BUILDING VALUE

UK Housebuilding Sector

“To Q4 2016 and beyond”

Speed bumps

- It was Arthur Holly Compton, a physicist and winner of the Nobel Prize in physics in 1927, who invented speed bumps; and they were first used in New Jersey in 1906

- Widely employed now, this family of traffic calming devices uses vertical deflection to slow down motor vehicle traffic in order to improve safety conditions

- But they are not without their detractors and have been blamed for increased traffic noise/pollution, slower response times for emergency vehicles and, in Sweden, spinal stress in bus drivers

- Similarly, Brexit in the UK has its supporters and vilifiers, in almost equal measure, and on 23 June last year what should have been a jounce for the Housebuilders became something more seismic as the Sector subsequently lost 36% of its value

Speed bumps 2

- This was more a speed wall than a bump (see chart overleaf) and although the Sector sedan drove carefully thereafter - there was still a 15% value penalty at the end of 2016

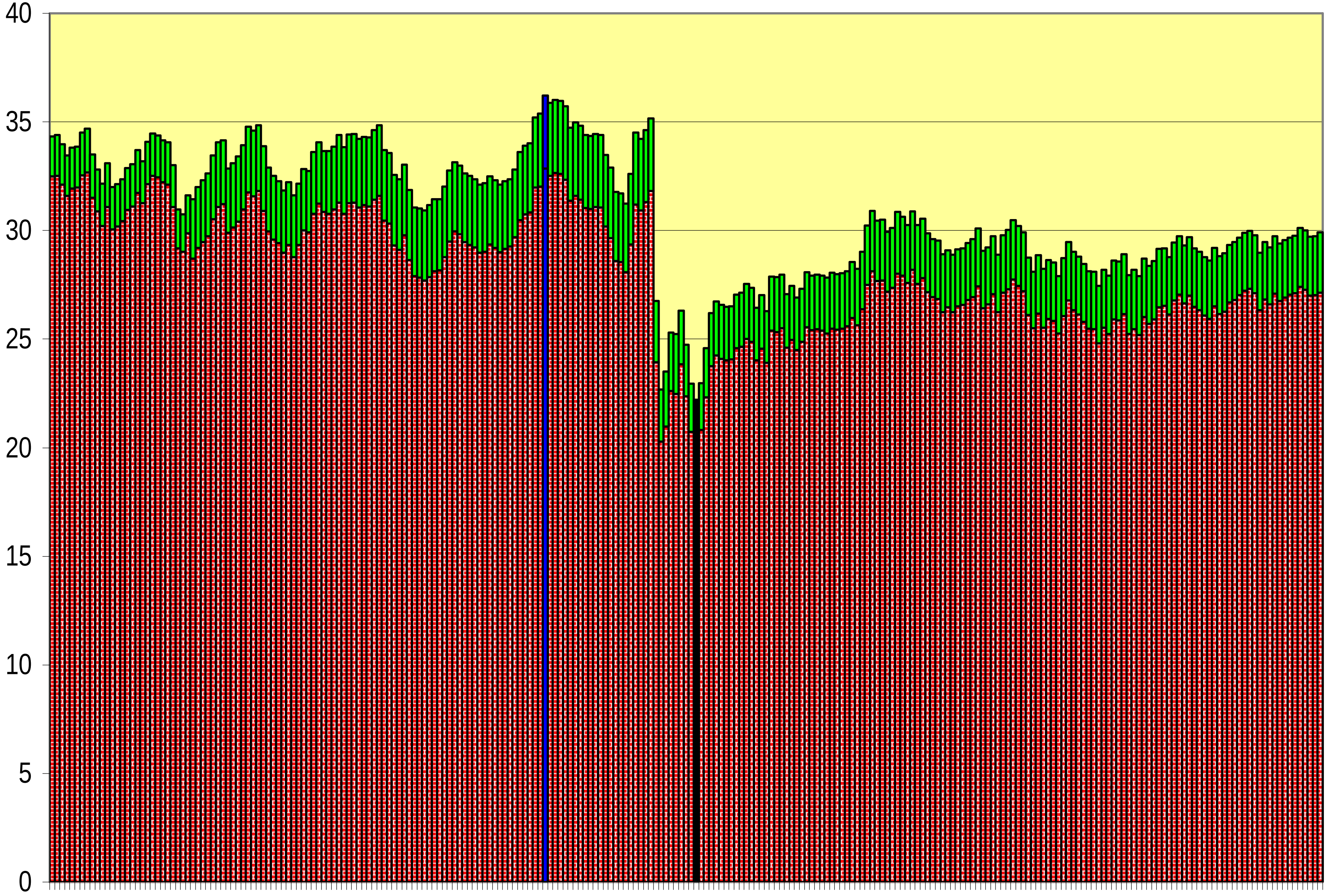
- It is also the case that the movement of share prices in most of Q3 and all of Q4 resembled an elongated speed bump warning sign i.e. velocity increased on positive news flow only to decelerate when confronted with the sleeping Brexit policemen

- But money has been made and more will be on offer as we expect this oscillation to continue; and in the first short trading week of the New Year, share prices rose 3.6% on average with three of them - Persimmon, Taylor Wimpey and Crest - up by 9 to 10%

- Empirically, though, driver selection and lap counting are critical

Housebuilding Sector daily stock market value in 2016 (£bn)

