



## WHAT EXACTLY IS BREXIT, AND WHY IS THIS HAPPENING NOW?

### WHAT DOES BREXIT MEAN?

- **Brexit** is shorthand way of referring to possible British **exit** from the EU
- Term shaped the same way as proposed Greek exit from the eurozone, dubbed "Grexit"

### WHO DOES IT MATTER TO?

- Brexit is first and foremost a matter of the British people
- But U.K.'s possible EU exit will have significant repercussions on other member states

### WHEN WILL IT HAPPEN?

- Referendum on U.K.'s continued EU membership is scheduled for 23<sup>rd</sup> June 2016
- What will follow the referendum will depend upon the vote result

### WHY A REFERENDUM ON EU NOW?

- Decision to hold referendum is the result of an electoral promise by PM David Cameron
- But the road to referendum has been a long and tortuous one

## BACKGROUND: HOW DID WE GET HERE?

○ **The U.K. joined the European Economic Community-later changed to the European Union (EU)-in 1973.** Two years later the country held a referendum on membership that passed with 67% of people voting to stay in.

○ **Today, the EU has 28 member countries with free flow of goods, services and labor among them.** As the EU has expanded both geographically and institutionally, more of the day to day regulation of the region's economy was moved to Brussels, the headquarters of most EU institutions. This has brought up concerns about sovereignty over issues such as tax policy and financial regulation and, most recently, immigration.

○ **There has long been in Britain a degree of concern about giving up too much sovereignty to the EU.** The U.K. for example did not adopt the euro and participate in the single currency, preferring to retain the pound.

○ **Concerns have increased in recent years, especially since the eurozone crisis began in 2010.** As the EU has expanded an increasing number of politicians and other leaders have expressed concern that the country is giving too much power and authority over British economic, immigration and other policies to Brussels bureaucrats.

WHAT IS BREXIT?

# The Brexit in four W's

June 2016



## WHAT IS THE REFERENDUM AND WHEN WILL IT TAKE PLACE?

David Cameron, leader of the Conservative Party, became Prime Minister in 2010 when his party won a plurality of the seats in Parliament and created a coalition with the Liberal Democrats to establish a Parliamentary majority. Mr. Cameron made a major speech on British membership in the EU in January 2013 in which he announced that should the Conservative Party win an absolute majority of seats in the next general election, they would propose renegotiating the terms of membership for the U.K. While this proposal was criticized in Europe, it became a popular proposal in the U.K.

In May 2015 Britain held a general election and the Conservative Party placed in its manifesto a promise that if they won a majority in

Parliament they would hold an "In-Out" national referendum on EU membership by the end of 2017. The Conservatives did win their first outright Parliamentary majority since 1992 and began the process of establishing the referendum.

Prime Minister Cameron met with EU leaders in February 2016 to negotiate the terms of British membership going forward. The proposed terms include changes in migration policies, protection for London's financial sector and making it easier to reject legislation approved by the European Parliament, among many others.

Since February, when the date for the referendum was set, campaigning has begun. The Prime Minister supports staying in the EU, but there are many prominent leaders including Boris Johnson, former Mayor of London taking the other side.

