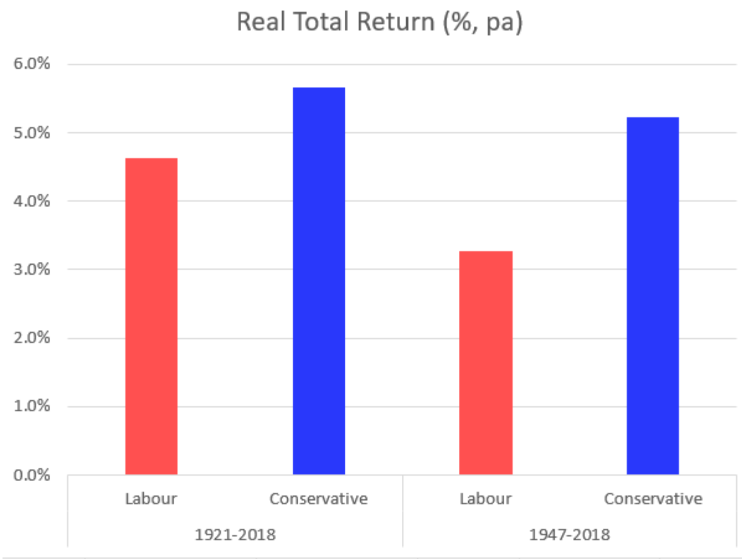
Boris the builder or can Corbyn fix it?

Is it just me or have others also found themselves becoming more interested in watching programmes aimed at ages similar to my daughters' than listening to politicians across the spectrum exchanging sound bites and platitudes?

Are you tired of following every tweet, blog and Instagram story? PFR have decided to take a closer look at whether the commercial property market fares better under one or other political party. Do investment returns depend on who is managing the building site?

Figure 1: Historic returns under Labour and Conservative governments*



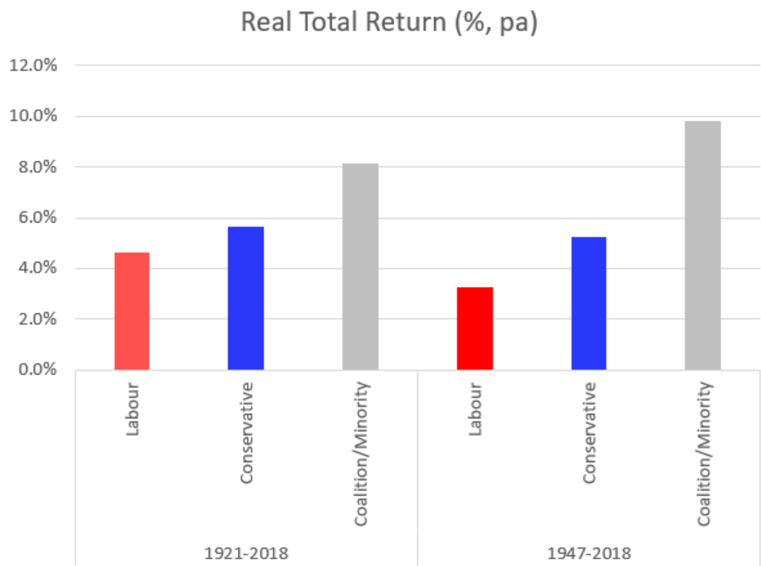
Source: PFR, MSCI, Scott, ONS
*includes coalition and minority governments

After adjusting UK all property total returns from 1922-2018 (excluding 1939-1946) for inflation we see that had an investor invested capital just in the years with a Conservative government then the average real total return would have been 5.7% compared to 4.6% under Labour (table 1). If we focus on the post-WWII period, then the Conservatives' impact is greater with average total returns of 5.2% versus 3.3% for Labour. The same ranking is achieved on a risk-adjusted basis.

Working together, they get the job done?

Surely the results are clear, anyone with an interest in achieving a higher real return should welcome a Conservative majority on Friday? Well, as it turns out, perhaps the better outcome would be for some form of minority or coalition government as real returns under these governments have outperformed both Conservative and Labour by over 5% pa! Again, the risk-adjusted basis confirms the ranking.

Figure 2: Historic returns under Labour, Conservative and coalition governments



Source: PFR, MSCI, Scott, ONS

This is a rather crude (bordering on data mining) top-level analysis looking at just one of many domestic and international factors that impact the return on UK commercial real estate (ignoring the not so insignificant market frictions such as taxes and transaction costs). Can the poor performance in the early 1970s really be attributed to Labour policies or is it more likely to do with the negative impacts of the global oil crisis? Was it really the coalition government formed in 2010 that drove a strong period for returns or just luck that the election happened to occur at the cyclical low? By looking at the range of returns (rather than the average) under both Conservative and Labour governments (table 3) it shows that investors have experienced periods of both high and low real returns.

Table 3: UK real total returns under UK Government by party*

Years	Main Party in Government	Real Total Return (% pa)
1921-1923	Conservative	14.79%
1924	Labour	0.10%
1925-1928	Conservative	9.31%
1929-1934	Labour	12.02%
1935-1938	Conservative	0.39%
1938-1946	Conservative	No Data
1947-1950	Labour	1.84%
1951-1963	Conservative	1.77%
1964-1969	Labour	4.29%
1970-1973	Conservative	15.15%
1974-1976	Labour	-14.56%
1977-1978	Labour	13.35%
1979-1996	Conservative	4.70%
1997-2009	Labour	6.33%
2010-2015	Conservative	8.65%
2016-2018	Conservative	4.23%

Source: PFR, MSCI, Scott, ONS
*Grey denotes a minority, coalition or national government

Whilst a cursory view at the headline statistics suggest some degree of causality, the explanatory power of Governments in determining returns is in fact very low (just 2% of the total return)! In other words, it would be entirely plausible to take the view that the impact of government on real estate returns has been random over the long term. It is therefore worth remembering that for any two correlated events there are numerous possible relationships (e.g. A causes B, B causes A, A and B are both consequences of C, etc...). Correlation does not imply causation.

For real estate investors it is important to remember that asset (stock) selection and risk management (and not just political risk) is arguably a much more significant factor in determining an investor's portfolio return than the political persuasion of the governing party. Therefore, investors may have more success by adopting a long term value approach with a clear focus on underwriting asset fundamentals and insisting on an adequate margin of safety when making investment decisions. By taking a long term view, the recent political uncertainty could have presented a buying opportunity for investors willing to see past the noise and focus on asset (alpha) rather than market (beta) driven strategies. This is where we have been positioning the portfolios of our UK clients and have yet to see a compelling reason to change.