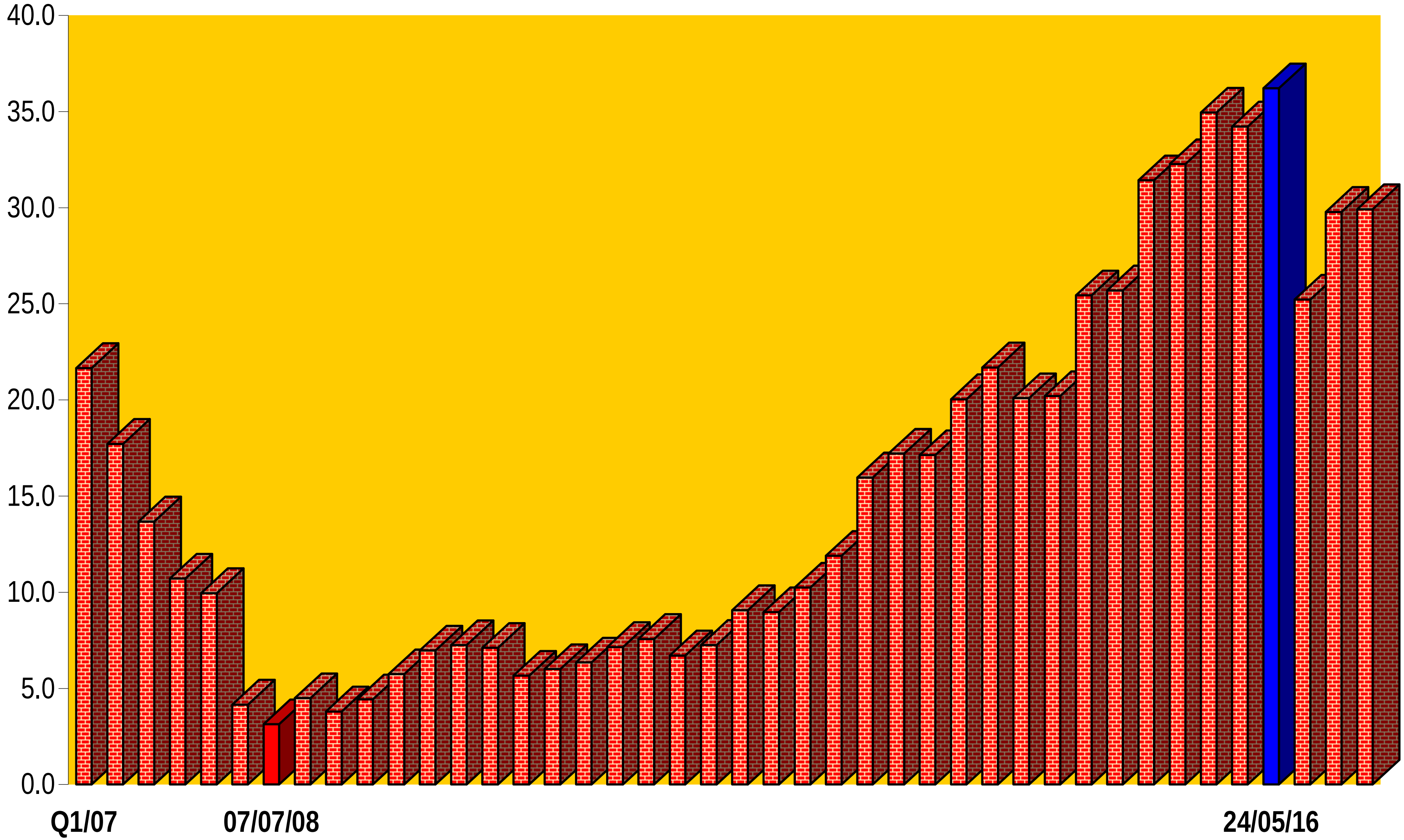
- newly listed in green; year's high (24/05) in blue and the low (06/07) in black -



UK Housebuilding Sector - stock market value (£bn):

quarterly from Q1 2007 to Q4 2016

- 7 July 2008 (low) and 24 May 2016 (high) -



2016

- On 24 May 2016, the Sector drove to a new all-time high of £36.2 billion (or £32.9 billion ex-the new registrations in 2015-16: Cairn; McCarthy & Stone; Countryside; and Watkin Jones)

- This also meant that from trough (7 July 2008) to peak (24 May 2016), the Sector had increased in cubic capacity value by 1054% or in cash terms £33.1 billion

- This was short-lived, however, as a month after this new model high, the Brexit vote caused the Sector to lose 36% of value in two trading days (24 and 27 June with a weekend in between) and at one stage it was discounted by almost 40%

