

Progressive Property & Construction Daily



31 October 2022: ESP | Economy – Mortgage approvals fall 10%, BoE; Demand slides since mini-budget but minimal risk of negative equity, Zoopla

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

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Company news

Empiric Student Property (ESP, 83p, £502m mkt cap)

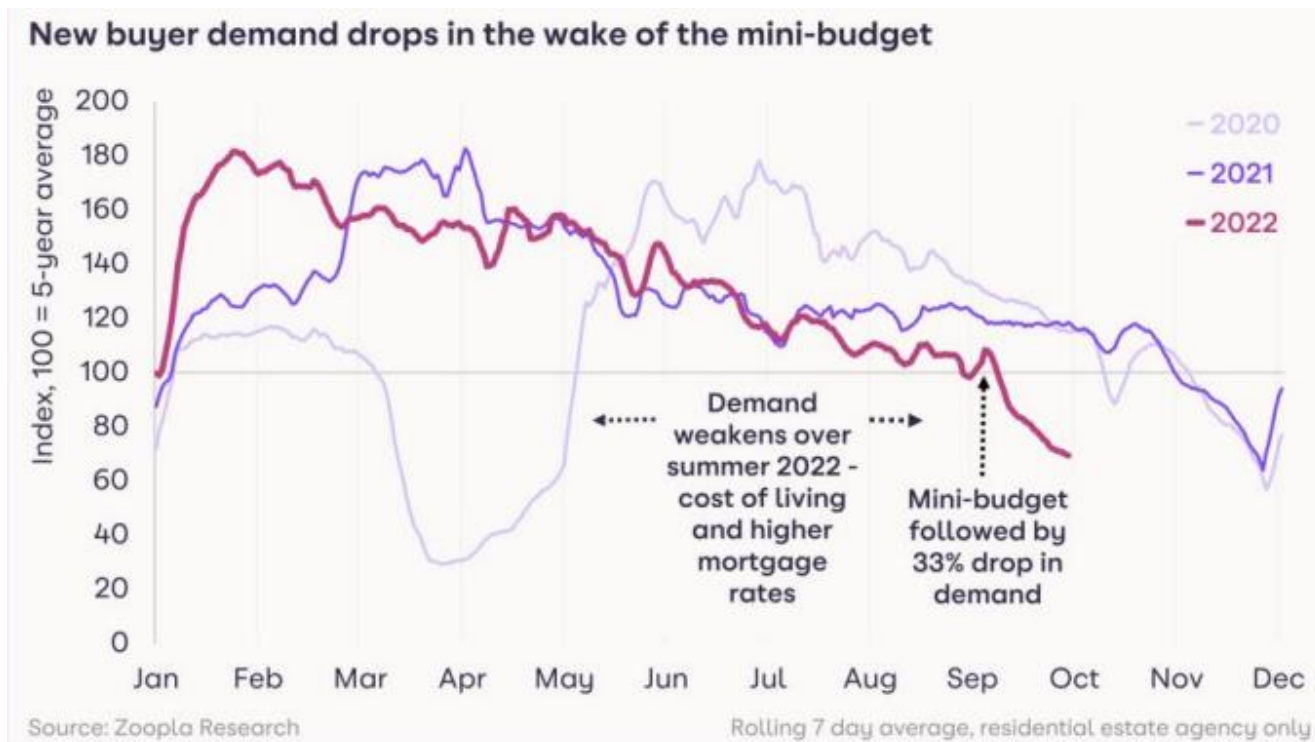
Fund owning and operating UK student accommodation. Trading update. *Guidance:* “Adjusted EPS for FY 22 is expected to be broadly in-line with consensus at 3.2p. For the academic year 2023/24 we expect revenue occupancy to remain strong. We target like for like weekly rental growth of at least 5%, offsetting the impact of inflationary pressure”. Energy costs will remain hedged throughout AY 23/24 and weighted average cost of debt to be in the range of 4.3 - 4.5%. The Board reconfirms its intention to pay a minimum 2.5p for FY (Dec) 22. “The company intends its dividend to be progressive, however given the significant recent change in macro-economic outlook, in particular the impact of inflation and rising interest rates, it is prudent to keep forward looking dividend targets under review at this time”. Further guidance will be provided during the first quarter of 2023. *Trading:* Record high revenue occupancy of 98% achieved for AY 22/23 (previous guidance, 90 - 95%; 21/22, 86%). LFL ave weekly rent, +5.2%. Contracts exchanged on 20 October for the disposal of a further non-core property generating £13.0m, which is above book value. 30 Sep LTV, 30%. *Outlook:* “We enter the 2022/23 academic year in a strong position, driven by the improvements we continue to make to our operational platform and portfolio. This is underpinned by resilient demand for high quality student accommodation. The higher education sector is known for its resilience and we expect UK universities to remain attractive to both domestic and international students. We are firmly focused on our premium

accommodation offering and believe our approach to high quality customer service delivered through our Hello Student brand places us in a strong position”.

Economic data

Mortgage lending. The number of mortgage approvals for house purchases fell by 10% to 66,800 in September from 74,400 in August but were above the past six-month average of 67,200 according to the Bank of England ([link](#)). The ‘effective’ interest rate on newly drawn mortgages increased by 29 basis points to 2.84% in September, the largest monthly increase since December 2021 when Bank Rate began rising. The rate on the outstanding stock of mortgages increased by 7 basis points, to 2.24%.

Housing market. Demand from potential new buyers has fallen by 33% since the ‘mini-budget’ but there are no signs of any impact on pricing expected in Q4, according to Zoopla’s October UK House Price Index ([link](#)). Average house prices increased by +0.4% M/M to £259,100 in October, +8.1% Y/Y and down from +8.2% in September. Despite the apparently large fall in demand, this appears to be an early example of a typical pre-Christmas slowdown, which normally occurs in late November (see below), according to Zoopla’s analysis. Sales are being agreed at slower rate, from cash buyers and those with cheap loans; there is a pipeline of nearly 293,000 sales in progress – on track for nearly 1.3 million sales in 2022, according to the property portal. Looking ahead to 2023, a sustained 6% mortgage rates would lead to double-digit price falls eroding ‘paper’ gains over pandemic; a more likely outcome is a fall in mortgage rates towards 4% and a ‘modest decline in house prices of up to 5%’ over 2023 with 1m sales. There is very little prospect of ‘negative equity’: almost half of buyers are using cash (30%) or small mortgages of under 50% (18%) to buy homes. Only 4% of home purchasers have LTVs greater than 90%. A fall in prices of 10% would result in only 401 mortgage borrowers falling into negative equity and only 13,707 if prices fell by 15%.



Prices are as at the previous day's close.

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