have made some judgments and 'conviction calls', guided by what economic theory and political probability might suggest.

We give a view on both the immediate short term impacts (1-2 years) and the longer term impacts (5-10 years).

Whatever the effect of Brexit, it is important to get this major change in the UK's trading relationship into perspective: for the next year or two, we think **the economic impact of the COVID-19 pandemic is far more important** an influence on real estate than Brexit.



For Brexit's effects by property type [click here](#)



For Brexit's effects by Brexit issue [click here](#)



For the timeline of future Brexit-related events [click here](#)

### UK trade flows in goods and services (2018, £bn)

£bn	EU	non-EU	Total
UK goods imports from	266	223	489
UK goods exports to	172	177	350
UK services imports from	97	100	197
UK services exports to	125	182	307



# 54%

of UK **goods imports** are imported from the EU



# 49%

of UK **goods exports** are exported to the EU



# 41%

of UK **services exports** are exported to the EU



# 73%

of **all UK imports** from the EU are goods imports

Source: DIT UK Trade in Numbers, Feb 2020

# UK REAL ESTATE EFFECTS BY PROPERTY TYPE



## RETAIL & LOGISTICS

- Retail and logistics will mostly be affected by **Brexit's effect on goods imports and exports**
- Short-term constraints on the supply of consumer goods could affect retail availability and prices
- Logistics property demand is likely to rise because of the need to manage disruption – for example, e-commerce providers may need to split their stock
- Longer term, **supply chain reconfiguration** seems likely, rebalanced towards non-EU suppliers whom Brexit makes more competitive



## RESIDENTIAL

- Residential property (both supply and demand) will mostly be affected by **immigration changes**
- On the demand side, new restrictions on freedom of movement and immigration may reduce **housing demand**, particularly in London where the EU workforce has been disproportionately large. However, the effect is not expected to be significant
- **Labour shortages in the construction sector** could potentially also hit new home construction



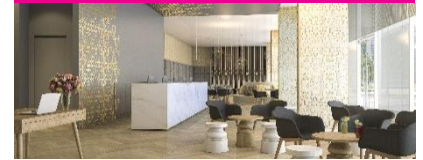
## OFFICES

- Offices will mostly be affected by **Brexit's effect on services imports and exports** into and from the EU, and to a lesser extent by **immigration changes**
- **Financial services** office occupiers are likely to see most change as a result of Brexit, although how much change is still unclear given that the EU-UK agreement on financial services has still not been reached



## HOTELS & HOSPITALITY

- Hotels and hospitality will mostly be affected by **immigration changes**, as the UK workforce in these relatively low-skill sectors has traditionally had higher levels of EU workers than other sectors
- Hospitality will also experience some of the same impacts as retail in terms of **Brexit's effect on goods imports** of food, drink and other consumables
- Tourism-driven hotels performance is likely to be much less affected by Brexit **immigration changes** (which do not affect EU tourists significantly) than by the COVID-19 pandemic



### But don't forget:



These sector-specific impacts are less important for property than the risk of Brexit **lowering trend GDP growth in the UK economy**, unless the UK Government implements counteracting policy measures.



**The economic effect of the COVID-19 pandemic** is likely in most cases to be a more significant influence than Brexit in the short to medium term.

# UK REAL ESTATE EFFECTS BY BREXIT ISSUE

The detailed analysis on the following pages (pages 7-10) assesses the real estate impact of each of the key aspects of Brexit: trade in goods and services, labour markets, and a selection of other key issues.

The table below summarises our findings. In many cases, the impact is not known or arguable, so we make a 'conviction call' which we think represents the most likely outcome. Regrettably, many short term impacts are negative, reflecting ongoing uncertainty and disruption for some sectors.

However, the longer term picture is more balanced. Initial disruption will fade, but so will initial benefits. Where we see long-term negative effects, these are often because of structural disadvantages we see in Brexit. But those disadvantages can be addressed: by good Government policy, and by firms reorienting themselves to new and faster growing markets than the EU.

