Progressive Property & Construction Daily

12 January 2020: VTY, GFTU, KGF, LAND, DLN, YEW | Record high in logistics space take-up | New minister urges full construction activity

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

NOTE: This marketing communication has been produced by Progressive Equity Research Limited (PERL) and is a Minor Non-monetary Benefit. It does not contain investment recommendations. The views expressed are those of the research department of PERL. To view the Progressive Property & Construction Daily archive click here. For Progressive research on Property & Construction companies click here.

Company news

Vistry Group (VTY, 950p, £2,111m)

Formed from the merger of Bovis Homes and housebuilding and partnerships divisions of **Galliford Try** (GFRD). FY (Dec) trading update. *Guidance:* "Strong second half performance with FY 20 adj PBT expected to be at the top end of the range, at c. £140m. Assuming stable market conditions, well positioned to deliver a step-up to £310m in FY 21". *Trading:* "Completions in 2020 at the top end of expectations reflecting a strong second half performance". Vistry Housebuilding delivered a total of 4,652 (FY 19 pro-forma, 6,884); private units, 3,668 (4,775) with 984 (2,109) affordable. Private sales rate per outlet per week +15% Y/Y in H2, 0.62. "Pricing remained firm through the year and, overall, we saw a modest increase in underlying prices". "Excellent progress" at Vistry Partnerships with higher margin mixed tenure volumes up 28% in the year and 70% in the second half. "Encouragingly, customers continued to reserve homes during the second national lockdown in November, and throughout December, with our underlying sales rate up c. 20% in the last six weeks of the year compared to the prior year equivalent period". Group expects to be awarded 5-star HBF customer satisfaction rating for 2020. *Finances:* Debt reduction "ahead of expectations", with a net cash position of c. £38m at YE 20 (HYE Jun, net debt £357m), despite being active in the land market and a lower land creditor position. *Dividends:* Board intends to resume, with a "modest final dividend in respect of FY

20”. *FY 21 outlook:* For FY 21, 40% of Housebuilding's forecast private units secured and 53% of Partnerships' forecast private mixed tenure units. This includes a “significant” number of units for completion in Q2 2021, reserved by customers despite the changes to Help to Buy and the expected end to the Stamp Duty holiday at the end of Q1. [In analyst conference call, CEO Greg Fitzgerald said 400 - 500 reservations had been taken for Q2.] “We are encouraged by the strength of the market in 2020 and the levels of demand during the second national lockdown in November, and whilst very early, we have seen no impact from this third national lockdown. Assuming stable market conditions, the group remains confident it can deliver a step-up in completions for both Housebuilding and Partnerships in FY 21 and increase group adj PBT to £310m”. **Viewpoint:** Revealing aspects of the conference call include: extent of underlying cash performance; enduring strength of demand despite looming 31 March double deadline; minimal cost inflation and labour availability [post-Brexit]; and almost all 4 - 5 bed homes being snapped up amid ‘WFH’ wave.

Grafton Group (GFTU, 941p, £2,248m)

UK, Irish, Dutch builders’ merchant and products group. YE (Dec) trading update. *Guidance:* “Revenue and profitability in the two months to 31 December 2020 ahead of expectations. Adj op profit expected to exceed current consensus of £174m by slightly more than 5%”. Strong YE net cash, with liquidity of c. £800m. Exceptional charges expected to be approximately £27m as a result of the restructuring of activities undertaken during the year and the recent closure of the UK Defined Benefit Pension scheme to future accrual. *Trading:* FY, constant currency Y/Y, group, rev -6.6%; UK Merchanting, -14.6%. Two months to 31 Dec, LFL Y/Y rev, group, +7.2%; UK Merchanting, +5.1%. “Demand was strongest in the Woodie's and Chadwicks businesses in Ireland and in Selco in the UK. The Group benefitted from its strategy of investing in higher returning businesses and from households spending a greater proportion of disposable income on their homes”.

Kingfisher (KGF, 280p, £5,899m)

Owner of home improvement stores across France and Europe, including B&Q in UK. Interim Q4 trading update to 9 Jan (YE, 31 Jan). “The group is comfortable with the top end of the range of current analyst estimates for FY 21 adj PBT”. *UK & Ireland trading:* recovering trend in LFL Y/Y sales increases in last four weeks: +31.6% (week 1), +17.3% (2), +24.0% (3), +30.3% (4). “Some discrete areas of certain B&Q stores have been temporarily closed,” due to Covid precautions.

Land Securities Group (LAND, 658p, £4,880m)

Leading UK commercial property investment, development and management group. December quarter rent collection update. 65% of total rent collected at Day 5 (Dec 19, 94%), including: Offices, 87% (96%); Regional Retail, 36% (90%).

