

# Progressive Property & Construction Daily



18 July 2022: OTMP, HICL, DLN | Rightmove raises 2022 house price forecast; Heavy material producers forecast falling demand | News - Tory leadership debate sees big builder-bashing and housing target-trashing | Fortnight ahead

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

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## Company news

### **OnTheMarket** (OTMP, 85p, £64m mkt cap)

Agent-backed residential property portal. Agreement signed with Foxtons, one of London's leading estate agencies, to advertise its UK residential sales and letting properties at OnTheMarket.com.

### **HICL Infrastructure** (HICL, 170p, £3,300m)

Listed infrastructure investment group with diversified portfolio of 117 investments in UK, Europe and N America. Acquisition. Contracts exchanged to acquire a 40% equity interest in Aotearoa Towers, a passive mobile tower infrastructure owner, from Vodafone New Zealand. Following completion, TowerCo will represent approximately 7% of HICL's portfolio and is expected to take HICL's portfolio weighting in digital communications infrastructure to c 9%. TowerCo owns 1,484 towers covering 98% of New Zealand's population. It will own and operate the passive tower infrastructure, with Vodafone NZ retaining responsibility for the 'active' telecommunications equipment mounted on the towers. TowerCo will benefit from a long-term, availability-based revenue contract with Vodafone NZ indexed to inflation. The initial term is 20 years with the option of two 10-year extensions. The agreement will grant Vodafone NZ access to the passive tower

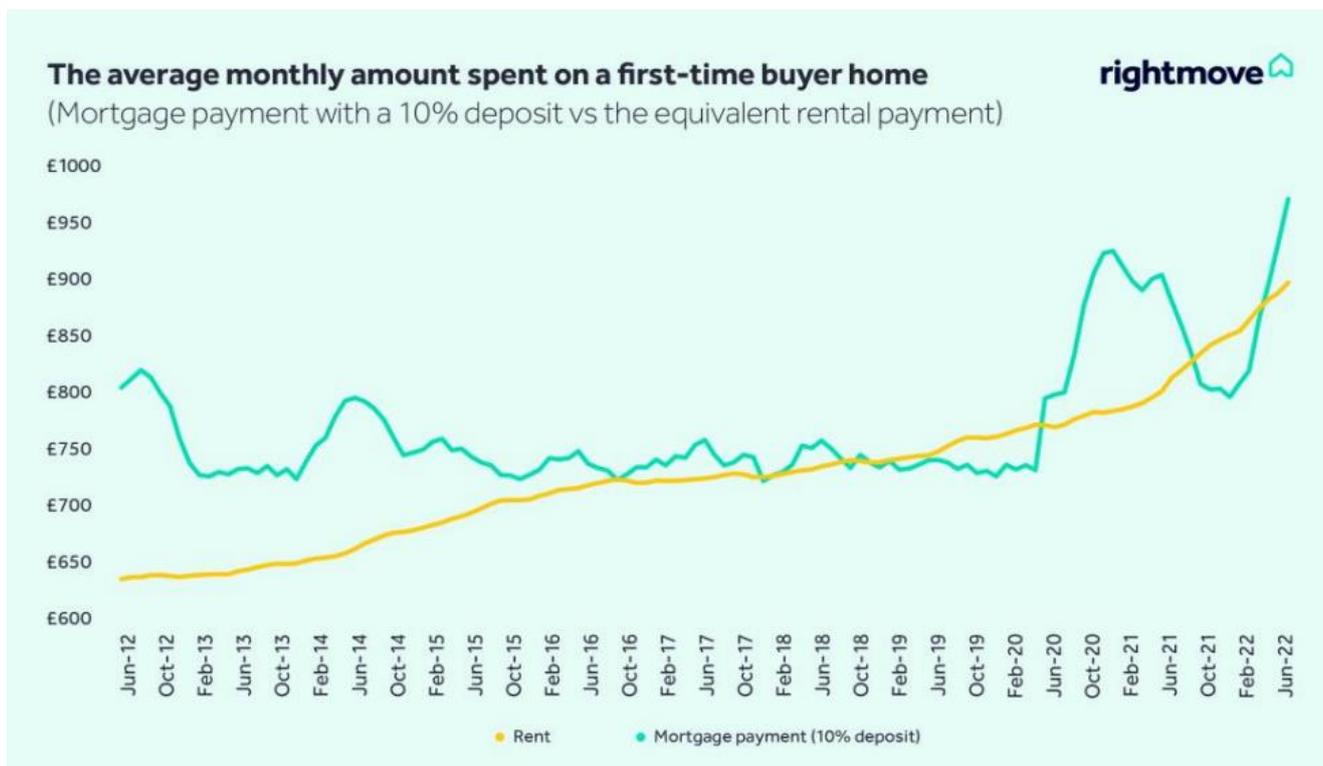
infrastructure in exchange for contractual, inflation-linked access charge payments that are unrelated to usage, and will account for 96% of TowerCo's day one revenues. The transaction is expected to be accretive to several of HICL's key portfolio metrics, particularly asset life due to the perpetual nature of the asset, and inflation correlation, which is materially in excess of HICL's portfolio average.

### **Derwent London** (DLN, 2,718p, £3,052m)

Real estate investment trust owning commercial portfolio predominantly in central London. Disposal. Contracts exchanged to sell Bush House, South West Wing WC2, a 103,700 sq ft freehold office building for £85m before costs, reflecting a premium to December 2021 book value. The building is being sold with vacant possession. This sale further reduces Derwent's low LTV ratio and provides additional funds to invest in its development pipeline. According to the company, "The sale of Bush House has de-risked the refurbishment and resulted in the early crystallisation of our development return. As the flight to quality continues, we are focused on delivering our larger net zero carbon schemes at 25 Baker Street W1 and Network Building W1".

