Progressive Property & Construction Daily

10 July 2023: UTG, PRSR, OTMP, BYG

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

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Company news

Unite Group (UTG, 847p, £3,410m mkt cap)

Owner, manager and developer of UK student accommodation. Q2 (Jun) trading update and fund valuations. *Guidance:* "Sales have continued to progress strongly for the 2023-24 academic year with 98% of rooms now sold (2022-23, 91%). Demand remains strong from both university partners and students booking accommodation on a direct-let basis. Nominations agreements cover 56% of total beds for 2023-24 (52%), as universities increasingly rely on partners to meet their accommodation needs. This is supportive of full occupancy and rental value growth of around 7% (previously 6-7%) for the 2023-24 academic year (99% and 3.5%)". *Trading:* The group is committed to four development schemes with a total development cost of £339m and blended yield on cost of 6.7% for the student accommodation elements. The £179 million remaining costs to complete these projects will be funded through the Group's cash and committed debt headroom of £393 million at 30 June. During the quarter, USAF completed a new £400m secured loan, refinancing its £380m bond which matured in June 2023. The 7-year loan has a fixed rate of 5.4% and is consistent with our previous guidance for a 3.6% overall cost of debt in 2023 on a see-though basis. *Fund valuations:* At 30 June 2023, UK Student Accommodation Fund's property portfolio was independently valued at £2,923m, a 1.2% LFL increase, driven by quarterly rental growth of 2.2% and a 5 basis point increase in property yields. London Student Accommodation Joint Ventures +1.1%, £1,940m, driven by quarterly rental growth of 2.0% and a 4 basis point increase in property yields. The USAF and LSAV portfolios are now valued at weighted average yields of 5.1% and 4.3% respectively. *Outlook:* "We expect the valuations of our wholly owned portfolio for 30 June 2023 to be broadly consistent with the USAF and LSAV valuation movements over the first half of the year. The supply of purpose-built student accommodation cannot keep pace with growing student demand at the same time as houses of multiple occupancy (HMO) landlords are leaving the sector. Unite is uniquely positioned to address this housing need through our best-in-class operating platform, university relationships development and asset management capabilities".

The PRS REIT (PRSR, 81p, £444m)

Real estate investment trust investing in private rental sector (PRS) family homes. Trading update and debt refinancing. *Guidance:* The portfolio of completed rental homes continues to perform well, in line with management expectations". *Trading:* Occupancy, 97%, and at 98% including applicants who had passed referencing and paid rental deposits; rent collection, 100% for the 11 months ended 31 May; LFL rental growth for the 12 months ended 31 May 2023 averaged 6.5%, an increase on rental growth of 5.7% over the 12 months ended 31 March 2023. Affordability remains strong, with average rent as a proportion of household income at c.25%m within Home England's 35% target. *Refinancing:* £102m facility of fixed-rate debt secured for 15 years, together with a further £75m of floating-rate debt agreed for two years, providing the company with the flexibility to refinance this element over that period. An interest rate cap will be put in place on the floating rate debt to hedge against downside risk on further interest rate movements. The investment manager will immediately deploy £115m of the total debt; the balance of £62m is expected to be drawn down to fund sites completing and stabilising before calendar year 2024. Q4 trading update, late July.

OnTheMarket (OTMP, 55p, £44m)

Agent-backed residential property portal. FY (Jan) results. Rev +14%, £34.4m; adj op profit +59%, £4.3m; stat PBT, £0.2m (FY 22, -£1.2m); adj EPS +38%, 7.2p; div, 0p (0p); net cash +35%, £11.3m. *Trading:* ave rev per advertiser +12%, £210; ave advertisers -2%, 13,086; web traffic -14%, "reflecting an abnormally buoyant property market in the first half of the previous year and a strategic focus on serious property seekers". Software impairment charge, £1.5m. *Outlook:* "The group has seen a positive start to FY 24 with current trading in the year-to-date in line with the Board's expectations. However, the macro-economic picture remains uncertain … contributing to a slowdown in housing market activity through Q2 and an expectation of tougher trading conditions in second half of the year, which may have an impact on the group. Cancellations of agent contracts have been higher than expected; to negate this we continue to diversify our revenue streams with the ongoing rollout of additional products and services. The sales market is particularly challenging, with lower levels of new buyer activity. In uncertain times, some active buyers may decide to 'wait and see'. This impacts levels of new sales agreed, reducing the value of the agents' under-offer sales pipelines. The volatility in the mortgage markets in particular is having a negative effect on transaction numbers. Transactions, rather than average house prices, are the key metric for estate agents. Whilst it is too early to make any forecasts, there will undoubtedly be significantly fewer transactions this year than in the previous two years. The lettings market is seeing a continuing but levelling decline in new rental instructions, pushing up average rents. Competition is fierce for lettings properties, but fewer new tenancies also negatively impacts agents, with a significant proportion of their monthly income resulting from new lets and the management of their clients' portfolios. Despite these headwinds, the Board believes that there is still growth potential for OnTheMarket this year and continues to expect growth in revenue and profitability in FY 24. The Board therefore retains its confidence in the medium and long term growth of the Group. February 2023 saw the end of the lock-in period for the thousands of agents who signed new listing agreements at IPO in 2018. Whilst some agents cancelled their membership at this point, the majority have continued to support the portal".

Big Yellow Group (BYG, 1,019p, £1,878m)

Self-storage REIT. Q1 (Jun) trading update. *Guidance:* "We have had a solid start to the year with a return to occupancy growth this quarter, broadly in line with last year. We are continuing to manage yield, offsetting the adverse impact of inflation on our cost base, with average rents growing by 9% over the quarter. In addition, our prospect numbers are back at pre-Covid levels, and encouragingly we are achieving higher conversion rates to move-in, which is perhaps indicative of a higher proportion of needs-driven serious enquiries. *Trading:* Rev +6.7% Y/Y, £48.1m (+5.4% LFL); occupancy, 81.9% (Q1 22, 86.5%); LFL occupancy, 85.2% (86.7%); ave achieved rent +9.2%, £32.74. *Outlook:* "We continue to have confidence in our business model and its resilience in this higher interest rate environment. Our freehold portfolio is 75% weighted to London and the South East, with the balance in large regional conurbations, which provides a predictable, resilient income stream across a wide customer base. In addition to growing our earnings from the existing platform, we will continue to invest in external growth through developing new stores and selectively acquiring existing centres".

Prices are as at the previous day's close. Where quoted, net debt is pre-IFRS16 (excluding leases) unless otherwise stated.

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