Progressive Property & Construction Daily

13 September 2023: RDW, MRL, UTG | Economy – Construction output dips in rain-drenched July; Mortgage rates continuing to fall … but arrears reach seven-year high

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

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Company news

Redrow (RDW, 473p, £1,565m mkt cap)

Top 10 UK housebuilder. FY (Jun) results. Completions -5%, 5,436; rev unch, £2.13bn; op margin, 18.8% (FY22, 19.3%); u-lying PBT -4%, £395m; stat PBT +61%, £395m; u-lying EPS -5%, 91.2p; div -6.2%, 30p; net cash, £235m (£288m) after £100m share buyback; NAV, 613p (554p). *Trading:* Private completions -12%, 3,948; Affordable +19%, 1,488); Private prices +8%, £462k; Affordable +5%, £173k. Two smaller divisional offices, Thames Valley and Southern, closed; outlets unaffected and now managed by other local divisions. Air source heat pumps and ground floor underfloor heating as standard in detached homes on new developments. FY23 private sales rate, 0.46 per site per week (0.68). First ten weeks of trading for FY 0.34 (0.61). *Outlook:* FY24 guidance – rev £1.65 - 1.7bn; PBT, £180 - 200m; EPS, c. 41p; DPS c. 14p. "There are signs of economic stability, particularly with mortgage rates, following a sharp and painful period of adjustment for the country. Following the volatility of the last financial year, as we go into 2024 the market remains challenging and uncertain. However, we believe we are well positioned to respond to the market as it develops".

Marlowe (MRL, 602p, £581m)

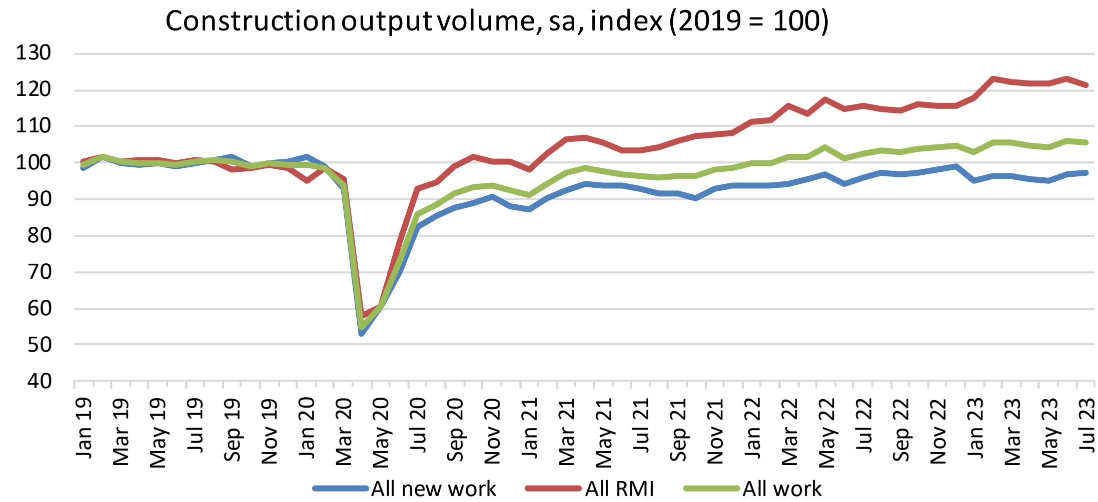
Safety and compliance provider to commercial properties. AGM. "The group has started the year well with trading in line with expectations as it continues to deliver strong strategic progress, with high single digit organic revenue growth in the period. We occupy resilient compliance service & software markets which demonstrate attractive structural growth. Since the start of the financial year, Marlowe has completed five acquisitions for a total enterprise value of £35m, including the recent acquisition of IMSM, a key step in the group's strategy to broaden its GRC capabilities into the highly complementary ISO certification market. We expect to continue to deliver strong performance with high single digit organic growth across FY24."

