



Brexit: the UK referendum on EU membership

Risks, possible outcomes and potential real estate market impacts

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Focused on the future of real estate

Brexit: what's known

- On 21 February David Cameron, the UK Prime Minister, announced that a referendum on EU membership will be held on 23 June
- In the event of a 'no' vote, the UK government would have to apply to leave the EU in accordance with Article 50 of the Treaty of the European Union. This gives the UK and the EU two years from the date of the application to negotiate an exit deal
- To investors, a crucial aspect of these negotiations would be the degree of access the UK retains to EU markets, and what trade agreements and treaties can be negotiated with non-EU countries
- A number of risks for investors have emerged following the referendum announcement:
 - Uncertainty over the referendum outcome
 - Uncertainty over the process for exit
 - Uncertainty over the substantive effects of exit
- The Conservatives: the Conservative government will campaign to remain in the EU, but cabinet members are permitted to support either side. Conservative Mayor of London, Boris Johnson, together with a materially significant number of Conservative MPs, are campaigning to leave the EU
- UKIP, DUP, and the rest: The seeds of the referendum were sowed by the formation of UKIP in the nearly nineties. UKIP and the DUP are the only notable political parties officially campaigning for exit. The Liberal Democrats and Labour both support remaining in the EU

Upsides and downsides

Sources of possible gains and losses from Brexit

Possible gains	Possible losses
Less regulation	Possible tariffs on exports to the European Union
Savings on European Union contributions	Loss of access to the single market
Ability to strike new trade deals	Damage to the City
Skills-based migration policy	Drop in investment caused by uncertainty

Source: Capital Economics, AEW Europe

The Cameron deal: useful, but not decisive

Concessions David Cameron was able to secure from the EU prior to the referendum announcement:

- The UK's "Special Status"
- The new unilateral "safeguard"
- Detachment from "ever closer union"
- Migrant benefits "emergency brake"

Prior form

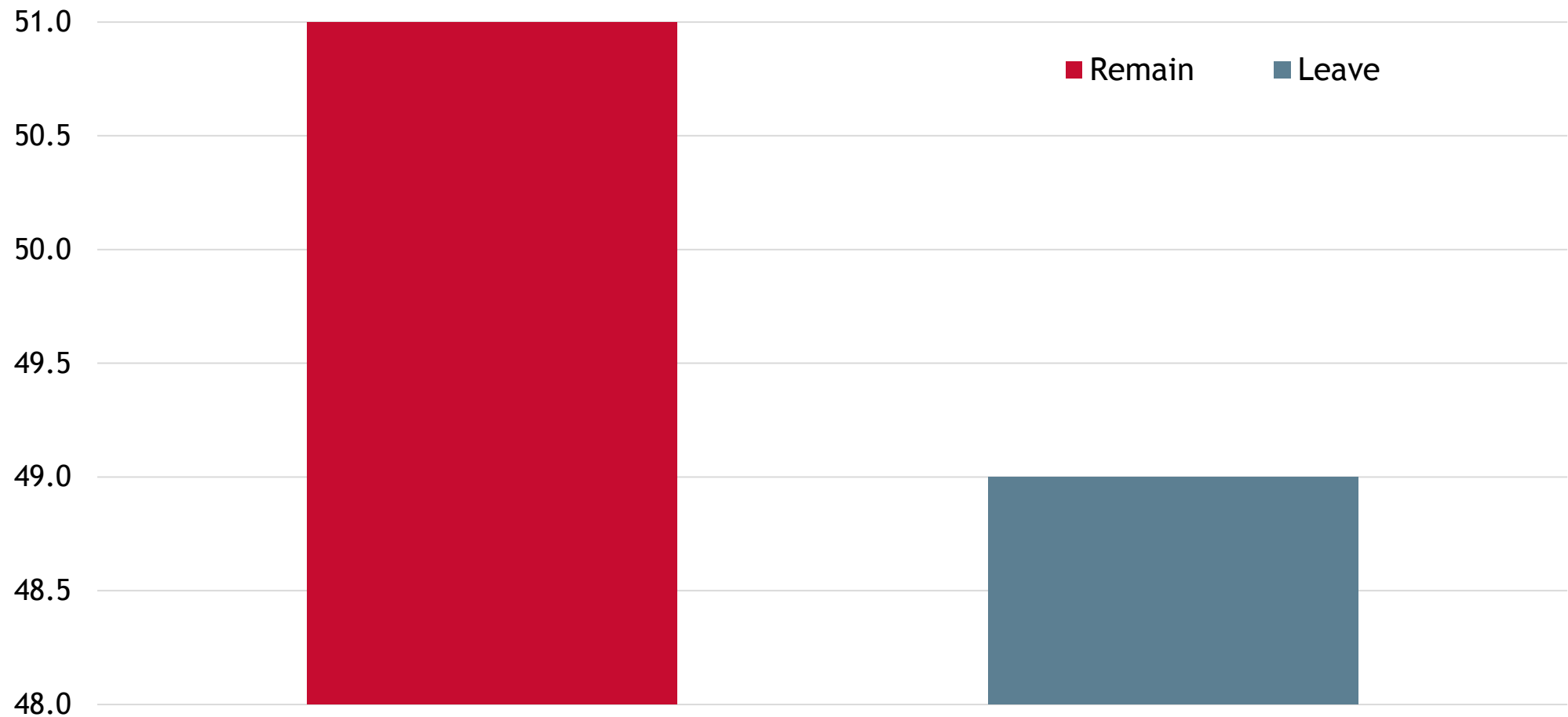
Outcome of other comparable UK referendums

Question	Yes	No	Turnout
1975: UK to stay in the European Community?	67%	33%	65%
2014: Scotland to become independent?	45%	55%	85%

Source: BBC

Too close to call ?

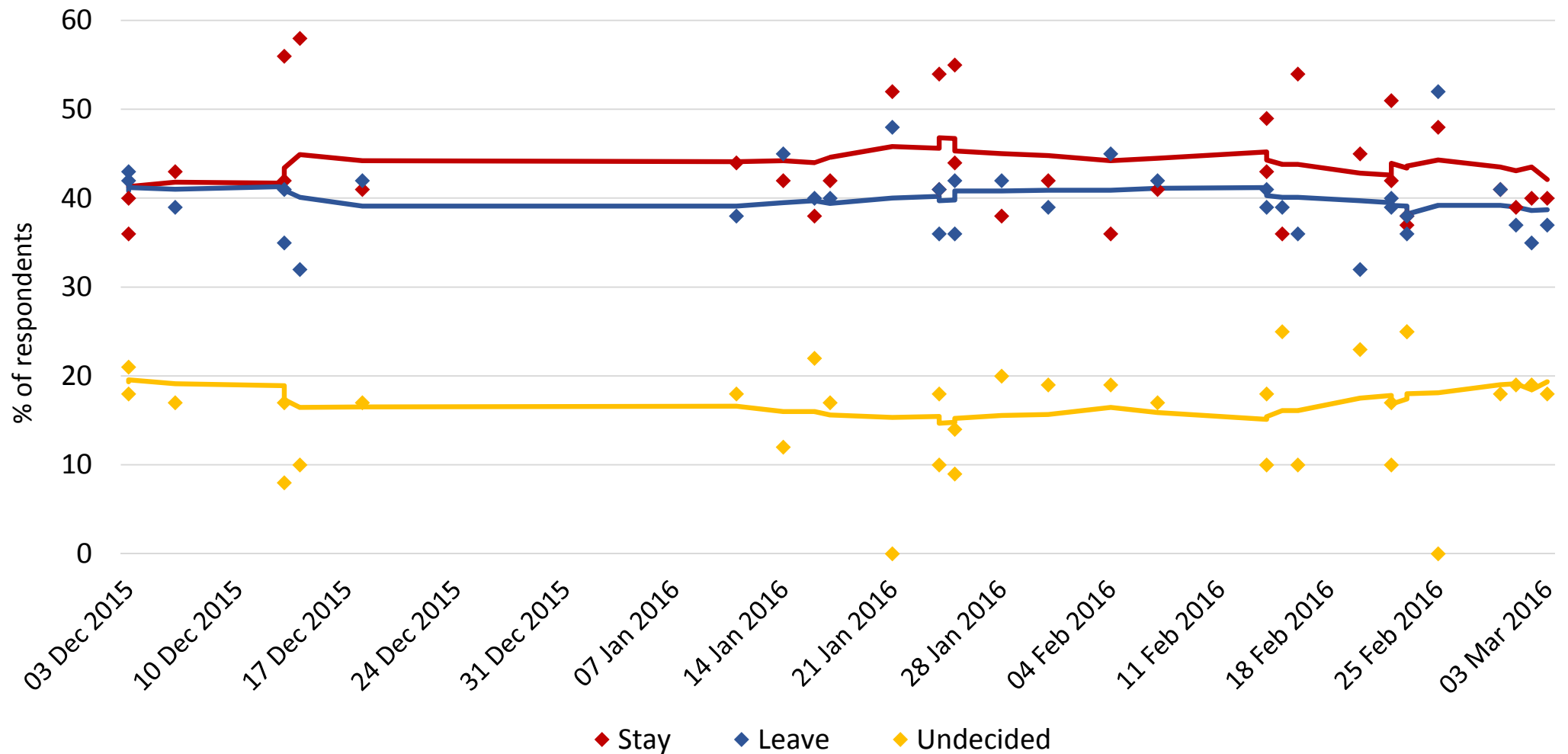
Should the UK remain in the EU ? (Poll of polls, as at 09 March, 2016)



Source: What UK Thinks

The 'undecided' - kingmakers ?

