Progressive Property & Construction Daily

9 November 2022: TW., PURP, CSH, CREI , MGNS| Material producers downgrade sector forecast

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

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Company news

Taylor Wimpey (TW., 96p, £3,389m mkt cap)

UK number two housebuilder by volume. Trading update. *Guidance:* "In a challenging economic and political backdrop we are performing well and are on track to deliver full year [to Dec] operating profit in line with market expectations [£922m, u-lying]". Volumes to be broadly similar to FY 21. YE net cash, c. £800m. *Trading:* Net private sales rate -22%, 0.74 homes per outlet per week YTD (2021, 0.95); -44%, 0.51 for the second half to date (0.91), "While sales rates have been impacted by wider economic uncertainty, we continue to see good levels of customer interest in our homes and a desire to get onto or move up the housing ladder". Cancellation rate for H2 to date, 24% (14%); YTD, 18% (14%). Orders -7.1%, £2.6bn; -14%, 9,153 homes, of which 79% exchanged. Currently operating from 234 outlets, +7.8% Y/Y; short-term landbank -2.3%, c. 86,000; strategic land u/c, c. 145,000. "With a strong land position, we can continue to be highly selective in our land buying. We will continue to operate on a highly selective basis in the land market". *Outlook:* "Higher mortgage rates will contribute to the wider cost of living challenges affecting our customers. Despite the more challenging short term conditions, we remain confident in the long term sector fundamentals with a continued meaningful supply and demand imbalance in UK housing". **Viewpoint:** A more upbeat (or, rather, less downbeat) tone adopted in the statement than yesterday's by Persimmon. The conference call, however, seemed somewhat hazy in detail: volumes had definitely fallen, but there were signs that mortgage rates could fall a bit. No sign of prices falling yet and a semi-defiant stance from CEO Jennie Daly: "We'll be responsive to market changes, but we don't feel the need to lead the market [down]".

Purplebricks Group (PURP, 12p, £35m)

Hybrid on-line estate agent, supported by local property agents (LPAs). Requisition notice. The Board yesterday received a letter from Huntress (CI) Nominees, acting for and on behalf of Lecram Holdings, seeking to requisition a general meeting of the company. "The Board is in the process of reviewing the legal validity of the Requisition with its advisers and will make further announcements in due course". The Requisition proposes that shareholders be asked to consider resolutions to remove non-exec Chairman Paul Pindar as a director of the Company, and to appoint Harry Douglas Hill as a director of the Company. It suggests that Harry Hill, if appointed, is made Chairman by the other directors of the Company. "The Board reaffirms its support for Paul Pindar as a director of the Company and Chairman of the Board and believes that Paul has the continued support of a number of major shareholders. This includes Axel Springer SE, a 26.5% shareholder, which has confirmed it remains supportive of Paul and intends to vote against the proposed resolution for his removal as a director of the Company. The Board is firmly of the view that the Board changes proposed by the Requisition are not in the best interests of the company or its shareholders. Within the Company's FY22 results announcement, published on 2 August 2022, a clear plan was set out to improve business performance, return to positive cash flow and profitability, and build a scalable business model. The Board considers that Lecram Holdings's decision to lodge the Requisition is disruptive when the Company and its executive team are focused on delivery of this turnaround plan".

Civitas Social Housing (CSH, 61p, £371m)

