Progressive Property & Construction Daily

29 March 2023: MBH, GFRD | Economic data - Rental growth faces affordability pressure, Zoopla; loans bounce back, BoE | News – Gove turns cladding scrutiny to manufacturer

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

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Company news

Michelmersh Brick Holdings (MBH, 91p, £87m mkt cap)

UK's fourth largest brick manufacturer by volume; Belgian operation acquired in February 2019. FY (Dec) results. Rev +15%, £68.4m; gross margin, 39.4% (FY 21, 40.7%); adj PBT +15%, £12.5m, "ahead of market expectations"; stat PBT +18%, £11.4m; adj EPS +14%, 10.6p; div +16%, 4.25p; net cash, £10.6m (£7.7m). *Trading:* "Management of production efficiency and cost base has maintained EBITDA margins in line with 2021. Strong, consistent operational cash generation supported capital investment focused on incremental output improvements". Earnings accretive acquisition of FabSpeed, a leading brick-fabricator and manufacturer of off-site pre-built brick products completed in November 2022 for an initial £6.25m consideration. *Outlook:* Hedged at over 90% for 2023 with further energy contracts into 2024 and 2025. "We enter 2023 with a high-quality forward order book, deliberately covering a breadth of end market channels from RMI, housing to commercial, social and specification projects, now further expanded by FabSpeed. Despite the ongoing challenging market conditions, we remain well placed at the premium end of the brick market in the UK and Benelux markets. The strength of our balance sheet provides us with financial resilience and also flexibility to pursue further acquisition opportunities as we target attractive opportunities that complement our existing portfolio. We remain focused on mitigating [inflation] risks through maintaining appropriate portfolio pricing and we introduced our standard timetabled price increase at the start of January 2023. Given

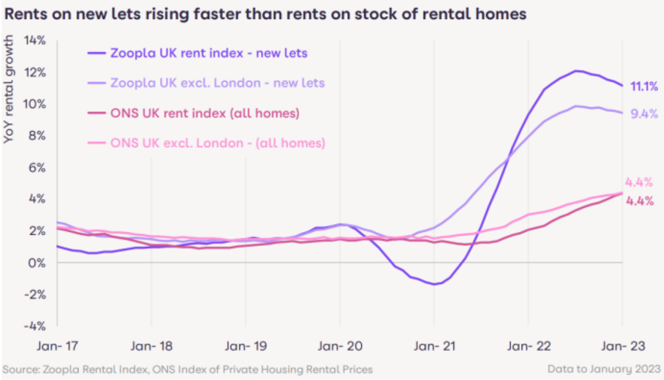
FabSpeed's historically lower profit margins, the group will see some EBITDA margin dilution over the short term. With elevated inflation and higher interest rates potentially impacting demand for our products, we believe the quality fundamentals in our business will provide resilience and we are well placed to continue our strategic progress through 2023 and beyond".

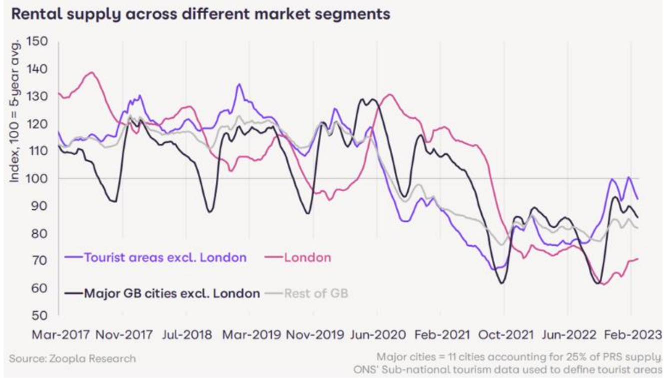
Galliford Try Holdings (GFRD, 172p, £186m)

UK construction and infrastructure services group. Contract. The Building business has been appointed by Related Argent and Invesco Real Estate, the global real estate investment manager, acting on behalf of a US separate account client, to a £75m contract to deliver a new build-to-rent (BTR) residential building at Brent Cross Town, north London. This is part of the 180-acre Brent Cross Town regeneration scheme, being delivered in partnership by Barnet Council and Related Argent, which will provide 249 new homes for private rent across three new blocks. The private rental and wider residential sectors "are part of Galliford's Sustainable Growth Strategy, particularly when we have the opportunity to work with respected repeat clients like Related Argent and Invesco Real Estate" [see below].

