Progressive Property & Construction Daily

8 October 2020: UTG, HSS, SRE, RMV | RICS housing survey points to further market recovery | Halifax sees four-year record house price rise

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

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Company news

The Unite Group (UTG, 881p, £3,506m)

Owner, manager and developer of UK student accommodation. Trading update and Q3 fund valuations. *Current trading:* 88% of bed spaces let across the whole portfolio (2019/20: 98%). A healthy level of letting activity has been seen since A-Level results on 13 August, with new lettings partially offset by a higher than usual volume of cancellations, particularly following the recent increase in UK cases of Covid-19. This resulted in completed lettings falling marginally short of group's 90% occupancy target. It is targeting additional sales from January 2021 starts from direct let customers as well as Universities. Around 10% of students have taken up this offer to delay their start dates to align to changes in their University term dates, contributing to a modest shortening in average tenancy lengths to 43 weeks for 2020/21 (2019/20: 44 weeks). A total of 79% of students have now checked-in or there are nomination agreements where Unite receives rent directly from Universities. A further 21% of bookings are still to check-in, either this month or in January, which compares to 4% at the same stage last year. Weekly prices have increased by 1.1% YoY on a like-for-like basis, reflecting contractual growth of 2.8% for multi-year nomination agreements partially offset by weaker growth in single-year nomination agreements and direct-let beds (together +0.1%) where discounting has been required in certain markets later in the sales cycle to drive occupancy. Overall, this translates to a 10-20% reduction in rental income for 2020/21 compared to 2019/20 (prior to the impact of cancellations in 2019/20 due to Covid-19), in line with the expectation set out in the half year results. *Financing:* Given the disruption to income caused by Covid-19, the principal focus is on interest cover ratio (ICR) covenants, which vary between 1.5-2.0x. There is headroom for occupancy to fall to c. 55% for the 2020/21 academic year before a breach of the group's tightest ICR covenant. "Based on our letting performance and progress to date around check-ins, we expect to maintain compliance with all ICR covenants". *Outlook:* "We see a positive outlook for student demand for 2021/22 and beyond supported by a record share of UK 18-year-olds choosing to enter university, positive demographic growth and our expectations for a strong recovery in international student numbers, backed by supportive Government policy". *Dividends:* Given current uncertainty, it is too early to commit to the reinstatement of dividends. However, the Board will keep this decision under review during the first term of the 2020/21 academic year. As a REIT, the property income distribution is typically equivalent to c.70-75% of EPRA earnings and "our dividend payout ratio will at least meet this level over time, increasing as earnings visibility improves".

Fund valuations: At 30 September, USAF's property portfolio was independently valued at £2,808m, +0.7% LFL during the quarter. The portfolio comprises 30,209 beds in 79 properties. LSAV's investment portfolio valued at £1,325m, +0.7% LFL. It comprises 8,354 beds across 12 properties in London and the Aston Student Village in Birmingham. The valuation increases are principally driven by the temporary reduction in stamp duty for residential properties, which is due to come to an end on 31 March 2021. Removing this impact, valuations were flat over the quarter for both USAF and LSAV, reflecting a sales performance for 2020/21 in line with the valuers' assumptions in the Q2 valuations. The Q3 valuations fully reflect the income shortfall resulting from a disrupted booking cycle for 2020/21. Overall, the USAF portfolio is valued at an average yield of 5.3% while LSAV is valued at an average yield of 4.4%, both of which were stable over the quarter.

HSS Hire Group (HSS, 20p, £34m)

Anglo-Irish tool and equipment hire group. HY (Jun) results. Rev -22%, £126m; loss before tax £12.9m (HY 19 LBT £7.4m); no div; net debt, pre-IFRS 16, £157m (YE 19, £178m). *Current trading:* Improving revenue and profit trend since April "with recovery ahead of expectations". Rev now above 90% of FY19 levels, from 63% in Q2; adj EBITDA and EBITA have returned to pre-Covid levels in September. Group EBITDA remained positive throughout pandemic. *Strategy:* Group to permanently close 134 of its branches and has entered into consultation with around 300 employees; digital platform upgrade completed with ongoing investment to further enhance customer experience; c. 30% of all new contracts raised through digital channels. *Outlook:* Guidance remains withdrawn. "Covid-19 has demonstrated that we are now ready to accelerate our strategy by further investing in our technological platforms. These investments will allow us to reduce our physical footprint which allows us to become a more agile, technology-driven business as well as reducing costs and enhancing shareholder value".

