Progressive Property & Construction Daily

22 January 2024: BRCK, WHR | Economic data – Construction firms head financial distress watchlist | News – Government mulls 99% mortgages, report

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

Company news

Brickability Group (BRCK, 56p, £168m mkt cap)

Construction materials distributor. Acquisition. Topek Southern Limited acquired for a consideration of up to £48m through the acquisition of the entire issued share capital, business and operations of TSL Assets Limited. Hampshire-based TSL delivers façade systems, fire remediation, roofing, and curtain wall solutions for both live and occupied sites and acts as a principal contractor for commercial and industrial projects across the UK. Its specialist portfolio includes hotels, student accommodation, office buildings and sports stadiums. TSL's operations in the South of England expand Brickabity's existing reach via the recent acquisition of Group Topek Holdings Limited and further complement its presence in the cladding remediation market, creating a full cladding installation and remediation contracting business with a national presence. The consideration comprises: an initial cash payment of £17.3m, subject to final working capital adjustments to acquire the business on a cash-free, debt-free basis; a further £10.0m through the issue of 17.1 million new ordinary shares at an effective issue price of 58.5p; up to £20.7m of deferred contingent consideration payable against target performance criteria over the next three years. The consideration shares represent approximately 5.7% of the existing share capital. In the 12 months to 31 August, TSL generated audited revenue of £38.7m and PBT of £8.1m. It is expected that the Acquisition will be earnings accretive in the first full year. The acquisition marks another step in the continuing diversification of Brickability since IPO in 2019, since when it has acquired 14 businesses.

Warehouse REIT (WHR, 82p, £349m)

Specialist warehouse investor. Q3 (Dec) leasing update. During the period, the company completed 0.9m sq ft of leasing activity, securing £5.2m of contracted rent, on average 22.1% ahead of previous contracted rent, comprising: 15 new lettings, 33% ahead of previous contracted rent, 8.4% ahead of March ERV; 16 renewals (38.2% and 9.8% ahead); 6 rent reviews (13.7%, 1.4%). Total leasing activity Q 1 – 3, 1.4 million sq ft, on average 27% ahead of previous contracted rent. "This pace of activity demonstrates that the market for affordable, well-located, multi-let industrial space is holding up well. Deals have been agreed well ahead of prior rents and the portfolio is successfully appealing to more higher value occupiers from a wide variety of sectors. The portfolio was 11.7% reversionary at half year and this good performance demonstrates great progress capturing that upside".

Economic data

Financial risk. The number of construction and property services companies facing "critical" financial distress rose by 33% and 25% respectively between Q3 and Q4, according to the latest Red Flag Alert report from corporate rescue and recovery practice Begbies Traynor. Construction tops the list of industries facing critical financial distress, 7,849 companies (and 83,332 in "significant" distress), followed by Support Services (7,096 and 82,431) and Real Estate & Property Services (6,228 and 62,176). Across all sectors, there was a 26% increase in critical distress, the second consecutive period when the level has grown by around a quarter; there was a 13% increase in significant distress. According to executive chairman Ric Traynor: "The UK economy is in a difficult position after a challenging 12 months with a number of unrelenting macro-economic pressures. Our empirical data highlights how this trend is likely to speed up in 2024 as the environment takes its toll on businesses. Later this year, we could see some respite for companies as inflation looks like it may reach more palatable levels which in turn should result in interest rates starting to climb down from current heightened levels. Unfortunately, there are no signs of an easy fix and, with geo-political uncertainty continuing to rise and a hike in the national wage around the corner. For many businesses, I fear soldiering on in this environment will prove to be one step too far and I expect thousands of debt-laden businesses to start to fail this year". **Viewpoint:** Pretty grim figures and supports anecdotal comment from housebuilders, contractors and developers who indicate the biggest risk is no longer demand or build cost increases but supply chain failures – and adds relative strength to better capitalised practitioners.

In other news …

Politics. The Government is considering a radical scheme to help first-time buyers by guaranteeing mortgages which would require just 1% deposits, according to The Independent (possible paywall). The prime minister and Jeremy Hunt, the chancellor, are contemplating the bold plan to appeal to young voters struggling to get onto the property ladder, the paper understands. Government sources said a Treasury-backed scheme to help ‘generation rent; is one of the big ideas being discussed for the spring Budget on 6 March. This would be a significant extension of the Government’s previous Help to Buy scheme – which allowed first time buyers to purchase new build developments with only 5% deposits. But some property experts warned against the idea of 1% deposits, arguing it could overheat the market and inflate house prices. **Viewpoint:** Pretty much every government incentive has arguably over-heated the market, with a requisite cooling when they are phased out; what is really needed is more homes – and this Government has blowed hot and cold on the idea.

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