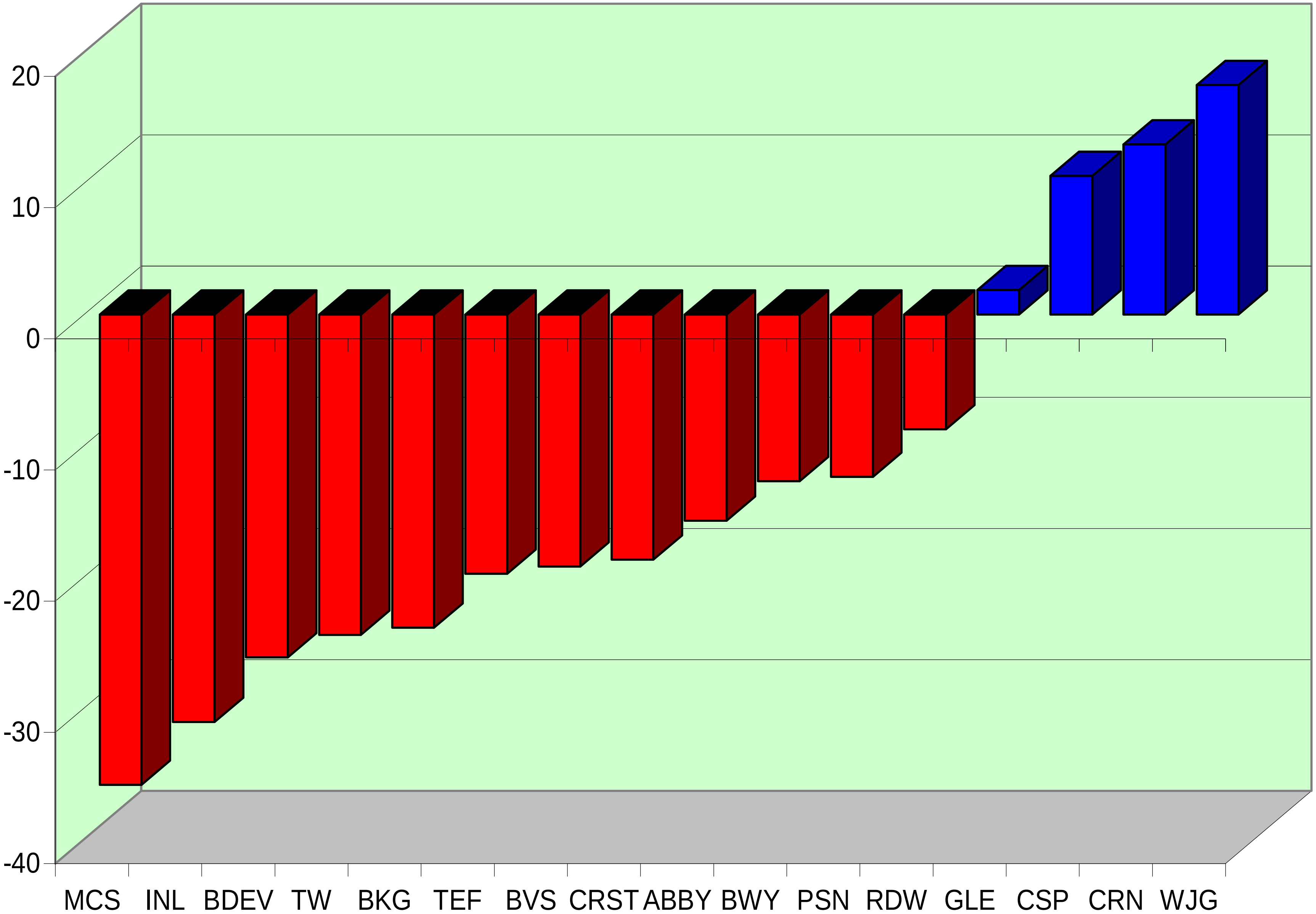
- There was a pot-hole filled recovery in the second half of calendar 2016. However, by 30 December, the Sector was still 15% off its pre-Brexit level, 14% down year on year and 18% adrift of its peak level - all in Pound Notes

2016 cont/.

- In calendar 2016, there was a total of 253 motor trading days and on 52% the Sector rose versus 48% when it fell
- The best daily performance was +7% on 8 July and the worst an entirely calculable minus 24% on 24 June
- Week 20 (+9%) had the best fuel economy, with Week 25 worst (minus 18%)
- Month by month, August steered by example (+8%) but there were more ‘down’ months than ‘up’ i.e. 8 versus 4 with the worst being a Brexited June with minus 30%
- Interestingly, both November (+3%) and December (+4%) were positive; and in the latter, the Sector shrugged off a late but very personal Bovis ‘profit warning’

Share prices in 2016 (% change)

- Countryside and Watkin Jones 10.6 and 9.3 months -



Share prices in 2016

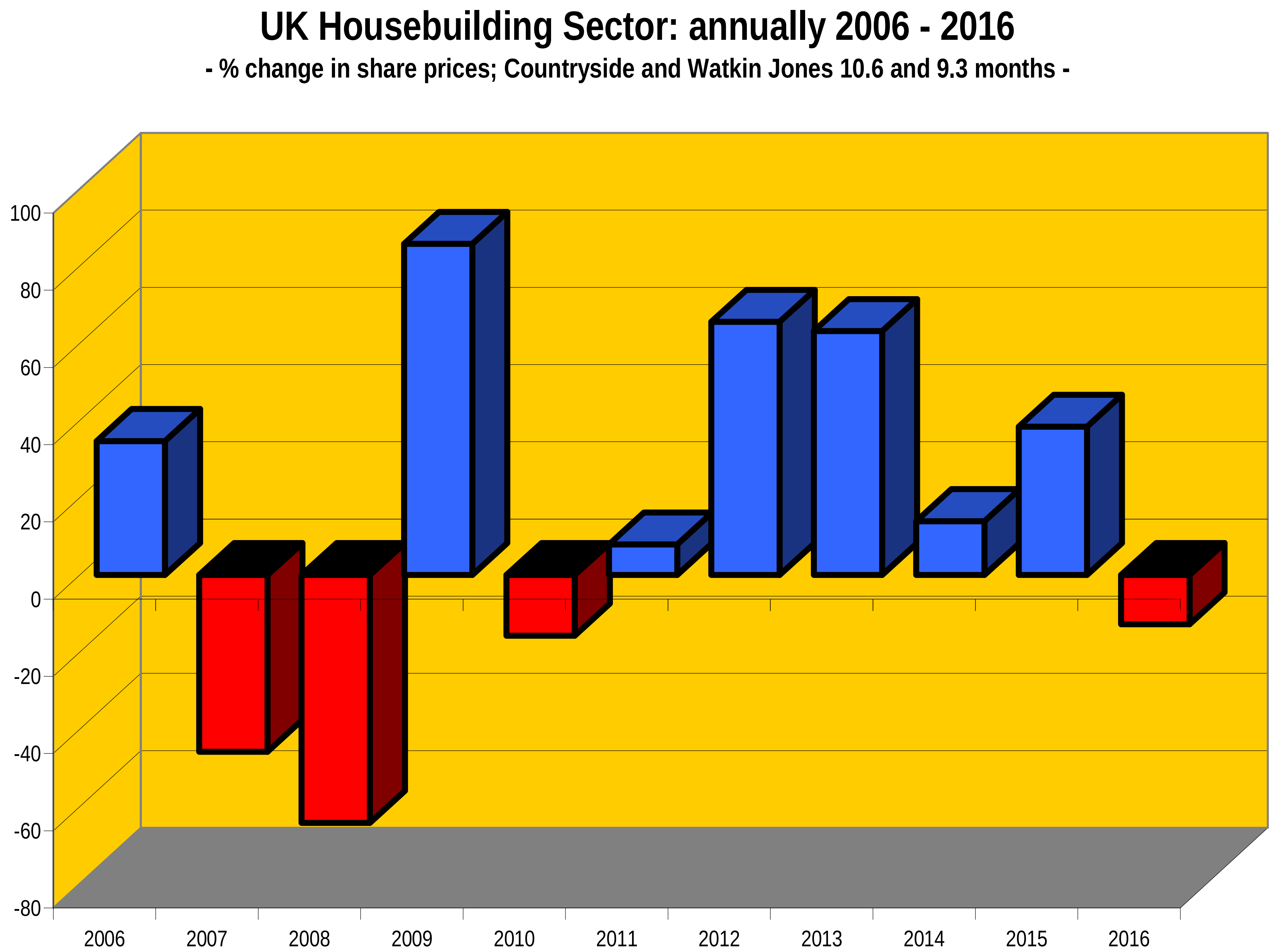
- Housebuilders' share prices decreased by an average 13% in 2016 on an actual basis and 17% weighted by market capitalisation (in 2015 these numbers were +38 and +40%); and this was the first annual fall since 2010

