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TOP 25 : BRITAIN'S BIGGEST HOUSEBUILDERS

The talk around the industry today seems increasingly focused on expansion. How fast can the industry expand? Can the supply base deliver?

And this talk is now spreading across the nation. It is no longer a conversation restricted to London and the more affluent south. The idea that a phrase such as "fill your boots" might crop up in these conversations seems almost surreal, but crop up it does.

However, before getting too carried away with what all this means, it is worth understanding that when people say "fill your boots" it is double edged. What lies behind this phrase reflects just where the industry stands today.

Many believe housebuilding is enjoying a sweet spot that may sour slightly in a couple of years. So now is the time to take advantage.

Despite this recent bullishness official housing figures do not yet quite match the mood. Yes, the number of private homes completed in 2012 rose slightly. But the latest official figures for England showed private sector completions sliding back in the first half of 2013.

However, there are strong pointers that housebuilding is on the up. The latest NHBC numbers are encouraging, the starts figures are positive and importantly industry soundings and anecdotal evidence strongly suggest the big players have put their foot firmly on the accelerator.

So how well prepared is the industry to cope with expansion after five years of pitiful demand?

Last year in the Housing Market Intelligence Report we concluded that the industry had built a firm foundation for growth. This year those foundations have been reinforced. In the year covered by the latest report, published on October 9, most builders reported production up, turnover up, prices up and profits up. And more recent trading statements and results show further improvements.

On this basis housebuilders look set to expand further and faster, albeit from a low base.

So what is this sweet spot? Well it really arises from a confluence of factors.

The low interest rate policy put a cushion under the crashing market and a string of government schemes to buy up unsold stock, boost building and prompt more demand provided some breathing space as firms sought to reshape to match the new market.

Naturally this readjustment by housebuilders was uneven. Some firms were better placed to meet the new market conditions than others. But by last year for most firms the healing process of refinancing and refocusing their businesses was pretty much over. They were set for growth should it come.

It was into this already improving environment of more stable housebuilders on the supply side and more stability on the demand side, that the Funding for Lending Scheme was introduced in July 2012. This was designed to do two things - help hold down mortgage rates and boost the level of lending.

The Budget this March announced Help to Buy. This had in essence two main elements. The first was a revamped and pumped-up FirstBuy, which took housebuilders' contributions out of the equation, sparing the drag on their balance sheets. The second element, to be introduced at the start of 2014, will provide mortgage guarantees for most people who want to buy a new or second-hand home.

And to cap all this, the new governor of the Bank of England has boosted confidence by suggesting that interest rates will stay low for some time yet.

The combined effect has been to increase demand and housebuilders are seeing this clearly now.

But there are concerns. Few doubt the short-term impact. Buyer interest is up, house prices are rising faster and confidence in the housing market seems to have strengthened. However Help to Buy and low interest rates are time limited and, what is more, a new government in two years' time could shift policy. And further, if house prices were to inflate too swiftly it may be good in the short term, but it would hinder the longer term healing of the market.

Hence the view that today and for the next year or two there is a sweet spot and room for major expansion. So how well set are housebuilders to deliver?

Firmer foundations

Well if we look at the performance over the past year things look promising. Across the board the growth in turnover for the Top 75 was 14%. Naturally the survivor bias effect that you get in ranking tables means that those currently represented at the bottom of the table are more likely to show the greatest proportional growth as weaker firms drop out and stronger firms enter the ranking table.

However when we look at the top 25 the results show a bigger rise in turnover of nearer 15% with unit sales up approximately 13%. And against this we see operating profits rise more than 40%, with margins up from an average of 8.6% to 10.6% on a simple measure.

So it is the big firms that seem to have been making the most progress of late. And if we focus in on the top ten more traditional housebuilding firms that focus mainly on private sales we see that they boost turnover by 18% with unit sales up 12%.