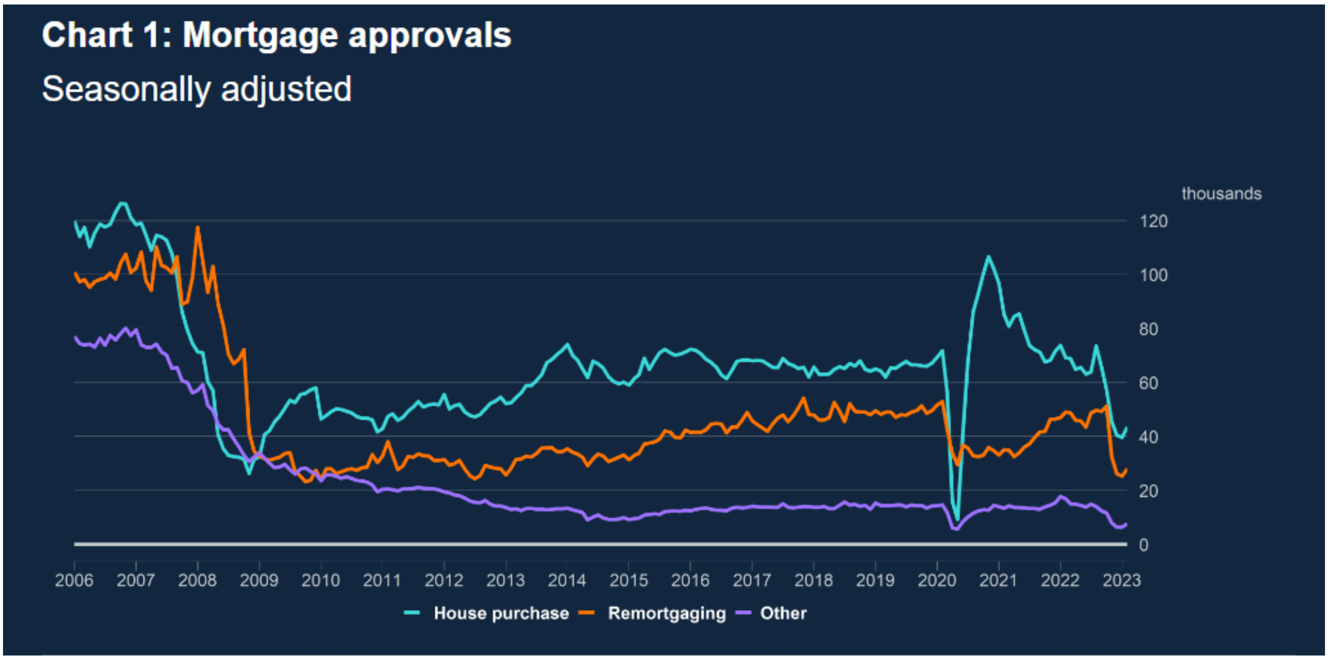
Economic data

Residential lettings market. Rental inflation has slowed to 11.1% Y/Y from a high of 12.3% in mid-2022, and will fall to 4-5% by the year end as affordability constraints compete with the ongoing imbalance between demand and supply, according to the latest UK Rental Market Report from Zoopla (link). Average monthly rents across the UK rose to £1,119 (London +15.2%, £1,978; non-London, +9.4%, £923). Demand from tenants (including from still surging numbers of overseas students) is now 51% higher than the five-year average but supply of rented homes has only increased by 1%, according to Zoopla. Affordability, in terms of average rents expressed as a proportion of earnings are now at or close to ten-year highs in all regions (29%) except London (49.8%) and will start to impact the pace of rental growth over 2023. There is evidence of landlords 'over-shooting' in their rent setting, which would result in a sharp-slowdown in growth rates, particularly inner London. This was recently most evident in new lettings, relative to continuing rentals, but the growth rates are now beginning to narrow (see below, left). Higher mortgage rates have further weakened the economics of investing for landlords, impacting new investment in rental; 11% of homes listed for sale on Zoopla in early 2023 were formerly rented, a reduction from over 13% last year but levels remains above average. Rental supply has declined the least in non-London tourist areas and major cities excluding the capital (below, right). **Viewpoint:** As ever, some fascinating insight, now particularly relevant, given the BBC's 'Rental Health' series, to which Zoopla has been contributing. The simple message is: there need to be more rental homes built,particularly in London.





Mortgage lending. Net mortgage approvals for house purchases increased by 9.8% to 43,500 in February, seasonally adjusted, from 39,600 in January, the first monthly increase since August 2022, according to the Bank of England's Money and Credit statistics (link). Approvals for remortgaging, which only capture remortgaging with a different lender) also rose to 28,100 in February from 25,400 in January. The 'effective' interest rate – the actual interest rate paid – on newly drawn mortgages increased by 36 basis points, to 4.24% in February.



In other news …

Cladding. Housing secretary Michael Gove has written to the chairman of insulation firm Kingspan to invite him in for talks about paying for remediation works where Kooltherm K15 insulation was used, ConstructionEnquirer.com (link). The move marks the next step in forcing developers and the supply chain firms to contribute towards tackling the building safety crisis in high-rise flats. In a strongly worded letter to chairman Gene Murtagh, Gove writes: “I have long argued that those who manufactured flammable products and sold them have a moral and financial imperative to recognise their role in the proliferation of unsafe buildings. The testimony at the Grenfell Tower inquiry uncovered shameful practices and an abhorrent culture of disregard for the safety of residents in their homes. I was appalled by the evidence heard by the enquiry about the reckless and deceptive behaviours within your company”. His letter appears to have been prompted by a report in the Observer suggesting that Kingspan was willing to pay where its products were inappropriately used on buildings.

Prices are as at the previous day’s close. Net debt pre-IFRS16 (excluding leases) unless otherwise stated.