	Goods				Services			Labour	Capital Markets	Law
Specific issue	New customs checks	Special arrangements in Northern Ireland	New lower UK global tariff	VAT changes	Loss of single market access	Loss of recognition of professional qualifications	Financial services: lack of agreement	Loss of freedom of movement	Non participation in EU Capital Markets Union	Import of all EU law into UK law at point of exit; subsequent legal reform
Short term effect on real estate	x	xx	-	x	x	x	x	-	-	✓✓
Long term effect on real estate	-	✓	✓✓	-	x	-	x	x	-	✓
Real estate sectors most affected	Logistics Retail	Logistics Retail	Industrial Retail Construction	Logistics Retail	Offices	Offices	Offices	Logistics Retail Hospitality Healthcare Residential Construction	All	All

xx Strongly negative    
 x Mildly negative    
 - Neutral    
 ✓ Mildly positive    
 ✓✓ Strongly positive

## SELECTED FUTURE BREXIT DEADLINES AND EVENTS

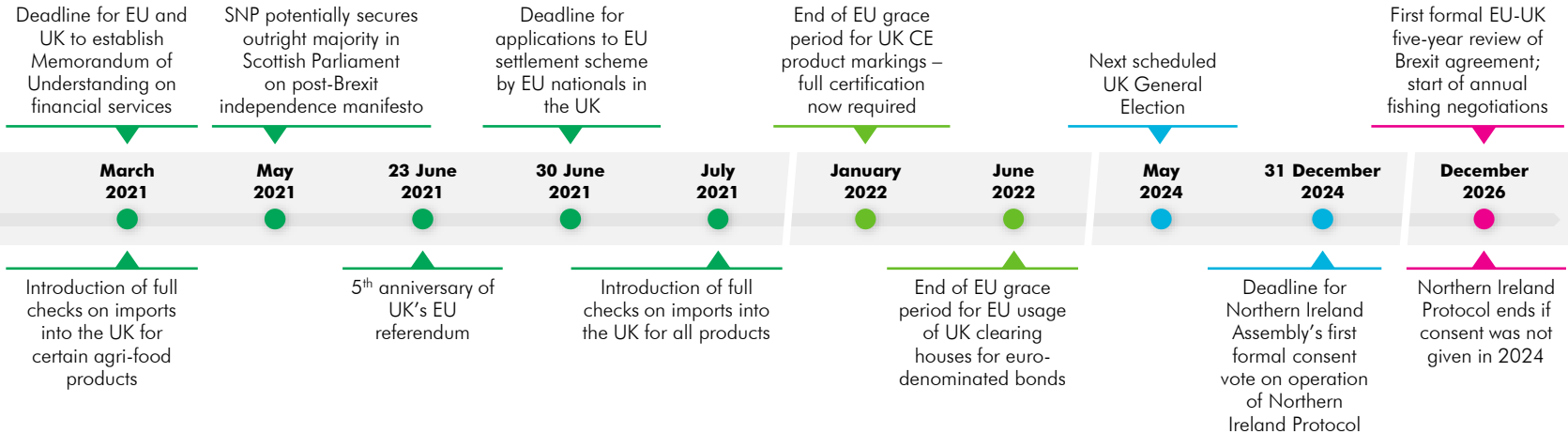
Of course, Brexit is not actually fully settled yet. A variety of temporary **grace periods and further transitional periods** have put in place by both the UK and EU unilaterally, as well as by formal agreement. And there is some unfinished business. So some sectors of the UK economy, notably financial services, are still (at least partly) in the dark about what Brexit means for them. **This means some continued, but largely minor and selective, uncertainty for real estate occupiers and investors.**

Some of the key Brexit events ahead are listed below. **Over the next 12-24 months, most of these transitional arrangements are scheduled to end.**

However, Brexit disruption might continue for longer than expected, or the COVID-19 pandemic means that political or logistical priorities have been elsewhere. If so, **we expect that many of these deadlines will be extended.**

Looking further ahead, **4-5 years after Brexit, the first of a number of formal reviews of Brexit begin to occur.** These include, for example, the Northern Ireland Assembly's first vote on whether it continues to consent to the (already controversial) Northern Ireland Protocol, which governs the application of the EU-UK deal across the UK's land border with Ireland.

It will be a 'long goodbye'...





