Progressive Property & Construction Daily

13 July 2023: BDEV, CTO, HLCL | Economic data – Housing market turning down again, RICS; Infrastructure the bright light in new construction, ONS | News – Planning consents plunge over last decade; Housebuilders learning to love Labour

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

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Company news

Barratt Developments (BDEV, 418p, £4,074m mkt cap)

UK's biggest housebuilder by volume. FY (Jun) trading update. *Guidance:* "FY 23 adjusted PBT is anticipated to be in line with current market expectations [£881m] (FY 22, £1,055m), stated before total adjusted items of c. £180m (FY22: £412.5m) relating to building safety". Net cash, c. £1,070m (£1,139m), after "strong working capital discipline", the completion of the £200m share buyback and reduced land spend of c. £820m (£1,036m); land creditors, £511m (£734m). "The Board intends to declare an ordinary dividend based on FY 23 dividend cover of 2.0 times adjusted earnings per share and will continue to review the group's capital allocation policy in light of market conditions". *Trading:* Completions -3.9%, 17,206; prices +6.6%, c. £320k (private +8.0%, £368k; affordable +4.8%, £167k). "We experienced a significant deterioration in demand during Q2 and, whilst the position improved during Q3, reservations then slowed more than normal seasonal trends from mid-May to the end of June 2023". Private reservation rate for FY 23 -32%, 0.55 (FY 22, 0.81) per site per week, including a contribution of 0.10 (0.03) from private rental sector, principally to Citra Living, and additional reservations of private units to registered providers of social housing – representing a 42% decline in the underlying sales rate. Fwd orders, -34%, 8,995 homes; prices, -8.7%; fall in prices reflects increased incentives, lower proportion from London and increased PRS (750 units, from 604 in FY 22) offset by greater proportion of larger homes outside London. Following the end of Help to Buy and increases in mortgage interest rates, first time buyer reservations in the year reduced by 49% compared to FY 22, and accounted for more than half the decline in total reservation rate. “Demand amongst existing homeowners was more resilient”. *Outlook:* Total FY 24 home completions in range 13,250 - 14,250 [-17% - -23%]. “We recognise that there are significant macro-economic headwinds, most notably persistent inflation and a higher interest rate environment. The Board is monitoring changes in both the housing and land markets as well as the wider economy, but believes that our operating performance, forward order book and very strong financial position provide us with resilience and flexibility to adjust to changes in the operating environment in FY 24, and as the market evolves thereafter”. FY results, 6 September.

TClarke (CTO, 131p, £58m)

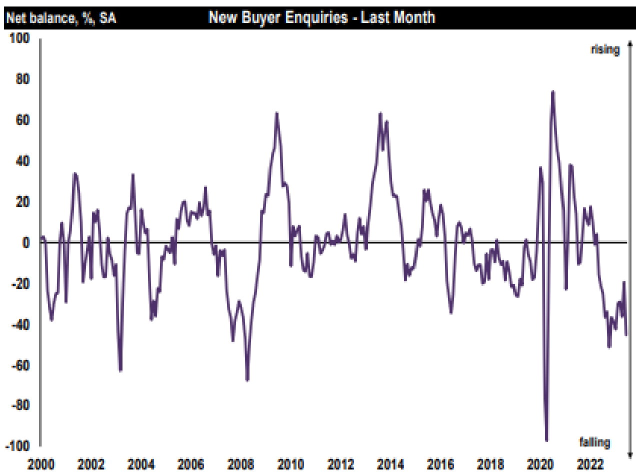
Specialist electrical and building services contractor. HY (Jun) results. Rev +0.5%, £207m; PBT -13%; EPS -15%, 8.7p; interim div +10%, 1.38p; net cash, £4.5m (H1 23, £4.5m); fwd orders +33%, £781m. “We have seen sustained growth in our London market providing engineering solutions to some of the capital's most iconic buildings whilst also successfully pursuing our strategy of targeting large projects in the regional businesses. Our technology offering, specifically in UK Data Centres where TClarke is now delivering six, has seen solid growth of £2.6m to £64.8m cementing this as our largest operational sector, with the expectation for further rapid growth in the second half. There remain many opportunities for growth in this sector and we expect data centres to continue to contribute significant revenues in the medium term”. *Outlook:* “The Board expects to achieve the three-year strategic target of growing from £300m to £500m turnover and is confident that revenue growth will continue throughout 2024 and 2025”.

