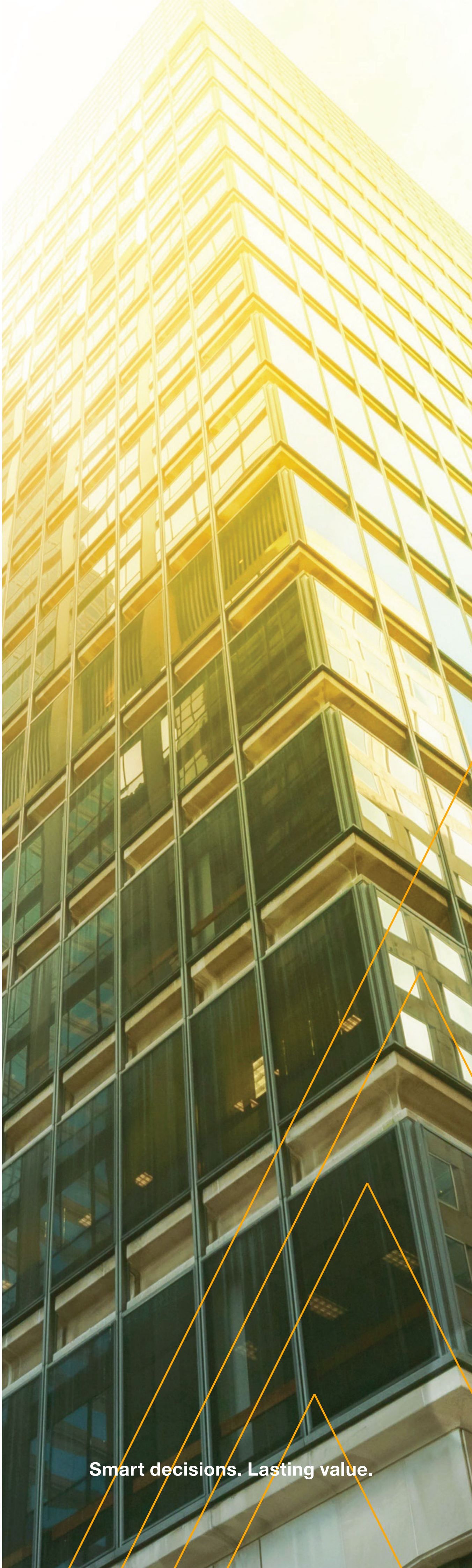
Crowe Horwath™

Property survey 2016

European investment market

Audit / Tax / Advisory



About the report

The uncertainty around Brexit and the burden of the ever complex UK tax system is hampering confidence of property investors, according to this year's survey. This is likely to have a much longer term impact on the UK Property and Construction market than many may realise.

The results of our survey show that although immediate priorities, including solving the housing crisis, are disrupting dynamics in the market, overlying concern about the stability of the UK economy as a whole is, for the time being, dictating market activity.

It is the UK government's responsibility to ensure stability and create an industry environment favourable for healthy competition, international operation and opportunity for development.

We interviewed over 100 leaders in the property and construction industry to gauge their views on growth, international investment markets and the EU referendum result.

> "Until article 50 is evoked and the business community see or start to assess impact, I believe there will be some nervousness to invest in Europe."
>
> (Survey respondent)

International activity and the EU referendum

Despite growth expectations, very few foresee international expansion over the next 12 months.

Over three quarters (78%) of participants had operations solely focused in the UK, and despite over half (51%) expecting their business to grow in size over the next 12 months, only 10% expected this to involve international expansion.

At the time of the survey, the outcome of the EU referendum was seen by the majority of participants (48%) as unfavourable. There was a further 42% unable to assess the impact of this on the Property and Construction industry at this stage.

Participants cited that uncertainly would discourage international operation until terms of the UK's exit from the EU are clarified. It is also placing increasing scrutiny on profitability of international

> "Long-term could be positive but it depends on the UK and the EU being sensible in negotiations. I think most people want economic partnership, not political."
>
> (Survey respondent)

operations and economies of some European nations. Out of the sample, 22% of businesses expected UK operations to decrease and almost all of these participants listed the principal reason for this as Brexit.

"We are calling for government initiatives to promote planning efficiency and regulate the market. We need to ensure long-term international competitiveness of our market, and that Brexit does not reduce investment from the UK or overseas." Stacy Eden, partner at Crowe Clark Whitehill.

However, prospects of operating across international jurisdictions was recognised by some investors. **Germany** was seen the most attractive country to invest in, with **Spain** and **the Netherlands** also identified as having strong potential for international investment due to more stable legislative and economic systems.

"In Germany we are seeing a persistently strong demand from international investors for residential and commercial properties. In particular, the Berlin real estate market has a great appeal with investors and seems to be very attractive comparing Europe's commercial capitals. In spite of a noticeable decrease in supply, there is still a large number of properties promising an above-average and sustainable return. However, we do not expect a 'Brexit Boom' due to the shifting of investments or companies to Germany." Heidemarie Wagner, Crowe Horwath Trinavis.

"The Dutch property market is developing rapidly, predominantly in the Amsterdam region. This is due to the perfect location near Schiphol Airport, highly educated and multi-language speaking population and good living climate for expatriates. The Netherlands also has a particularly favorable tax regime for investors. We expect the outcome of Brexit will most likely result in a further boost to the Dutch property market since headquarters of various enterprises will relocate outside of the UK. The Netherlands is positioned as one of the preferable locations to establish." Mark Zijlstra, Crowe Horwath Peak.

"Spain's property market continues to appeal to foreign investors with strong rental returns. Data from the Bank of Spain shows average annual gross profits of 9%, the highest level since the 2007 housing boom. Foreign buyers account for one in five purchases, this rises to eight out of ten in the luxury property market. Particular hot spots for investment are Madrid, Barcelona, the coastal regions, as well as the Balearic and Canary islands. The housing market is gaining momentum and steadily recovering whilst the commercial market has a clear upward trend, partly in response to the growth of the economy. Housing demand is expected to increase to 450,000 houses in 2017 compared to 420,000 in 2016 and 367,000 in 2015. The improved economy contributes to the attractiveness of the real estate market, the economy has grown over 2.5% in 2016 lending itself to a positive outlook in the labour market. Low interest rates keep the cost of financing low and access to credit is expected to continue improving. We expect Spain's property values to be reconsidered in the near future." Jesús Romero, Crowe Horwath Spain.

Looking further ahead, the 10% of participants that voted Brexit as favourable to the UK property and construction market, identified opportunity for innovation in the market. The fall in the value of sterling was also cited as attractive to foreign investors which could boost investment in London and other major UK cities.

> "Brexit poses a good opportunity to take the heat out of an already overheated market."
>
> (Survey respondent)

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Start the conversation

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