Progressive Property & Construction Daily

13 September 2022: HWG, TPFG, HOME, CREI, GRI | Construction vacancies edge up again; 'shallow but prolonged dip' forecast for sector

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

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Company news

Harworth Group (HWG, 137p, £441m mkt cap)

Land regeneration group, including in former coalfields. HY (Jun) results. EPRA NDV +23%, 225p; op profit +31%, £99.9m (capital growth £84.5m; income generation £22.9m; central -£7.5m); div +10%, 0.4p; net debt, £67.8m (H1 21m £100.2m); net loan to portfolio value, 7.6% (13.4%). *Trading:* "We undertook a record level of direct development in our industrial & logistics portfolio, continued to accelerate our residential sales, and made several acquisitions to grow our development pipeline". *Outlook:* "Over the past six months, the near-term outlook for the UK economy has weakened considerably. We are beginning to see signs that both the residential and industrial & logistics markets are coming off record highs. Debt markets are tightening as interest rates rise, and supply chains and labour markets remain restricted. Investors still have a substantial amount of capital to deploy into the right product in the right sectors, and Harworth's products are in two of the most resilient real estate asset classes and, fundamentally, both sectors are still undersupplied. As a result of this market backdrop, valuation gains during 2022 will be first half-weighted. Harworth's strength comes from the long-term nature of our business and our ability to work through, and adapt to, changes in market cycles. Our substantial landbank gives us significant diversification and optionality".

The Property Franchise Group (TPFG, 285p, £91m)

Franchised lettings and estate agent group, enlarged through 2021 acquisition of Hunters, also operating hybrid web-based EweMove platform. HY (Jun) results. Rev +18%, £13.1m; adj op margin 41% (H1 21, 47%); PBT +9%, £3.8m; adj EPS -8%, 14.1p (reflecting 10% increase in shares due to Hunters acquisition); interim div +11%, 4.2p; net debt £2.6m (£5.4m). *Trading:* Sales agreed pipeline +15%, £33.8m. Rental properties managed +1.4%, 74,000. Eight franchisee acquisitions (five). EweMove sold 19 new territories (37), now totalling 178 territories. *Outlook:* "Post period end activity indicates the second half will perform at least as strongly as the first and ahead of H2 2021. As a result, the Board expects the full year results to be in-line with market expectations".

Home REIT (HOME, 117p, £922m)

Real estate investment trust funding the acquisition and creation of properties providing accommodation to the homeless. 158 properties acquired for £54.7m, adding a further 711 beds, bringing the portfolio total to 11,131 and further enhancing geographic diversification. The acquisitions were funded from the net proceeds raised via the oversubscribed £263m equity issue in May.

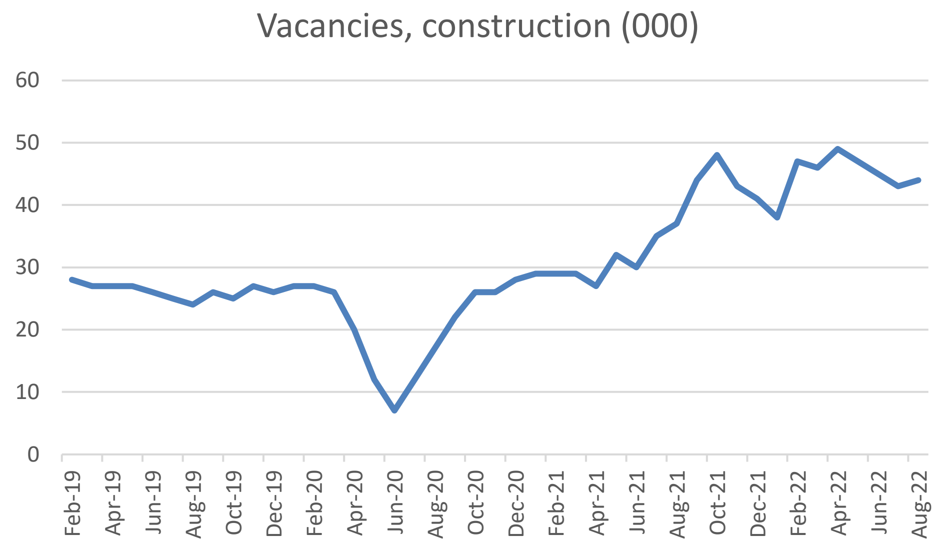
Custodian REIT (CREI, 102p, £449m)

UK commercial real estate investment trust. Acquisition of a 91,955 sq ft distribution facility between Glasgow and Edinburgh for £11.1m, reflecting a net initial yield1 of 5.25%.

Correction: In yesterday's Daily, the date of Grainger's interim results was wrongly given as 19 November. It should be 17 November.

Economic data

Employment. Vacancies in the construction sector edged up to 44,000 in the three months to August, from 43,000 in the three months to July, but were 10% lower than the peak of 49,000 in February – April 2022, according to the ONS (link). Overall UK vacancies slipped from 1.28 million in the three months to July to 1.27 million in the latest period. The sector data was released as part of today's employment data (link), which showed a decline in the unemployment rate from 3.8% in May to 3.6% in June – the lowest since January 1974. **Viewpoint:** Although construction vacancies have fallen from their April peak, the market is still incredibly tight, representing only 2.0% of total sector employment of 2.2 million, putting continuing pressure on wages.



Construction costs. The construction cycle has now reached its peak and faces a "shallow but prolonged dip rather than a blow-out" due to inflationary pressures, according to the autumn report from cost and project consultancy Arcadis (link). Whilst there is some evidence of price stability emerging, this is threatened by spiralling energy costs which, even with government support to keep prices at current levels, are likely to impact the costs of basic material production and their availability. This means the high inflation of the first half of 2022 is likely to remain "baked-in". The cost-of living crisis is also set to sustain upward pressure on labour costs which are likely to see catch-up pay demands in 2023 and beyond. The group's forecast for tender price inflation in 2022 has been increased from 8 - 10% to 10% for regional and London building and from 10 - 12% to 12% for infrastructure (see below). The forecast for 2023 has been unchanged, at 2 - 3% for building but raised from 4% to 5% for infrastructure. The rates, however, have been reduced for 2024 and 2025, but still indicating tender prices will still have risen by around a third between 2021 and 2026.

	Regional Building Construction TPI	London Building Construction TPI	National Infrastructure Construction TPI
2021	5% (5%)	6% (6%)	6% (6%)
2022	10%(8-10%)	10% (8-10%)	12% (10-12%)
2023	2-3% (2-3%)	2-3% (2-3%)	5% (4%)
2024	3% (4%)	3% (4%)	3% (5%)
2025	3% (5%)	3% (5%)	3% (5%)
2026	5% (5%)	5% (5%)	5% (5%)
Total	28-29% (29-32%)	29-30% (30-33%)	34% (35-37%)

Prices are as at the previous day's close.

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