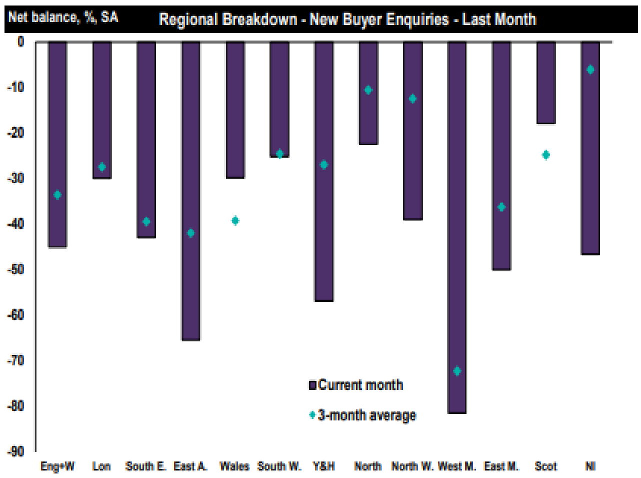
Helical (HLCL, 268p, £331m)

Commercial real estate investor, focused on London and Manchester offices. AGM. *Outlook:* “Since the start of the financial year we have made good progress with our development pipeline, which totals almost 800,000 sq ft, of ‘best-in-class’ office space to be delivered into an undersupplied market over the course of the next five to six years. With planning permission now formally granted at 100 New Bridge Street, EC4, we are on track to take vacant possession of the building in Q4 and commence a comprehensive refurbishment to create a carbon friendly building due to complete in Q2, 2025. Our JV with Transport for London has also seen progress with contracts signed earlier this week. On the letting front, we have one further floor under offer at The JJ Mack Building, EC1 and good interest in the remaining space”.

Economic data

Housing market. New buyer enquiries and agreed sales fell sharply in June, following the latest interest rate hikes, according to the RICS UK Residential Market Survey (link). New buyer enquiries dropped to a net balance (% of surveyors reporting rise minus % recording fall) slipped to -45% in June from -20% in May, an eight month low. Every region of the UK recorded a M/M decline. For newly agreed sales, the balance fell to -34%, from -8% the previous month. Looking ahead, near-term sales expectations deteriorated to post a net balance of -36% in June, a four-month low, from -9% previously. On a twelve-month view, a net balance of -31% of survey participants foresee sales declining. This brings to an end a three-month run of largely stable sales expectations for the year ahead, and “adds further evidence of the negative impact of rising interest rate expectations on market sentiment”. On prices, the balance fell to -46% in June, from -30% a month earlier. Having turned slightly less negative in both April and May, the latest feedback on house prices “signals downward impetus is gaining traction once more”. However, the actual quantum of expected price fall is a modest 2%, albeit worse than the recent trend which projected a decline of less than -1%. In the lettings market, a headline net balance of +40% of respondents saw an increase in tenant demand during June. At the same time, the net balance for landlord instructions sunk to -36% (the most negative reading for this metric since May 2020). With rising demand still being met with weakening supply, a net balance of +53% of contributors anticipate rental prices being driven higher over the near-term.





Construction output fell by 0.2% in volume terms seasonally-adjusted between April and May, the third consecutive monthly decline, and solely as a result of falling new work in the latest month, according to the ONS (link). New work was -0.3% (inc Private Housing, -1.7%, and Commercial -1.8%); RMI, no change. On a non-SA, Y/Y basis, the decline in New Private Housing output worsened to -14.0% in May, compared with -8.2% Y/Y for the three months to May. Meanwhile, Infrastructure was the strongest sector, up 19.5% Y/Y in May, up from +7.2% in the three months to May, Y/Y.

In other news …

Planning decisions fall by two-thirds in under 10 years, Property Week (link, paywall). Official figures published by the Department for Levelling Up, Housing and Communities (DLUHC) show the number of planning decisions made by councils has dropped by two thirds in less than 10 years. In the latest update of the live tables on planning application statistics, DLUHC revealed that the number of major planning applications that councils had made decisions on within the 13-week time period they were required to fell from 57% in 2013-14 to 19% in 2022-23. The data also revealed the number of new developments that had been delayed in the past five years exceeded 500,000.

Politics. Chief executive of many housebuilders have given up on the Conservatives and looking increasingly favourably to a "much more pro-business and pro-development" Labour Party. My latest monthly column for Property Week (link):

> *"What would Tony Pidgley have thought? The late founder of Berkeley Group, I was told at the time by a friend of his, sold a load of shares in 2015 just ahead of that year's general election – at least partly because he feared then Labour leader Ed Milliband was poised to enter No 10. Last month, his successor Rob Perrins was singing Labour's praises while excoriating housing secretary Michael Gove and all his works. He's not the only leader of a major housebuilder who has shown a new-found enthusiasm for Labour."*

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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