Opinion polls on Brexit

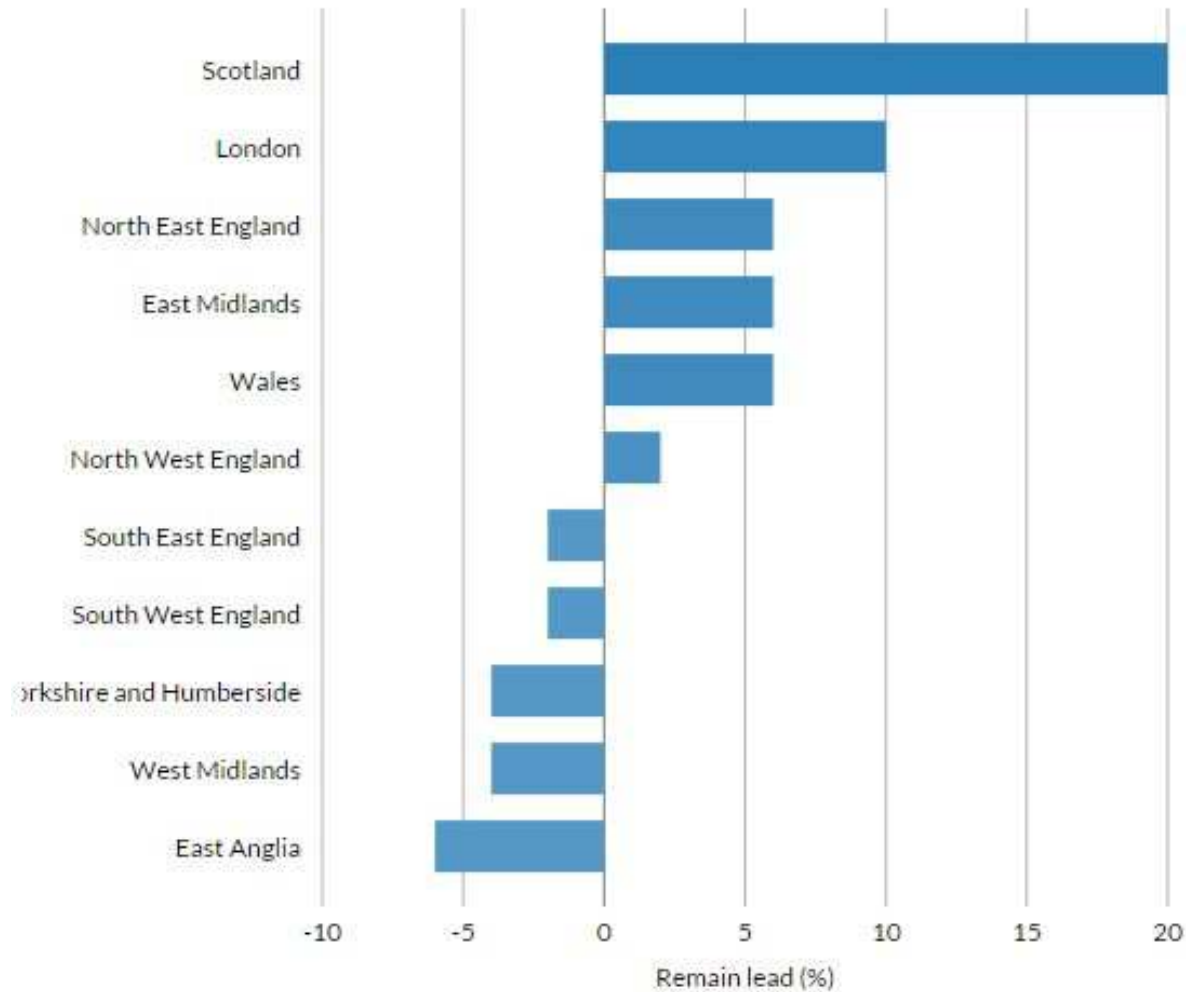


Source: Financial Times EU referendum poll of polls

* Dots denote individual polls; lines show 10-poll moving average

Geography matters

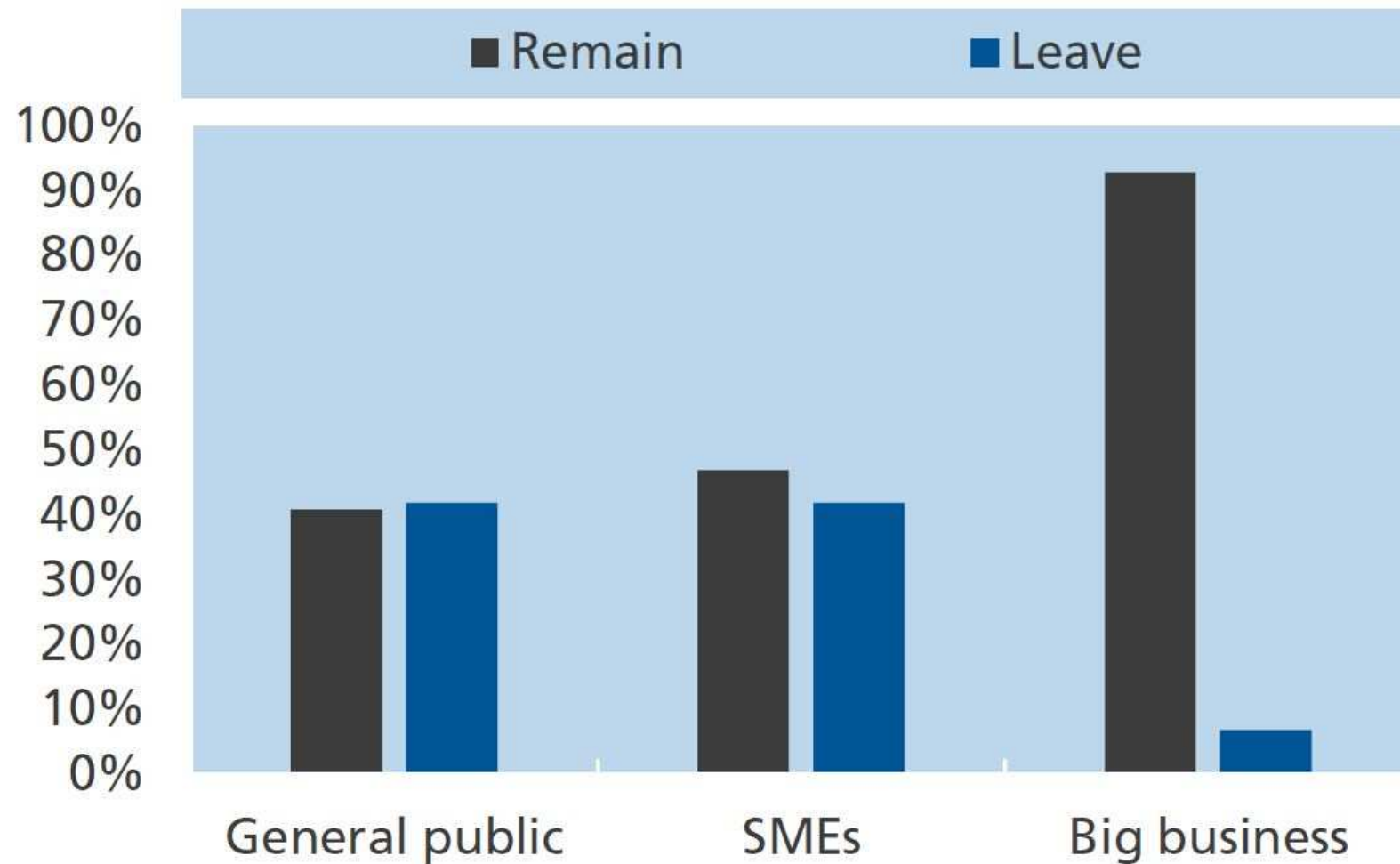
Lead of 'Yes' over 'No' among the regions



Source: The Daily Telegraph

Size matters

Divergence of opinion between businesses and the public (January, 2016)



Source: LSR, YouGov

Have the pollsters got it wrong ?

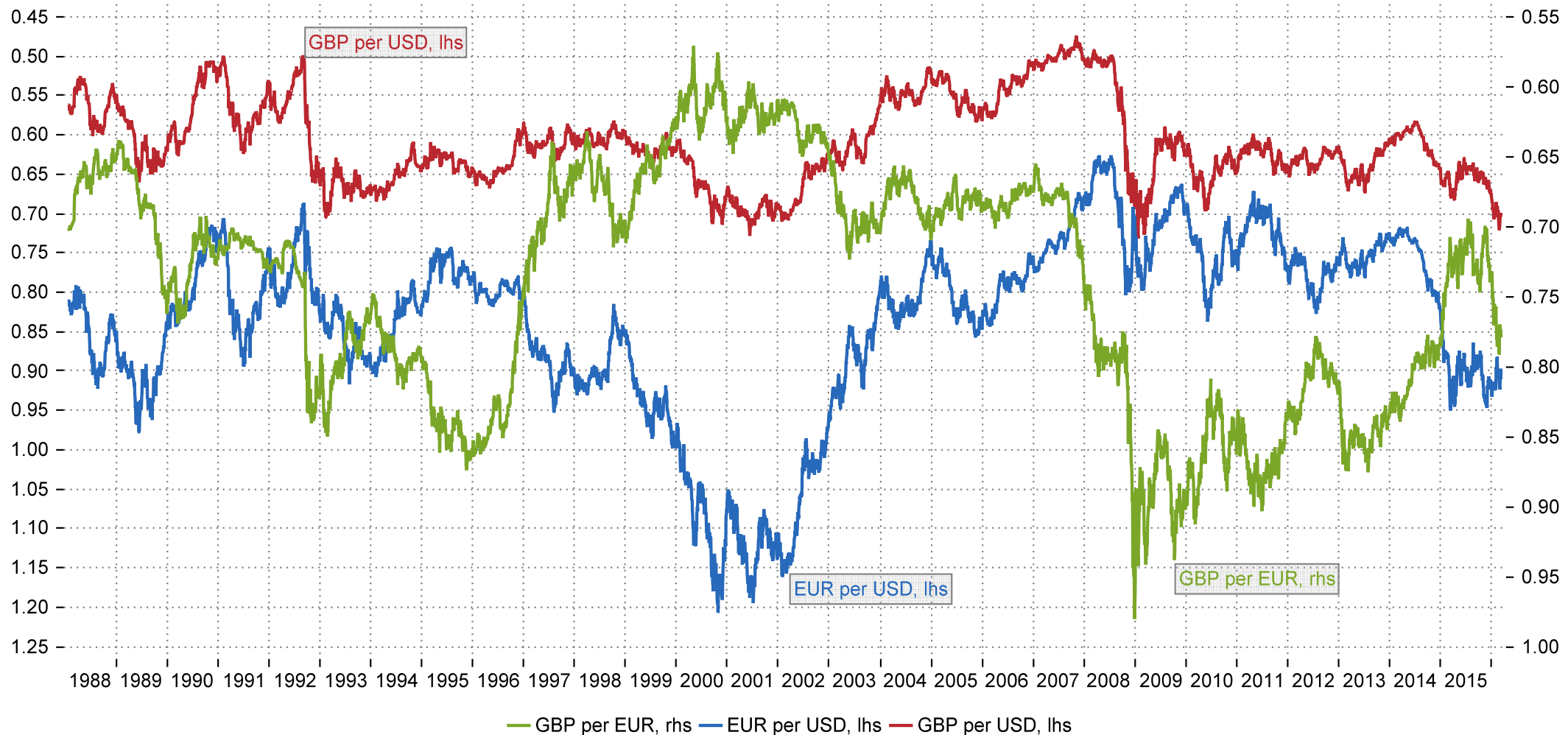
How the bookmakers see it: best odds

	1 December 2015		24 February 2016		9 March 2016	
Remain	8/15	65% probability	2/5	71% probability	1/3	75% probability
Leave	7/4	36% probability	9/4	31% probability	12/5	29% probability

Source: oddschecker.com * Use of best odds from a variety of bookmakers means that probabilities do not add up to 100%

Sterling first to suffer

EUR per GBP, EUR per USD and GBP per USD



Source: Macrobond

Government bond yields still at very low levels

Selected two year government bond redemption yields



Source: Macrobond

Government bond yields still at very low levels

Selected five year government bond redemption yields



Source: Macrobond

Government bond yields still at very low levels

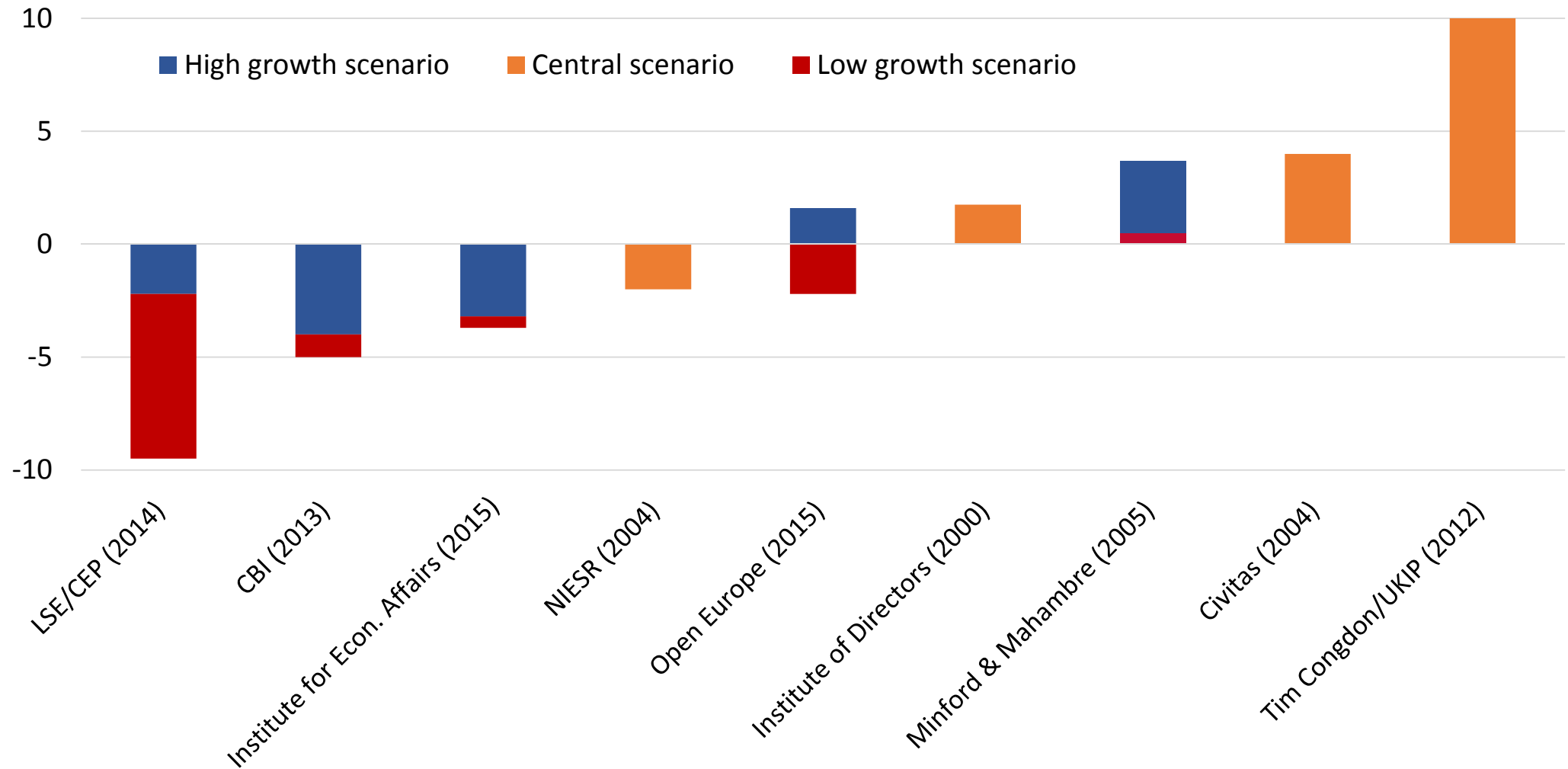
Selected 10 year government bond redemption yields



