

Progressive Property & Construction Daily



6 October 2021: GFRD, SRE | Data - material price inflation soars to 24%; shortages slowing down new building work | Gove signals drive to accelerate social housing construction

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

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Company news

Galliford Try Holdings (GFRD, 172p, £192m mkt cap)

UK construction and infrastructure services group, having sold its housing businesses to in January 2020 to former Bovis Homes Group, now **Vistry Group** (VTY). Contract. The Building division has been appointed to the new £1.6bn LHC Public Buildings, Construction, and Infrastructure PB3 framework. The four-year framework replaces LHC's previous School and Community Building framework, and covers projects across all public sector buildings. Galliford Try has places in four value bands across mainland Britain, ranging up to £14m, that include a mix of new-build, refurbishment, and in the highest value band, infrastructure projects.

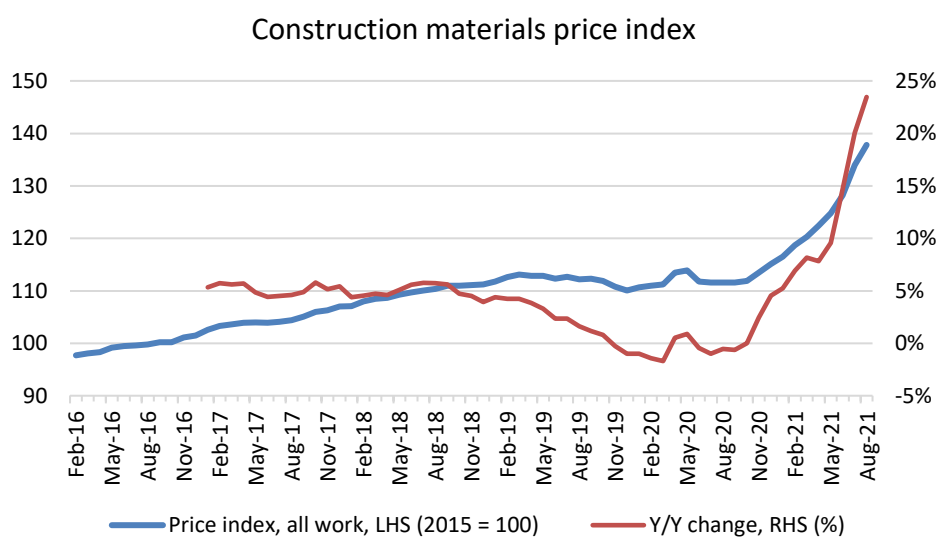
Sirius Real Estate (SRE, 129p, £1,377m)

Leading operator of business parks in Germany. H1 (Sep) trading update. *Guidance:* "Trading in line with consensus and management expectations for the full year". *Trading:* Annualised rent roll +2.5% LFL, €98.9m vs Mar 21, driven by a 2.6% increase in rate per sqm to €6.33; occupancy, 85% (87%) primarily as a result of the acquisition of 23,000 sqm of vacant space within the Essen and Ohringen assets that completed within the

period. *Finances*: Total cash balance of approximately €187m; total debt, €698; net LTV ratio, 38.3% prior to impact of H1 valuation. Interim results, 8 November.

Economic data

Construction prices. Material price inflation in the construction sector have soared to the highest level in memory, hitting 23.5% in January, according to today's data from the Department for Business, Energy & Industrial Strategy ([link](#)). Although the data may not necessarily reflect what different end-users pay, depending on bulk discounts, the sub-divisions appear to chime with anecdotal data. The highest rising areas included timber and steel: eg +78% for imported plywood and +75% for structural steel and as much as +11% for various plastic products. Other materials commonly used in housebuilding included precast concrete products at +11% (of which, bricks, blocks and tiles are +2.2%) and ready-mixed concrete +3.9% respectively. (Brick prices are not available.) **Viewpoint:** Assigning pint-point accuracy BEIS price data should be taken with at least a pinch of salt, but directionally it shows an astonishing increase for some products - partly explaining the weakening PMI data, below.

