

Progressive Property & Construction Daily



16 June 2022: CAPC, BYG | Construction cost inflation fuelled by Ukraine invasion | News – private landlord regulations tightened further

A round-up of market statements, news, economics and views from the property and construction sectors

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Company news

Capital & Counties Properties (CAPC, 152p, £1,291m mkt cap)

“Capco”, owner of Covent Garden retail property portfolio and holds a 25.2% stake in **Shaftesbury** (SHB, 582p, £2,236m). Recommended all-share merger. The merger with Shaftesbury, via scheme of arrangement, will result in Capco owning 100% of the share capital of Shaftesbury. Its shareholders will be entitled to 3.356 new Capco shares. Shaftesbury shareholders (other than the holders of the existing Capco shareholding) will own 53% of the combined Group and Capco shareholders will own 47%. The exchange ratio has been agreed between the Boards of each of the groups taking into account the relative EPRA NTA and market capitalisations of both. It is intended that the combined group will be called Shaftesbury Capital on completion. The Combined Group has an estimated EPRA NTA of approximately £3.8bn EPRA NTA per share of approximately 207p as at 31 March 2022. The Merger is expected to generate c. £12m of pre-tax recurring cost synergies on an annual run-rate basis by the end of the second full year following completion. For Capco shareholders, the merger is expected to be earnings accretive immediately and modestly EPRA NTA dilutive; for Shaftesbury shareholders, it is expected to be immediately EPRA NTA accretive and modestly earnings dilutive for the first two full years, while the synergies are being realised. Thereafter, the impact on earnings will depend on a number of factors including the extent and timing of the realisation of benefits from the Merger and the future cost of financing.

Big Yellow Group (BYG, 1,288p, £2,371m)

Self-storage REIT. Acquisition of an existing 53,000 sq ft self-storage centre in Aberdeen for £10m, which will be earnings enhancing. The store, branded as Simply Self Storage, is the only purpose-built self-storage centre in Aberdeen, and will be rebranded as Big Yellow. The purchase price represents a starting 6% net initial yield which should grow to 9% within two years as the store is added to Big Yellow's digital platform. There is also surplus land which provides the opportunity for expansion. The acquisition expands the group's footprint in Scotland, where it now operate in three of the four main urban centres. *Outlook:* "The city is currently benefiting from higher oil and gas prices, and in the longer term it will play an important role in the transition to renewables over the next 20 to 25 years".

Economic data

Construction costs. The Russian invasion of Ukraine has added 3 to 5% to the cost of typical projects, even though the country itself accounts for a tiny proportion of the UK's construction material imports, according to leading cost consultancy Arcadis ([link](#)). Disruption caused by the Ukraine War, seen in both material prices and risk allowances has resulted in Arcadis upgrading its inflation forecast for 2022. Inflationary pressures on buildings are expected to peak at 8-10% in London and the regions, with increases of 10% in infrastructure

Development headwinds associated with labour and product price and availability continue to challenge the industry, although there are some positive developments, including a 4% increase in the size of the workforce during 2021 and the easing of supply shortages associated with timber and some other construction products.

Although materials sourced from Ukraine barely account for 1.2% of the value of construction's imports. The impact of the war has added 3 to 5% to the cost of typical projects. Although a big jump in steel prices grabbed the headlines in March, the broader impact of the crisis will be felt through soaring energy costs, which disproportionately affect the construction materials supply chain. Prices are expected to remain high until the UK and European energy markets are retooled to be less dependent on Russian gas and oil. The table below shows the summer forecasts for tender price inflation (TPI) with the previous forecast in brackets.

	Regional Building Construction TPI	London Building Construction TPI	National Infrastructure Construction TPI
2021	5% (5%)	6% (6%)	6% (6%)
2022	8-10% (5%)	8-10% (5%)	10% (6%)
2023	2-3% (5%)	2-3% (5%)	4% (6%)
2024	4% (5%)	4% (5%)	5% (5%)
2025	5% (5%)	5% (5%)	5% (5%)
2026	5% (4%)	5% (4%)	5% (5%)
Total	29-32% (29%)	30-33% (30%)	35% (33%)

In other news ...

Rental regulation. Landlords are to be prevented from evicting tenants in England without giving a reason, under proposals published in a government White Paper, BBC ([link](#)). The Renters Reform Bill will also end blanket bans on benefit claimants or families with children - and landlords must consider requests to allow pets. No-fault evictions are already banned in Scotland for tenancies starting after 1 December 2017; the Welsh government says no-fault-eviction notice periods will be extended to six months by the end of 2022; legislation to extend the notice period for tenancies is going through the Northern Ireland Assembly. The bill will also: end “arbitrary” rent-review clauses, so tenants can leave poor-quality housing without being liable for the rent; double notice periods for rent increases; give councils stronger powers to tackle the worst landlords and increase fines for serious offences. For private landlords, the bill offers “greater clarity and support”, including: a private-renters’ ombudsman to settle disputes cheaply and quickly ensuring landlords can efficiently recover their properties from anti-social tenants; a property portal to help landlords comply with their responsibilities and tenants understand their rights.

Viewpoint: The view from the National Residential Landlords Association is “Whilst headline commitments to strengthening possession grounds, speedier court processes and mediation are helpful, the detail to follow must retain the confidence of responsible landlords, as well as improving tenants' rights. A failure to do so will exacerbate the housing crisis at a time when renters are struggling to find the homes they need”. My own suspicion is that it looks reasonably well balanced, but continues the long drift towards regulation of smaller private landlords, which continue to ‘throw in the towel’ and sell up. This will continue to provide much-needed liquidity into the secondhand sales market while strengthening the hand of the growing build-to-rent sector.

Prices are as at the previous day's close.

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