Progressive Property & Construction Daily

27 September 2023: LSL, SFE, LAND, FPO | Economy – First time buyer numbers decline more slowly than wider market, Scotland most affordable region, Halifax

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

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Company news

LSL Property Services (LSL, 260p, £270m mkt cap)

Estate, lettings and property/financial services agent. HY (Jun) results. Rev +34%, £72.5m; adj PBT -74%, £2.8m; stat PBT -20%, £7.1m; adj EPS -75%, 2.7p; interim div unch, 4.0p; net cash, £36.3m (HY 22, £30.7m). *Trading:* Financial Services – rev -30%, £28.0m; op profit -38%, £3.8m; "traded resiliently in difficult market conditions and more heavily weighted than usual to product transfers". Surveying & Valuation rev -30%, £35.5m; op profit -74%, £3.4m; "impacted by significant reductions in valuation instructions across the market". Estate Agency rev -55%, £9.0m; op profit, £0.6m (-£0.4m); "performance reflects the market-wide reduction of 18% in house sales and the conversion of the 183 owned branches to franchisees which was announced on 4 May 2023". *Outlook:* "Since our trading update on 7 August, trading has stabilised and the recent decision to hold base rates unchanged is expected to provide further stability and the steadying of market sentiment. The Board currently expects underlying operating profit for FY 23 to be in line with its expectations as revised at the time of the trading update. Our Estate Agency franchise business is performing well and is expected to contribute a profit in the second half, which represents an improvement under current market conditions when compared to our expectations for the previous, predominantly wholly-owned model. Operating margins following the strategic change have been above 25%, with the transformation and cost programme ahead of schedule. Although market conditions remain challenging, our strong balance sheet gives the ability to invest for future growth. LSL remains very well-positioned to benefit when market conditions improve, and the Board remains confident of our profitability over the business cycle".

Safestyle UK (SFE, 4.4p, £6m)

UK manufacturer, recycler and distributor of window, door and roofline PVC products. HY (Jun) results. Rev -5.3%, £74.1m ; u-lying loss before taxation, £6.0m (HY 22, -£1.4m); stat LBT, £6.7m (-£2.8m); EPS, -3.9p (-1.5p); interim div, 0p (0.4p); net cash, £1.0m (£13.0m). Most of the decline in H1 trading was highlighted by the trading update on 27 July, which led to a 43% fall in the share price on the delay and the FY outlook was further downgraded on 19 September, which led to a 47% decline. *Outlook:* "The UK economy and consumer confidence remains extremely difficult. Independent indicators of market health, such as online search activity, showing that the current market is performing at c.24% below July and August 2022. Pleasingly, our order intake has not fallen this far, being down c.11% YoY which shows our product offering is withstanding wider market pressures better than others. We continue to attempt to stimulate demand through a combination of our online activity, the deployment of our upgraded website, discount management and our commitment to a leading consumer finance portfolio. The group continues to engage with its stakeholders to discuss ways to strengthen the balance sheet in order to support its recovery and help facilitate future growth and a further update will be provided in due course. Looking further ahead, the Board maintains that growth recovery prospects are strong and data of an ageing housing stock in need of repair underpins this. There remains a compelling opportunity for the business to capitalise on a market recovery and achieve its medium-term targets".

Land Securities Group (LAND, 605p, £4,508m)