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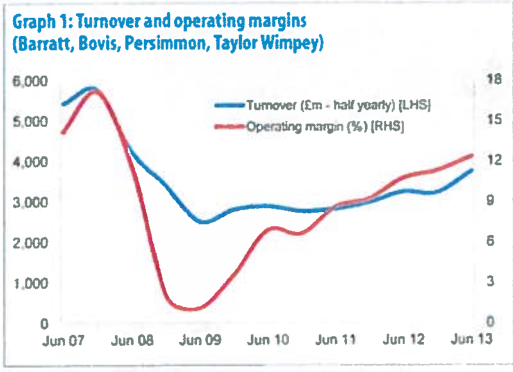
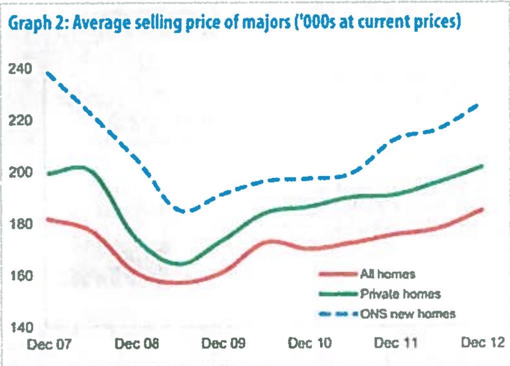


Graph 1: Source – Company reports and presentations

Graph 1 shows the turnover and operating margins for four of the majors and it provides a comforting sight with operating margin growing strongly against a steady rise in turnover.

However while this is promising, geography plays a part and a closer look at a wider range of housebuilders would reveal a distinct north-south split in performance. The market to the south, particularly London, has recovered with far greater vigour, with increases in both sales and prices.

However it is comforting for firms outside the south to note that the latest official data on house prices paints a picture of new build prices bouncing back strongly in 2012 and with price rises more evenly spread across the regions. This compares with previous years where rampant London price rises had led to a rather flattering national figure. Graph 2 shows the annual selling price for the major housebuilders.



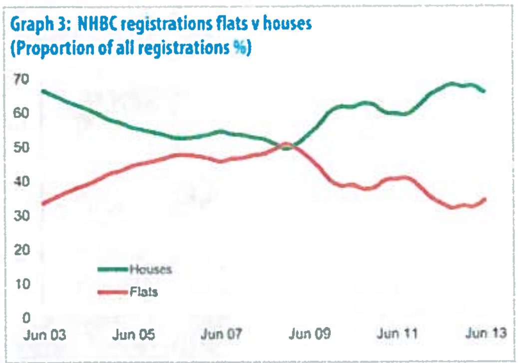
Graph 2: Source – Company reports and presentations, ONS

It is worth noting that reports by most of the majors say that a large proportion of the recovery in new build prices that they have enjoyed has been down to a big shift in the product mix, with firms building on average larger homes.

The main point to note, however, is that the recovery appears to be more widespread and hence is likely to prove more sustainable and offer more scope for increasing overall home completions.

As for the point made by housebuilders that there has been a shift in the product mix, then yes, this is happening and the shift has been profound. In 2008 more than half the NHBC registrations were for flats. They now represent less than one third and if we exclude London, where flats account for the vast majority of new homes, the proportion is nearer 20%.

However, as young first time buyers are increasingly able to buy homes, it is a moot point whether this trend away from flats continues, holds or reverses. Certainly the latest figures show a slight increase in the proportion of flats, but it is too early to say whether this is a sign of the trend reversing (Graph 3).



Graph 3: Source – NHBC

Meanwhile the data also shows how the production of social housing has proved useful in maintaining output for major housebuilders over the recessionary period. But the level of social housing has slipped back over the past couple of years and we might expect this trend to continue as the demand for open market homes increases, although the factors determining this are complex.

Costs, constraint and corporate concentration

Turning to the question of building homes for open market sale, after such a long period in the mire with low demand there are now questions over how well the supply base will cope with expansion and what might happen to costs.

When the recession struck housebuilders quickly reduced their costs. We noted in the Housing Market Intelligence Report 2009 that peak to trough the majors estimated they had cut costs on a like-for-like basis by around 15%.

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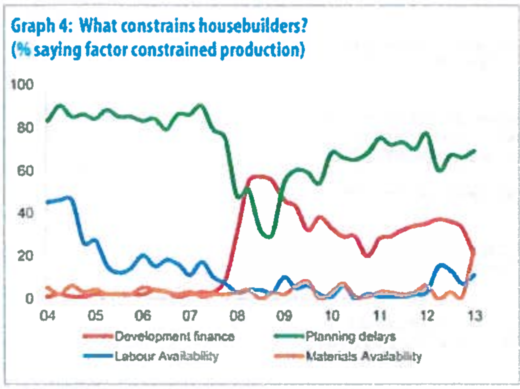
Despite recent buoyancy in the market the majors appear to be holding costs firmly down as a proportion of selling price. Persimmon puts build and other costs as a proportion of selling price at 59.2% in 2012 against 65.8% in 2009. Bovis puts its costs at 53.4% in 2012 against 58.7% in 2010 and Taylor Wimpey shows a similar pattern with its build costs put at 55.2% in the first half of 2013 against 60.9% in the first half of 2010. Meanwhile land costs appear to be being held in the 20% to 25% range.

