Progressive Property & Construction Daily

23 June 2022: GFRD, GRI, SHED, CREI, RGL | News – inflation worries continue; Infrastructure bank outlines investment plans; High-end London resi funding

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

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Company news

Galliford Try Holdings (GFRD, 175p, £195m)

UK construction and infrastructure services group. Contract. Highways business appointed to the new Midlands Highways Alliance Plus (MHA+) Medium Schemes Framework 4, valued at £1bn over for the next four years, with the potential to extend for a further four years. Galliford Try has been a main contractor with the MHA+ since 2014. The framework covers 35 local authorities stretching from Oxfordshire in the south to Cumbria in the north and encompasses the delivery of highway, civil and municipal engineering works, including highway improvements and maintenance, public realm works, drainage improvements, canal works and other infrastructure works such as waste management facilities.

Grainger (GRI, 281p, £2,089m)

UK's largest listed residential landlord. BTR acquisition. Contracts conditionally exchanged to forward fund and acquire from Redcliff MCC the build-to-rent element of the second phase of Redcliff Quarter in Bristol which comprises 374 private rental (PRS) homes, as well as 94 affordable homes and six commercial units. Construction is expected to commence in Q3 2022, with practical completion targeted for early 2025. It is anticipated that the scheme, including the commercial element, will generate a gross yield on cost of c.6% once fully let and stabilised.

First Property Group (FPG, 30p, £33m)

Property fund manager and investor with operations in the United Kingdom and Central Europe. FY (Mar) results. Rev -29%, £8.6m; PBT, £7.1m (FY 21, loss, £5.1m); EPS, 6.0p (-6.6p); div +11%, 0.5p; net assets +20%, £44.1m (at market value +11%, £55.4m); net debt -8.5%, £17.2m. *Trading:* The reduction in revenue was mainly due to the expiry, in February 2021, of the lease at the group's office block in Gdynia, Poland, which resulted in a £3.2m reduction in rental income; this led to most of the increase in PBT, due to the restructuring of the finance lease on the same property. Third party assets under management ended the year at £517m (YE 21, £527m); reflecting sales of properties valued at £33m offset by purchases worth c. £10m and an increase in the value of the remainder of the portfolio of c. £12m; new fund raised during the year, Fprop Fulcrum Property, investing in UK. Value of directly-owned group properties, £42.2m (£41.6m). *Outlook:* "The investment environment is volatile at present but with adversity comes opportunity and we are seeing some interesting market movements. Occupational demand is picking up from the lockdown induced lows which should result in a commensurate increase in the value of our properties".

Urban Logistics REIT (SHED, 165p, £776m)

Specialist UK 'last mile' logistics real estate investment trust. FY (Mar) results. Net rental income +60%, £36.5m; IFRS PBT, £172m (FY 21, £47.6m); adj EPS -0.7%, 6.7p; div unch, 7.7p. Portfolio valuation +100%, £1,015m; EPRA TNAV +24%, 189p; LTV, 11.3% (27.9%). *Trading:* Significant capital deployment with £282m of acquisitions at a wtd ave net initial yield of 5.3%; nine forward funding agreements with £52.9m deployed, at a current yield on cost of 6.7%. Total portfolio of 113 mid box urban logistics assets covering 8.3 million sq ft. Vacancy rate unch, 6.9%. *Outlook:* "The current macro-economic conditions are uncertain, and the Board will manage the company's affairs accordingly. Despite the uncertainty, the occupational demand for the kind of assets we invest in remains strong, and the supply of suitable properties remains tight, with resulting upward pressure on rental rates. In recent months we have slowed the pace of investment, believing that a patient deployment allows us to take advantages of opportunities in the market which were not there a year ago. Whilst we will continue to acquire new assets in the short-term using our borrowing capacity, we will target the lower end of our LTV range, at least until the macro-economic climate becomes more certain. We anticipate that 2023 will be a year of modest improvement in earnings, and we intend to at least maintain the dividend at the current level. We look to the medium term with some confidence. Whilst the political and economic uncertainty persists, we are optimistic and vigilant in equal measure".

Custodian REIT (CREI, 103p, £454m)

UK commercial real estate investment trust. Purchase of property. 70,160 sq ft retail park in Nottingham consisting of four units occupied by Wickes, Matalan, Poundland and KFC, with nearby retailers including Tesco, Morrisons, Lidl and McDonald's, acquired for £15m, moving net gearing to 22.7% LTV. The units have a weighted average unexpired term to first break or expiry of 9.0 years with an aggregate passing rent of £994,050 pa, reflecting a net initial yield of 6.21%.

Regional REIT (RGL, 75p, £388m)

Real estate investment trust specialising in income generating regional UK office and industrial assets. Acquisitions. Three separate investments in Sheffield city centre, Thorpe Business Park, Leeds, and Leeds city centre for £8.5m, £8.6m, and £9.4m respectively, reflecting attractive net initial yields of 9.2%, 7.1% and 7.7%, with an overall blended net initial yield of 8.0%.