Leading UK commercial property investment, development and management group. Operational update. *Trading:* "Since the end of March, customer demand for Landsec's best-in-class office space in London has remained strong. As a result, over the first five months of the financial year, occupancy in the Central London portfolio increased by 100bps to 96.9%, with £17m of lettings signed or in solicitors' hands, on average 3% ahead of ERV. In Victoria, which makes up nearly half of Landsec's Central London business, the existing office portfolio is now 100% let. In addition, its recently completed development at n2 is now 80% let with the remaining 20% in solicitors' hands [from 66% and 6% respectively in May] whilst Lucent is 62% let with a further 14% in solicitors' hands (19% and 53% in May). Reflecting the strong demand, rents across both schemes are more than 10% ahead of initial assumptions. With rents continuing to grow and its entire office estate in Victoria 100% full, Landsec has now committed to the start of Thirty High (formerly Portland House), which is expected to complete in the summer of 2025. The total development cost for this major refurbishment is estimated to be c. £400m, with a gross yield on cost of c. 7.5% and a gross yield on the c. £240m capex investment of over 12%. *Outlook:* "Over the past year, we have been decisive in positioning the business for a higher for longer interest rate environment. Our disposal of £2.2bn of mature, mostly single-let offices, predominantly in the City, before the start of this financial year has proven very timely. As such, we have flexibility to respond to the opportunities that will start to arise from the adjustment to a higher rate reality, as it remains clear that customer demand for the most sustainable, high-quality space in the best locations remains resilient".

First Property Group (FPO, 17p, £19m)

Property fund manager and investor with operations in the UK and Central Europe. AGM. Since the financial year-end on 31 March, the group has achieved leasing progress at Blue Tower, its directly-held office property in Warsaw, and at Maestro Business Centre, an office building in Cluj, Romania, in which the Group is a 21% shareholder. It has also acquired the minority share interest in E and S Estates, which owns a supermarket in Praga (a suburb of Warsaw), resulting in the Company now owning 100% of the shares in E and S. Total funds under management as at 31 August 2023, including properties owned directly by the Group, amounted to £436m (31 March, £454m). Third party funds under management at 31 August amounted to £383m (£400m), of which some 60% was invested in the United Kingdom. The reduction since the financial year end is explained by the sale of one property in a UK fund valued at £5.4m, reductions in property values of £8.0m = and a weakening of the Euro of £3.6m. Group cash as at 31 August, £6.6m (£7.6m). The reduction was mainly due to capital expenditure incurred at Blue Tower, Warsaw, in respect of upgrades to the heating and cooling system, tenant fit-out's associated with new leases, and the cost of buying out the minority shareholders in E and S. *Outlook:* "The group remains vigilant to market opportunities, in particular with respect to its new activity as a lender".

Economic data

The number of first-time buyers fell by 22% Y/Y between January and August 2023, according to the latest Halifax First-Time Buyer Review but the average price they paid was down only 2% to £288,030 – down just 2%. First-time buyers still accounted for over half, 53%, of all home loans agreed in the first eight months of this year, a similar proportion as during the same period in 2022, 52%, as activity in the wider housing market slowed, according to the UK's biggest mortgage lender. First-time buyer deposits have fallen 12%, although still averaging £54,116 – 19% of the average price. The South East had the biggest volume decline, -25%, although the proportion of first-time buyers was still much higher in the region, 16%, than 10 years ago. London and East Anglia had the second biggest decline in first-time buyers entering the property market so far this year (-24%). London was the only region to see a decline, -9%, in the number of people entering the property market for the first time, compared to 2013. Scotland is the UK's most affordable place for first-time buyers to get on the property ladder, at almost £100,000 less than the UK average. The least affordable area in the country is Newham, London, where first-time buyers face an average property price of £448,435 – nearly 11 times average annual earnings in the area.

In other news …

Housebuilding. Barratt to demolish more homes with faulty foundations, ConstructionEnquirer.com. Barratt has submitted plans to demolish 83 new homes on an estate in Cambridge built with faulty foundations. Problems were found earlier this year with new homes under construction at the Darwin Green site where Barratt David Wilson Homes Cambridgeshire is building a new community of nearly 1,600 homes. The faults were originally thought to affect 36 new homes on the site. According to Barratt, "Unfortunately the most effective course of action at this stage is to demolish the properties and rebuild them. We have apologised to the customers affected and understand their frustrations, but we are doing all that we can to lessen the impact of this for them".

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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