Naturally it is hard to draw too much from these figures as the mix of products and locations can vary quite markedly over time. But the bald figures do suggest that for housebuilders coming out of recession cost control has proved an extremely useful weapon in improving margins.

However, there is talk of problems over materials supply. Official data show brick stocks running low and capacity down. Little wonder that housebuilders are worrying about extended delivery times.

Housing Market Report data on factors constraining housebuilders (Graph 4, page 32) show materials availability jumped as a constraint in the second quarter (brown line) with 23% of respondents citing this as a concern. Even when material supply constraints spiked in 2002 (not shown on the graph), the percentage of firms citing it as a problem hit 13%. Labour availability is also more of a problem than for a while.

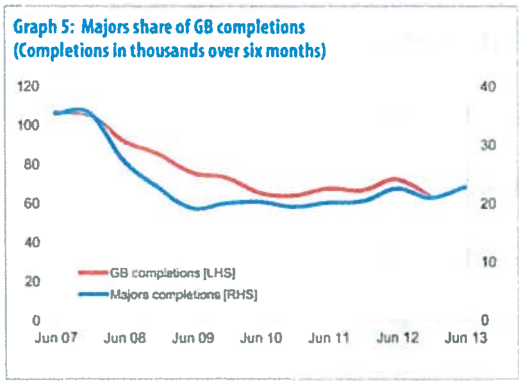


Graph 4: Source – Housing Market Report

It is hard to assess how this will impact on costs. Construction firms tend to find ways around constraints, altering design, finding alternative materials or looking abroad, if necessary, for materials and labour. With a strong focus on cost control, as there has been, the effects may be muted.

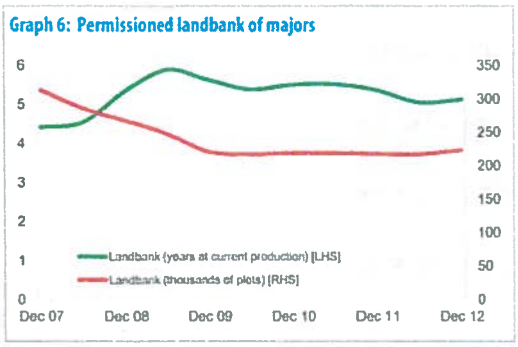
Also as the major firms increase production they may enjoy some cost benefits from scale. When the recession hit, the market share of the major housebuilders dipped. We said in earlier reports that this was unlikely to be the start of a longer-term downward trend. Indeed greater concentration was likely as the industry rebounded.

Big firms, with a wider portfolio of land and available products, were better able to flex their production to match falling demand, picking the more profitable sites and products to build out. They were less exposed to being forced sellers in low-demand local markets.
Many smaller firms had to build out whatever was in their pipeline.



Graph 5: Source – Company reports and presentations, DCLG

Graph 5 shows how the output of the major firms dipped faster than overall units completed. It also shows how it has recovered. From a market share of 34% in the second half of 2007 the share dropped to 25% in the second half of 2009 and early indications from the available data suggest the market share is likely to top 35% this year.



Graph 6: Source – Company reports and presentations

Graph 6 shows how major housebuilders reduced the stock of land on their books in the face of the recession. This was achieved through land sales, building out and reducing the rate of purchase of new land.

After the credit crunch (2008-2009) many housebuilders looked to reshape their land portfolio to meet demand in a much changed market and rebuilding the balance sheets. This cut the number of plots within landbanks (red line), but, because

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production fell sharply, the usual measure of years at current production rose (green line).

The scale of the graph does not really highlight the more recent trend which sees the major firms acquiring more land and pulling more through from their strategic landbanks. This has seen the net landbank of permissioned plots rise by almost 3% in 2012.

Housebuilders currently have the capacity to expand production quite a bit, but if they accelerate quickly to pre-recession production levels they would rapidly burn through their land supply.

Landbanks are complex things to measure. Definitions vary and note needs to be taken of the flow in and out as well as the stock level to gain a clearer understanding. But crudely put, and all other things being equal, a rise of 20% in current production would see the landbank return to the pre-recession level of just over four years when measured in years of permissioned land at current production rate.