# DETAILED ANALYSIS

# WHAT THE DEAL MEANS: TRADE IN GOODS

LOGISTICS WILL BE THE MOST AFFECTED UK REAL ESTATE SECTOR

Aspect of the Brexit deal	Short term implications for UK real estate ( 1-2 years)	Long term implications for UK real estate (5-10 years)
<p><b>Goods:</b> Introduction of customs checks and documentation for goods exports and imports at UK and EU borders</p>	<p><b>Mildly negative</b> – disruption is occurring in some sectors leading to marginal losses to economic growth, although these are overwhelmed by pandemic-related losses. The disruption is mostly caused by low customs agent capacity and a lack of familiarity with the new rules, rather than supply chain restructuring. However, the risk of delay and the need to split e-commerce stock between the UK and EU appear to both have increased demand for logistics space.</p>	<p><b>Neutral</b> – supply chains are likely to adjust and delays will reduce with familiarity and investment. In the meantime, higher costs will be unhelpful to firms and consumers, with the potential for a short-term increase in inflation. But logistics real estate in particular seems likely to benefit.</p>
<p><b>Goods:</b> Special arrangements for Northern Ireland, which remains inside the EU customs zone</p>	<p><b>Strongly negative</b> – actions taken under the Northern Ireland Protocol are proving very controversial and may lead economic operators to doubt the survival of the framework, causing hesitancy over real estate investment and leasing decisions.</p>	<p><b>Mildly positive</b> – assuming that a workable longer term framework can be found, Northern Ireland could potentially benefit from ‘the best of both worlds’, being inside the EU for trade purposes but also remaining part of the UK for economic purposes. Devolution of key decisions to the Northern Ireland Assembly provides some flexibility.</p>
<p><b>Goods:</b> New UK global tariff for non-EU goods reduces tariffs for non-EU goods compared with UK being in the EU</p>	<p><b>Neutral</b> – there will be transitional disruption and rearrangement of supply chains as non-EU goods imports into the UK become more competitive compared with EU or domestic goods. This could cause some uncertainty about the prospects for some logistics property, although overall there is likely to be increased short-term demand.</p>	<p><b>Strongly positive</b> – the generally lower tariff adopted by the UK for non-EU goods imports (46% of all goods imports) is likely to give the UK a competitive advantage access to cheaper non-EU goods. Construction looks likely to benefit, for example, with lower tariffs on imports of cements than when the UK was in the EU. The effect is small, but will build over time, and could rebalance trade in favour of the UK’s Atlantic seaports to North Sea/English Channel ports in the South and East of the UK.</p>
<p><b>Goods and Services:</b> Changes to UK taxation, particularly in VAT</p>	<p><b>Mildly negative</b> – additional administration and unusual new UK VAT rules are causing some firms to stop supplying the UK or imposing additional costs on logistics operations via deliveries and 3PLs. The new rules require EU firms selling into the UK to either register for UK VAT or require the customer to pay VAT on delivery.</p>	<p><b>Neutral</b> – familiarity with new rules and ability to absorb costs likely to mean no noticeable long-term effect. VAT rates already varied very significantly across the EU before Brexit, and was already levied in the UK prior to Brexit, so it is the administration of the rules themselves that seems to be the limit of the impact.</p>

Source: CBRE Research, March 2021

# WHAT THE DEAL MEANS: TRADE IN SERVICES

OFFICES WILL BE THE MOST AFFECTED UK REAL ESTATE SECTOR

Aspect of the Brexit deal	Short term implications for UK real estate ( 1-2 years)	Long term implications for UK real estate (5-10 years)
<p><b>Services:</b> Loss of access to EU single market in services</p>	<p><b>Mildly negative</b> – the EU Services Directive covered services worth about 46% of EU GDP. The services single market aims to converge services rules across the single market and the UK’s previous membership of the EU means it will have similar arrangements to the EU in the short term.</p> <p>Many such services are not regulated (unlike financial services) so can still be traded across the EU-UK border, albeit subject to compliance with local standards. So, while costs may increase, it is difficult to identify specific real estate impacts. There is little evidence that non-financial services businesses have relocated to the EU in any significant way.</p>	<p><b>Mildly negative</b> – Services now account for around 80% of the UK economic output and 46% of UK exports. Taken as a single entity, the EU is the UK’s largest export market for services, accounting for 41% of all service exports. While the UK can (and probably will) begin to export more services to non-EU countries, there is likely to be some divergence in regulatory standards which could increase trade barriers.</p> <p>Unlike trade in goods to non-EU countries, where Brexit has led to a liberalisation of trade, there is no equivalent relaxation of any significance in relation to services trade with non-EU countries.</p>
<p><b>Services:</b> Mutual recognition of professional qualifications</p>	<p><b>Mildly negative</b> – the Brexit deal makes very limited provision for mutual recognition of professional qualifications. This is likely to cause some transitional disruption while professionals who need to work across country jurisdictions establish local credentials. Bigger international firms may be able to transfer work to local staff. At worst, they may need to stop work in the EU (or UK respectively). This might cause some very small shifts in office demand.</p>	<p><b>Neutral</b> – the Brexit deal essentially leaves it to professional regulators in each country to decide whether their qualifications are equivalent. This seems likely to lead to lengthy and potentially protectionist discussions. At the margin, labour mobility and services exports will be reduced. Even so, the real estate impacts seem likely to be very small as the majority of services firms are domestically orientated.</p>
<p><b>Services:</b> Absence of an agreement on financial services</p>	<p><b>Mildly negative</b> – the continued absence of a clear framework for the recognition of UK financial services in the EU (but not vice versa) continues to cause uncertainty and disruption in the UK office market, and some relocation to EU cities. Progress is expected in Q2 2020.</p> <p>Even though the UK has already granted access to EU firms, around 1,500 EU firms have registered with the FCA to ensure domestic compliance (according to consultants Bovill), which could lead to an increase in UK office demand.</p>	<p><b>Mildly negative</b> – assuming that an agreement is reached eventually, UK firms should be able to continue to export many (but not all) financial services in the way they do now.</p> <p>Even if there is no agreement, this does not mean a contraction in office demand because UK firms may elect to re-orientate to different markets. Some activities banned in the EU (such as Swiss share trading) are also being revived in the UK. The UK’s financial sector is very powerful globally and seems likely to be resilient to loss of some EU access.</p>

