RESEARCH

UK MARKET OUTLOOK NOVEMBER 2014

THE GENERAL ELECTION

May 7th 2015 is the scheduled date for the UK's next general election, and already there is discussion on what this will mean for commercial property. The answer may well be, perhaps not that much based on the data we have.

The market in a minute

All property capital growth index rose 1.2% in September m-on-m, vs 0.9% in August*

Offices saw the highest capital growth (1.4%), just ahead of industrial (1.3%)*

12 month total return reached 19.7%, the highest since 2010*

Investment volume for January to October was £42.7 bn, vs £38.3 bn for the same period of 2013**

* Based on IPD figures
** Based on Property Data figures

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"An election will only ever be one of many influences on the property market, and not necessarily the most important one."

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The IPD monthly index goes back to December 1986, so covers six general elections. This is not a big sample, although going much further back would have risked overly historic data influencing our interpretation. The UK economy and political scene were very different prior to 1986, so if older data were available it would only be of anecdotal interest.

For the purposes of our study we looked at IPD total return growth rates (month-on-month). The average total return growth rate in the six months running up to each UK general election was compared to the preceding period to establish whether there was a pre-election slowdown. We then benchmarked against the six months average after the poll, to see if there was post-election rebound.

In contrast to the widely held expectation that the run-up to the election would see the market slow, in only three out of six cases has there been a pre-election slowdown – in 1987, 2001, and 2005. Similarly, there have been three post-election bounces – 1987, 1997, and 2005.

Only two UK prime ministers have succeeded in inducing caution among property investors at the possibility of them being unseated, and received the applause of a post-election surge; namely Margaret Thatcher in 1987, and Tony Blair in 2005. We are not advocating either, just reporting.

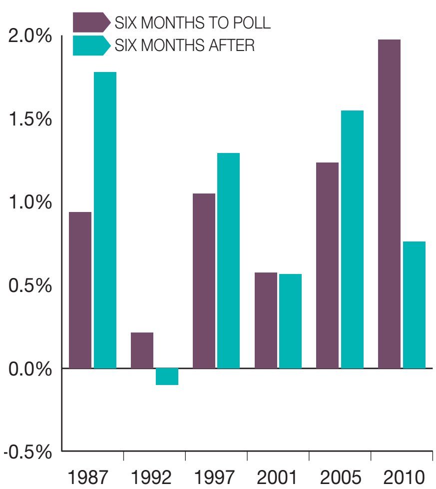
What, if anything, can we deduce from this?

Given only 50% of elections have coincided with either a slowdown before the poll, or a rebound post-election, it is hard to argue there is an obvious cause-and-effect relationship. After all, property is not a highly liquid asset like equities which can quickly respond to opinion polls, or other political news.

On the other hand our sample is not large, the by-product of the UK's historic political stability. It also seems disingenuous to argue the possibility or reality of a change of national government does not matter to investors.

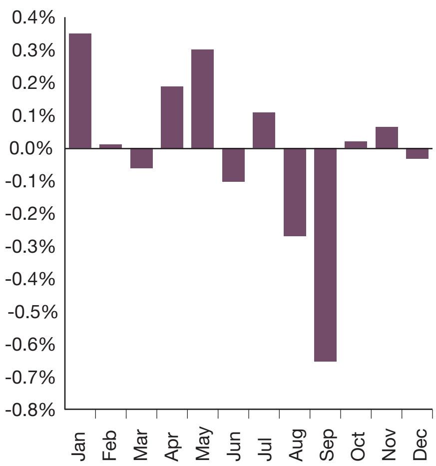
However, the aforementioned political stability does need to form part of our analysis. Parking the proposed mansion tax

FIGURE 1
Average total return growth (m-on-m), before and after election



Source: IPD

FIGURE 2
Total return growth (m-on-m) in 1992 - election was in April



Source: IPD

(this note is concerned with commercial property) in the last twenty years the gap between the main political parties on economic policy has been relatively narrow. We have lived through a long period of pro-business consensus, with policy differences on the margins not in substance.

In short, a change of government in recent elections (1997 onwards) was unlikely to result in a huge shift in the business environment to trouble property investors in the way that say a 1983 victory for Michael Foot would have done, back in the days of Militant Tendency. Arguably the advent of coalition government with the Liberal Democrats holding the keys to Downing Street re-enforces the dominance of consensus.

Also, there is the UK system of twinning elected ministers with civil service permanent secretaries, which also ensures continuity of government, and steers towards moderation. The Whitehall Mandarins are there to keep things realistic. This is part of the famous UK political stability which is often cited by overseas buyers as a draw towards British real estate.

An election will only ever be one of many influences on the property market, and not necessarily the most important one. A good example of this is 1992, when John Major's re-election while broadly welcomed in the business community was quickly followed by a slump for IPD total returns. Unsurprisingly, a sterling crisis later that year was of far more concern for property investors.

Certainly for 2015 one could query whether the election will be the leading influence on the commercial property market. The strong IPD figures reported in 2014 we believe will draw more money into unit funds. We see unit funds as set to play a bigger role in the market next year, probably looking to deploy into the regions, and possibly bargain hunting in retail. The market's balance of demand and supply, not politics, remains the leading influence.

> "We see retail funds as set to play a bigger role in the market next year, probably looking to deploy into the regions, and possibly bargain hunting in retail."

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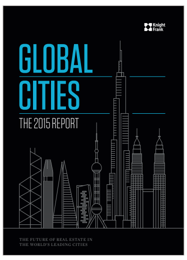

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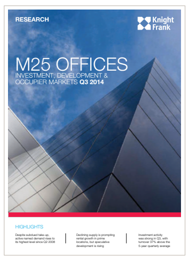

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