Progressive Property & Construction Daily

8 July 2022: VTY, UTG, CAPC, SHB, HICL | News – New government housing heads; Hospitals urgently in need of repair | Fortnight ahead

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

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Company news

Vistry Group (VTY, 814p, £1,782m mkt cap)

Formed from the merger of Bovis Homes and housebuilding and partnerships divisions of **Galliford Try** (GFRD). HY (Jun) trading update. *Guidance:* "The group has delivered an excellent first half performance, significantly exceeding our expectations at the start of the year. We expect to see significant margin progression in the full year, with adjusted PBT for FY 22 to be at the top end of market forecasts (Bloomberg, high, £417m; mean - £398m)". *Trading:* Private sales rate per site +11%, 0.84 (HY 21, 0.76). Housebuilding completions +3.0%, 3,219, with FY 22 adj gross margin now expected to be ahead of 23% target. Vistry Partnerships higher margin mixed tenure completions +24%, 1,106, with the overall Partnerships adj operating margin for FY 22 expected to be ahead of 10% target, whilst maintaining a return on capital employed in excess of 40%. Total Housebuilding and Partnerships forward sales +16%, £2,144m and 92% of total forecast units for FY 22 secured. Net cash, c. £115m (HY 21, £31.6m); month-end average net debt for the rolling 12 months to 30 June 2022, £73m (£239m). *Outlook:* "Demand remains strong reflected in high prospect levels and strong current reservation rates. Our Partnerships business is extremely well positioned to meet the very high level of demand across all tenures from local authorities, housing associations, the private rented sector and elderly accommodation providers".

The Unite Group (UTG, 1,106p, £4,425m)

Owner, manager and developer of UK student accommodation. Trading update and Q2 fund valuations. *Guidance:* "We continue to make good progress with bookings for the 2022/23 academic year with reservations now ahead of pre-pandemic levels, demonstrating the strength of student demand. This momentum underpins our confidence in a return to full occupancy for the 2022/23 academic year and rental growth at or just above the top end of our guidance of 3.0 - 3.5%". *Trading:* Across the property portfolio, 90% of rooms are now sold for the 2022/23 academic year, ahead of pre-pandemic reservation levels (2021/22, 81%; 2020/21, 80%; 2019/20, 89%). "We have also seen positive progress in pricing, particularly in the second half of the sales cycle as concerns around the impact of the Omicron variant have eased". This progress has been driven by inflation-linked rental uplifts for multi-year nomination agreements and the strength of demand for direct-let beds. Demand remains strong from international students. "As previously guided, we are well protected but not immune from cost inflation. We have a high degree of visibility over our two largest costs, staff and utilities, which together account for around 60% of our combined operating costs and overheads". Utility costs are fully hedged through 2022 and 2023 and for a substantial portion of 2024. In addition, a recently completed review of the operating model will deliver further efficiencies partially mitigating wider cost pressures. *Fund valuations:* At 30 June 2022, USAF's property portfolio was independently valued at £2,967m, a 3.5% LFL increase during the quarter, driven by rental growth of 0.8% and a 13 basis point reduction in property yields. The portfolio comprises 29,042 beds across 19 university towns. The average value per bed is approximately £102,000. LSAV's portfolio was valued at £1,942m, a 4.0% LFL increase, driven by rental growth of 1.1% and a 12 basis point reduction in property yields. LSAV's investment portfolio comprises 9,716 beds across 14 properties in London and Aston Student Village in Birmingham. The average value per bed is approximately £200,000. The USAF and LSAV portfolios are now valued at weighted average yields of 4.9% and 3.9% respectively.

Capital & Counties Properties (CAPC, 145p, £1,234m)

"Capco", owner of Covent Garden retail property portfolio pursuing a recommended all-share merger with **Shaftesbury** (SHB, 532p, £2,044m), in which it had a 25% stake. Respective trading statements. *Capco:* As at 30 June, the external property valuation of Capco's Covent Garden estate was c. £1,817m, representing a LFL increase of 5% in H1. The movement was driven by an increase of 4% in ERV to c. £79m as well as a reduction in the equivalent yield of 6 basis points to 3.82%, reflecting asset management and leasing activity. "Operational metrics continue to be positive with strong leasing demand ahead of ERV across all uses and high occupancy levels with EPRA vacancy of approximately 2.5% at 30 June. 11 new brands opened during the period, adding to the vibrant mix on the estate, while footfall continues to trend towards pre-pandemic levels and customer sales in aggregate are ahead of 2019, reflecting the appeal of Covent Garden and London's West End". *Shaftsbury:* "Since 31 March the financial performance of the Shaftesbury Group has been in line with the expectations of the Board. Footfall remains good, underpinned by domestic visitors, residents and local workers and with growing numbers of international tourists. Shaftesbury's hospitality, retail and leisure occupiers continue to report monthly sales, on average, ahead of pre-pandemic levels". During the period from 1 April to 30 June, the group concluded commercial lettings, renewals and rent reviews with a rental value of £10.1m and residential lettings with a rental value of £1.7m. At 30 June, EPRA vacancy had reduced to 4.1% (31 March, 4.7%), of which 1.7% was under offer.

HICL Infrastructure (HICL, 174p, £3,378m)

Listed infrastructure investment group with diversified portfolio of 117 investments in UK, Europe and N America. Proposed issue of equity. Tap issue of new ordinary shares at a fixed price of 169p, a discount of 3.1% to yesterday's close and a 4.9% premium to the 31 March NAV of 161p. Current FY 23 inflation forecasts would support an uplift of 3.0p to 3.6p to the Company's NAV at 31 March 2022, in line with the NAV sensitivity provided in the FY 22 results. The issue proceeds will be applied to restore capacity within the Company's £400m Revolving Credit Facility, and provide additional financial resources to pursue HICL's near-term pipeline. The issue is expected to close at 4 pm on 14 July but may close earlier or later at the discretion of the HICL and its corporate brokers Investec and RBC. The number of new shares will be agreed between Investec, RBC and the company following the close of the Issue and announced shortly thereafter.

In other news …

Politics. Marcus Jones has been appointed as housing minister, replacing Stuart Andrew who had quit the government post earlier this week, having served the shortest tenure in the role. He is MP for Nuneaton, Arley and Hartshill. His boss will be newly appointed Levelling-up Secretary Greg Clark. Viewpoint: both are presumably going to be short-lived.

Health construction. Many hospitals are in urgent need of repair, with "living with risk" every day, as delays to funding allocations have stalled vital upgrade projects, BBC (link). According to NHS trust leaders, structural safety concerns caused the critical care unit at one trust to be temporarily closed and planned operations were stopped. NHS Providers - which represent trusts in England - said one hospital is using temporary generators with no back-up. Another trust has installed props and steel beams in the maternity unit, making life very difficult for staff and mothers, according to hospital managers. The government said it was working closely with trusts on building plans.

Fortnight ahead

Construction & property: company and economic news

July

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	British Land Co (BLND)	AGM
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	Galliford Try Holdings (GFRD)	Trading update

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	ONS	House prices
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	HMRC	Housing transactions
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Sources: Companies, Factset, ShareCast.com, Progressive Equity Research

Prices are as at the previous day's close.

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