In other news …

Inflation. Gloucestershire County Council is retendering its planned £200m scheme to upgrade junction 10 of the M5 to the west of Cheltenham due to cost inflation, ConstructionEnquirer.com (link). The council has gone back to the market with refreshed procurement plans in the face of volatile market costs. Council procurement chiefs had originally planned to select a contractor by this July. Their new procurement plan will include a simplified approach to early contractor involvement and amendments to allow for rising construction costs. A winning early involvement contractor will now be named in February 2023, for a project start just before the end of next year. **Viewpoint:** The trend of delays and changes in scope, seen previously in urban regeneration is likely to spread in infrastructure and other sectors.

Wage increases for several key self-employed trades have exceeded the latest 9.1% rate of inflation, while others have fallen, ConstructionEnquirer.com (link). Demolition workers, plasterers, plumbers, roofers and scaffolders have seen weekly pay over the year keeping ahead of the UK official inflation rate, according to industry payroll specialist Hudson Contract. Other trades including bricklayers, M&E contractors and steel erectors have fared less well with weekly pay packets down on a year ago (see below). Latest figures for May show labour rates grew across the board by 2.8% compared with April as in-demand self-employed subcontractors continued to boost their earnings with average weekly pay for freelancers increased to £918.

Self employed trade weekly pay rates

	May-21	May-22	% change
BRICKLAYING	£897	**£859**	**-4.2%**
CIVIL ENGINEERING	£828	**£864**	**4.3%**
DEMOLITION & WRECKING	£777	**£864**	**11.1%**
ELECTRICAL	£1,063	**£1,071**	**0.7%**
EQUIPMENT & OPERATOR HIRE	£891	**£935**	**4.9%**
GENERAL CONSTRUCTION	£889	**£948**	**6.6%**
INSULATION	£899	**£ 918**	**2.1%**
JOINERY	£1,011	**£ 1,029**	**1.8%**
MECHANICAL & ENGINEERING	£1,068	**£1,011**	**-5.3%**
PLASTERING	£741	**£ 831**	**12.2%**
PLUMBING	£967	**£1,065**	**10.1%**
ROOFING	£698	**£781**	**11.9%**
SCAFFOLDING & LIFTING	£725	**£800**	**10.3%**
SHOP FITTING	£1,060	**£1,105**	**4.3%**
SPECIALIST TRADES	£824	**£841**	**2.0%**
STEEL & TIMBER FRAME ERECTION	£882	**£842**	**-4.6%**
SURFACING CONTRACTORS	£818	**£809**	**-1.1%**

London residential. Chinese developer R&F has agreed a £770m financing deal that will allow it to complete its £1bn One Nine Elms development on London's South Bank next year, Property Week (link, paywall). The development, comprising 57 and 42 storey towers, has previously encountered problems during construction, according to the report, including contractor Multiplex pausing work on site for reportedly not being paid. The City Tower will include 334 residential units, while the River Tower will consist of a 203-room hotel and 103 luxury apartments both run by Park Hyatt. The project also includes 57 affordable housing units forward-sold to Thames Valley Housing. Earlier this year, R&F was reported to have made a £187m loss on the sale of its Thames City scheme in Nine Elms to joint venture partner CC Land Holdings.

London-based developer Knight Dragon, owned by Hong Kong magnate Henry Cheng, will sell £140m of blockchain-backed tokens for shares in the profit of one of its Greenwich Peninsula developments in south-east London, Property Week (link, paywall). It will issue 100,000 security tokens – named KDB4 and priced at £1,400 each – to "professional investors". Each token, described by the company as a "modest investment", entitles the holder to a share of 80% of the gross profits generated from the company's 191-unit Building 4 residential block, as well as priority for future investment opportunities in developments on the Greenwich Peninsula site. Knight Dragon bought the 6.4m sq ft site in 2013 and has since laid out a 25-year development plan. **Viewpoint:** hmmm …

Infrastructure. The head of the UK's new £22bn UK Infrastructure Bank has said that it is building the capacity to make its own direct equity investments, FT (link, paywall). In an interview to mark the first anniversary of the UKIB, Chief Executive John Flint said he was recruiting staff so that the bank had the expertise to back projects across the country, instead of relying on third-party asset managers to identify opportunities. The bank was launched last June by the government as an independent organisation with the aim of investing taxpayer money alongside private finance into infrastructure projects. It is focused on clean energy and "levelling up" local economies, specifically companies and initiatives that have trouble securing private financing. However last month, a member of the House of Lords criticised its record so far, highlighting a £100mn contribution to an infrastructure fund managed by Octopus Investments and £250mn given to NextEnergy Capital's £500mn solar fund. UKIB has £22bn to invest over the next five to eight years, comprising £8bn of debt and equity, £10bn of government-guaranteed finance and £4bn for local authority lending. He said "We absolutely do intend to make direct equity investments ourselves. We don't have the skills to make direct equity investments ourselves today, but we will resource for that. A year from now we'll have the ability".

Prices are as at the previous day's close.

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