- Watkin Jones was the fastest at +18% (and is included from its IPO for 9.3 months) and it was supported by co-IPOer Countryside with +11% over 10.6 months

- Cairn and Gleeson were also positive but the other 14 were negative with McCarthy & Stone awarded the 2016 wooden spoon with minus 36%

- For the record, too, Barratt, Persimmon and Taylor Wimpey continue to vehiculate as FTSE 100 constituents

- 2016 is the fourth negative year out of the last 11

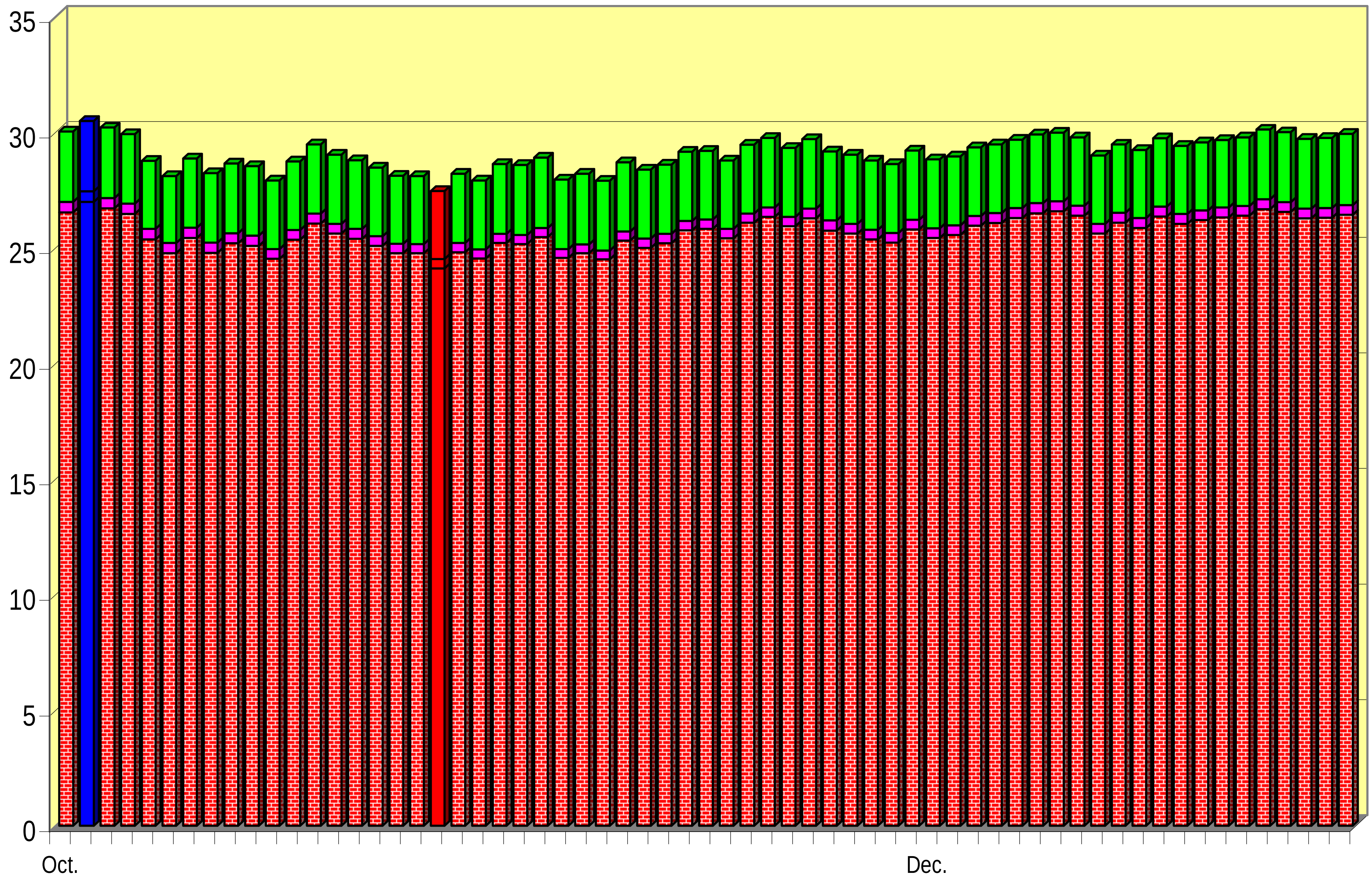

UK Housebuilding Sector: annually 2006 - 2016
- % change in share prices; Countryside and Watkin Jones 10.6 and 9.3 months -
100
80
60
40
20
0
-20
-40
-60
-80
2006
2007
2008
2009
2010
