



ASSET MANAGEMENT

LANDSLIDE ELECTION: HOW WILL UK COMMERCIAL PROPERTY FARE?

In the lead up to the UK general election, the majority of opinion polls suggested that the Conservatives held a significant lead over the Labour Party, of around 10 points on average. Sterling steadily strengthened from the time that the election was called through to polling day, indicating that investors believed that a Conservative majority would be the best near-term outcome for the economy.

Prime Minister Boris Johnson's slogan "get Brexit done" certainly appears to have resonated with voters in Leave-voting constituencies. Given that the Conservatives now hold of a working majority of 78+ seats, we expect the government to honour its manifesto commitment to bring the EU Withdrawal Agreement back to Parliament before Christmas, and that the UK will leave the EU in January 2020.

Brexit uncertainty has been a central investor concern for a long time, dampening business investment and overall growth. The latest data from the Office for National Statistics showed that economic growth was flat in October. With this election result at last providing political clarity, the process of leaving the EU can now accelerate. Coupled with expectations that fiscal stimulus will increase, this should boost economic growth prospects. That being said, Brexit should not be viewed as a singular event, there are still great uncertainties regarding future trading deals and the length of the transition period.

Financial markets have welcomed the result, with sterling jumping to a three-year high against the euro and the FTSE 250 index increasing by 4% to reach new highs. Similarly, we expect the result to have positive implications for UK commercial property. Brexit uncertainty had resulted in a significant political risk premium being placed on UK property, and some of that risk premium can now be reduced.

London office pricing currently looks very attractive compared to other global gateway cities. Overseas buyers have been less active in London over the past 12 months than they have been historically. We expect the outlook for the market to improve and transactional activity to recover. Occupationally, the Central London office market is well-positioned, with resilient tenant demand and a shortage of prime availability. This, paired with relatively cheap pricing, could result in investor sentiment rallying through 2020.

It is not all plain sailing, however. Polarisation between the main sectors looks set to remain. In the face of occupational challenges and structural upheaval, we expect retail assets to generally underperform. Capital values have been falling for some time for large parts of the retail sector, and we see no end to that trend in the near term. The exception is likely to continue being Prime Central London.

More positively, the multi-let industrial sector continues to offer opportunities for rental growth, attracting investors and keeping prices very keen. The alternatives sector provides long-term income streams and remains popular with investors seeking to match liabilities.

In summary, we do not envisage that this election result will radically alter the underlying market fundamentals. Nevertheless, it does offer a degree of domestic political certainty, which has been in short supply of late, and that should enable the release of significant pent-up investment.

By Drew Watkins – Senior Fund Manager, Property.

IMPORTANT INFORMATION

Past performance is not a reliable indicator of future results. The value of investments and the income from them is not guaranteed and may go down as well as up and investors may not get back the amount originally invested. For more information on the fund or the risks of investing, please refer to the fund factsheet, Prospectus or Key Investor Information Document (KIID), available via the relevant Fund Information page on www.rlam.co.uk. The views expressed are the author's own and do not constitute investment advice. All information is correct at December 2019 unless otherwise stated. Issued by Royal London Asset Management Limited, Firm Registration Number: 141665, registered in England and Wales number 2244297; Royal London Unit Trust Managers Limited, Firm Registration Number: 144037, registered in England and Wales number 2372439; RLUM Limited, Firm Registration Number: 144032, registered in England and Wales number 2369965. All of these companies are authorised and regulated by the Financial Conduct Authority. Royal London Asset Management Bond Funds Plc, an umbrella company with segregated liability between sub-funds, authorised and regulated by the Central Bank of Ireland, registered in Ireland number 364259. Registered office: 70 Sir John Rogerson's Quay, Dublin 2, Ireland. All of these companies are subsidiaries of The Royal London Mutual Insurance Society Limited, registered in England and Wales number 99064. Registered Office: 55 Gracechurch Street, London EC3V 0RL. The Royal London Mutual Insurance Society Limited is authorised by the Prudential Regulation Authority and regulated by the Financial Conduct Authority and the Prudential Regulation Authority. The Royal London Mutual Insurance Society Limited is on the Financial Services Register, registration number 117672. Registered 99064. AL RLAM ON 0030.