

# Research briefing note

## Property market outcomes from the UK General Election, 9<sup>th</sup> June 2017

### Unexpected result raises questions for UK property markets

#### Economy

UK economic growth has been slowing in the aftermath of last year's vote to leave the EU, something that has become more obvious as Brexit negotiations, and the associated uncertainty, has drawn near. It is important to note that the economy has, however, generally confounded some of the gloomier forecasts that had suggested a severe recession following the vote – the private sector getting on with business following the initial shock that the result provoked.

Consumer spending has also remained resilient, and a key driver of continuing growth. However, declining real wages – following sterling's sharp falls and import price increases – have begun to rein in expansion in recent months, with retail sales growth flat-lining.

Turning to the general election result, it was not a surprise that we have seen a marginal fall in the pound following the exit poll; analysis from Bloomberg suggested that a hung parliament would result in a fall to \$1.23.

Looking forward, then, the UK economy is unlikely to shake off its current low-growth rate. Should we worry about a recession? It appears an unlikely scenario at the current time – as the UK consumer has shown remarkable resilience, and is not likely to shift behaviour until something genuinely worrying, such as a reverse in the employment market, occurs.

#### Brexit

On the surface, the hung parliament we are now faced with appears unlikely to help. It would seem though that 'the market' is not in panic mode – with limited declines in sterling and UK-focused stock indices. Indeed, the picture is decidedly mixed. Having asked the electorate for a mandate to negotiate her version of Brexit – which still had a whiff of 'have cake and eat it' – Theresa May has been roundly rejected. It would be nothing more than wild speculation to posit whether this tilts us towards a soft Brexit or not. But we have perhaps moved away from the cast-iron certainty that our Brexit red-lines would be immigration controls and leaving the jurisdiction of the European Court of Justice.

At the time of writing the Conservatives appear to have reached a deal to govern with the Democratic Unionist Party (DUP), giving a wafer-thin majority in Parliament. However, it is extremely difficult to imagine such a limited mandate seeing the job through into 2019, even with initial breathing space from the EU. So more uncertainty then.

Prior to the election, the IMF's World Economic Outlook, April 2017, forecast UK growth of 2.0% in 2017 and 1.5% in 2018.



The employment market has remained relatively robust in the aftermath of last year's referendum, with the unemployment rate just 4.6%.



The Conservatives seek to shore up their numbers with an alliance with the Democratic Unionist Party.



It has also been suggested that a further General Election may be required. What does seem likely at the present time is that the thin majority will result in a more transparent approach to negotiation.

## Property market implications

### Commercial Property

Whilst the ongoing uncertainty is a negative for the UK capital commercial markets, as the UK may be viewed as less of a safe-haven than previously, we should remember the global context. Global markets remain awash with cash, with developed-economy bond yields offering little or no return. Global investors are not blessed with 'safe' investment opportunities. The UK may feel increasingly unstable to us, but this is a 'direction-of-travel' issue. In relative terms, the UK remains a beacon of stability. That said, some of that short-term capital is likely to review the UK's position.

As stated previously, the economic data shows consumers' spending in shops remains stable – but perhaps not strong. Retailer activity is positive in key locations. Similarly, for office and industrial occupation, the level of demand has not been overtly dented since the EU Referendum result almost a year ago. It is likely though that with a slowing economy, increased inflation, the national minimum wage and less certainty, that occupiers will be more conservative around their hiring plans, which will ultimately translate to limiting both wage growth and space requirements. Slowing of employment growth has already been seen in London. Except for pivotal operational space, occupiers will be closely reviewing their property costs and with landlords offering greater incentives for occupiers to take space in the past year, capital values are likely to be under pressure. Today's result will reinforce that. If the hung parliament results in a softer Brexit stance, there is likely to be less downside risk to future occupational requirements.

### Residential Property

Overnight, key Conservative Ministers lost their seats, perhaps the most relevant to the residential sector, however, was the loss of Gavin Barwell, former Housing Minister, creator of the Housing White Paper, and MP for Croydon Central. Over the past year, Mr Barwell has demonstrated significant effort in understanding the challenges of the residential property sector and the need to provide more diverse housing solutions, such as Build To Rent (BTR). This loss is extremely disappointing for all involved in the residential sector, however, we hope that his replacement will continue to support the foundations that he put in place.

It is clear that there are continuing trends to show that the younger British population, specifically 18-24 year olds, are keen to have their voice heard, turning out in record numbers compared to previous General Elections. We will be closely monitoring the property implications of this trend.

Turning to the transaction markets, the recent RICS survey pointed towards falling numbers of houses sold and slowing growth in values and rents. We know that uncertainty does not help confidence to transact, however, should a softer Brexit become a reality, individuals may feel more confident about the future and thereby continue to make housing decisions. The status quo, with some downside risk, looks the most likely outcome at the present time.

Despite uncertainty, the UK maintains its safe haven status, albeit the instability will be unsettling at home.



The loss of Gavin Barwell will be a blow to the housing sector. Over the past year he has sought to understand and embrace innovation in delivery including Build to Rent (BTR) and offsite construction.



## Land & Farming

The election result makes it highly unlikely that a 25-year UK-wide food and farming plan will be agreed, as there is more non-Conservative power in the devolved governments in Wales, Northern Ireland and (still probably) Scotland.

The Government confirmed a few weeks ago that it would support farm payments at their current levels until 2022. It also said that post-CAP agricultural policy may not come into full effect until around 2025. That 'signalling' gave the industry greater certainty.

Dealing with Brexit and the economy will be much higher up the political agenda than farming in the immediate future so we can expect status quo – probably the same ministerial team as all three ministers held their seats, the holding policy until 2025, no 25-year food and farming plan and more consultation on post-CAP agricultural policy. Many farmers will view this as positive news as it makes farm payments more certain for a longer period; reformers will be less pleased as it reduces the likelihood of more radical changes in farming and environmental policy – but all is still to play for.

The election result is likely to support farmland markets, which like certainty in farm payments, and has also weakened the Scottish National Party's position in Scotland so radical changes in land policy are less likely. It also means that smaller parties, like the Democratic Unionist Party, are in a much stronger position as they hold the balance of power. Farm subsidies have been an important issue in the province's election campaign as they account for a very large proportion of farm income. This makes significant change from the current position less likely.

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