2011
2012
2013
2014
2015
2016

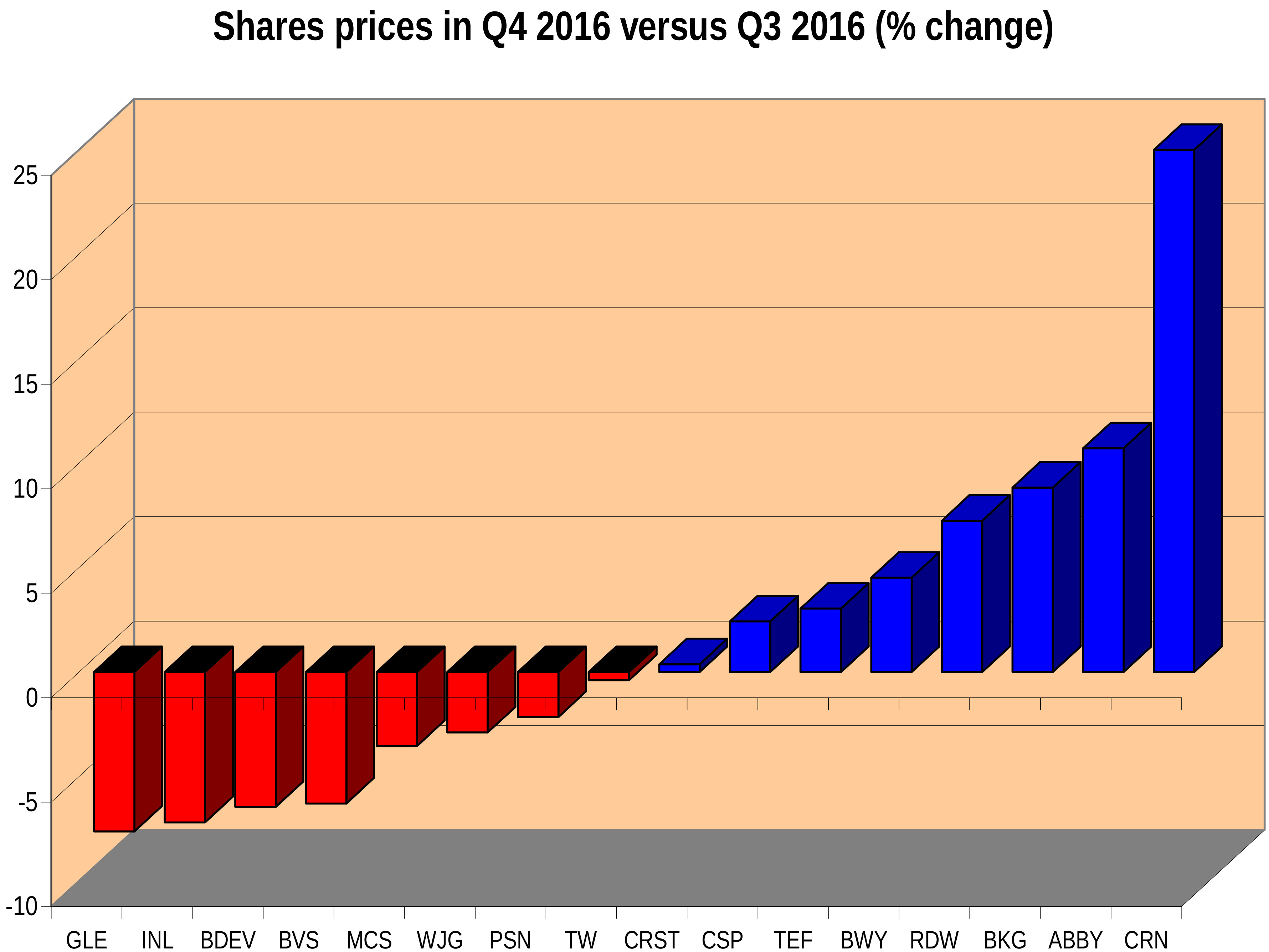
Quarter by quarter

- Q4 2016’s 63 trading days were split 33 up and 30 down
- However, share prices did manage to nudge higher by the end of the quarter with +2% actual and +1% weighted
- Cairn took the chequered flag with +25% and was joined on the podium by Abbey, Berkeley and Redrow (in a band of +7 to +10%); and the first two of these reported half year figures in December
- In sum, eight stocks rose and eight fell in Q4 2016
- The Sector has also gained in 20 of the last 28 quarters (since Q1 2010); albeit Q4 2016’s was a marginal gain

Housebuilding Sector stock market value - daily - in Q4 2016 (£bn)