Source: Macrobond

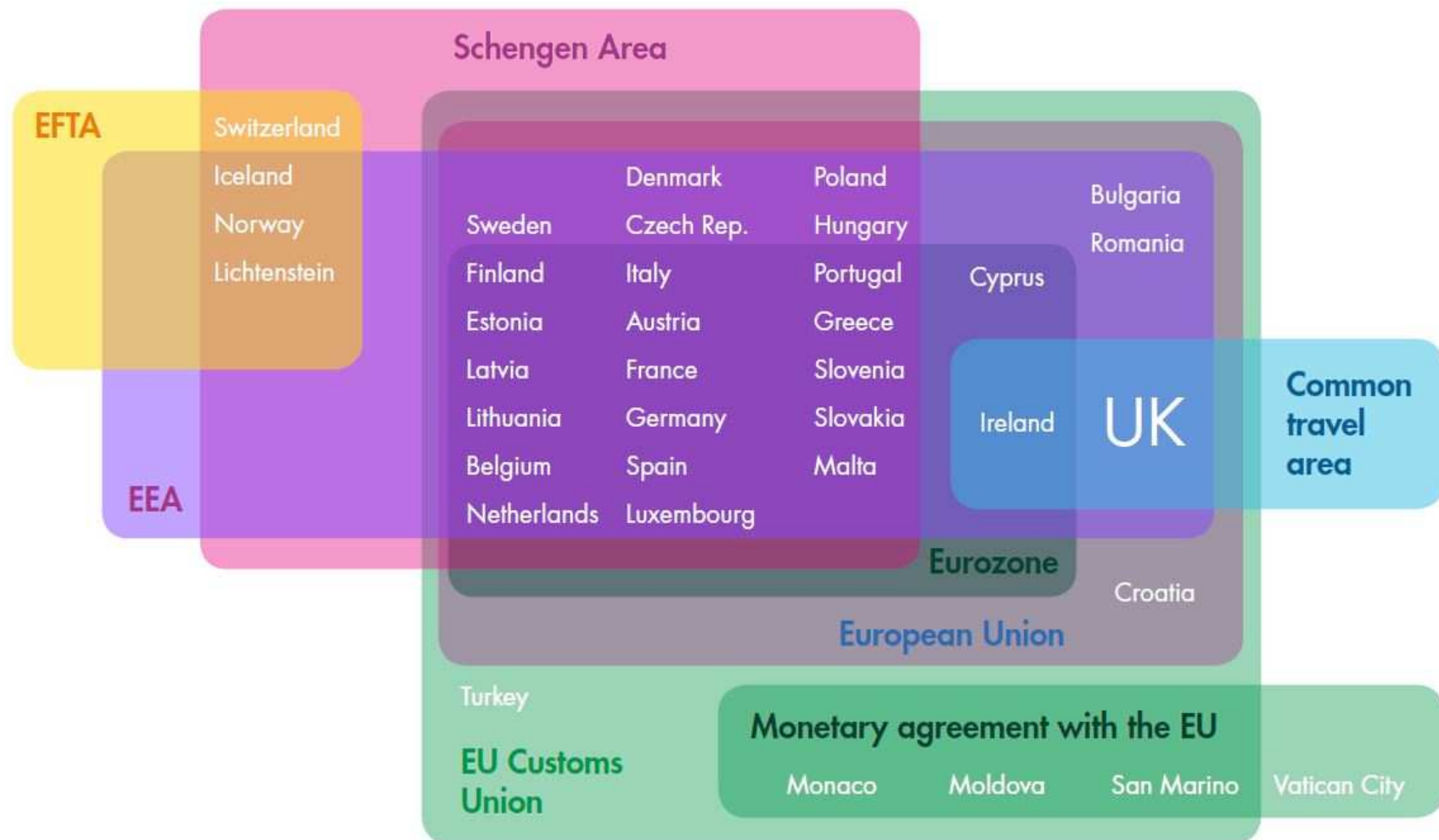
Anyone's guess ?

Estimates of the impact of Brexit on the British economy (% GDP)



Not just 'In' or 'Out' - other possible eventualities. . .

Overlapping European relationships



Source: CBRE

No free lunch

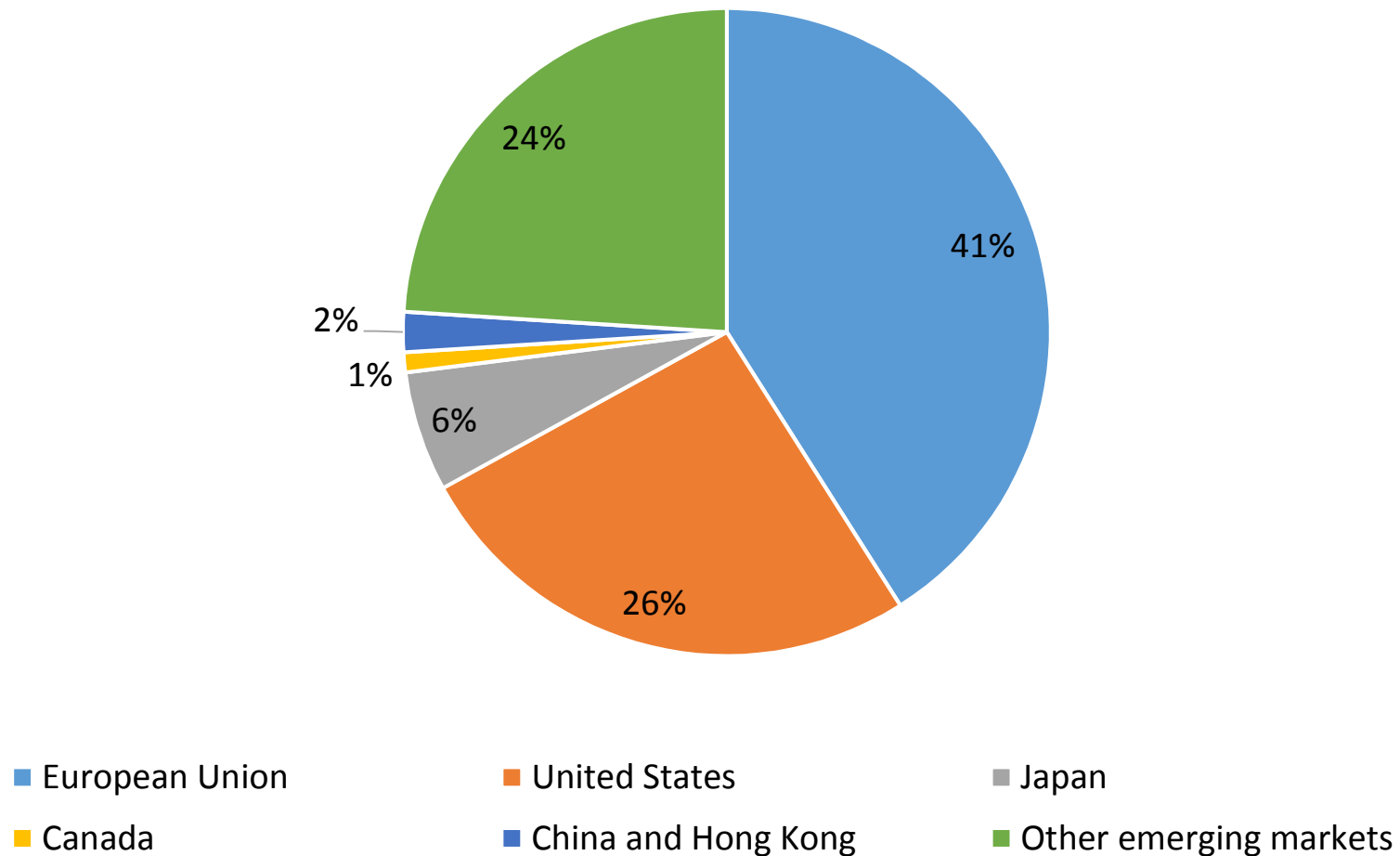
Trade options: access or control - the trade-offs

	Tariffs on Goods	Full access to single market	Influence over EU Regulations	Control of EU migration	Contributions to EU Budget	Independent Trade Policy
EEA (e.g. Norway)	No	Yes	Consultation, but No Voting rights	No	Yes - but a little smaller	No
Bilateral Agreements (eg Switzerland)	No	No - Services excluded	No	No - but subject to Swiss Referendum	Yes - but significantly smaller	Yes - but subject to EU norms to access single market
FTA (e.g. Canada, South Africa)	No	No - Services excluded	No	Yes	No	Yes - but subject to EU norms to access single market
Customs Union (e.g. Turkey)	No	No - Services excluded	No	Yes	No	Yes - but subject to EU norms to access single market
WTO / Most Favoured Nation	Yes	No	No	Yes	No	Yes