Unite Group (UTG, 924p, £4,026m)

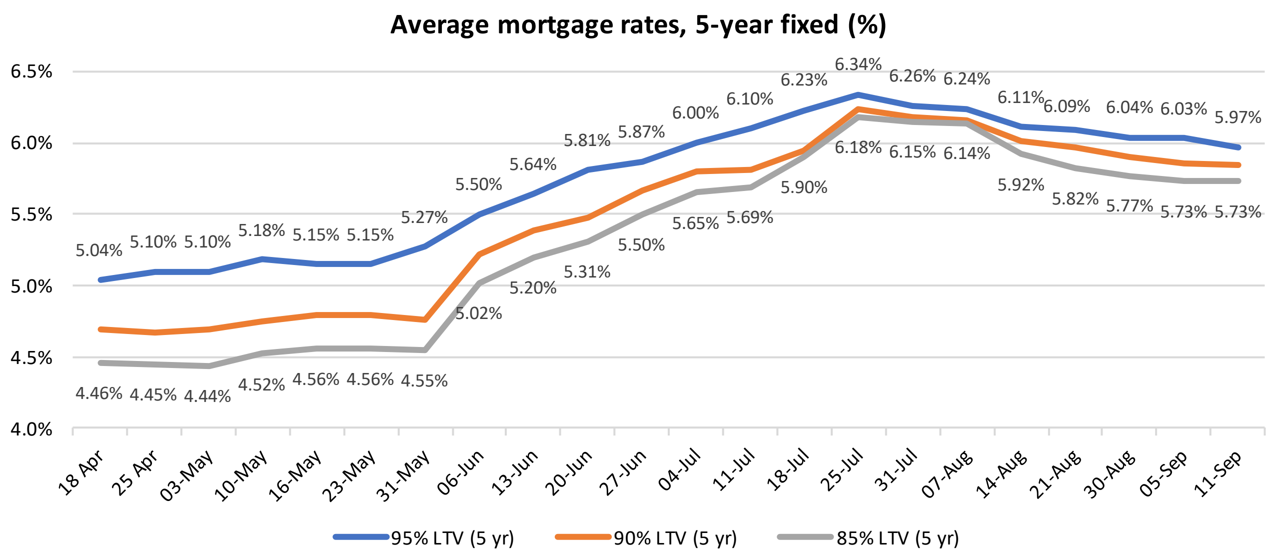
Owner, manager and developer of UK student accommodation. Development update. The group has entered an option agreement to acquire a new 800-bed development scheme in central Glasgow, subject to planning. The new development will help address the acute shortage of student accommodation in Glasgow, which is home to three institutions within the UK's top 75 universities, and increases Unite's portfolio in the city to 3,000 beds. The group expects to deliver the scheme as a university partnership with at least half of the beds to be let on a multi-year nominations agreement to a leading university. The scheme has a total development cost of £95m and is expected to deliver a yield on cost of around 7.5%. Planning approval is targeted during H1 2024, enabling delivery for the 2026/27 academic year. Additionally, Morriss House in Nottingham reached practical completion in August and is fully let for the 2023/24 academic year. Following the £300m equity issue, work has started on-site at the Temple Quarter development in Bristol. The planning process for Meridian Square in Stratford is also progressing in line with expectations with approval targeted in Q4 2023.

