Progressive Property & Construction Daily

4 October 2022: WJG, GPE | News – property investors react to economic jitters

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

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Company research

Watkin Jones (WJG, 152p, £390m mkt cap) *– WJG is a client of PERL*

Residential for rent developer and manager in the build-to-rent (BTR) and student accommodation sectors. FY (Sep) trading update. Guidance: "Investor demand for residential for rent assets has remained strong, with … the total of forward sales transacted in the year at £0.9bn, compared to £0.3bn at H1 2022. While in H1 2022 build cost inflation was mitigated by increasing asset values, the group has seen some pricing and margin softness on sales concluded in the second half, with purchasers facing increased funding costs. Two forward sales that were planned to close in September have been impacted by the recent market volatility, and these are now planned to transact in FY 2023. As a result, whilst H2 2022 performance was materially stronger than H1, the Board now expects FY 2022 underlying operating profit to be c. 10% below current market. The Group continues to benefit from a strong balance sheet with net cash as at 30 September 2022 of approximately £75m. Link to Progressive Equity Research note, Strong rental market offset by margin pressure.

> *"Residential-for-rent developer and manager Watkin Jones has confirmed in today's trading statement a strong operational performance in the second half of the year to September, with investor demand for rental assets remaining strong and good visibility going into FY2023E. However, the group said it had faced some pricing and margin softness as its institutional investors faced increased funding costs. We have reduced our estimates for FY2022E and 2023E, but remain confident in the longer-term prospects, driven by strong demand from tenants, which has driven up rental levels."*

Company news

Great Portland Estates (GPE, 447p, £1,134m)

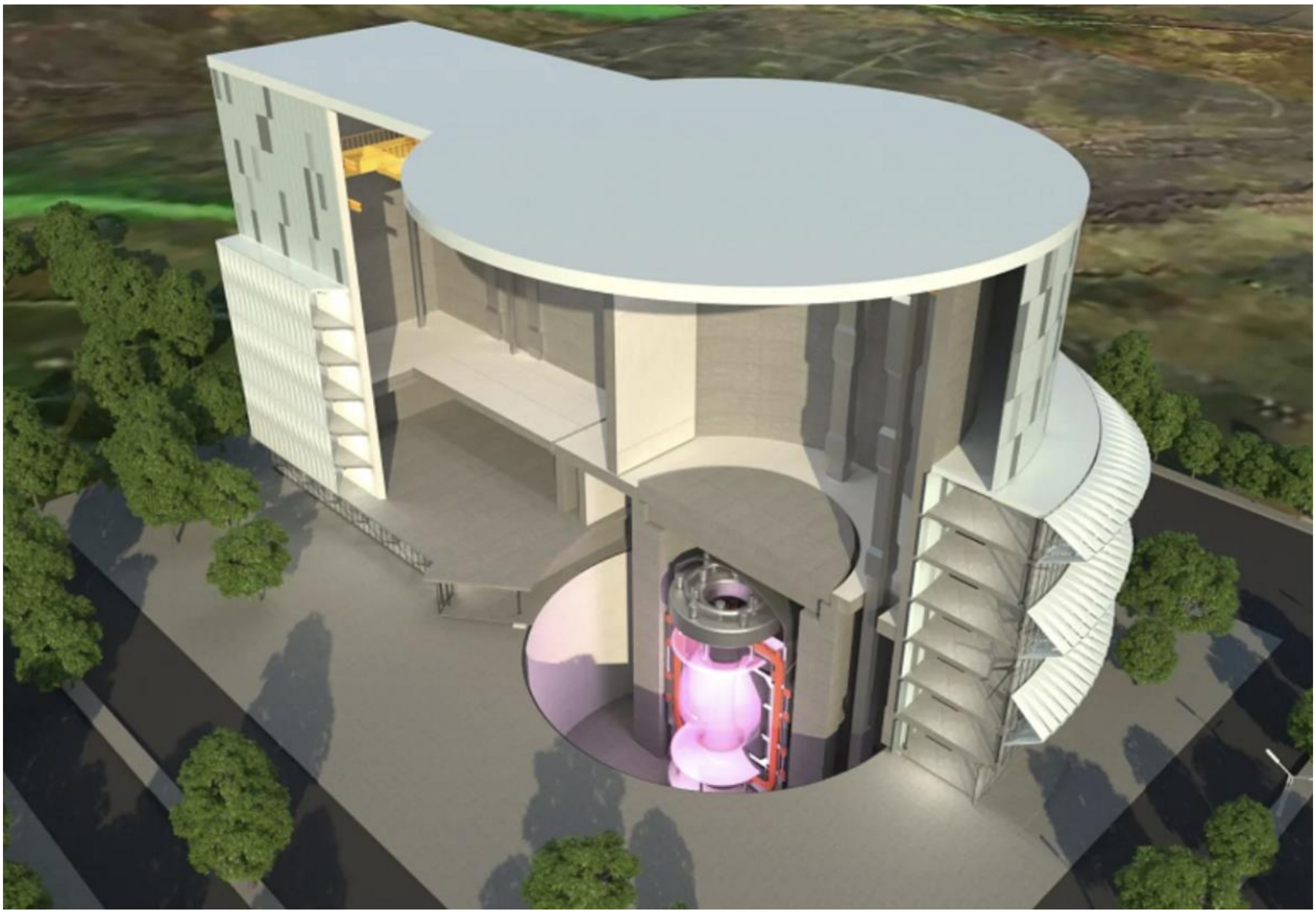
London office and retail property group. Sale of property. Contracts exchanged on the sale of the freehold of 50 Finsbury Square, EC2 to a wholly owned subsidiary of Wirtgen Invest Holding, a private German family office. The headline price of £190.0 million (subject to adjustment for final building area and retail leasing) reflects a topped up net initial yield of 3.85% and capital value of £1,471 per sq ft (£1,690 per sq ft on expiry of rent free periods) and "is broadly in line with the March 2022 book value after adjusting for estimated capex to complete". GPE will retain responsibility for delivering the development with completion of the sale expected in Q1 2023. Net proceeds will be initially used to pay down the group's RCF and will reduce the LTV from 22.2% to 16.8%. Originally a Fosters & Partners designed building, it is undergoing a comprehensive refurbishment with practical completion scheduled for Q4 2022. Sustainability and wellbeing have been at the heart of the refurbishment and, when complete, the building will be BREEAM 'Excellent' and GPE's first net zero carbon development. It will provide c.121,800 sq ft of offices and 7,400 sq ft of retail space. The entirety of the office space has been pre-let to telecommunications company Inmarsat Global and two of the retail units have been pre-let and the other remaining two units are under offer. Once fully let, the rent on completion will be c. £9.0m pa. **Viewpoint:** A counterpoint to the, at least temporary, rethinks by property funds referred to below. Recent evidence suggests demand remains for the highest quality office assets, which are sustainable, flexible and well designed.