What we also need to consider is the impact of a dash for land on costs. As we stated earlier the national majors appear to be keeping the plot cost to between 20% and 25% of sale value. This will vary by location and product. But the stability and rate would seem to provide reason for encouragement.

Prospects

Looking at the available data, sweet spot is an interesting phrase to describe the market for housebuilders. Certainly the data from the accounts shows them to be in a far stronger position than they may have hoped for in the dark days of early 2009.

However, the recession has come at a cost to the industry. The number of smaller players has diminished and the signs are that the trend towards concentration within the industry structure may continue. Not all firms have freed themselves of recession. The market has favoured those in the south of England far more than those elsewhere, many continue to suffer.

There is hope among these firms that the market will begin to show more life, that both turnover and prices will become more favourable to running a business.

But it would seem that the industry faces new challenges, those of growing pains associated with expanding from a low base that has become almost the new normal for many builders as the shadow of the recession has stretched further than many might have imagined.

Meanwhile many of the props currently promoting growth are temporary. At some point the government support will be withdrawn and interest rates and mortgage rates will rise. The questions now are when and whether the industry will be by then sufficiently stable to accommodate the transition to a more normal market.

So there are, as ever, challenges and uncertainties. But the immediate outlook is bright and without doubt the prospects have not been this good for a long time, even if this does prove to be just a sweet spot.

* This is an edited version of Brian Green's analysis of the Top 75 housebuilders which appears in the annual Housing Market Intelligence Report

	Date of accounts	Housing turnover £ million	Profit pre-except £ million	Profit post except £ million	Units	Land with Planning Permission	Average Selling Price £k	People employed
1 Barratt	Jun 12	2,287	189.6	189.6	12,857	54,209	181	4,451
Previous position 1	Jun 11	1,986	134.2	126.5	11,171	60,083	178	4,405
2 Taylor Wimpey	Dec 12	1,987	228.8	251.2	10,886	65,409	181	3,465
Previous position 2	Dec 11	1,779	159.3	153.5	10,180	65,264	171	3,464
3 Persimmon	Dec 12	1,721	217.1	219.9	9,903	68,200	176	2,515
Previous position 3	Dec 11	1,535	148.6	161.9	9,360	63,335	166	2,432
4 Berkeley Group	Apr 12	1,041	195.7	226.4	3,565	26,021	280	1,139
Previous position 5	Apr 11	743	135.7	135.7	2,544	27,026	271	935
5 Bellway	Jul 12	1,004	114.6	114.6	5,226	17,636	187	1,555
Previous position 4	Jul 11	886	75.2	75.2	4,922	18,086	176	1,496
6 Galliford Try	Jun 12	727	76.8	76.8	3,039	10,500	250	1,075
Previous position 6	Jun 11	512	33.5	33.5	2,170	10,400	227	998
7 Redrow	Jun 12	479	48.0	48.0	2,458	12,356	190	967
Previous position 8	Jun 11	453	31.2	31.2	2,626	11,190	165	933
8 Bovis Homes	Dec 12	426	56.8	56.8	2,355	13,776	171	639
Previous position 9	Dec 11	365	36.4	36.4	2,045	13,723	162	560
9 Crest Nicholson	Oct 12	408	73.3	73.3	1,882	16,959	230	556
Previous position 10	Oct 11	319	56.4	56.4	1,520	14,722	224	494
10 Lovell Partnerships	Dec 12	383	7.3	4.8	1,726	2,491	155	1,612
Previous position 7	Dec 11	458	13.1	13.1	1,346	2,400	144	2,179
11 Bloor Homes	Jun 12	373	32.1	32.1	2,007	n/a	182	611
Previous position 12	Jun 11	301	12.2	12.2	1,755	n/a	169	574
12 Avant Homes	Dec 12	297	n/a	n/a	1,693	4,600	165	672
Previous position (as Gladedale) 15	Dec 11	250	5.9	-21.0	1,690	6,400	146	738
13 Countryside	Sep 12	295	6.7	6.7	1,908	10,600	214	429
Previous position 14	Sep 11	267	11.3	11.1	1,225	8,500	190	429