Economic data

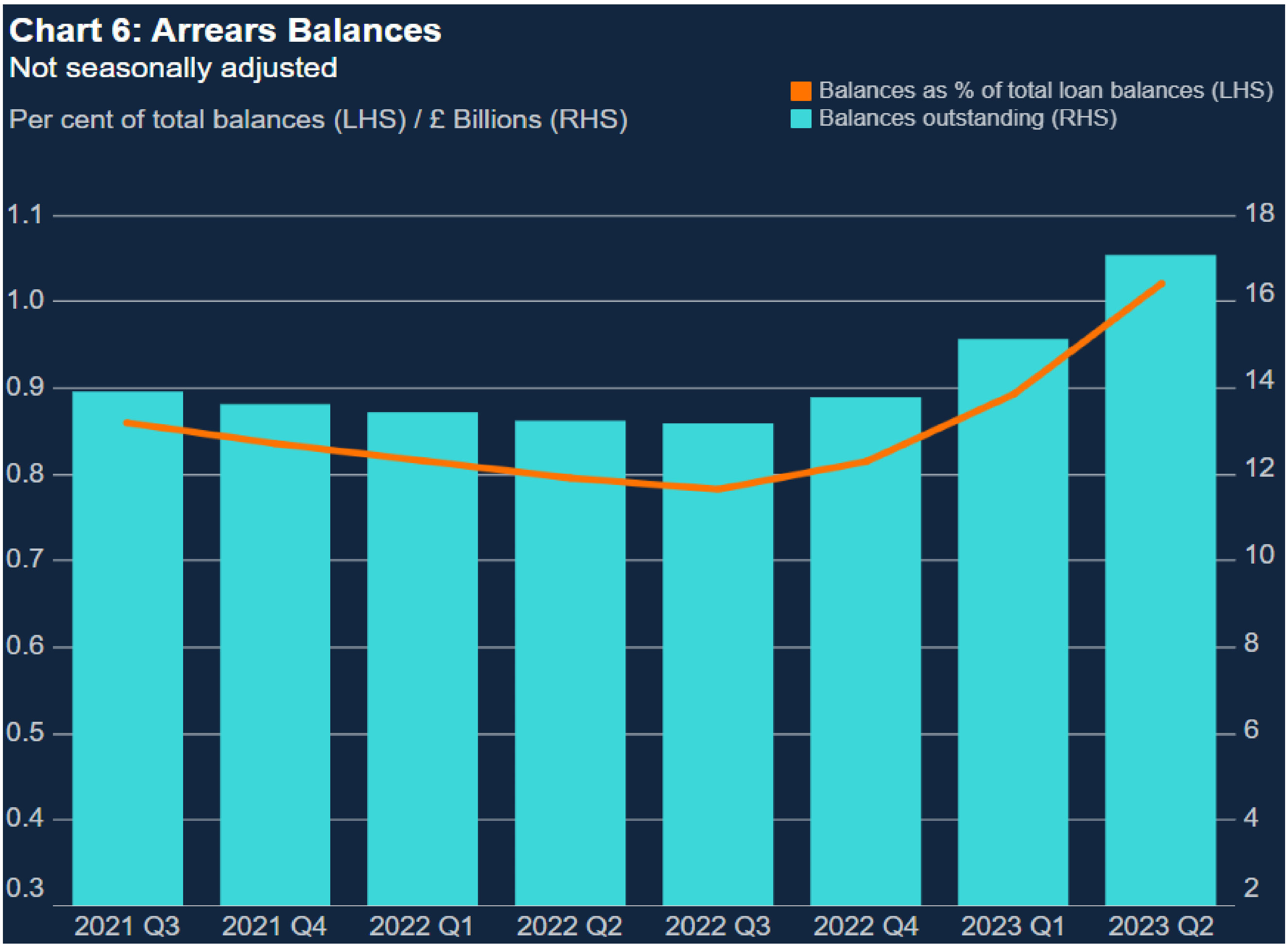
Construction output volumes fell by 0.5% M/M, seasonally adjusted in July 2023, partly impacted by poor weather, following the 1.6% increase in June, according to the ONS. The decrease in monthly output came solely from a 1.3% decrease in repair and maintenance, with new work increasing 0.1% on the month. At the sector level, five out of the nine sectors saw a fall in July 2023, with the main contributors to the monthly decrease being private housing repair and maintenance, and private housing new work, which decreased 3.9% and 2.2%, respectively. According to the ONS commentary, "anecdotal evidence suggested the effect of heavy rainfall and lower-than-average temperatures in July leading to delays in planned work; additional evidence indicated a continued slowdown in the housing sector". On a rolling three-month basis, output was flat in May - July 2023; this came from a 0.3% increase in new work, offset by a 0.4% decrease in repair and maintenance.



Mortgage rates. Average rates for five-year fixed rate mortgages continued to soften for the seventh consecutive week, according to the latest Weekly Tracker from Rightmove, with the most notable declines now coming from the highest 95% LTV products – after lower LTVs had started declining the most. Rightmove is optimistic for further reductions: ""There's a widely held view that the Base Rate is now nearing its peak which led to a fall in swap rates falling towards the end of last week, and this could mean we see lenders make more significant mortgage rate cuts in the next few weeks. Swap rates have also responded reasonably positively to yesterday's unemployment figures and pay growth data. All eyes will now look to the upcoming inflation figures, which are likely to have an impact on the next Bank of England Base Rate decision. As long as the news is in line with market expectations, it's possible that rate reductions will start to gather pace, and we could see sub-5% rates return to the market for the first time since the end of June".



Mortgage arrears. The value of outstanding mortgage balances in arrears increased by 13% M/M and 29% Y/Y in Q2, according to the latest Mortgage Lenders and Administrators Statistics, from the Bank of England. The arrears data, defined as the borrower failing to make contractual payments equivalent to at least 1.5% of the outstanding mortgage balance or where the property is in possession, reached £16.9bn in Q2, the highest seen since 2016. The proportion of total loan balances with arrears increased on the quarter from 0.89% to 1.02%, the highest since 2018 Q1. New arrears cases equated to 16.0% of the total outstanding balances with arrears in 2023 Q2, which was little changed compared to the previous quarter.



In other news …

Construction outlook. Building sector consultants expect trading conditions to improve or stabilise in the coming months, according to the latest annual survey [Building](#) (paywall). Building's annual Top 150 Consultants survey findings, published on Friday, will show that 81% of firm expect trading conditions to improve or remain stable over the next 12 months, compared to 65% the previous year.

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