## **Economic data**

**House prices.** Asking prices of properties coming to market hit the sixth consecutive record this month, rising 0.4% to £370k, up from +0.3% in June, according to Rightmove's House Price Index ([link](#)). The Y/Y rate of growth eased from 9.7% to 9.3%. The leading portal has raised its 2022 house price growth forecast from 5% to 7%, despite it reporting signs of a cooling market, as record low stock volumes struggle to recover enough to meet buyer demand, although it sees signs of this position improving. The number of new sellers coming to market is up by 13% compared to a year ago, although available stock is still 40% down on June 2019's levels. Demand to move appears to be coming off the boil but remains high despite economic and political uncertainty. Buyer demand is up 26% on June 2019's levels, although down 7% on last year's "frenzied" market. The result of record prices and rising interest rates is that new first-time buyers face mortgage payments 20% higher (+£163) than at the start of the year and has greatly outstripped the cost of renting (below).



**Construction materials.** Heavy building materials producers expect slowing sales in the months ahead as clients and householders reassess projects amid high cost inflation, according to the Construction Products Association’s State of Trade Survey ([link](#), [paywall](#)). Manufacturers reported an eighth consecutive quarter of sales growth in Q2, but expectations have been dampened for the year ahead. In Q2, 30% of heavy side manufacturers and 17% of light side manufacturers reported that product sales increased compared to 2022 Q1. Alongside this, all ‘heavy side’ firms and 94% of those on the ‘light side’ reported an annual rise in costs. This led to the first negative balance for expected sales since mid-lockdown in 2020. A net 30% of heavy side firms, whose products tend to feed into the earlier stages of construction, anticipate a decrease in sales in Q3 and one-third anticipate a fall in 12 months. As a result, 11% also envisage a decrease in their labour force in the year ahead. 17% of light side firms reported that construction products sales rose in Q2 compared with the previous quarter.

## In other news ...

**Politics.** Friday’s Channel 4 leadership debate offered a glimpse of the candidates’ differing views on housebuilding, according to Property Week ([link](#), [paywall](#)), mainly distancing themselves from the Government’s target to build 300,000 homes a year, attacked by the Foreign Secretary as “Stalinist” in a separate report by The Telegraph, and with a with some volume housebuilder-bashing thrown in. **Liz Truss** said she would prefer expanding existing villages and agreed that council targets in rural areas are not helpful: “I think the problem is that we’ve taken a one-size-fits-all approach to housing. We need different policies in different parts of the country; the situation in Cornwall is different to that in London. I’m a supporter of allowing incremental expansion of our villages rather than these massive targets that land on the back of local

councils”. **Penny Mordaunt** said housing targets for local councils don’t help housing delivery and that co-living accommodation would help young professionals to get on the housing ladder: “The thing that doesn’t help get houses built is targets. I know this from my own local constituency that has had targets and out of the last five years, not one house has been built apart from one year. **Kemi Badenoch** also cited the negative impact of housebuilding targets: “It scares people when we talk about building 300,000 homes because it sounds like all those homes are coming next door to them. We have not been good at delivering the infrastructure for housing before the homes are built – and it isn’t just physical infrastructure like roads and bypasses, it’s things like GPs and schools”. Badenoch also criticised the volume housebuilders: “We have lost quite a lot of small- to medium-sized builders, which means that many of those large corporations that deliver homes, build the sorts of homes that people don’t actually want to live in”. Widely viewed as the leading contender, **Rishi Sunak** said he would push for more brownfield building and reduce ‘land-banking’ by large developers: “Large developers can’t hog the land instead of it being released for housebuilding”. He pointed out that the UK’s cities have much lower housing density than other European cities highlighted the potential for modular buildings. **Tom Tugendhat** said he would change Solvency II regulations to free up capital for housebuilding.

**It ain’t half hot.** Some of the country’s largest contractors have begun issuing updated advice for those working on sites next week with the UK set to endure record-breaking temperatures in the coming days, Building ([link](#), paywall). Private contractors Laing O’Rourke, Mace and Wates have all issued fresh advice as record-breaking highs were due to hit on Monday [with 42C forecast for Cambridge tomorrow]. Laing O’Rourke said some of its actions will include making sure workers take regular breaks and staying hydrated. All sites provide water stations and it will provide sunscreen in the welfare areas for on site teams. “Wherever possible, we’ll prioritise those tasks that can be undertaken in cooler, shaded areas and as temperatures are monitored, we will assess if any work needs to be temporarily halted. The actions will vary depending on the nature of the site and our project leaders will focus on the safety of their teams, adapting work as necessary”.

## Fortnight ahead

### Construction & property: company and economic news

#### July

19	ONS	Employment stats
20	HICL Infrastructure (HICL)	AGM
	ONS	House prices
	ONS	Inflation stats
21	Howden Joinery Group (HWDN)	HY results
	VP (VP.)	AGM
	Brickability Group (BRCK)	FY results
	HMRC	Housing transactions

22	Homeserve (HSV)	AGM
26	OnTheMarket (OTMP)	AGM
27	Breedon Group (BREE)	HY results
28	Forterra (FORT)	HY results
	Foxtons (FOXT)	HY results
	Segro (SGRO)	HY results
	Nationwide	House prices
29	Rightmove (RMV)	HY results

Sources: Companies, Factset, ShareCast.com, Progressive Equity Research

*Prices are as at the previous day's close.*

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