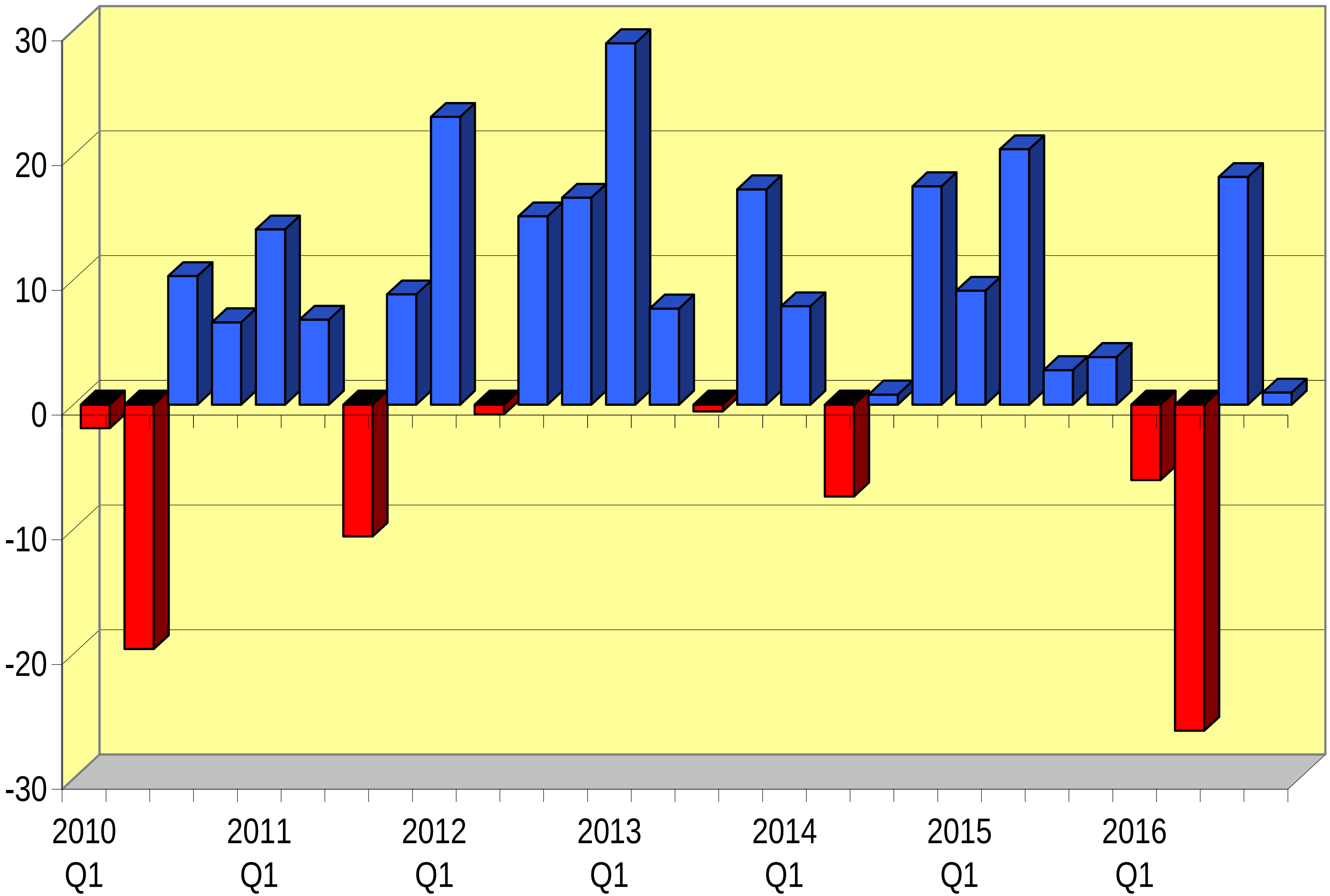
- newly listed (green); Inland Homes and Gleeson (pink); high/low (blue/red) -




Shares prices in Q4 2016 versus Q3 2016 (% change)
25
20
15
10
5
0
-5
-10
GLE
INL
BDEV
BVS
MCS
WJG
PSN
TW
CRST
CSP
TEF
BWY
RDW
BKG
ABBY
CRN