In other news …

Property investment. The deVere Group, which advises on $12bn of property, has said that it will temporarily close its property investment division with immediate effect as inflation fears grow, Property Week (link, paywall). The group said it was "concerned about the availability of credit and, therefore, an imminent drop in property prices so we are temporarily suspending all property investment projects". Nigel Green, founder and chief executive of deVere, said: "The markets are already pricing in 5.8% by next March. But I would not be surprised if interest rates reach above 7% in the spring. Understandably, lenders are suspending mortgage offers and, in turn, we're now suspending our property investment division".

Three UK asset managers, Schroders, BlackRock and Columbus Threadneedle, have said they are unable to handle heavy demand from investors seeking to withdraw from property funds, in a sign of how the fall in government bond prices is forcing pension funds to reallocate holdings, FT.com (link, paywall). Schroders said it will make some redemptions originally due on Monday as late as July next year, while Columbia Threadneedle said volatile market conditions had forced it to switch from daily to monthly payouts. At the same time, BlackRock also imposed new restrictions on withdrawals.

Nuclear power. The government has picked the West Burton coal power station site as the site for the UK's prototype plant to generated electricity from nuclear fusion, ConstructionEnquirer.com (link). Fusion is seen by scientists as the 'Holy Grail' of energy production, since it produces no nuclear waste and does not depend on finite supplies of uranium. The STEP – Spherical Tokamak for Energy Production – project is expected to cost upwards of £2bn and could be operational by 2040. The UK Atomic Energy Authority will invite tenders in December for construction and engineering partner roles on the prototype fusion energy plant.



Prices are as at the previous day's close.

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