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	Date of accounts	Housing turnover £ million	Profit pre-except £ million	Profit post-except £ million	Units	Land with Planning Permission	Average Selling Price £k	People employed
14 McCarthy & Stone	Aug 12	289	23.3	22.8	1,370	n/a	188	643
Previous position 17	Aug 11	235	36.2	36.2	1,264	n/a	182	580
15 Willmott Dixon	Dec 12	273	7.4	7.4	2,000 (e)	n/a	n/a	1,500
Previous position 11	Dec 11	314	7.3	7.3	2,000 (e)	n/a	n/a	1,480
16 Miller Homes	Dec 12	266	14.5	14.5	1,517	5,203	170	625
Previous position 13	Dec 11	271	0.9	-35.1	1,632	5,189	161	630
17 Cala	Jun 12	254	24.7	23.7	875	2,857	340	377
Previous position 18	Jun 11	215	13.6	14.3	649	3,121	328	356
18 Galliard Homes	Mar 12	205	7.4	7.4	n/a	n/a	n/a	273
Previous position 16	Mar 11	221	20.8	20.8	n/a	n/a	n/a	232
19 Fairview	Dec 12	205	14.6	14.6	1,052	1,900	195	274
Previous position 24	Dec 11	129	9.2	9.2	797	2,700	162	291
20 Stewart Milne	Jun 12	171	20.4	19.1	650 (e)	3,500	n/a	838
Previous position 22	Jun 11	137	9.7	9.7	500 (e)	3,500	n/a	896
21 Keepmoat	Mar 12	159	15.3	13.3	1,567	1,570	101	339
Previous position 25	Mar 11	126	12.9	12.9	1,220	1,083	103	256
22 Hill Partnerships	Dec 12	154	7.4	7.4	1,535	566	296	240
Previous position 20	Dec 11	180	8.1	8.1	1,144	537	290	233
23 Morris Homes	Mar 12	150	23.5	21.8	820	3,700	175	197
Previous position 23	Mar 11	136	21.6	20.1	815	4,000	166	209
24 Kier Homes	Jun 12	149	3.3	3.3	947	4,180	150	n/a
Previous position 21	Jun 11	153	4.2	-26.8	998	4,800	150	n/a
25 Telford Homes	Mar 13	142	10.6	10.6	600 (e)	2,260	353	185
Previous position –	Mar 12	124	4.8	4.8	600 (e)	1,969	339	177

Notes to the Britain's Top 25 Housebuilders table

Barratt: The revenue and profit figures are for housebuilding activities. Completions include joint ventures. The group also generated £36.6 million (£49.2 million) revenue from commercial developments, which made a profit of £1.5 million (£0.8 million loss). The average selling price of private homes was £201,800 (£198,900).

Taylor Wimpey: The figures are taken from the segmental analysis of the UK housing and corporate operations within the accounts. They exclude the Spanish operation. 2011 comparatives have been restated to consolidate the UK housing and corporate segment. Group turnover was £2,019 million (£1,808 million) and operating profit pre-exceptional was £227.7 million (£158.3 million). The exceptional credit in 2012 of £22.4 million relates to the release of an interest accrual associated with the favourable resolution of a historic potential tax liability. The Spanish operation generated revenue of £32 million (£ 28.6 million) and operating profits of £1.3 million (£0.2 million). Land figures are for plots owned and controlled with planning in the UK.

Persimmon: The accounts include an exceptional credit of £2.8 (£13.3 million) as a result of a reversals of previous impairments to land assets. Active outlets fell from 390 to 375 over the year.

Berkeley Group: The figures include contributions of £2.1 million from land sales (£13.8 million) and £19.4 million (2011: £21.2 million) of commercial revenue. The group reported an exceptional profit of £30.7 million on the disposal of a subsidiary.

Galliford Try: Figures for turnover, profit, employees and units built are an aggregation of the housebuilding division and the partnership sub-division of the construction arm (which contracts to build affordable housing) recorded in the segmental reporting for the group. The turnover and profit includes contribution from joint ventures. Average selling price given is for the private sales which accounted for 2,272 units (1,446).

Redrow: The company defines current landbank as owned (10,704) and contracted (1,652). ASP for private homes rose from £174,100 to £204,100. The number of outlets rose from 70 (excluding those in Scotland that have been sold) to 73 in the year. Excluding Scotland the unit sales were 2,424 in 2011.

Bovis Homes: Private sales were 1,854 (1,624). Social homes legally completed were 501 (421). The average selling price of private homes was £188,700 (£180,100).

Crest Nicholson: The company undertook commercial development of £26 million (£30.6 million) which is included in the turnover. In addition to the shortterm landbank noted, the company has a strategic landbank of 12,623 plots (14,259). The average sale price is for open market sales only.

