Progressive Property & Construction Daily

14 September 2022: RDW, EPWN, MRL | Economics – Huge (statistical) jump in house prices - ONS; Rents rising but 'plateauing' - Zoopla

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

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Company news

Redrow (RDW, 476p, £1,648m mkt cap)

Top 10 UK housebuilder. FY (Jun) results. Home completions +2%, 5,715; rev +10%, £2,140m; u-lying PBT +31%, £410m; stat PBT -22%, £246m (£164m exceptional and £10m non-exceptional charge part of £200m provision for cladding remediation); u-lying EPS +30%, 96p; div +31%, 32p (final div +19%, 22p); TNAV, £1,949m (£1,872m); net cash, £288m (FY 21, £160m). *Trading:* Current land unchg, 29,600 plots; fwd land +9.9%, 37,800 plots; total 67,400 plots, compares with 60,100 at YE 19, pre-pandemic. *Outlook:* Order book +1%, £1.44bn. "Given rising inflation and higher interest rates it is not surprising the buoyant housing market has moderated recently and demand has returned to historically average levels. It is on this basis we have prepared our medium-term plan and we are confident our timely investment in land, combined with strong demand for our Heritage homes, will support our continued growth. As a result, the business is well placed to deliver another set of strong results".

Epwin Group (EPWN, 73p, £106m)

Low maintenance building products manufacturer. HY (Jun) results. Rev +13%, £178m; adj PBT +17%, £8.3m; PBT +20%, £7.9m; adj EPS +15%, 4.7p; interim div +8.6%, 1.9p; net debt, £7.3m (H1 21, £15.8m); net debt/EBITDA, 0.3x (0.6x). *Trading:* “Managing further input cost inflation and pressure on overheads. Continuing to work with customers to pass on heightened costs appropriately”. Acquisition of Poly-Pure, for up to £30m recently announced. *Outlook:* “The Board is confident in achieving a 2022 result in line with its expectations, notwithstanding the macroeconomic and geopolitical environment. Current trading is in-line with the Board's expectations, seeing good demand following some moderation in June and July against historically high comparatives. Medium and long-term drivers for the RMI market remain positive. The group continues to execute its strategy and has a healthy pipeline of further M&A opportunities”.

Marlowe (MRL, 680p, £652m)

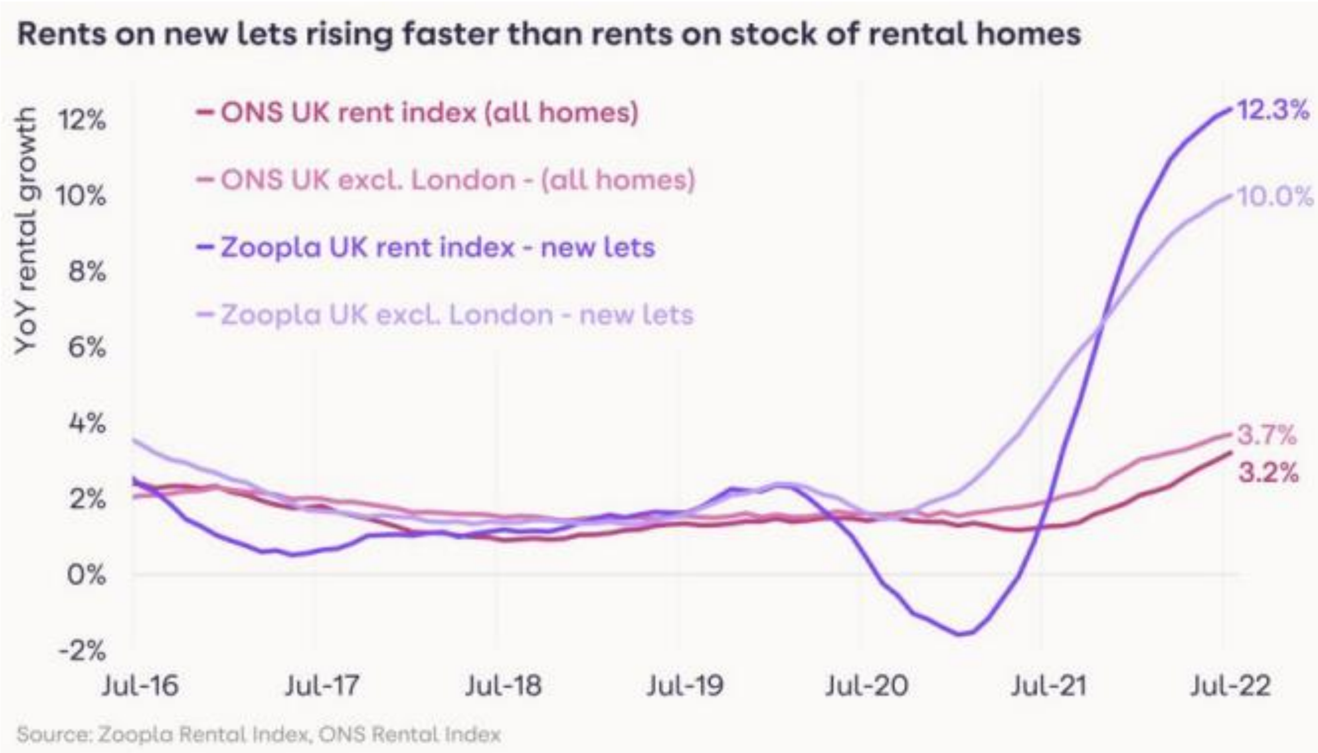
Safety and compliance provider to commercial properties. AGM. *Guidance:* “The run-rate revenues and adjusted EBITDA have grown to over £450m and £79m respectively. We remain confident of achieving our run-rate targets of £500m and £100m materially ahead of the end of FY 24, as originally targeted, as we continue to build our positions across the highly attractive and resilient compliance markets. The strong and increasing margins in our business, and its low capital intensity, makes our business highly cash generative and we continue to expect to generate at least 90% cash conversion per annum. This enables us to fund increasing organic investment in our business, as well as fund further bolt-on acquisitions”. *Trading, 4 months to end-July:* “Strong financial progress with trading in the period in line with expectations”. Rev +66% Y/Y; >85% of Group revenues recurring. High single digit organic revenue growth in the period, expected to continue for the rest of FY (Mar) 23, with “encouraging” new business wins across both Governance, Risk and Compliance and Testing, Inspection and Certification. “Limited cost inflation being successfully managed via contract pricing. Acquisition integration on track. Disciplined execution of well-developed M&A pipeline” with nine bolt-on acquisitions completed in FY2 3 year to date for total consideration of £39m. Software subscriptions now contribute approximately 25% of Group run-rate adjusted EBITDA.

