Progressive Property & Construction Daily

30 June 2022: INL, MER, CSH | Industry news – Smaller housebuilders frozen out in shortages; Major senior living JV launched

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

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Company news

Inland Homes (INL, 39p, £89m mkt cap)

Leading brownfield developer, housebuilders and partnership housing group, focused on South and South East. HY (Mar) results. Rev +3.2%, £80.5m; loss before tax, £8.2m (HY 21, -£5.8m); EPS, -3.7p (2.5p); EPRA TNAV, 104p (97p); net debt, £96m (£133m). *Trading:* The loss before taxation included an additional £4.0m of expected costs to complete on one of the group's partnership housing contracts. "The group has made further progress in delivering its key strategic priority, achieving its year-end target of reducing net debt to below £100m within the first six months of the reporting period. We continue to see high demand from affordable housing providers, build-to-rent operators and other housebuilders for our high-quality land assets and build capability. Our asset management segment also continues to perform well, with planning permission granted at two schemes during the period and a determination of our planning application for 1,525 homes at Cavalry Barracks in Hounslow anticipated before the end of the calendar year". *Outlook:* "Our valuable land portfolio and expertise in securing planning consent is enabling us to maximise the opportunities presented by the strong land market and the wider-market undersupply of new homes. While the housebuilding industry is facing some headwinds in the short term, we believe there is a drastic shortage of consented sites in the South and South East. The group, with its valuable land portfolio, is well placed to continue to make further significant progress on its strategic objectives in the second half of the year".

Mears Group (MER, 190p, £211m)

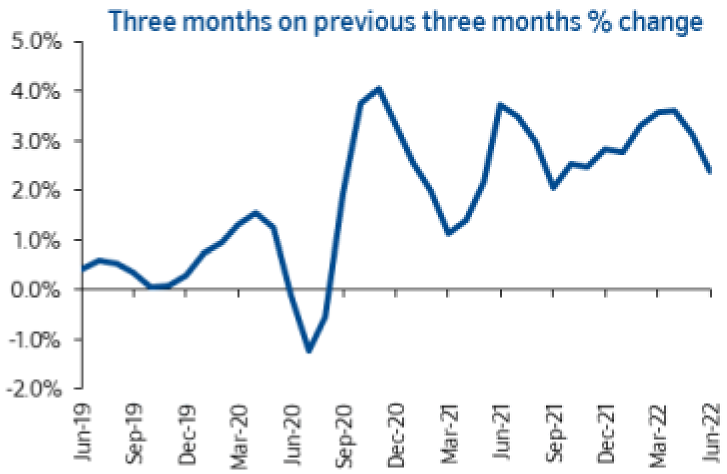
UK housing support services provider. HY (Jun) trading update. *Guidance:* “The momentum carried over from the first six months of trading gives the Board further confidence in the delivery of our full year expectations”. *Trading:* “The positive trends and robust trading for the first four months of the current financial year, as communicated at the AGM in May, continued through the remainder of the first half. Revenues are ahead of the prior year, with an improved operating margin”. Higher levels of activity have been sustained within Management-led activities. EBITDA to operating cash conversion in excess of 100% and an average daily net positive cash position throughout the period. The bidding pipeline has strengthened during the period, with significant opportunities for organic growth. HY results, 4 August.

Civitas Social Housing (CSH, 81p, £495m)

Care-based social housing REIT, providing homes for working age adults with long-term care needs. FY (Mar) results. Net rental income +6.1%, £50.7m; EPRA EPS -2.2%, 4.8p; div +2.8%, 5.6p; net debt, £299m (FY 21, £245m); LTV, 34.4% (34.5%). *Trading:* 77 properties acquired during the year: 29 (£21.9m) providing homes for vulnerable adults; 47 (£8.1m) to deliver asylum accommodation; and one in Lancashire (£1.4m), providing a home for 13 individuals with learning disabilities and mental health care needs. Portfolio valuation +5.8%, £969m, reflecting a NIY of 5.28%. *Outlook:* Dividend target raised to at least 5.70p FY 23. Phase two of the company's work with E.ON underway across 120 properties, targeting reduction in carbon emissions, with a Clean Energy Strategy to achieve minimum EPC ‘A-C’ by 2030 and further reduction thereafter with a target of net-zero. “We benefit from high levels of intrinsic underlying demand for our properties. All of our leases benefit from CPI uplift on rents, some of which are subject to a 4% cap. Together with our partners, we enable the delivery of high quality, value for money care services for our tenants. Our initiatives on new lease clauses and further projects with E.ON to reduce our carbon footprint, will deliver further benefit to our stakeholders. We look to the future with confidence”.

Economic data

House prices rose by 0.3% M/M in £271.6k in June, down from 0.9% in May, while the annualised rate slipped from +11.2% to +10.7%, according to the Nationwide (link). The South West overtook Wales as strongest performing region in Q2 (+14.7% Y/Y), while London remained weakest (+6.0%). The South West also strongest performing region through the pandemic (+27.7%), with London lowest (+14.9%). According to the lender, “There are tentative signs of a slowdown, with the number of mortgages approved for house purchases falling back towards pre-pandemic levels in April and surveyors reporting some softening in new buyer enquiries. Nevertheless, the housing market has retained a surprising amount of momentum given the mounting pressure on household budgets. Part of the resilience is likely to reflect the current strength of the labour market, where the unemployment rate remains close to 50-year lows. At the same time, the stock of homes on the market has remained low. The market is expected to slow further as pressure on household finances intensifies in the coming quarters. Moreover, the Bank of England is widely expected to raise interest rates further, which will also exert a cooling impact on the market if this feeds through to mortgage rates”.



In other news …

Small housebuilders have reported apparently greater delays in construction than their larger rivals due to material prices at all-time highs and labour shortages, according to Property Week (link, paywall). In a more wide-ranging article on the housebuilding sector, the Federation of Master Builders, which represents smaller firms, revealed that 55% of members have delayed jobs due to a lack of skilled tradespeople. **Viewpoint:** This supports my previous view that, although the largest developers which benefit from greater buying power and stronger links with suppliers, have quickly adapted to supply chain pressures, the SME sector has less clout. This could put downwards pressure on overall housing starts: the biggest (accounting for about a third of private output) have been typically projecting volume growth in low single digits; meanwhile, many mid-sized groups, which had been aiming prior to the pandemic for faster expansion, could now be looking for a standstill or declines.

Senior living. Pension Insurance Corporation (PIC) and Octopus Real Estate have formed a JV, Senior Living Investment Partners, to provide homes for around 2,000 older residents, with around £1bn in gross development, Property Week (link, paywall).

Prices are as at the previous day's close.

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