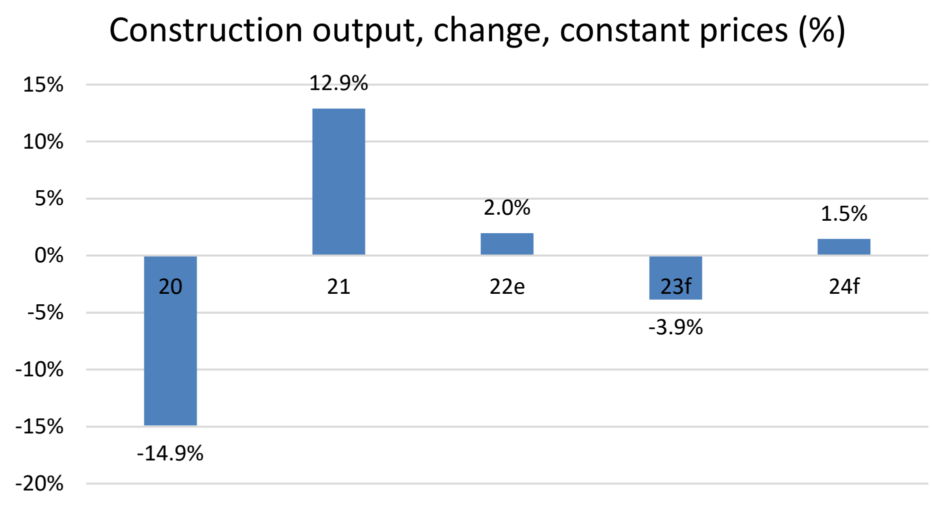
Care-based social housing REIT, providing homes for working age adults with long-term care needs. Net asset value and trading update. IFRS NAV, Sep, 112p, +2.6% from Jun; based on an ave net initial yield of 5.27% (Jun, 5.25%). Q2 div, 1.425p declared, in line with FY target of at least 5.70p (FY 22, 5.55p). *Trading:* Rental income continues to benefit from positive inflation linkage. Leases that have indexed in the quarter have been billed fully in accordance with their contractual terms including all CPI related uplifts. Positive progress has been made to hedge the Company's loan book against interest rate increases and a further announcement will be made at the time of the Company's interim results scheduled for early December. *Outlook:* "Demand for care-based community housing remains high and is projected to increase further still by independent bodies. The company is at the forefront of ensuring the sector maintains focus on quality, value for money and robust governance".

Custodian REIT (CREI, 88p, £388m)

UK commercial real estate investment trust. Q2 (Sep) update. 1.375p dividend per share approved for the Quarter, in line with a target dividend of no less than 5.5p for the current financial year, fully covered by EPRA earnings. Q2 EPRA EPS maintained at 1.4p. NAV per share, 114p, -7.0%; 5.4% LFL valuation decrease across the diversified portfolio of 165 assets, driven by current investor and market sentiment around the UK's economic outlook. Latest net gearing, 24.3%. *Outlook:* "Custodian REIT's prudent approach to investment and the management of its balance sheet has left the company well insulated from the negative impact of interest rate rises continuing in the short to medium-term. We also remain confident that our ongoing intensive asset management of the portfolio will maintain cash flow and support consistent returns. The current market volatility, particularly in relation to valuations, further strengthens our ongoing belief that earnings yield is the more reliable and important measure of value as income supports the greater part of total return".

Economic data

Construction output is projected to fall by 3.9% in 2023, according to the latest forecast by the Construction Products Association (link), a downwards revision from its previous estimate of -0.4%, with most of the downgrade focused on housing. *Highlights:* Private housing – After growth of 3.0% in 2022, output is now forecast to fall by 9.0% in 2023 before returning to 1.0% growth in 2024 "Activity was already expected to slow due to rising interest rates to 3% but the [mini-budget] worsened this forecast. The repercussions of this on mortgage rates will dampen potential demand and house prices for new homeowners". Private housing RMI - expected to decline by 4.0% in 2022 and 9.0% in 2023, before marginal growth of 1.0% in 2024. Commercial – forecast to remain flat in 2022 before a fall of 5.1% in 2023. "This comes as buoyant fit-out and refurbishment activity is offset by a hiatus in major new office and mixed-use tower projects, which dominate the sector". Infrastructure – after 5.2% growth in 2022, output is forecast to rise by 1.6% in 2023 and 2.6% in 2024. "The second largest construction sector, this should be the least affected by issues of household finances and rising interest rates, driven by larger projects already underway such as HS2, Hinkley Point C and Thames Tideway".



Source: Construction Products Association

In other news …

Urban regeneration. Muse, the urban regeneration wing of **Morgan Sindall** (MGNS) has been signed up for the key delivery role on the planned £3.2bn, mixed-use commercial and residential scheme near the HS2

Interchange station in the Midlands, ConstructionEnquirer.com (link, not RNS'd). The client is Arden Cross, a special-purpose delivery vehicle created by landowners Birmingham City Council, Packington Estate and Coleshill Estate to drive forward the 346-acre regeneration site located alongside the NEC campus, Birmingham Airport and Birmingham International station. Muse will bring forward the first phase of development as early as 2025.

Prices are as at the previous day's close.