

# Now What?

With last week's historic vote by over 70 percent of British citizens, the United Kingdom decided to leave the European Union. This vote took many market watchers by surprise as virtually all polls indicated that the "remain" votes, while close, were likely to prevail.

The biggest takeaway from this decision is that it has created tremendous uncertainty and markets like nothing less than uncertainty. And the uncertainty is not likely to become resolved quickly. There are many questions that need to be answered in the wake of this monumental event.

A day after the vote, British Prime Minister David Cameron announced that he would step down to allow someone else to chart the course the U.K. would take. However, Cameron will stay in office for another three months while his successor is determined. When that decision is made, the negotiation of the exit itself will have to be entered into.

How the EU's representatives will deal with the U.K. will be very interesting. For instance, what will the exit deal look like?

While some high-ranking officials within the EU have said that there is no reason for them to be adversarial with the U.K., others believe a harsh position relative to the U.K. could dissuade other nations from considering exiting the Union. Moreover, it will probably be two years before the exit is actually completed.

In fact, other nations are already contemplating referendums to leave the EU, including France, Italy, Denmark and the Netherlands. Perhaps other countries will feel more compelled to try this bold move after seeing the U.K. take the lead. Some market

watchers believe this is the beginning of the end of the EU, which has become increasingly difficult to maneuver within. For instance, recently 10 new members have been added, all of which are economically weak. Events like this put significant pressure on the delicate balance within the system.

The uncertainty created by this has caused equity markets around the world to sell off. The pound plunged to a 30-year low relative to the dollar. This has profound

implications for our real estate markets and will certainly lead to a re-pricing of British assets. The luxury residential market in London is expected to drop tangibly. The strong dollar is also likely to impact the flow of foreign capital into our for-sale luxury residential market in New York.

The flip side of this coin is that capital flows into the commercial real estate investment market should increase. London and New York are perennially the two top destinations for this capital. With one of the markets suddenly now more uncertain, a disproportionate share of this dedicated capital will flow to the other. This will help our investment sales market, provided global recessionary pressures don't spread (more on this later).

The uncertainty and economic turmoil Brexit has caused will also help our commercial real estate market in another significant way. The Fed will almost certainly not raise interest rates again this year and may not do so again until mid-2017. While the long-term implications might not be positive, in the short-term, this will continue to exert upward pressure on property values.

But let's get back to a possible recessionary

impact. Major financial institutions are already talking about reducing staff in London and relocating those employees to continental European cities. Further, the strong dollar makes our goods cost more overseas. When something costs more, you get less of it, which leaves employers cautious and unwilling to grow. This dynamic could exacerbate recessionary pressures in an already sluggish economy.

The strong dollar also hurts our hospitality industry. It becomes more expensive for foreigners to come to New York and, more importantly, makes traveling abroad less expensive for Americans. The latter is more important because over 80 percent of tourists coming to New York are domestic travelers.

Clearly, only time will tell what the impact of Brexit will be on numerous different markets. In the short run, at least, the impact on our commercial real estate market should be more positive than negative. The more important macro question is the impact Brexit could have on economies already teetering on hard times and how other EU members' perspective on staying in the Union might be impacted.



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