## WHAT ARE THE EXISTING BENEFITS AND COSTS TO EU MEMBERSHIP?

### BENEFITS



ACCESS TO A SINGLE MARKET



FREE TRADE BETWEEN MEMBER NATIONS



FREE MOVEMENT OF EU NATIONALS



FREE FLOW OF CAPITAL AND INVESTMENT



GREATER INFLUENCE ON THE GLOBAL SCENE

### COSTS



EU REGULATION AND LAWS



LACK OF FREEDOM TO ESTABLISH TRADE AGREEMENTS



FEW LIMITATIONS ON MOVEMENT OF EU NATIONALS



FINANCIAL CONTRIBUTIONS TO EU BUDGET



TRADE TREATIES AGREED AT EU LEVEL

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## ARGUMENTS FROM BOTH SIDE OF THE REFERENDUM CAMPAIGN

STAY

LEAVE

NO TARRIFS TO ACCESS SINGLE MARKET



NEW EU DEAL AND FREE TO CREATE TRADE AGREEMENTS WITH OTHER MARKETS

PAYMENT TO EU NECESSARY WHETHER IN OR OUT



SAVINGS IN EU MEMBERSHIP COSTS

STANDARDIZED REGULATION AND U.K. CAN PUSH FOR CHANGE



U.K. WILL TAKE CONTROL OF ITS OWN REGULATION

HIGHER IMMIGRATION FROM OUTSIDE THE EU



MORE CONTROLS OF IMMIGRATION FROM EU COUNTRIES

INTERNATIONAL INFLUENCE INTACT



LITTLE INFLUENCE IN EU - BETTER INTERNATIONAL INFLUENCE

**STAY.** If the public votes to stay in the EU, not much changes. The policy changes negotiated by U.K. Government will be put on place over time, including:

### 1. Financial Protection

- Protection for the pound
- Protection for the City of London

### 2. European and indeed global competitiveness

- Cut the total burden of EU regulation on businesses

### 3. Sovereignty

- Power to national parliaments to block unwanted legislation

### 4. The right balance in terms of welfare & immigration

- Limits to EU migrants benefits

**LEAVE.** If there is a vote to exit from the EU, the next step would be to negotiate the “terms of the divorce.” According to the Lisbon Treaty the U.K. will have two years to negotiate but the process could take many years. The result would likely be a period of prolonged uncertainty in the near term as the institutions and infrastructure that has been put in place between the U.K. and EU is evaluated and gradually dismantled. Looking beyond the next few years, the real challenges and opportunities for occupiers will be revealed once there is clarity on the form of the new relationship.

“The road to referendum has been a long and tortuous one.”

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## IF THE VOTE IS TO LEAVE, WHAT ARE THE ECONOMIC AND REAL ESTATE IMPLICATIONS?

The next few weeks will likely see sustained uncertainty influencing decision making of businesses and consumers. Facing a very uncertain environment, businesses of all kinds will likely hold off on making any major decisions about investment and hiring, expansion or contraction. The likelihood is that decisions that can be put off will be and decisions that can't be postponed will be made as needed.

In the end, the major impact will be seen in the event there is a vote to leave.

ECONOMIC IMPLICATIONS	COMMERCIAL REAL ESTATE IMPLICATIONS
<ul style="list-style-type: none"><li>→ BREXIT would tend to hurt the economy in the near term due to increased uncertainty.</li><li>→ Reduced business investment. Consumer spending patterns unlikely to change significantly.</li><li>→ Tightening immigration could potentially lead to increasing wage costs and falling competitiveness.</li><li>→ As the new relationship with the EU becomes clearer activity is likely to pick up as pent up demand is activated.</li><li>→ In the end, there will likely be winners and losers, but it is not clear what the net impact on the U.K. economy will be. Losses from businesses shifting to the EU may well be offset by others seeking to tap into the more open and less regulated U.K. market.</li></ul>	<ul style="list-style-type: none"><li>→ Because a vote to leave will have both negative and positive economic impacts, the same is likely to be true of property markets.</li><li>→ Decision making will likely slow as occupiers wait to assess the terms of the separation before making decisions, unless they have a lease event.</li><li>→ There may be some negative impact on rent growth, which may provide opportunity for occupiers.</li><li>→ Reduced rental growth expectations would put upward pressure on yields.</li><li>→ In the end it will be a range of factors including operating costs, regulation, market access, availability of skilled workers and the overall importance of the U.K. in the global economy that will drive occupier decisions. Some of these factors will likely be impacted by the terms of the separation, but others will not. Even in the event of a leave vote, the U.K. will still have major advantages for global occupiers that will make it an important location.</li></ul>

### About Cushman & Wakefield

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