Source: PMA, AEW Europe

EU is a big market for the UK

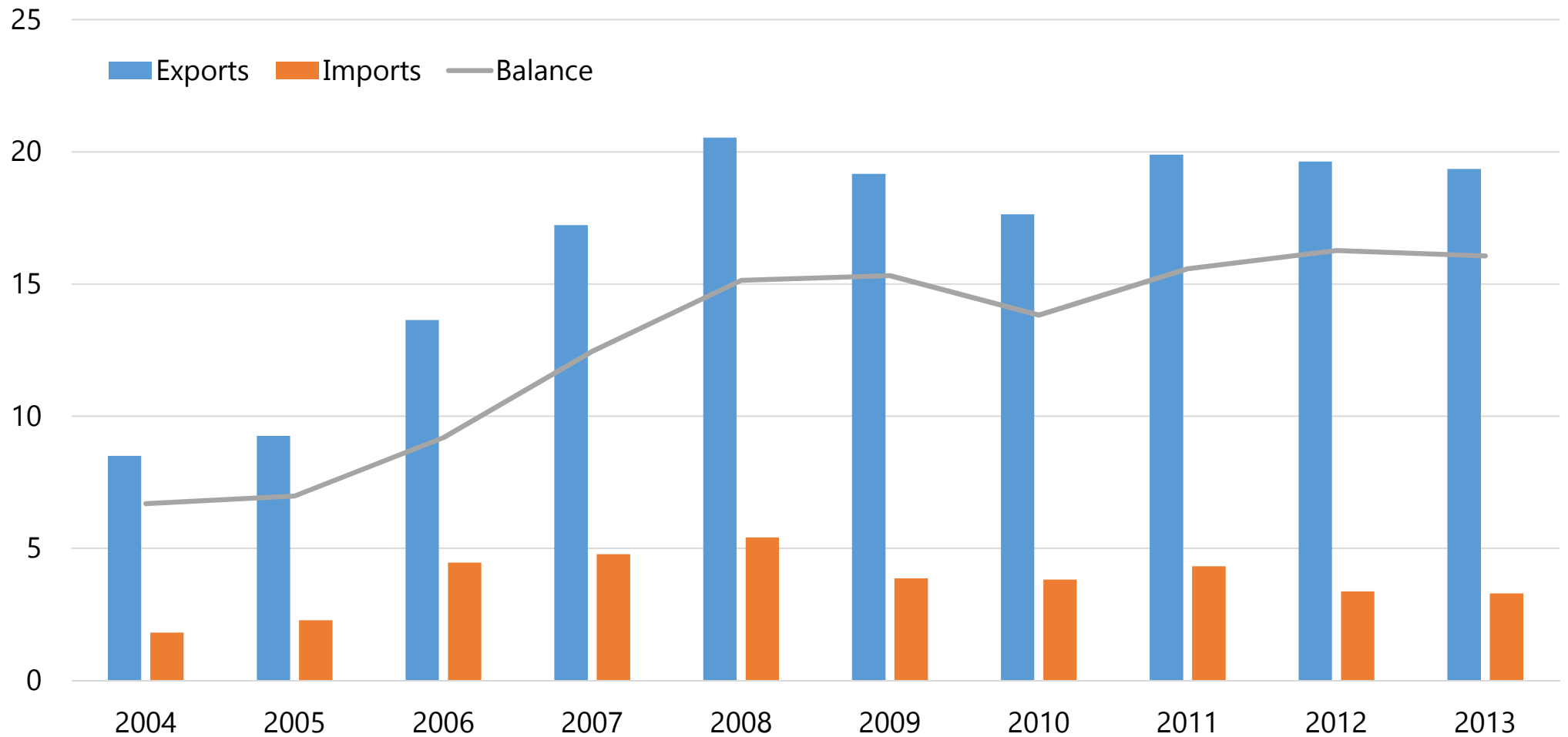
British financial services exports by destination (% share of total 2013)



Source: World Trade Organization, Capital Economics

The imbalance that's a source of concern

British financial services trade with the EU (GBP billions)



Source: Thomson Datastream, Capital Economics

Upsides and downsides

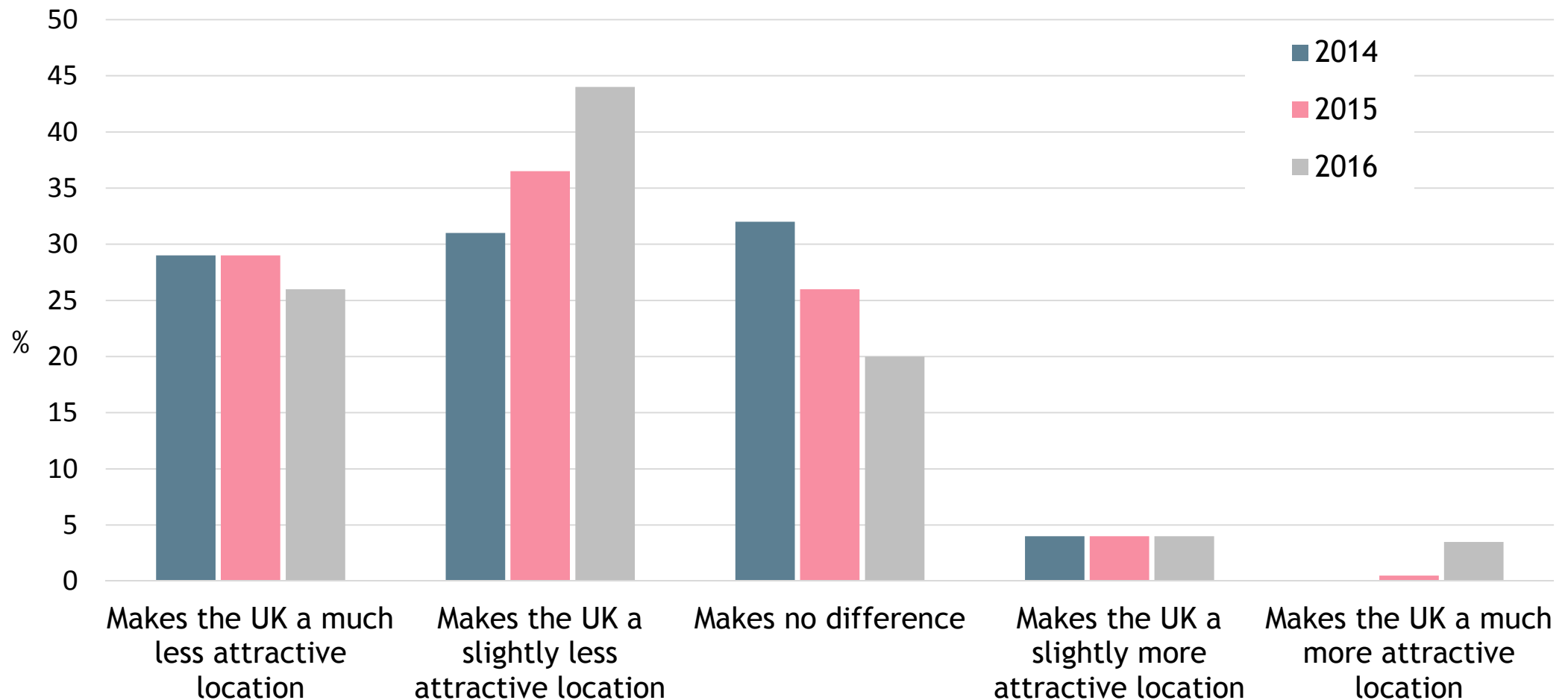
Main concerns of the financial services industry about leaving and staying in the EU

What are your main concerns for the future of the City if the UK decides to leave the EU?	What are your main concerns for the future of the City if the UK decides to remain part of the EU?
Loss of business to EU financial centres	Over regulation
Decline in international stature	EU becoming increasingly uncompetitive
Loss of influence on international policy	Declining influence of EU

Source: Survey of the Financial Services Sector's Views on Britain and the EU, CSFI, April 2015

Perceptions over time

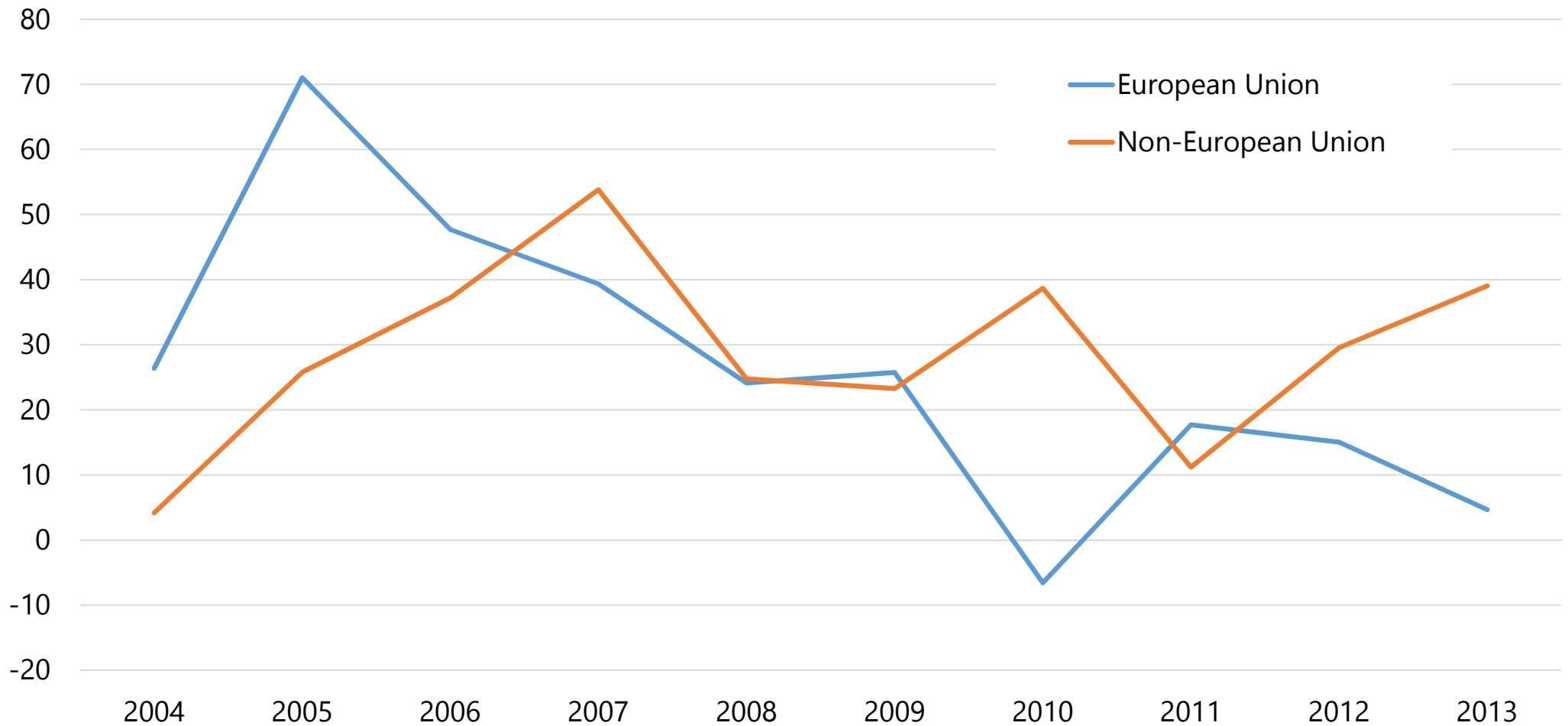
Property investor views on impact of exit on UK real estate investment (2014-2016)



Source: CBRE. The question asked was "How would it affect the attractiveness of property investment if the UK were to leave the EU" (2014: 385 respondents; 2015: 280 respondents; 2016: 191 respondents)

How important is EU investment ?

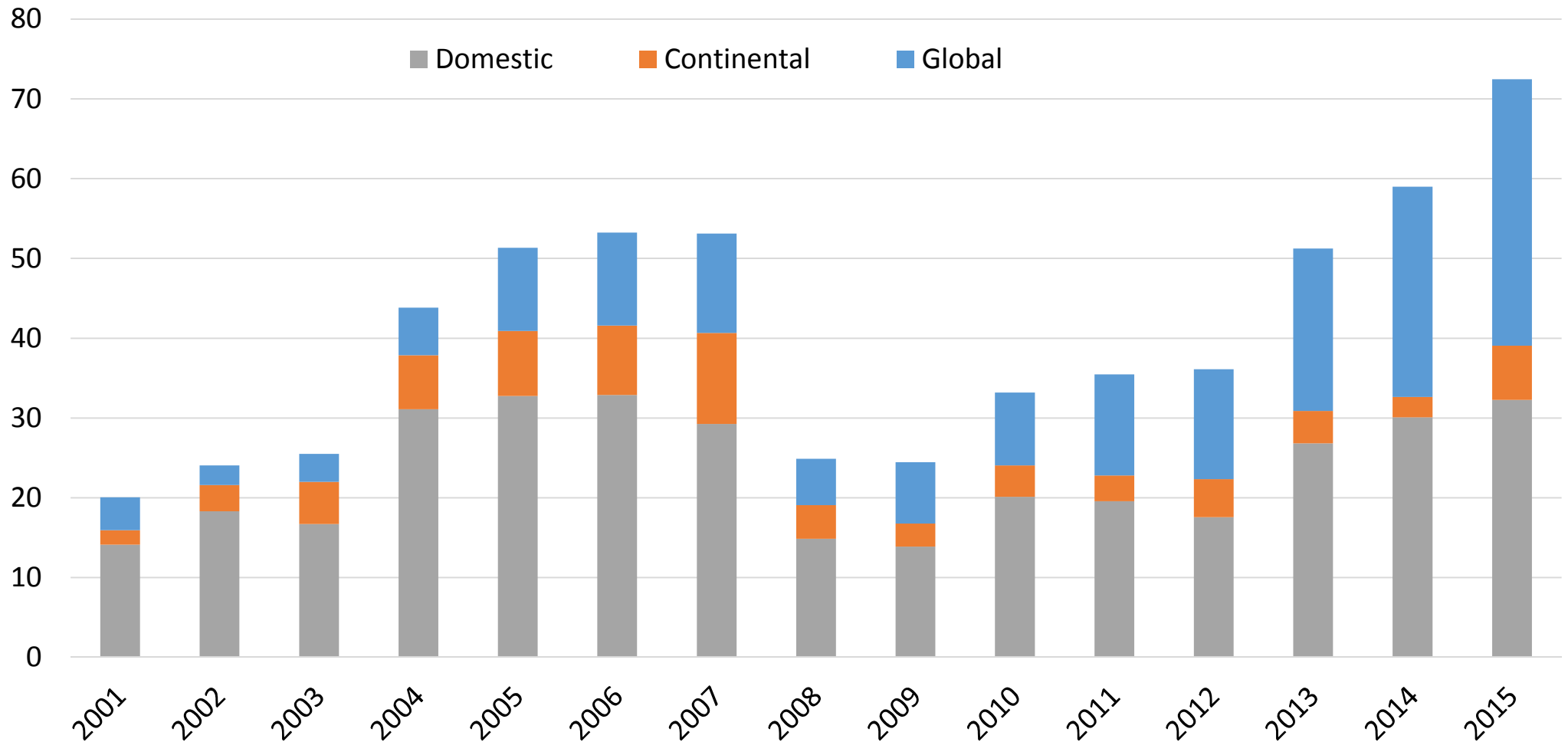
Foreign direct investment inflows into the UK (nominal, GBP billions)



