Editorial

Property, uncertainty and the European Union (EU) – Part II

It might only be a matter of weeks since I wrote an editorial when I hinted that the UK may be leaving the EU. And, indeed, that came to pass. Many people were surprised and shocked but they had the misplaced trust that rational thought would outweigh the zeitgeist of the country for change. The latter won as it will win around the world this year. I am certain that Donald Trump will win the American presidency on the same surge of nationalism and popularism, that is, worryingly, sweeping the world. I am also certain that in the next 24 months that more countries will leave the EU. If the vote were given to all countries, then most would leave. That is the stark reality that the UK Brexit vote has revealed. The EU is deeply unpopular and at the end of June 2016, it changed forever. As I said last time, the new EU without the UK is a different animal. It is divided and, without the UK's economy it is much "less" than it was before.

But I do not say this as purely a political commentary. I say this in the context of property investment and finance as the name of this journal demands. I stressed last time that we were entering a new world of uncertainty that, from an investment viewpoint, offered opportunities and pitfalls. From a valuation viewpoint, it makes a difficult job (to estimate market price) even more difficult.

In the investment world, we have already seen the immediate impact of Brexit on property funds in the UK. As of the 15th July, six of the UK's biggest commercial fund managers suspended their property funds (including Aviva Investors, M&G and Standard Life). A rush of investors wanting to liquidise their holdings meant that the integrity of the funds was in jeopardy. It is funny how unsophisticated markets can be. A herd instinct that is borne out of fear and uncertainty. That is the pitfall. The opportunity is that prices have fallen and there are a number of cash rich buyers in the market looking for bargains and taking a longer term view than the immediate panic. For nervous investors, the analogy of falling into shark infested waters hold true. If you do nothing and do not splash, you are less likely to be bitten but if you splash around and panic, then your fear of a loss is realised as the sharks close in on you. The same has been seen in the stock market but, being amore transparent market, it is easy to see that the falls on the 24th June and the days following have all but reversed and the pound has stabilised (albeit at a lower rate) to the dollar. All the meltdown predictions have not come to pass. But it is still early days. I think that the euro has more problems than the pound. At the same time that Brexit grabbed all the European headlines, a "small" €4 billion bailout was made by the EU to Italy. It hardly got more than two column inches of coverage and, yet, could be much more significant than the Brexit vote. Commentators have referred to it as "contagion" but it would have happened anyway. Brexit is the catalyst of the reordering and retreat of the EU and not the cause.

In this issue, the authors are presenting the first of two special issues on valuation. Valuation is at the core of all markets and all decision making. The importance of an educated and competent valuation profession cannot be understated. This issue presents papers looking at the role of the valuation profession in developing models that are appropriate for reflecting the pricing of sustainability and, in separate papers, non-market-based activities.

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In 12 months time, the world will look very different. America will have Trump as a President. The EU will be shoring up its membership with more countries clamouring for exit and the world will be more uncertain than ever. It is, as the euphemism goes, interesting times.

Nick French