Progressive Property & Construction Daily

11 January 2023: BDEV, WINK, PRSR, GFTU

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

Company news

Barratt Developments (BDEV, 424p, £4,220m)

UK's biggest housebuilder by volume. HY (Dec) trading update. *Guidance:* "Assuming net reservation rates increase in line with normal spring trading patterns to around 0.50 homes per active outlet per week, we will remain on track to deliver consensus total home completions of 17,475. However, should the usual seasonal improvement not occur and trading remain at recent levels, the group would expect to deliver total home completions for FY23 in the range of 16,000 to16,500". *Trading:* Private sales rate per site per week in H1, 0.44 (H1 22, 0.79). This rate declined as the quarter progressed, reflecting affordability constraints, exacerbated by the 23 Sep mini-budget: 1 July - 29 Aug, 0.60 (prior year, 0.89, -27%); to 9 Oct, 0.48 (0.90, -47%); to 31 Dec, 0.30 (0.69, -57%). 77% forward sold for FY23 (89%). "Very selective" in land purchases; "we continue to anticipate that land approvals will be substantially below replacement level in FY 23". HY results, 8 February. *Board change:* Caroline Silver appointed as a Non-Executive Director and non-exec Chair designate with effect from 1 June; she will succeed John Allan on 6 September 2023". **Viewpoint:** The wide-ranging conference call provided many useful insights into the business and the drivers of the wider market (playback to be available on investor section of group's website). The key factor in the sharp decline in the sales rate was a collapse in first time buyers (mainly due to availability of mortgage products, possibly now improving, rather than rising rates); however, with that source of buyers largely out of the picture for now, there were suggestions that the low overall sales rate would improve – whether that will be as far as the top of the indicative range remains to be seen. ("We can get there if we get consumers across the line. We're getting the footfall" was the view from

CEO David Thomas, citing underlying demand but a more uncertain sales process, mainly for existing owners.) There has been little change in headline prices since the slowdown, although the level of incentives has risen from a long-term norm of 2 - 3% to 4 - 5%, with it likely to trend up further to c. 6% (emphasising part-exchange); if pressure goes beyond that level, it is likely to be reflected in reductions in headline prices rather than greater incentive levels. Build cost inflation continues to moderate. No real pressure to bulk sell at big discounts since they and other housebuilders are cash-rich. The slowdown in land buying is classic housebuilder 'play book' at times of uncertainty – it leaves them ready to deploy their even greater cash balances when clarity re-emerges.

M Winkworth (WINK, 158p, £20m) *– PERL provides research services to Shore Capital on this stock*

Franchised estate and lettings agency, focused on London and SE. FY (Dec) trading update. *Guidance:* "FY 22 PBT is expected to be modestly ahead of the current market forecast of £2.3m and net cash at year end stood at c.£5m (FY21, £5m)". *Trading:* "Transaction levels in the country markets were firm, with some signs of sellers downsizing in part due to the higher costs of holding larger properties as a result of higher energy costs. This trend may result in larger country houses coming to the market, as a result of which lower transaction volumes may in part be offset by higher value transactions. Both London and country rentals have continued to be strong, albeit with price growth slowing as affordability ceilings are reached and, in the short term at least, accidental landlords increase available stock. Prime London lettings, where the directors believe that there is still headroom for higher prices, remains the most active part of the rental market for Winkworth". Two offices opened in 2022, in Bristol and Devon; in negotiations to open up to a further six offices this year. *Outlook:* "While the challenges facing the sales market in 2023 have been widely voiced and it will be hard to match the strength of the conditions witnessed in 2022, we are very pleased with our sales results for last year and are less downbeat than the consensus on the outlook for prices in the current one. Lettings market activity abated towards the end of 2022, but we expect it to be strong again in 2023". FY results, on or around 19 April.

The PRS REIT (PRSR, 83p, £458m)

Real estate investment trust investing in private rental sector (PRS) family homes. Q2 (Dec) trading update. *Trading:* Cumulative homes completed, +9.3% Y/Y, 4,913; estimated rental value +17%, £50.7m; LFL Y/Y rental growth, 5.7%. I "Rental demand for the ompany's homes remains extremely strong. Affordability remains strong, with average rent as a proportion of household income at c.25%, which is significantly ahead of Home England's 35% target.

Grafton Group (GFTU, 838p, £1,869m)

UK, Irish, Dutch builders' merchant and products group. FY (Dec) trading update. *Guidance:* "Adjusted operating profit before property profit is expected to be slightly ahead of top end of analysts' forecasts" [£262 - 268m; consensus, c. £265m]. Trading: FY rev +9.1% (UK Distribution cont. operations, +2.0%); 1 Nov – 31 Dec, +2.6% (UK -0.5% LFL). UK – "Sharp increases in energy costs and inflation contributed to a fall in disposable incomes and consumer confidence and led to a decline in discretionary spending in the housing RMI market which accounts for a high proportion of Selco's revenue. The rate of decline in average daily like-for-like revenue in Selco moderated to 2.1% in November and December from 6.1% in the four months to the end of October. Building materials price inflation eased and the decline in volumes moderated".

Prices are as at the previous day's close.