

# Progressive Property & Construction Daily



11 November 2020: MCS, GPE | HK developer bets big on City office market

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

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## Company news

**McCarthy & Stone** (MCS, p, £m mkt cap). UK's leading developer of private retirement housing for sale and expanding into rental. FY (Oct) trading update (Y/Y comparatives with 14 months to Oct 19). Completions - 65%, 832 (for sale -71%, 666; for rent +64%, 166); u-lying operating loss in line with board expectations; this loss is before the exceptional costs presented in the first half results and other non-underlying costs primarily relating to Covid-19. Net debt c. £63m (YE 19, net cash £25m), "which provides £137m headroom versus bank facilities in place of £200m. Net debt is expected to increase during the first half of financial year 2021". *Current trading:* "Increasingly affected by rising Covid-19 infection rates and lockdown measures". Rental portfolio now contains 267 units (YE 19, 101); discussions with prospective rental fund partners progressing constructively. New sales leads and net reservation rates improved gradually as the group emerged in June from the first Covid-19 lockdown. However, sales have remained subdued as our customer base, which has an average age at the time of purchase of 79, has been more cautious than the broader population. There have also been fewer new sales releases in the year due to the disruption. As a result, average total net reservations for the quarter ended 31 October has 22 per week, 40% below the same period last year.

*Outlook:* "The recently introduced lockdown measures has had an effect on net reservations in recent weeks. The board believes the retirement housing markets will continue to be affected by high infection

rates and lockdown measures during the first half of FY 21 and this will inform investment decisions and have a bearing on the timeframe for returning the business to profitability. The group will continue to cautiously and actively manage cash flow balancing investment in land and development to support future sales with the need to preserve headroom in order to navigate the short-term risks. It is against this backdrop that the Board believes the 115p cash offer from Lone Star represents fair value reflecting both the future opportunities and risks facing the business". **Viewpoint:** My initial view was the approach represented an astute long-term move by Lone Star and a pragmatic response to short-to-midterm challenges by McCarthy. There had been some grumbling from some shareholders about the offer, at a discount to net assets. But the trading statistics and financial position revealed in today's update indicates things will get worse before they get better.

### **Great Portland Estates** (GPE, 698p, £1,759m)

London office and retail property group. HY (Sep) results and Roadmap to net zero & decarbonisation fund launch. IFRS and EPRA NTAV -7.8%, 800p; EPRA EPS, -23%, 8.2p. Interim dividend maintained "against challenging market backdrop". Portfolio valuation -6.6%, £2.5bn; (offices, -2.4%; retail, -18.0%); rental values -3.9% (offices, -0.7%; retail -13.0%); yield expansion of 5 bps; total property return, -5.1%. 80% of September rent collected to date (June equivalent 72%). Property LTV, 17.2%, "substantial headroom above group debt covenants (values could fall 63% before breach)". *Outlook:* "It is likely that the evolution in the patterns of work and shopping over recent years will have accelerated - for example, the demands of office occupiers for greater wellbeing provision in smaller scale, more flexible buildings with higher sustainability credentials. We are addressing these and other themes through, for instance, growing our flex office offer and the launch today of our Roadmap to decarbonise our business to Net Zero by 2030. However occupiers' demands evolve ... London's magnetic appeal as a global business capital for the long term; plus, our financial strength, extensive pipeline of opportunity across our portfolio and our talented team with its deep market knowledge will give us the ability to choose our path to deliver on all our ambitions".

## In other news ...

Hong Kong developer Tenacity has submitted plans for a 33-storey office block in London's Square Mile, [constructionenquirer.com](https://www.constructionenquirer.com) ([link](#)). The firm said it was backing the London office market in the belief that Covid-19 has changed the expectation of what good offices buildings must offer but still remained in demand. The 155m tower will be stepped, with three glazed office elements split vertically with planted balconies giving the impression of three slender tapered towers. It will be built on the site of a Marks and Spencer building on the corner of Gracechurch Street and Fenchurch Street in the city close to the 'Walkie-Talkie'. **Viewpoint:** An indication that foreign investors see the London office market as attractive long-term, in spite of potential changes to working patterns post-Covid and the supposed impact on the City of Brexit.



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