Lovell Partnerships: Lovell Partnerships is the housing arm of the Morgan Sindall group, which also includes the regeneration company Muse Developments. Lovell is engaged in many aspects of housing including private new build, design and build contracting, refurbishment and maintenance. The business declared an exceptional cost of £2.5 million related to restructuring.

Bloor Homes: The business includes Triumph motorcycles and some plant hire activities and has a total turnover of £727 million (£655 million). The figures presented are for just the housing activities.

Avant Homes: The Group changed its name from Gladedale this year. The figures were provided by the company, the accounts were not finalised as Housebuilder went to press.

Countryside: The financial details are taken from the annual report of Copthorn Holdings. The units completed comprise 757 (576) sales and 1,151 (649) design and build for housing associations and others. The business streams include private housing, contracted housebuilding, regeneration and property development. The design and build contributed £92 million (£143 million) to turnover. In addition to the land with planning permissions the group owns or has options or contracts on another 8,800 (10,000) plots subject to planning permission.

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Willmott Dixon: The figures were provided by the company which has within its group turnover across many sectors of building. The units figure is an estimate.

Miller Homes: In February 2012 the Group completed a restructuring of its existing banking facilities and secured new third party investment. The company operates across the housing, construction, property and mining sectors. The group turnover was £620 million (£588 million). The figures for housebuilding are taken from the segmental accounts within the group annual report. The profit figure is profit before interest for the housing operation. The people employed are those in housebuilding. In 2011 the company reported an exceptional cost of £36 million against the housing division relating mainly to land writedowns.

Cala: The figures include contributions from joint ventures. The exceptional was the balance of writebacks and writedowns on land which represented a £1.5 million loss on the operating profit (£0.7 million gain). The average selling price is for private sales only, which amounted to 666 in the year (538).

Galliard Homes: The 2011 accounts were restated.

Fairview: The turnover and profit include share of joint ventures. The 2011 figures were restated. During the year the group acquired a 50% stake in Westprize Limited which owns land for the development of 212 units.

Stewart Milne: Figures for turnover are for housing only, the group does not segment other data. The group turnover was £268 million (£229 million). The operating profits figures are for the continuing businesses. The company sold its construction division, which had a turnover of approximately £58 million, to Kier in April 2012. The company declared an exceptional cost of £1.28 million on the continuing activities related to reorganisation of the business.

Keepmoat: The figures are for Keepmoat Homes which is the new homes arm of the regeneration business Keepmoat Group. The company reported exceptional items, mainly attributable to land impairment, of £2 million. The ASP for private sales was estimated at £105,000. Private sales were 1,101 units. The landbank figure is for speculative housing. The company has a pipeline of secured plots including partnership schemes of 16,753 (16,051). The group merged with regeneration contractor Apollo in March 2012.

Morris Homes: The figures are taken from the group accounts. Landbank figures are for the total landbank and are estimates based on stated level at 4.5 years (5 years) at current build rate. The company reported exceptional items impacting on the operating profit totalling £1.751 million (£1.517 million) associated with restructuring and asset impairment. Further exceptional items were recorded relating to financial expenses and liabilities, resulting in an exceptional addition to pre-tax profits of £1.9 million (£3 million).

Kier Homes: The figures are taken from the presentations and the accounts and are for homes segment. The company reported exceptional items for the homes segment of £31 million relating to writedowns on property land and work in progress. The total completions figure is an estimate, open market sales were 555 (466). Details of segmental staffing are not available from the accounts.

Telford Homes: The units completed data are estimated. No figure is reported for non-market completions. Within the total homes completed 374 (314) were open market. The average selling price is for the open market sales.

The 2013 Housing Market Intelligence Report

The 2013 Housing Market Intelligence Report will be published on October 9 at the Housing Market Intelligence conference. Speakers at the conference include chief secretary to the Treasury Danny Alexander and shadow housing minister Jack Dromey.

Tickets are available for the conference at http://www.house-builder.co.uk/

All delegates receive a free copy of the report, or the report can be purchased separately.
The report includes the comprehensive Top 75 housebuilders listing, ranking those companies by nine categories – turnover, operating profit, units completed, capital employed, stocks, land with permissions, average selling price, brown land percentage and people employed.

In addition the report contains expert analysis of the market and key information and statistics.

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Housebuilder Media Ltd
Ground Floor
HBF House
27 Broadwall
London
SE1 9PL

T 020 7960 1630
E info@house-builder.co.uk

Housebuilder Media Limited Registered Office
HBF House, 27 Broadwall, London, SE1 9PL
Company registration no 01952317
Registered in England & Wales

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