CONSERVATIVES CLING TO POWER

The result

Theresa May's gamble to secure an even larger majority for the Conservative Party by calling for a snap General Election has been unsuccessful, with the UK's ruling political party being left with little alternative but to form a coalition government with Northern Ireland's Democratic Unionist Party (DUP) in order to secure a majority in the Houses of Parliament. The lack of a Conservative majority is expected to dent confidence, at least temporarily, whilst the political jostling in Westminster subsides and clarity emerges around who will lead the UK's complex Brexit talks and eventual decoupling from the European Union. As it stands, Theresa May's decision to remain Prime Minister will aid in calming the volatile political climate to an extent, although questions around her ability to lead the new government will likely be addressed in the coming days.

The General Election was meant to deliver a much needed injection of confidence in UK PLC; however, as this has failed to materialise, sterling has been an overnight casualty, dipping by as much as 2.5% against the US dollar overnight, before steadying 1.5% lower against the greenback this morning. Encouragingly, following the announcement of the new coalition government this morning, sterling has rallied against the US dollar.

Election pledges

Despite being unable to secure a larger majority to govern, we expect the Conservative party to press ahead with their manifesto plans with an added sense of vigour and urgency, albeit many policies and plans are likely to be watered down to make them more palatable to all parties.

Clearly the formation of the new minority government, led by the Conservatives will raise the chances of a 'soft' Brexit as the Prime Minister will need to receive cross party support for any deal. The diminishing prospects of a 'hard' Brexit should eventually translate into a boost in investor sentiment as the odds of a deal that, in the Prime Minister's words, is "good for Britain" rises. Furthermore, calls for a second Scottish referendum are likely to fade, regardless of the outcome of the Brexit talks given the Scottish Nationalist Party's substantial loss of seats in Westminster.

When it comes to the property sector, we expect the Conservatives to move ahead with plans to deliver one million new homes in Britain by 2020 and a further 500,000 by 2022. 160,000 homes are expected to be delivered through the use of public sector owned land, while proposals outlined in the February Housing White Paper around an accelerated delivery programme through modern construction methods are likely to gain further traction. Questions around the diminishing construction sector talent pool are yet to be addressed and are likely to be further exacerbated in the event of any rigid immigration policies in post-Brexit Britain.

Impact on London's property market

The shock Brexit referendum result last summer intensified a much anticipated slowdown in the capital's residential and commercial markets. 12 months on from that historic decision, there are however signs to suggest that activity in some quarters may be showing initial indications of stabilising, but it is still very early days. The disarray caused by last night's General Election may stunt international activity in the British capital whilst the dust settles and the news beds in.

Regardless, we expect London in particular to retain its position as the leading global investment safe haven. Our clients continue to be drawn to the British capital's property markets not only due to the stability it offers and proven track record of attractive investment returns, but for international investors, the weakness of sterling has proved to be difficult to resist. With the additional weakness overnight, opportunistic investors are likely to snap up any opportunities that are perceived to be 'good deals'.

We expect that residential transactional activity will continue to recover in the wake of the General Election results, particularly as the likelihood of major changes in the residential tax regime are unlikely given the continuity of leadership by the Conservatives, albeit through a coalition government. On the commercial front, businesses are likely to remain in somewhat of a holding pattern, with expansionary activity remaining limited as the Brexit story plays out. For now, our forecasts remain unchanged. Residential capital values in prime Central London should grow by 8.6% in total over the next five years, while office rents in Central London should rise on average by between 1% to 1.5% between now and the end of 2021, following a slight softening this year.

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