Source: CBRE Research, March 2021



# WHAT THE DEAL MEANS: LABOUR, CAPITAL AND LEGAL SYSTEM

RETAIL, CONSTRUCTION AND HOSPITALITY WILL BE THE MOST AFFECTED UK REAL ESTATE SECTORS

Aspect of the Brexit deal	Short term implications for UK real estate ( 1-2 years)	Long term implications for UK real estate (5-10 years)
<p><b>Labour:</b> Loss of freedom of movement for EU workers to the UK, and vice versa; introduction of points-based migration system treating EU and non-EU workers alike</p>	<p><b>Neutral</b> – prior to the pandemic CBRE was concerned that the UK’s tight labour market would be exacerbated by Brexit. However, the pandemic has caused rising unemployment which reduces this concern.</p> <p>There are some sectoral shortages which could cause cost increases for some occupiers, and possibly developers reliant on EU construction workers. Residential property development is most likely to be affected by such shortages. According to the latest (Q4 2020) RICS Construction Market Survey, 41% of respondents already cite ‘shortage of labour’ as a limitation on activity.</p> <p>London is most the exposed region because it has the highest percentage of EU workers.</p>	<p><b>Mildly negative</b> – Brexit permanently removes freedom of movement for UK and EU workers, reducing labour mobility. Political tensions may lead to under-migration and lower growth. If the new UK migration system is effective, there will still be a small frictional loss of economic growth from new visa requirements. This loss might be offset by non-EU workers taking jobs in the UK previously taken by EU workers. On balance we think UK real estate will be slightly worse off due to increased labour costs, especially those sectors most dependent on EU workers to date – including retail, hospitality, construction, healthcare, and private rented housing.</p> <p>No impact on hotels seems likely as the UK will remain visa-free for EU tourists.</p> <p>We expect a small effect on student accommodation. EU applications are down on previous years owing to increased fees, but EU students are only 6% of the UK student population, and we expect that non-EU students will pick up the slack.</p>
<p><b>Capital markets:</b> Loss of access to EU Capital Markets Union and investment freedoms</p>	<p><b>Neutral</b> – the EU’s Capital Markets Union is a relatively new initiative aimed at promoting the free-flow of investment across the EU. Brexit has happened relatively early in the development of the CMU and so we do not see any specific impacts for real estate investors.</p>	<p><b>Neutral</b> – longer term, the CMU could become more important in diverging UK rules from EU rules, even if the UK elects not to diverge from the EU. However, the CMU has made slow progress, and the UK is already a very strong and open destination for real estate capital. This suggests few additional effects over and above investor attitudes to the UK being changed by Brexit’s effect on economic growth.</p>
<p><b>Influence of EU law on UK law:</b> UK’s decision to import EU law into UK law at the point of exit</p>	<p><b>Strongly positive</b> – the UK’s early decision to import the whole of EU law into UK law provides a profound continuity in the UK’s legal and regulatory culture, implying little short-term change on real estate issues such as Environmental Impact Assessment or business rates state aid. This certainty been crucial to a smooth transition.</p>	<p><b>Mildly positive</b> – this continuity will persist for a very long time. In the very long term, the UK regulatory and legal culture seems likely to diverge from the EU’s. This could introduce new tensions and costs. On the other hand, UK sovereignty provides an opportunity to reform legislation in ways that would not have been allowed before Brexit. It remains to be seen how this area of policy will evolve, but if only for political reasons we can expect the UK Government to make the most of Brexit.</p>

Source: CBRE Research, March 2021

## SOURCES AND CONTACTS

The following sources were used to compile this report.

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