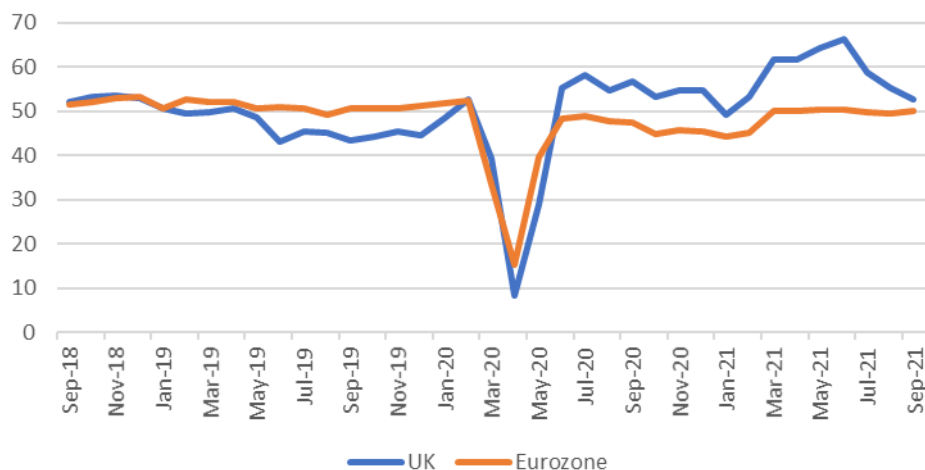


Brick supply and demand. The BEIS release also included a range of data on other building materials, including bricks. The recent sustain fall in industry inventory levels appeared to stabilise in August, with stock levels edging up to 275 million, from 273 million in July - but still 37% below the 10-year average of 440 million. The reason appears to be a slight pick-up in production, from 163 million during August, from 160 million the previous month (but still below the 178 million achieved in March, possibly due to forced maintenance on over-worked production lines), while deliveries fell to 161 million, from 187 million in June. **Viewpoint:** The fall in deliveries could either signal that big housebuilders had bought in bulk ahead of the June Stamp Duty deadline and were now easing off production; or it could be that many smaller developers are putting production on hold because of shortages, as suggested by HIS Markit. Or both.

Construction activity. Growth in UK construction activity fell for the third consecutive month in September while Eurozone output remained more or less flat for the seventh month in a row, according to the latest purchasing managers' index (PMI) reports from IHS Markit. Shortages of materials and staff hold back the construction recovery in the UK with the index falling to 52.6, from 55.2 in August and a 24-year high of 66.3 in June ([link](#)). Above or below 50 signify growth or contraction. A rapid drop in sub-contractor availability was reported in September, with an imbalance in demand and supply contributing to the steepest rise in sub-contractor charges since the survey began in April 1997. Some firms noted that the unpredictable pricing environment had slowed clients' decision-making on new orders and led to delays with contract awards. Civil engineering saw the biggest slowdown in growth (51.0, down from 54.8 in August), while housebuilding also decelerated, with expansion the weakest since the recovery began in June 2020 (52.8). Commercial emerged as the best performing category during September (53.6). Around 78% of the survey panel reported a rise in input costs.

Eurozone Construction Total Activity Index ([link](#)) rose from 49.5 in August to 50.0 in September, signalling a stabilisation in eurozone construction activity following two successive months of decline. Where activity rose, companies often cited stronger demand growth, although this was offset by a lack of raw materials which halted work on site. Underlying data indicated that growth was centred around house building, although commercial construction work fell at the softest pace in the current 19-month sequence of decline. At the same time, the fall in infrastructure activity continued. Italy remained the strongest of the three featured countries, albeit at a sharply slower rate of growth, while Germany and France returned to just below the break-even level of 50.

Construction PMI Total Activity Index



In other news ...

Housing politics. Michael Gove, the new [snappily-titled] Secretary of State for Levelling Up, Housing and Communities, indicated a break with the pro-private ownership rhetoric of two or three of his predecessors by calling for more social housing at the Conservative Party Conference, Housing Today ([link](#), [paywall](#)). Speaking at a fringe event yesterday, he said: "I think we definitely need more social housing and there may be

some people who because of circumstances will be in social housing for much of their adult life, we must ensure that it is attractive, decent and well-integrated with the rest of the community". During his 2016 leadership campaign he had called for "a national ambition to build hundreds of thousands of new homes a year, both private and socially-rented – led by someone who will not take no for an answer and who will push for diggers in the ground and homes for all come what may." According to Housing Today, his comments imply a potential change of direction for the government, with delivery of social housing having plummeted in the wake of post credit-crunch reforms to funding pushed through by the Tory -Lib Dem coalition. These reforms saw government funding switched to prioritise much more expensive "affordable rent" products, which required minimal grant per unit. Typically, between 6-7,000 social rent homes have been built in England each year in the past three years, compared to between 30-40,000 in the last three years of the last Labour government, according to government figures. In addition, supply of social housing has been squeezed by a 2021 revamp of the Right-to-Buy programme, since when more than 96,000 social rent homes have been sold. However, during his address he reportedly ducked questions about a potential rethink on planning policy.

Prices are as at the previous day's close.

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