Source: Office for National Statistics, Capital Economics

UK investment activity now much higher than pre-GFC

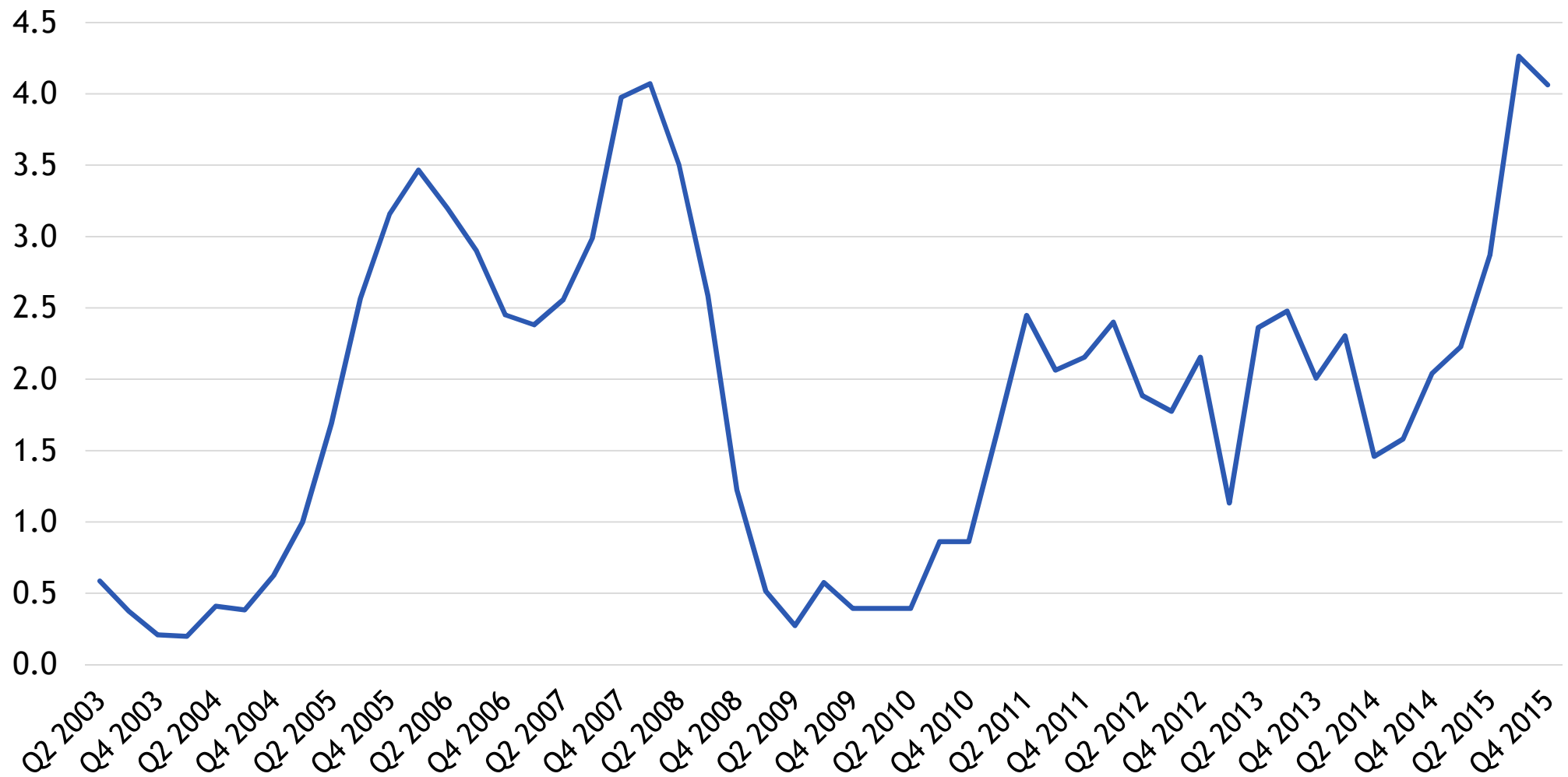
UK commercial real estate investment volumes (GBP billions)



Source: RCA

Construction starts peaked ?

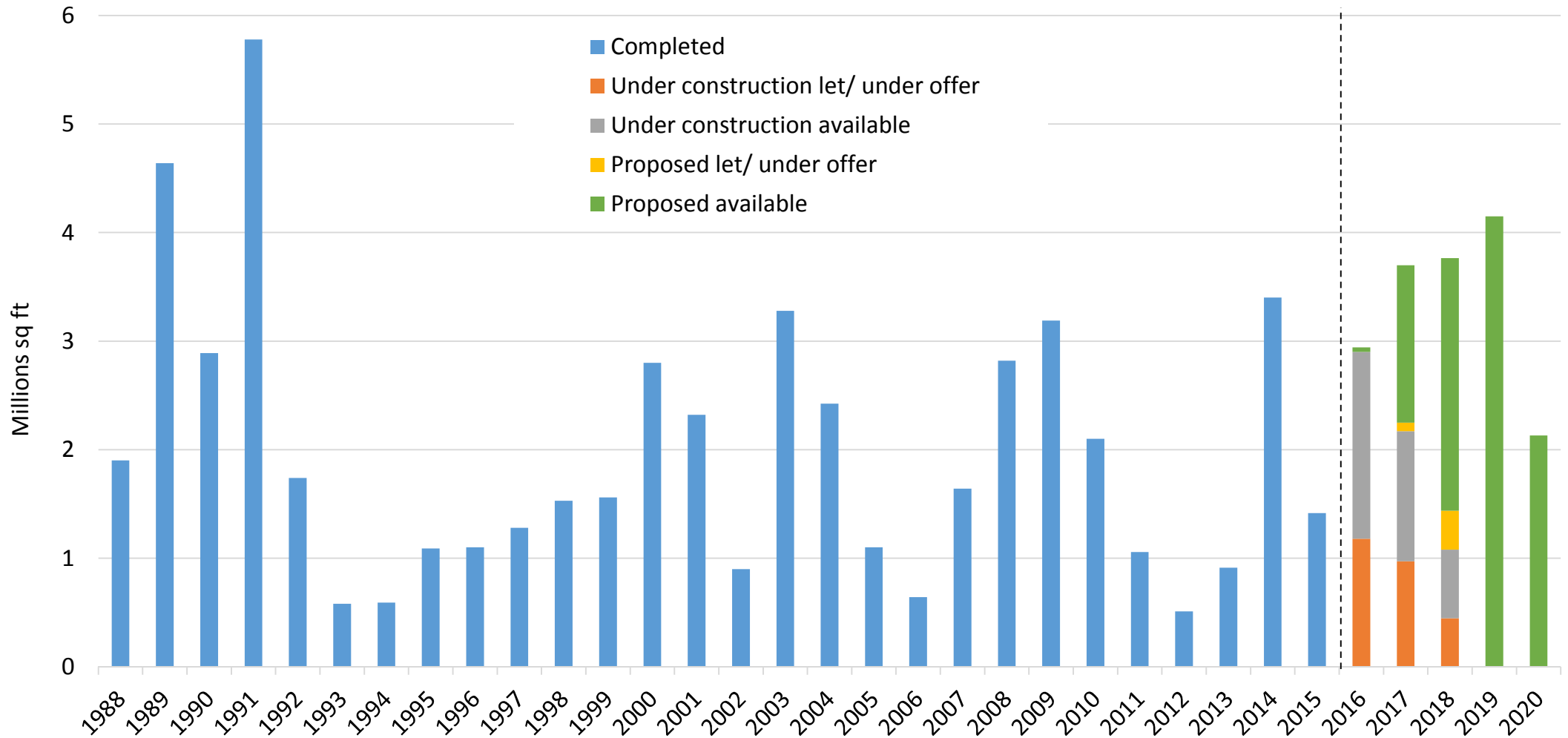
City office starts (millions sq ft)