Derwent London (DLN, 3,066p, £3,433m)

Real estate investment trust (REIT) owning commercial portfolio predominantly in central London. December quarter rent collection update. 83% of rent collected to date: Commercial, 87%; Retail, 26%; 88% of service charges collected. In Retail, 13% have been granted rent-free periods and 53% is outstanding.

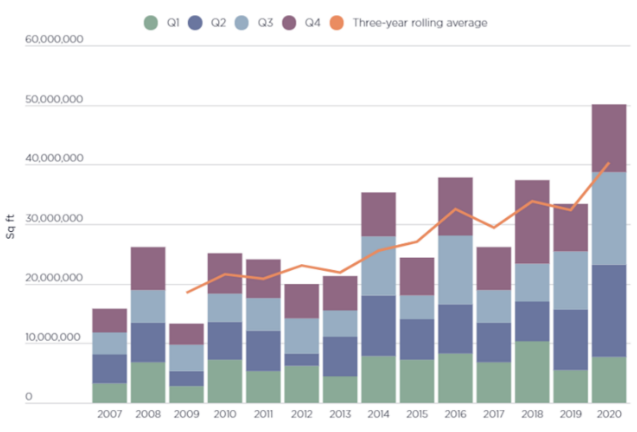
Yew Grove REIT (YEW, €0.83, £83m)

Owner of diversified portfolio of Irish commercial property assets. Q1 rent collection update. 100% of quarterly rents collected for Q1 (Mar) 21. Quarterly rents account for 90.4% of the rent roll and monthly rents account for 9.7% of the rent roll.

Economic data

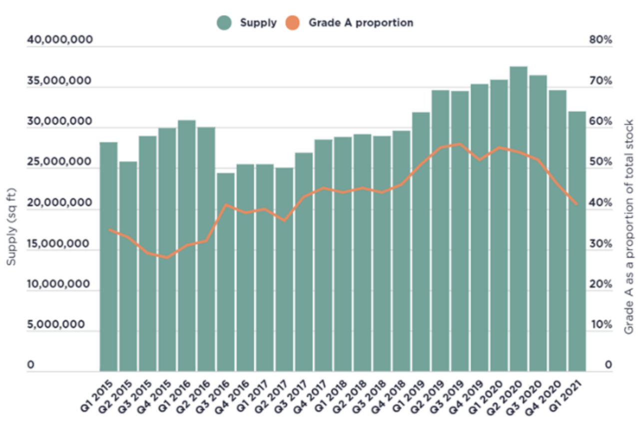
Logistics. A record take-up of logistics space and decline in new supply has driven vacancy rates down to 5.70%, according to the 2020 Big Shed Briefing from Savills Research (link). New leases were signed for 50.1 m sq ft of warehouse space, 12.7m sq ft ahead of the previous record set in 2016 (below, right). A large proportion of this was leased to Amazon (25%) and a number of leases on terms less than five years (12%), but take-up would still break new records even if Amazon and short-term deals were removed. This has been largely driven by online retail, accelerated by Covid, which was 51% higher in early December 2020 when compared with December 2019. Another key factor of 2020 has been the surge in take-up for units over 500,000 sq ft with 25 deals recorded, making it the highest year since records began and more than the previous two years combined. Given the number of requirements currently in the market for units over 500,000 sq ft, this is a trend Savills expects to continue into 2021. Over the last 12 months, supply has fallen by 3.8m sq ft to 32m sq ft (below, right). Vacancy rates were lowest in London & South East, 3.49% (-151 bps Y/Y) and highest in South West & Wales (9.92%, +241 bps).

Take-up (sq ft)



Source: Savills Research

Supply (sq ft)



Source: Savills Research

Mortgage availability. The number of residential mortgage products has increased for the third consecutive month to 2,893, according to Moneyfacts, reported in Property Week (link, paywall). This is the highest total availability recorded since April 2020 (3,192) as the impact of the pandemic was beginning to be felt. The largest monthly growth in availability was at 90% LTV, where the number of products almost doubled, increasing by 72 to 160, the highest recorded since June 2020.

In other news …

Covid policy for construction. New business secretary Kwasi Kwarteng has written an open letter to construction reinforcing the message that the Government supports full activity during the latest lockdown, reported in ConstructionEnquirer.com (link). It was one of Kwarteng's first moves after being appointed in his new role: "I would like to take this opportunity to restate the Government position, which is that firms and tradespeople in the construction sector and its supply chain, including merchants, suppliers and product manufacturers, should continue to operate during this national lockdown. I would also like to make it clear that where it is essential to travel or to stay in accommodation, whether to get to your work or for the purposes of carrying out your work, those in the industry are able to do so". Whether delivering on large or small construction sites, and in peoples' homes across the country, in builders' merchants, designing and project managing schemes or producing construction and mineral products, you are making a major contribution to the economic recovery following Covid-19."

Prices are as at the previous day's close.

accurate information about the value of securities mentioned in this email. Past performance is not necessarily a guide to future performance.