

# BREXIT and Your Real Estate

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A lot of Real Estate experts are claiming that Brexit will not affect the US Real Estate Market. They cite credible facts about how small an impact that Great Britain has on our Real Estate Market, a third of the way around our planet. I agree on the macro impact, as only one half of 1% of the US Trade is with Britain.

I am going to give you a contrarian opinion. The Brexit is further evidence of a large systemic problem in Europe as a whole. The first noticeable chink in the armor was Greece last year. Greece has a revenue problem in that few people pay their taxes. Greece has an amazing underground economy. Nothing has changed to increase revenue. Economic tightening failed at the polls and the Prime Minister resigned. Germany bailed out Greece to protect their investment in loans to Greece. Greece is a small country so far away. However; our stock market and Europe's sputtered and fell. People got nervous. That adversely impacted our real estate market.

When tenants and lenders are nervous, rents on new tenancies do go down. Lenders get nervous and Loan to values (LTVs) go down. Lenders will also raise interest rates. The combination is not good for values. Brexit is the opening volley of Protectionism in the European Union. Citizens want to protect their borders from terrorist threats probably more than economic trade. Raising the walls against free trade will hurt the already sputtering European economy. Just think of each state in the US building a "wall" (to use a politician's metaphor) around its borders. Travel, commerce and trade between states is restricted. The economy contracts. Germany is thinking of pulling out of the EU. They are the Powerhouse. It will take 6 months for the full effect of the EU reverberations to be fully felt here. The other factor to join into the

perfect storm is our Presidential election in November. Historically, the beginning of the first term of a new regimen results in an economic downturn. Whichever candidate wins will face the downturn. Europe is afraid of each candidate. We lose either way.

What does Brexit, the EU and a new President mean to us in LA?

Well, I have been in real estate 40 years, since 1975. I watched the inflation bubble burst in the 70's. In the 80's, the economy took down the Savings and Loans. Remember them? In the early 90's, the commercial Real Estate office boom and bust. This killed our apartment market too. The Dot bomb in the early 2000's caused our apartment market to drop. We all remember the crises of '08. Liar loans to single family homes caused the biggest drop in my lifetime.

So, where does that leave us now? If you are in for the long haul and are not leveraged, just ride it out. Now may be the best time to REFI and put a conservative amount of debt on your property. It is important to have sufficient liquidity to weather the term of the downturn.

There will be buying opportunities. If you have soft story buildings that need seismic retrofit it is important that you allocate sufficient cash reserves for the repairs. Many owners will be unable to comply with the new ordinance and will elect to sell. This will further the pressure on values.

Next month I will write about positioning and how to take advantage of buying opportunity. **AA**