Source: PMA

2015 development in short supply

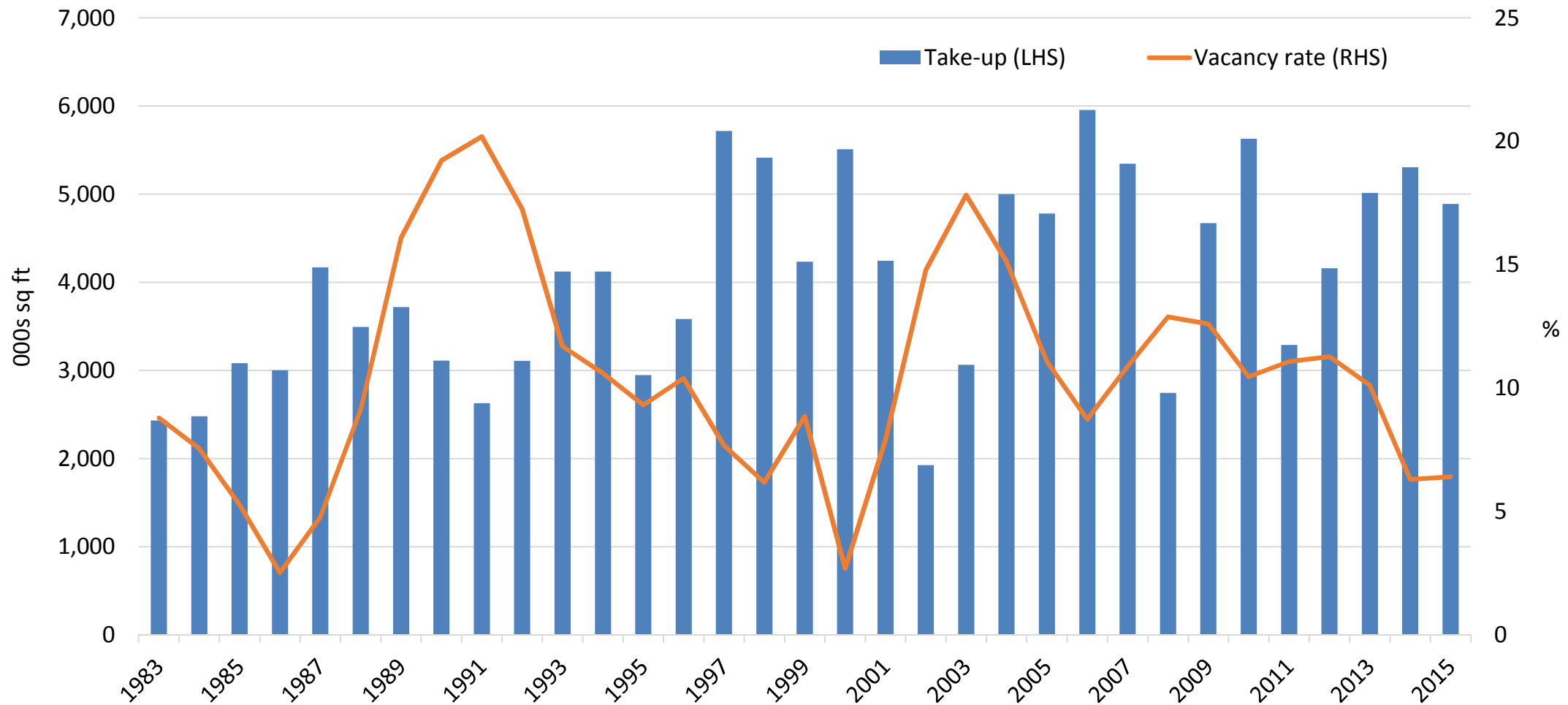
City office development pipeline



Source: CBRE

Vacancy rate at lowest level since 2000

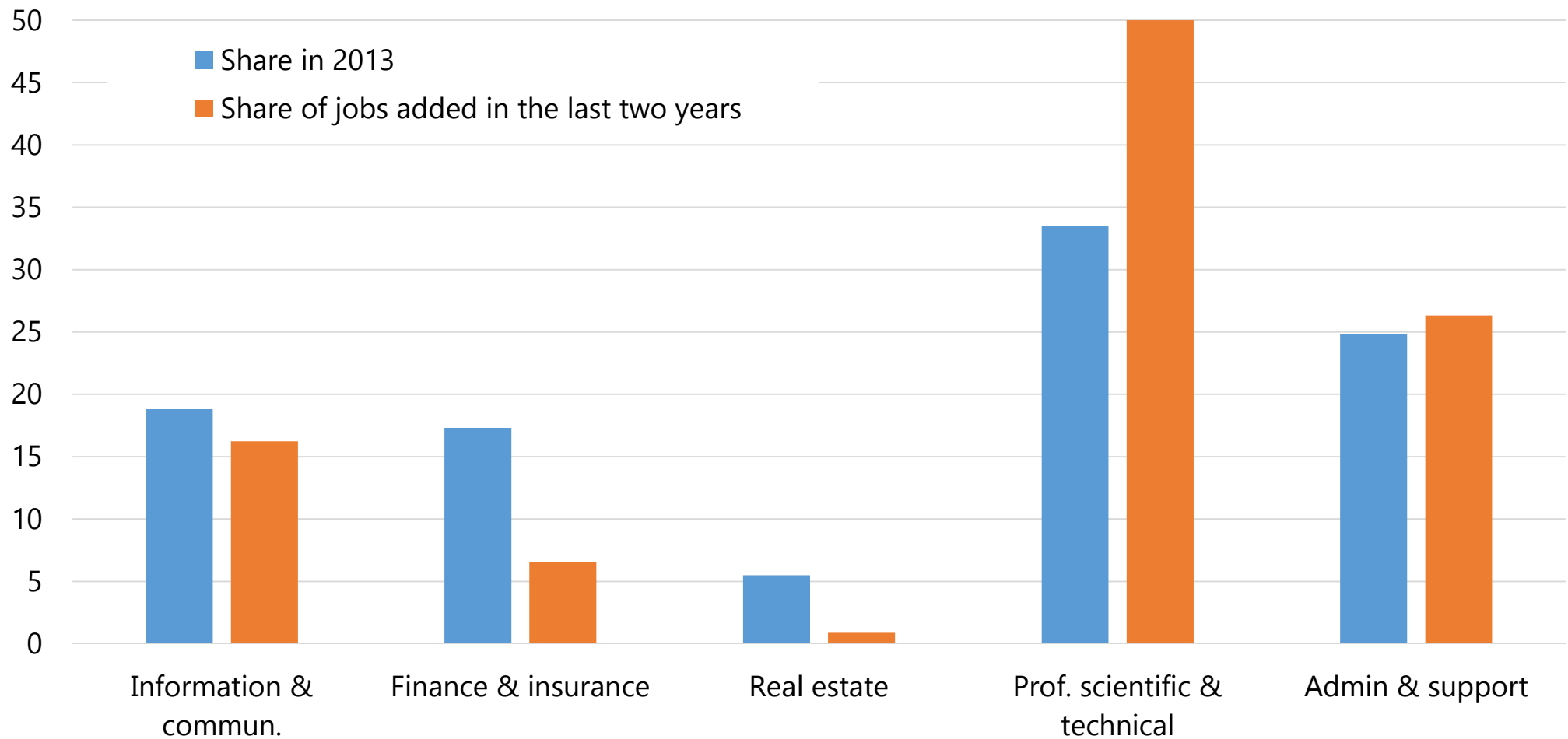
City office take-up and vacancy rates



Source: PMA

Financial services of lessening importance ?

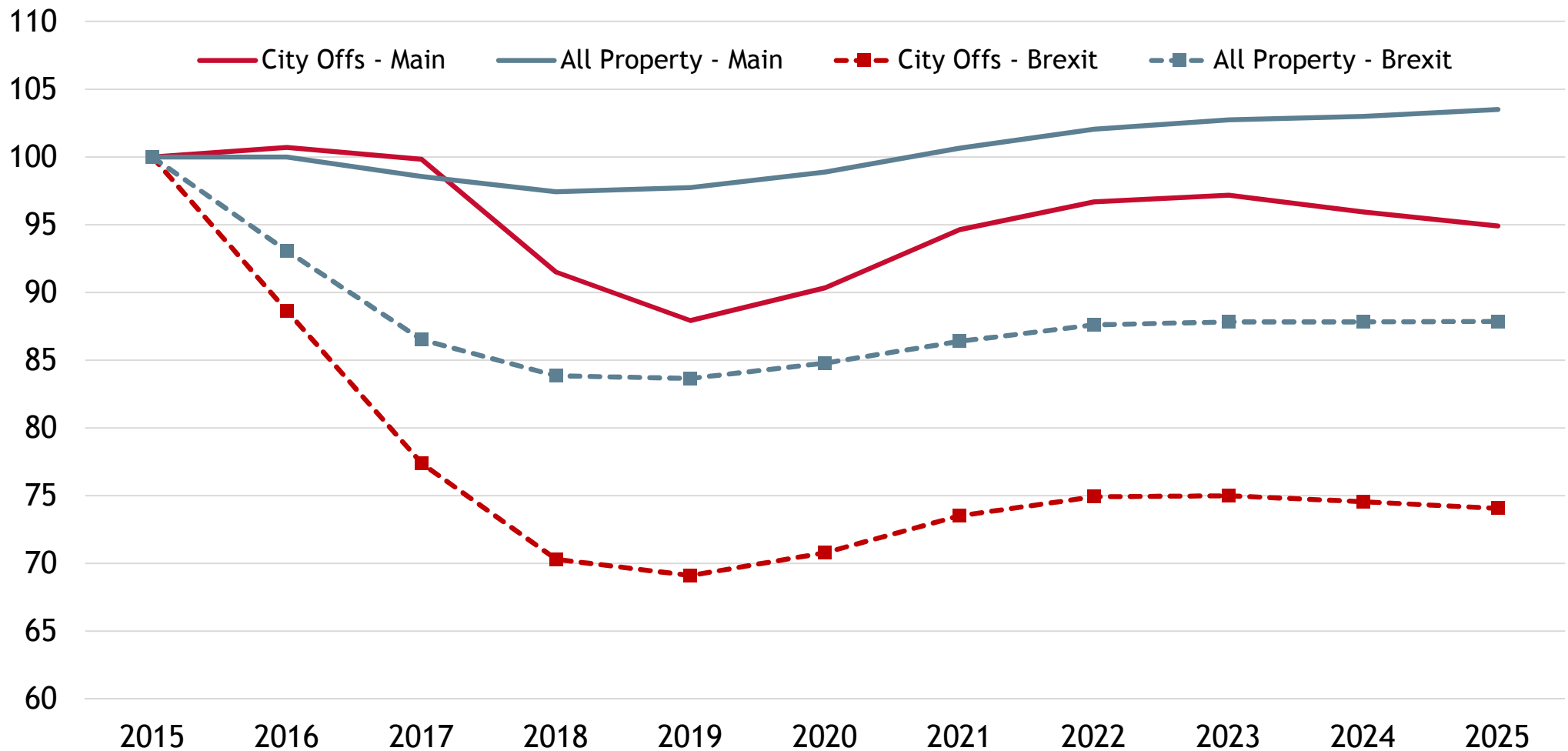
% of London office-based jobs by sub-sector (latest = Q2 2015)



Source: Office for National Statistics, Capital Economics

London offices forecast to suffer most

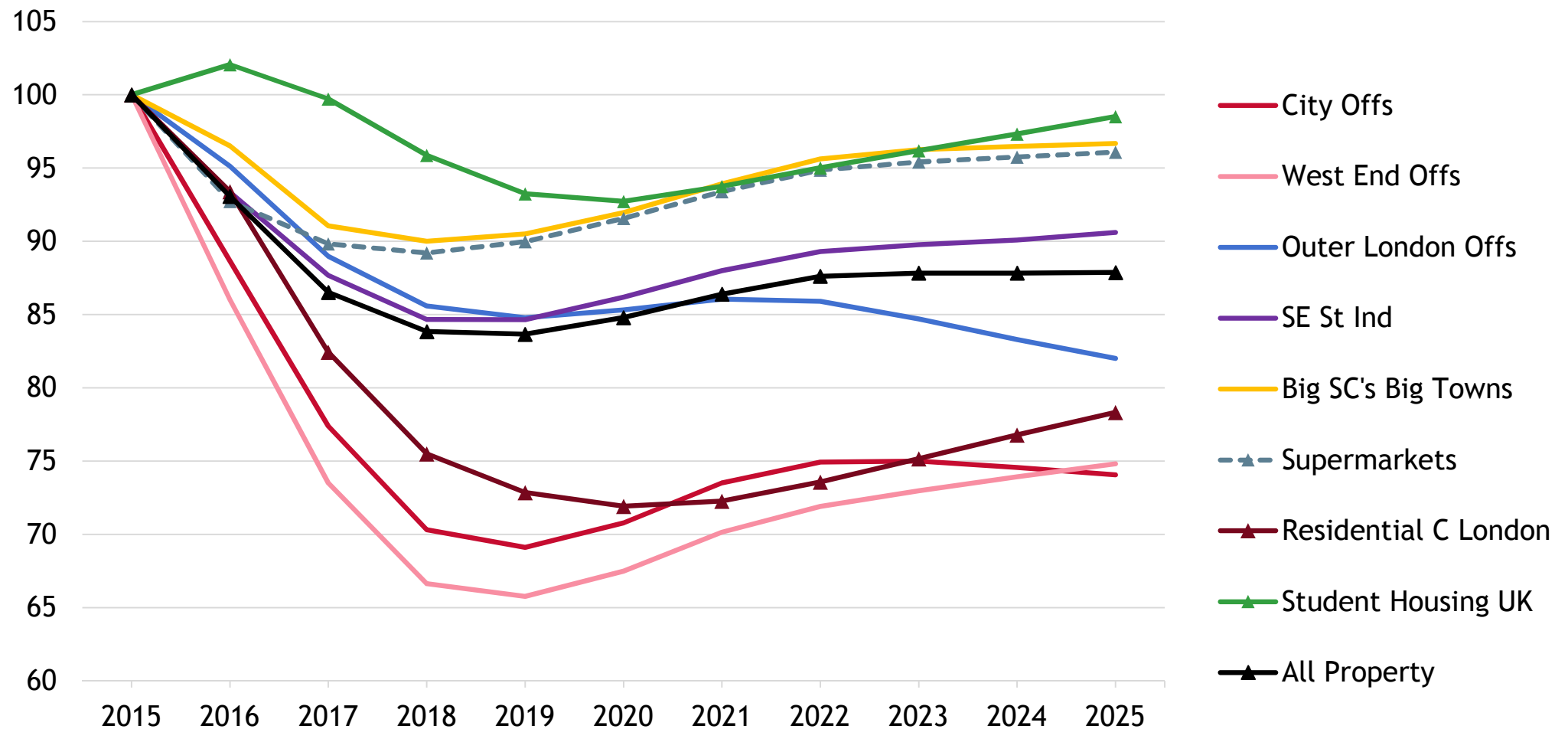
Brexit impact: capital values (base = 100)