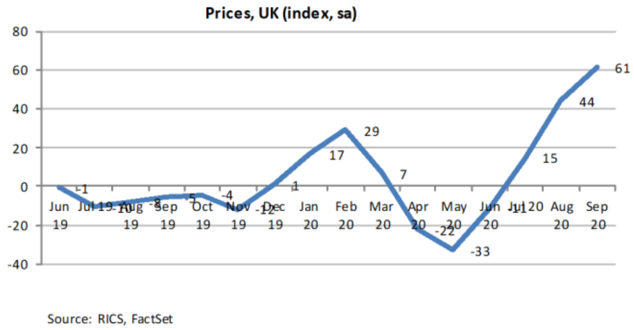
Sirius Real Estate (SRE, 78p, £812m) – *published yesterday*

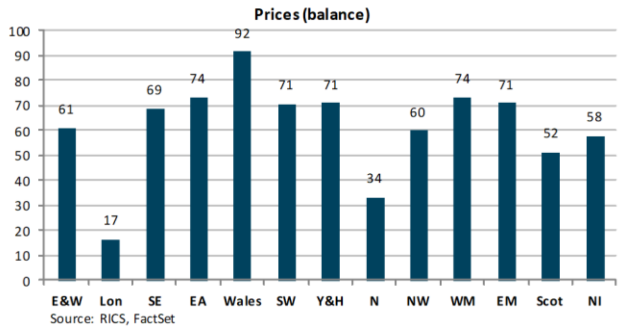
Leading operator of business parks in Germany. HY (Sep) trading update. "Trading in line with management expectations for the full year". Total annualised rent roll €89.2m (30 September 2019: €78.5m, 31 March 2020: €90.3m). LFL occupancy 84% (31 March 2020: 85%). Total enquiries +17% Y/Y. 97% cash collection rate for April-September. Total cash balances of approximately €128m (€113m unrestricted) following final drawdown of Schuldschein loan; net LTV approximately 33%. Results scheduled 23 November. *Outlook:* "Our portfolio provides a diverse mix of accommodation which attracts a wide range of both global blue chip and

SME businesses as well as individuals, and ranges across many different workspace segments, including commercial and self-storage, out-of-town conventional and flexible offices, as well as light industrial, urban logistics and manufacturing assets. We have a strong balance sheet providing significant firepower which we will be deploying on our pipeline of acquisitions and investing in the existing portfolio to attract new tenants and grow rents”. Results due 23 November.

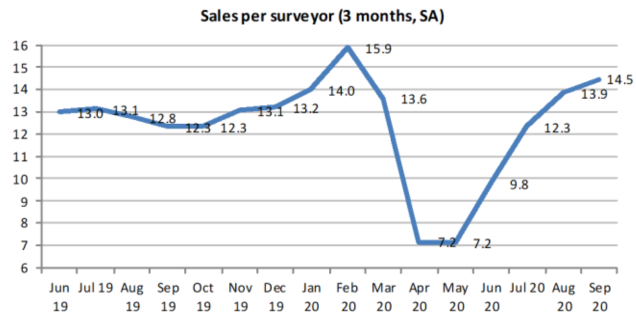
Economic data

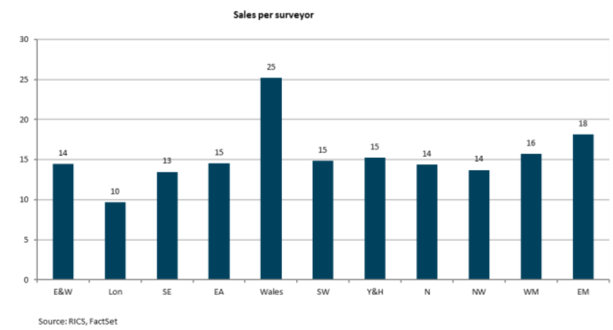
Housing market. The latest **RICS** Residential Market Survey ([link]) paints a broadly positive picture of pricing, demand and activity levels across most regions in both the sales and rental markets during September. The headline price index (% of surveyors reporting a rise minus % seeing a fall) rose to +61, from +44, for England & Wales as a whole, with all regions in positive territory, although London saw the lowest implied rise during the month, +17, up from +2 in August. However, the South East was significantly higher, possibly reflecting the recent desire to ‘move outwards’ to bigger homes with gardens post-Covid.