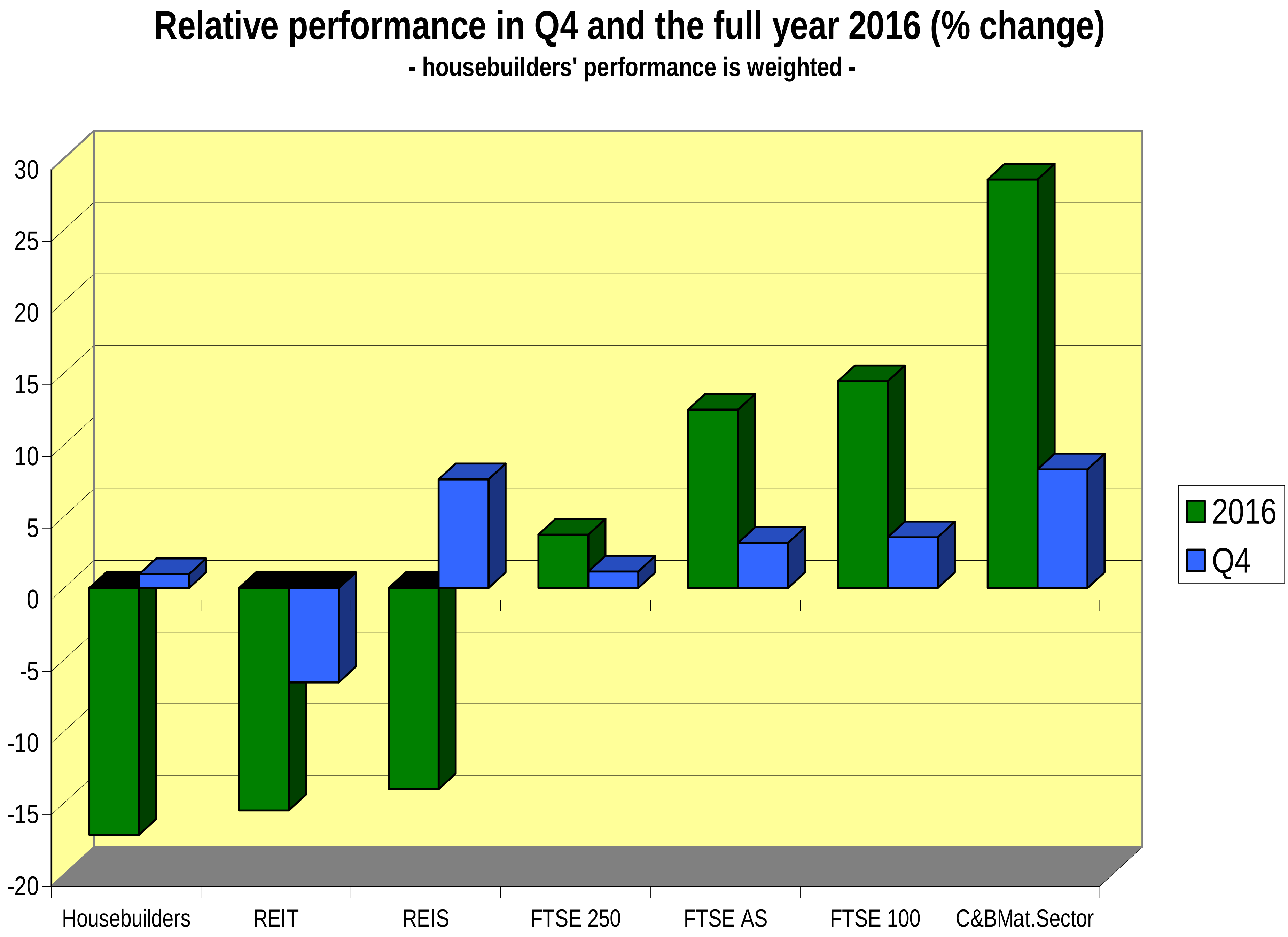
UK Housebuilding Sector: Q1 2010 - Q4 2016