Source: PMA

Other sectors and markets do better

Brexit scenario: capital values (base = 100)



Source: PMA



Appendix

Research & Strategy platform



Mike Acton
Head of Research
AEW Capital
Management

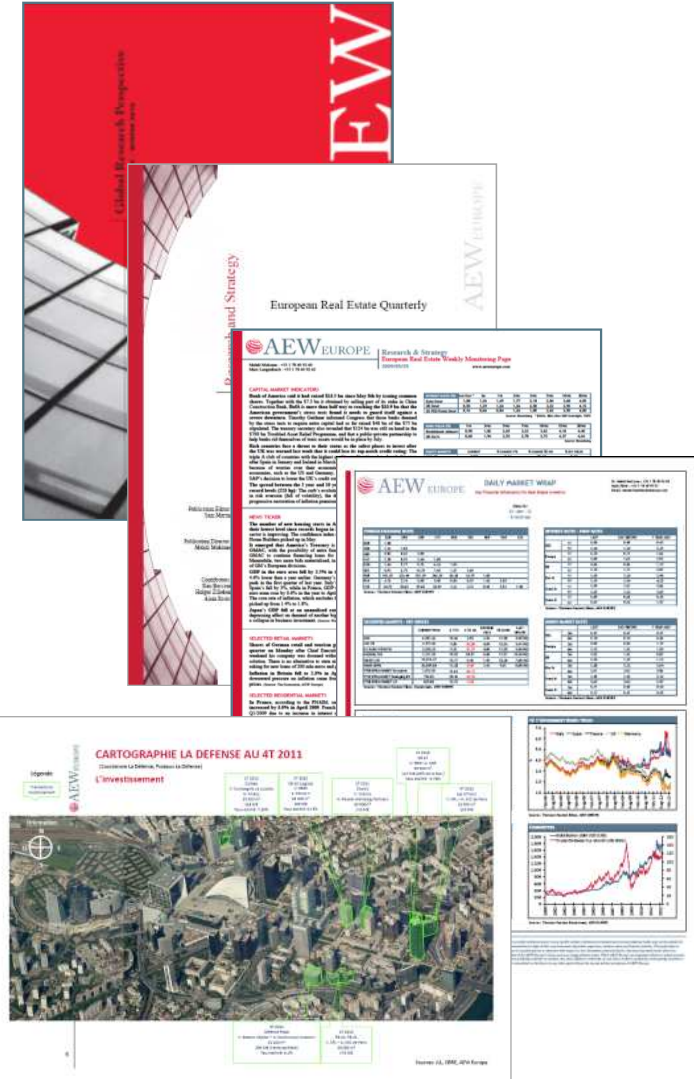


Glyn Nelson
Director
Research & Strategy
AEW Asia



Sam Martin
Head of Research
AEW Europe

- 16 Research & Strategy professionals globally
 - 6 based in London and Paris
- London/Paris team provides seamless applied research support to Investment, Portfolio and Asset Management teams:
 - Production of proprietary Pan-European property market analysis, with a particular focus on core European and CEE markets covering logistics, retail, office and alternative sectors
 - Investment strategy formation
 - Investment underwriting
 - Input into the business planning and asset management processes
 - Regular publication writing
 - Global macroeconomic analysis with a particular focus on property market and investment strategy implications
- Research & Strategy produces regular and special topic research for internal and external clients on a weekly, quarterly and annual basis:
 - Real Estate Weekly Monitoring Page
 - European Real Estate Quarterly
 - Quarterly client market reports
 - Ad-hoc special topics and articles for the property press



Research & Strategy platform

- We gather economic, financial and property markets intelligence from a wide variety of resources both internal and external
- Our main inputs include:
 - Macroeconomic:
 - Independent analysis and reporting challenging prevalent consensus views
 - Global, regional, country-level, city-level, and sub-city level data including independent forecasts
 - Real estate:
 - Independent and property consultants' commentary and analysis at market and sub-market level
 - Detailed fundamental data and independent forecasts at country, market and sub-market levels
 - Investment volume data and analysis
 - Capital markets:
 - Relative and absolute pricing of other asset classes
 - Real estate market implications
- Research & Strategy produces regular and special topic research for internal and external clients on a weekly, quarterly and annual basis:
 - Real Estate Weekly Monitoring Page
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Data and intelligence sources

Macroeconomics

- Natixis
- Lombard Street Research
- Oxford Economics
- Capital Economics
- Economist Intelligence Unit
- Consensus Economics
- Société Générale
- Variant Perception

Real estate

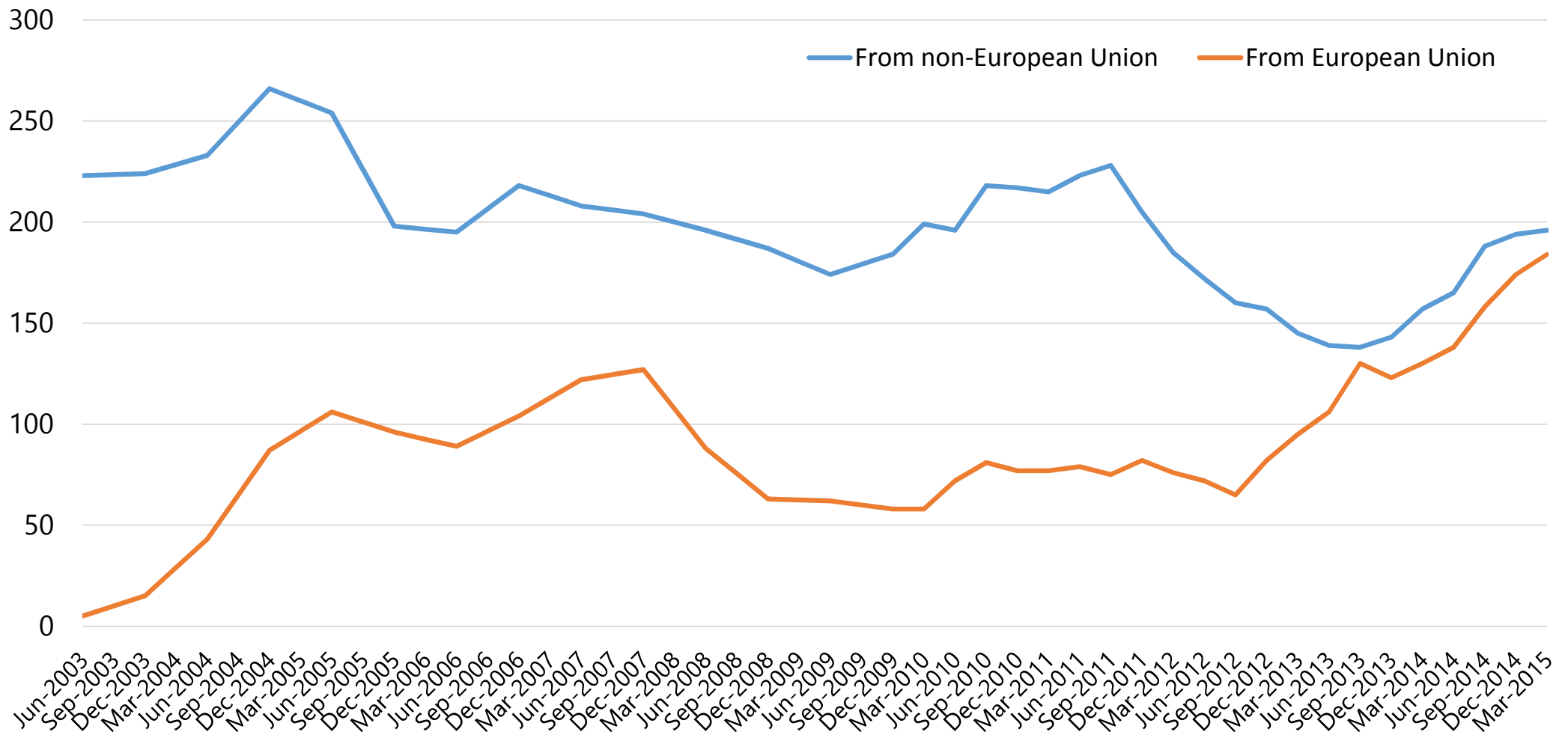
- Property Market Analysis
- Property consultants' data, commentary and analysis
- Annual valuation reports
- Investment Property Databank
- Investment Property Forum
- Society of Property Researchers

Financial markets

- Bloomberg
- Macrobond
- Decision Economics
- The Economist
- The Financial Times
- Natixis Capital Markets
- Reuters Breaking Views

Migration matters

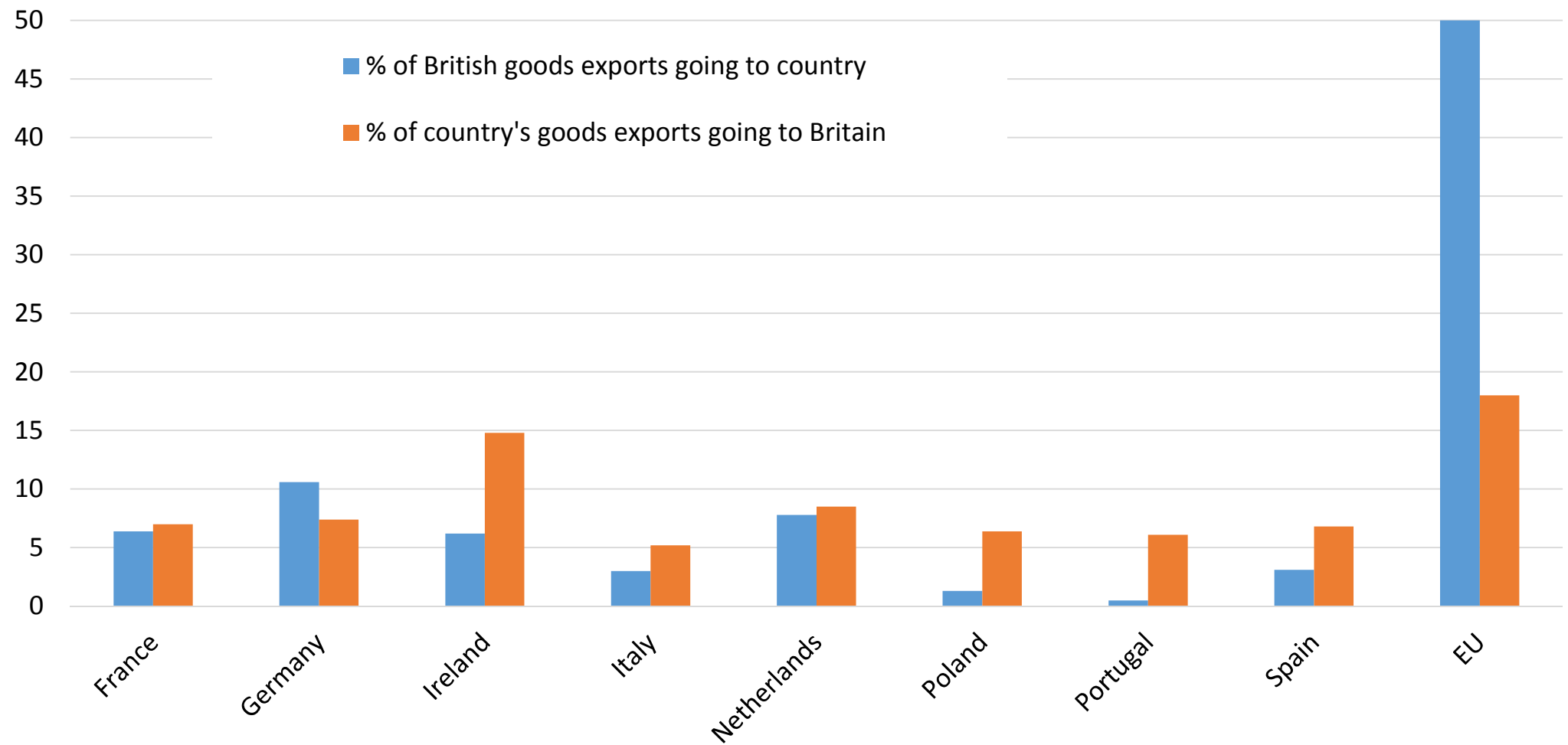
Net migration to the United Kingdom, thousands per annum