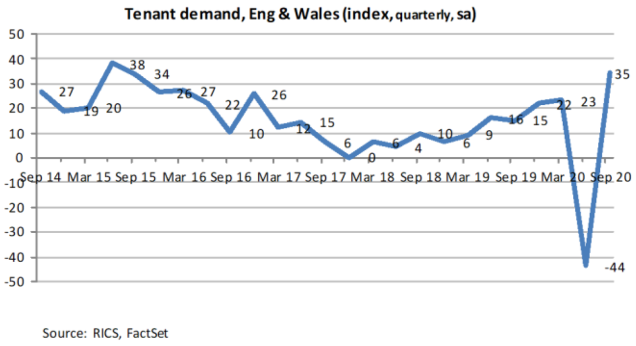


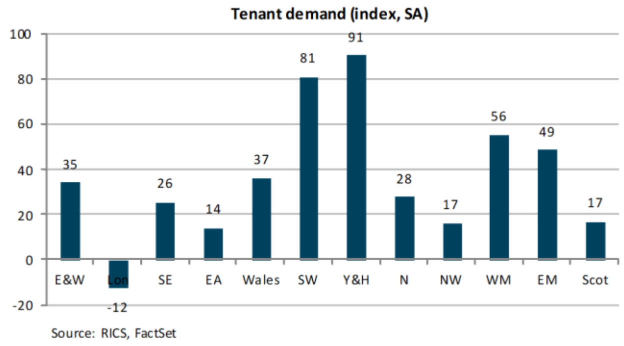
Sales activity (measured by actual sales per office, not an index) grew further, with higher than average lead indicators of buyer enquiries and vendor instructions, albeit both below their recent post-lockdown peaks. This might suggest there was an early race among both buyers and sellers to transact ahead of the scheduled ending of the Stamp Duty holiday in March 2021. (It should be noted London is traditionally lower than other regions in sales per surveyor, but rose more sharply than the national average.)



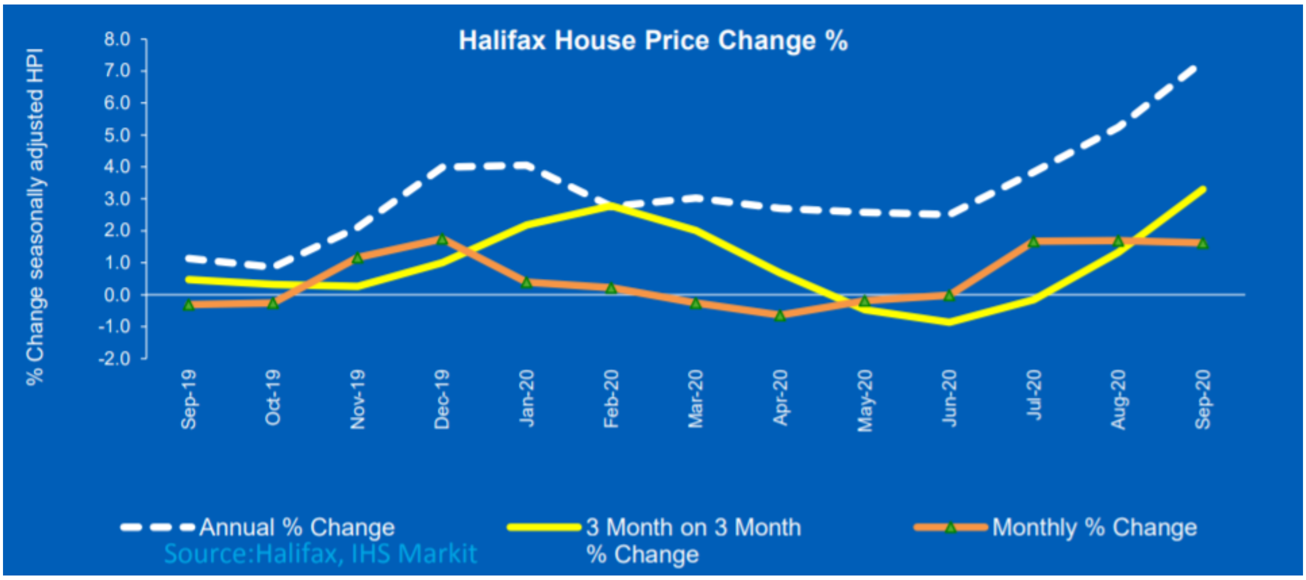


In the lettings market, tenant demand, landlord instructions and rent expectations all rebounded strongly in September from negative territory at the end of Q2. The one negative region was London, where there was a fall in tenant demand and rent expectations, albeit at a lower rate than in Q2, while landlord instructions rose. This could possibly be a reflection of continuing rising supply of properties and tax and regulatory pressures on the sector. However, we believe this could force many landlords to sell their properties, helping liquidity in the sales market in the capital.





House prices. House prices rose a further 1.6% in September to £250k, pushing the annual rate of inflation to 7.3%, from 5.2% in August, according to the latest report from the **Halifax** (link). This is the strongest reading since mid-2016, according to the UK's largest mortgage lender.



In other news …

Estate agents waging a 'Say No To Rightmove' campaign have admitted that getting the UK's number one property portal, **Rightmove** (RMV) to change its fee structure "may take a little longer to achieve", according to Estate Agent Today (link). The campaign appears to have failed to persuade significant numbers of agents to leave Rightmove, and the Acorn Group itself - the London and south east England agency leading the campaign - remains on Rightmove as well, according to EAT.

Prices are as at the previous day's close.