Economic data

House prices. UK house prices jumped by a seemingly extraordinary 15.5% Y/Y in July, up from 7.8% in June 2022, according to the latest date from the ONS (link, being blocked currently on Chrome, according to ONS, but I managed to get it on my trusty BlackBerry). This is the highest annual inflation rate the UK has seen since May 2003, but mainly due to a base effect from the falls in prices seen this time last year, as a result of changes in the Stamp Duty holiday, according to the release. On a non-seasonally adjusted basis, average prices grew by 2.0% to £292k between June and July 2022, representing the ninth consecutive monthly increase. This compares with a decrease of 4.8% during the same period between June and July a year earlier. On a seasonally adjusted basis, average house prices in the UK increased by 1.2% between June and July 2022, following an increase of 0.9% in the previous month. **Viewpoint:** The big swing in the Y/Y rate is a bit of a red herring, prices are still going up and accelerating on a seasonally-adjusted basis. With the unemployment rate at a near 50-year low; today’s inflation rate of 9.9%, down on last month’s 10.1% and below consensus of 10.2%; and government intervention on energy costs –the oft-trotted noun ‘crash’ might retreat a bit from economists’ and journalists’ lexicons. (There was the usual regional data in the release – when you can get it – but this is even more likely to be distorted by the Stamp Duty effects.)

Annual house price rates of change for all dwellings, UK, January 2006 to July 2022

Residential rents. UK rental inflation on new lets in July jumped to +12.3% Y/Y, up from +11.0% in Q1 and +1.9% a year earlier, largely due to a "simply not sustainable" rate of growth in London following some seven years of decline, according to Zoopla's latest report (link). The portal's UK Rental Market Report shows UK rents excluding London rose by 10.0%, up from +9.1% Y/Y to Q1 and +1.9% a year earlier. For London, it was +17.8%, up from +15.7% in Q1 and an annual decline of 4.4% a year earlier – when lockdown exacerbated a long slide following rental tax rises and regulatory impositions on landlords. The rises are higher on new lets – which Zoopla tracks, than the overall market, recorded by ONS (see below). Rents on new lets for the whole UK were £1,015 pcm; ex-London, £872; London £1,818; Scotland, £671 (+10.0% Y/Y); Wales, £750 (+12.3%) and N Ireland, £659 (+10.6%). Rental growth in urban areas across England (+10.5%) is outpacing that of rural markets (8.5%) as strong employment growth drives demand in cities. Glasgow saw the fastest rise outside the capital among the cities Zoopla tracks, up 14.4% to £777. The rate of increase across the country has been driven by a shortage of homes to rent, down 46% vs the five-year average, but there are signs of this plateauing, according to the report. Zoopla also reports that tenants are responding to rising rents and cost-of-living pressures by shifting to smaller homes, primarily 2-bed flats. "We have seen a steady reduction in the proportion of renters looking for 2- and 3-bed houses and an increase in demand for 1- and 2-bed flats over 2021 and 2022. This trend has been accelerating in recent weeks". However, its data also indicates the affordability of renting is broadly in line with the long-run average. **Viewpoint:** While Zoopla concludes that the rate of rises in new lets will stabilise, it may well be that the rate for all homes will pick up. It wasn't so long ago that landlords would freeze rents at renewal time for well-behaved tenants to avoid voids and on the basis of "better the devil you know". Let's see how long that apparent altruism lasts when the next annual review comes along and they look at the rate on new lets …



Prices are as at the previous day's close.

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