Source: Office for National Statistics, Capital Economics

Germany's size matters

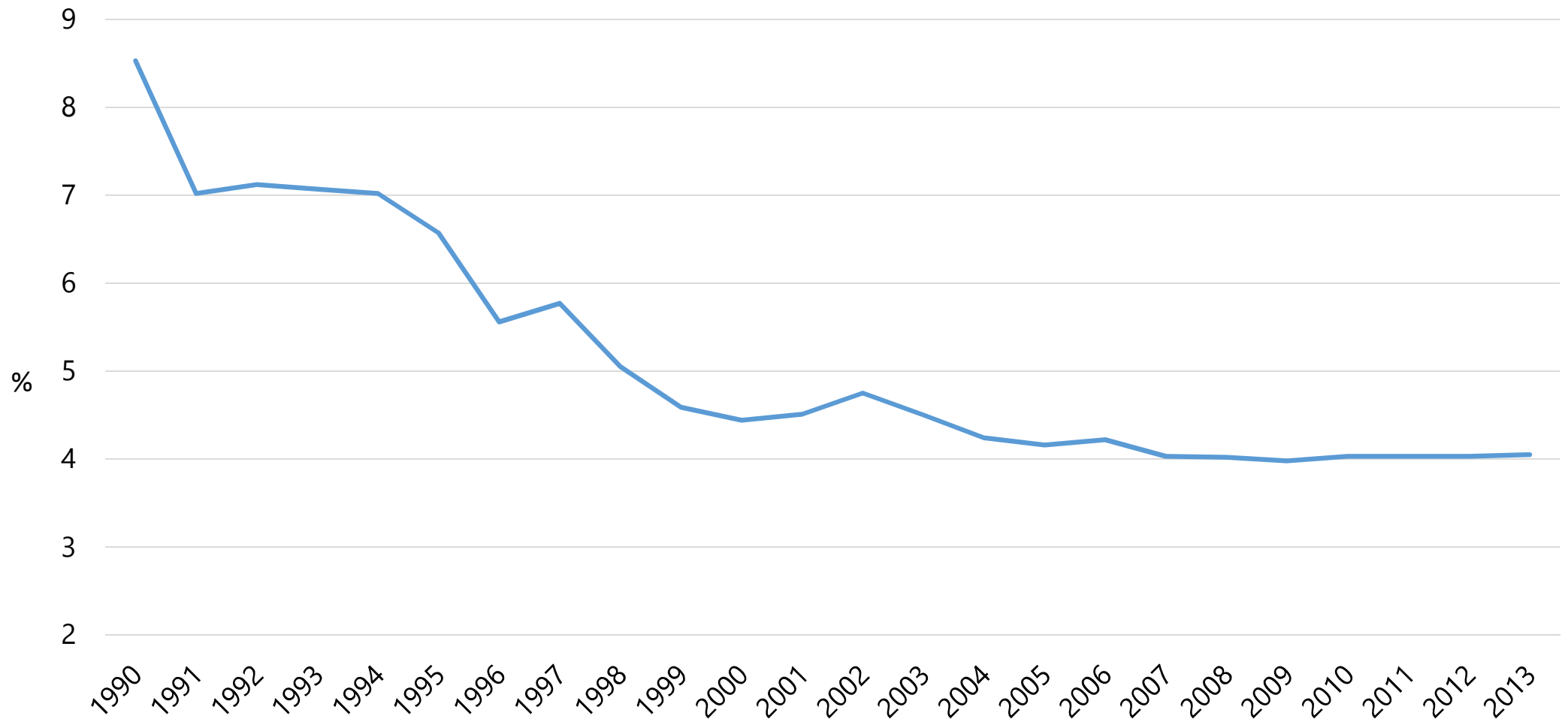
Exports of goods by destination (% of total 2014)



Source: Thomson Datastream, Capital Economics

EU less important over time

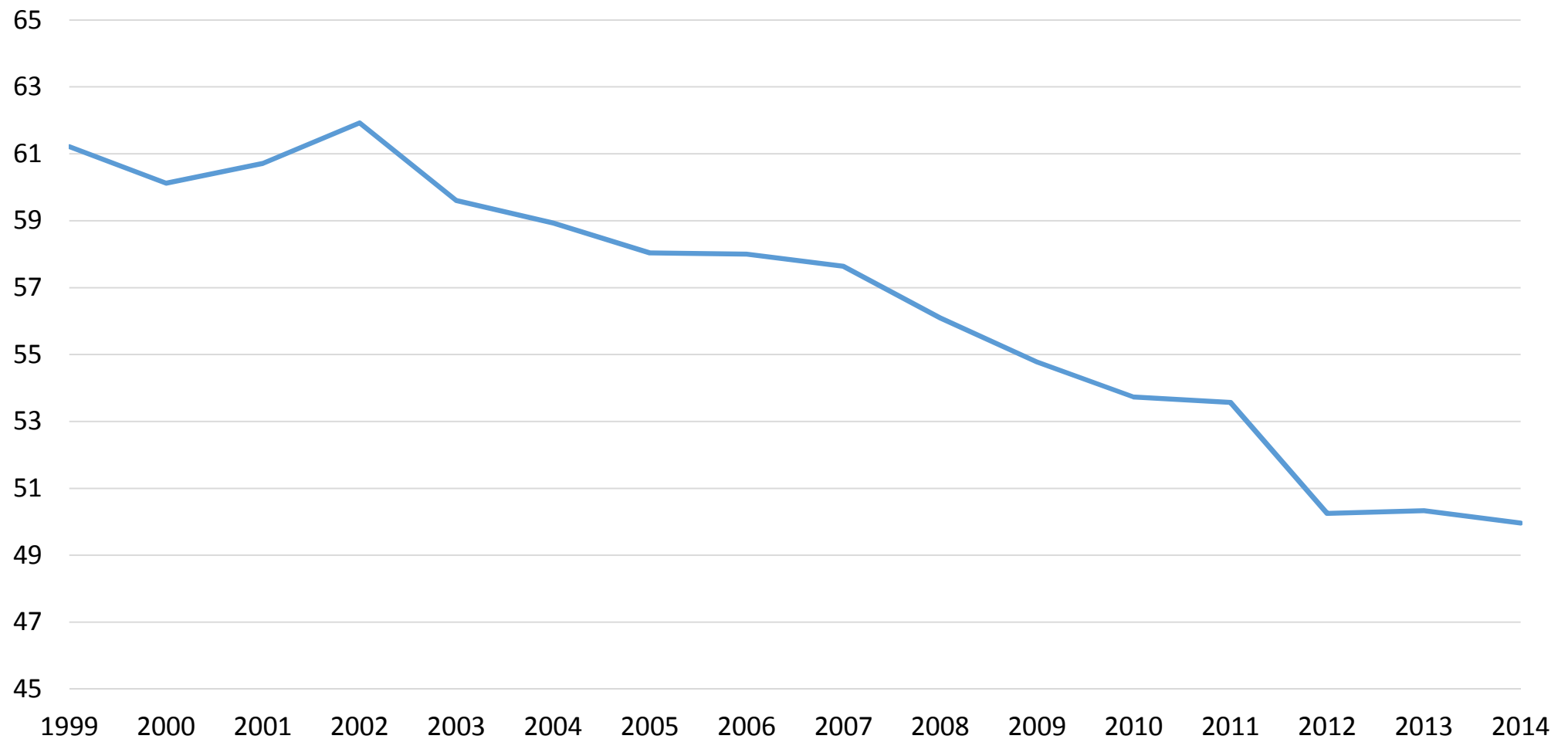
European Union most-favoured nation average tariff on manufactured goods (%)



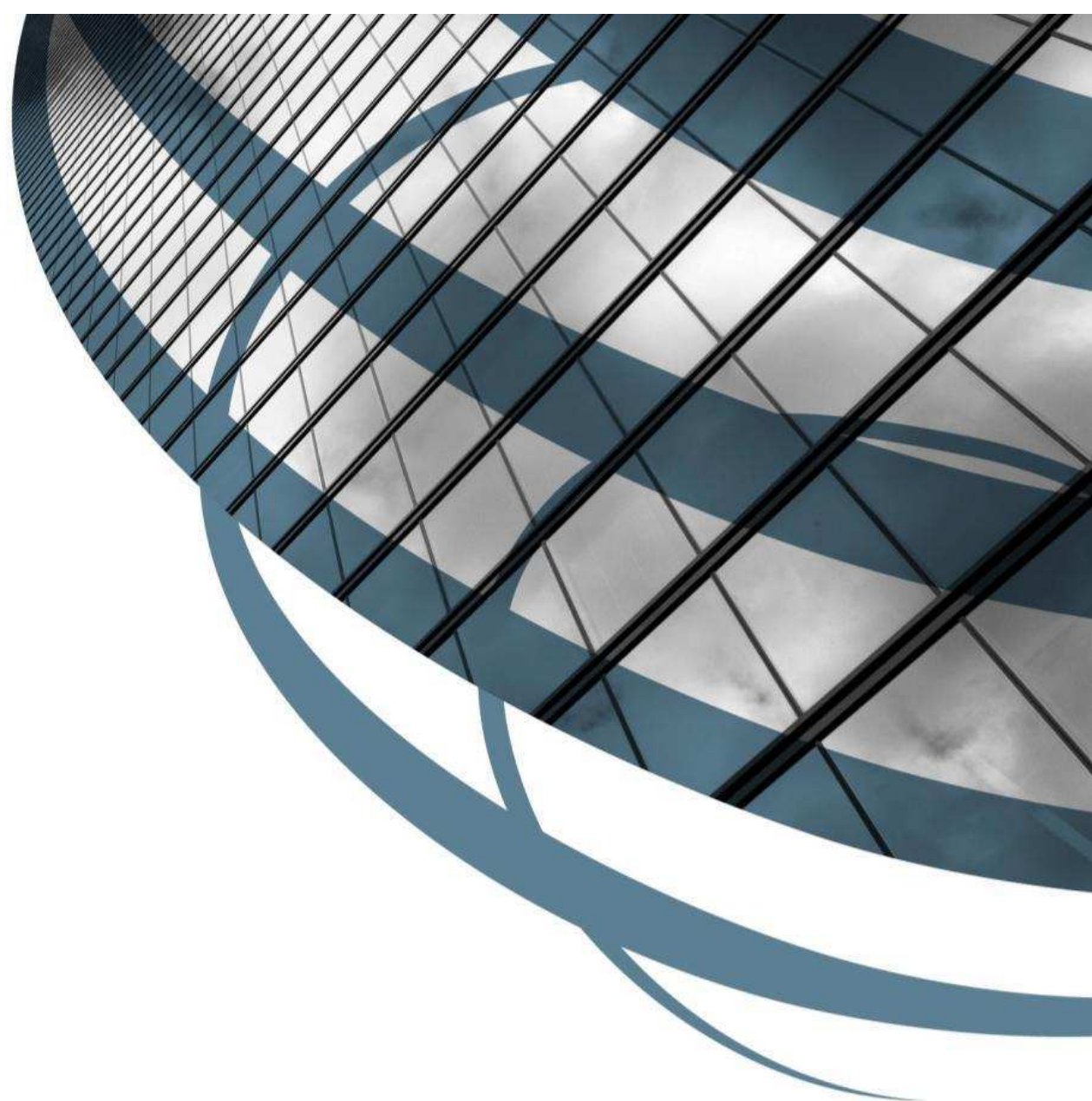
Source: World Bank, Capital Economics

The cost of access

Exports of goods and services to the EU (% of UK total)



Source: Office for National Statistics, Capital Economics



Focused on the future of real estate