- weighted % change in share prices quarter by quarter -



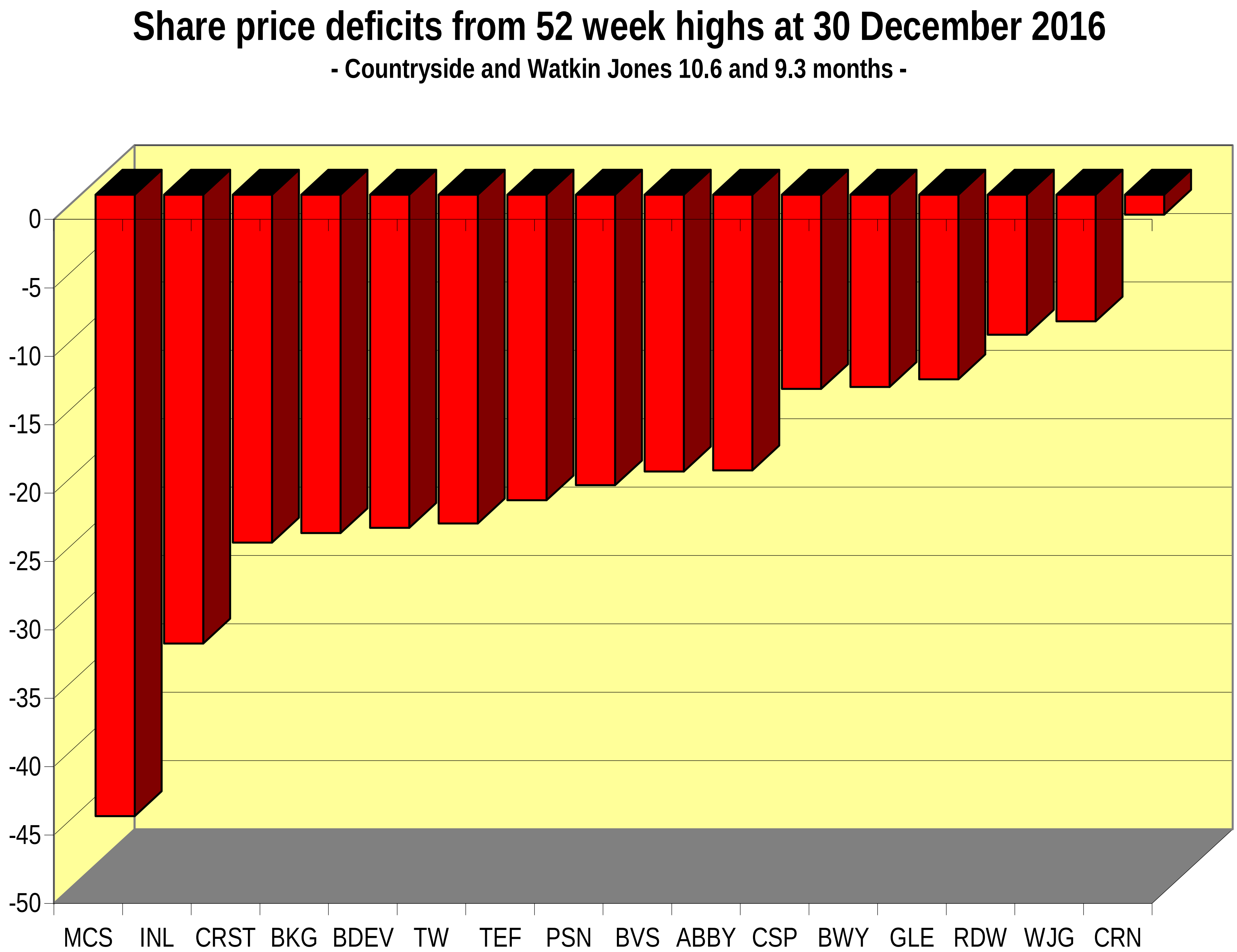
Relative performance in 2016

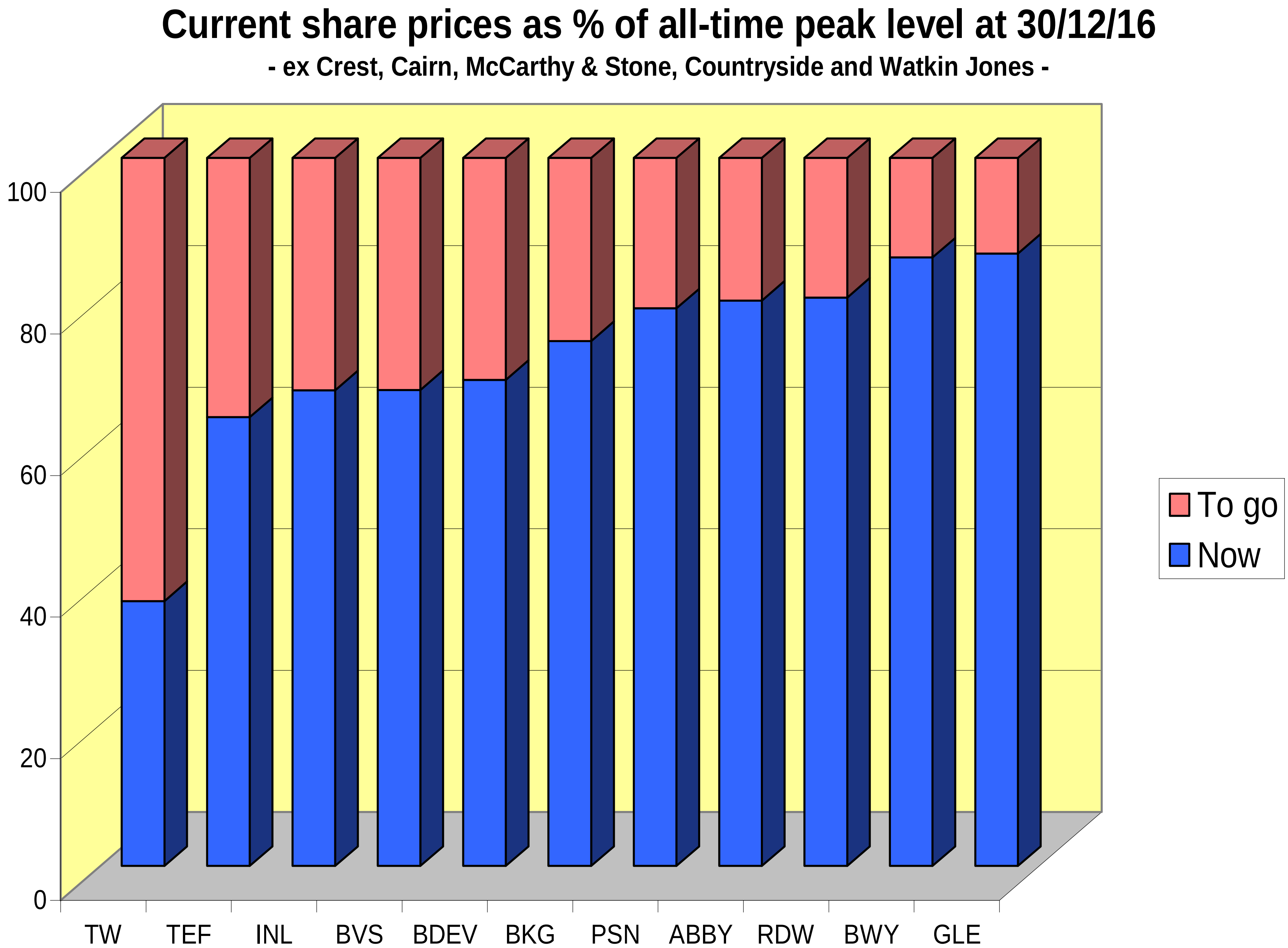
- The Housebuilders were conspicuous laggards last year with a 17% weighted deficit
- Note, too, that both Real Estate Sectors were significantly negative in 2016 with dips of 14% (REIS) and 16% (REIT) respectively
- At the same time, the UK equity market's three main indices (FTSE 100, 250 and All Share) all broke new ground and exhibited annual gains of 14, 4 and 13% respectively
- But the relative and V8 winner was the Construction & Building Materials Sector (which excludes Housebuilders) as it added 29% to its value in the year


Relative performance in Q4 and the full year 2016 (% change)
- housebuilders' performance is weighted -
30
25
20
15
10
5
0
-5
-10
-15
-20
Housebuilders
REIT
REIS
FTSE 250
FTSE AS
FTSE 100
C&BMat.Sector
2016
Q4

Peak value / FTSE 100/ Structure

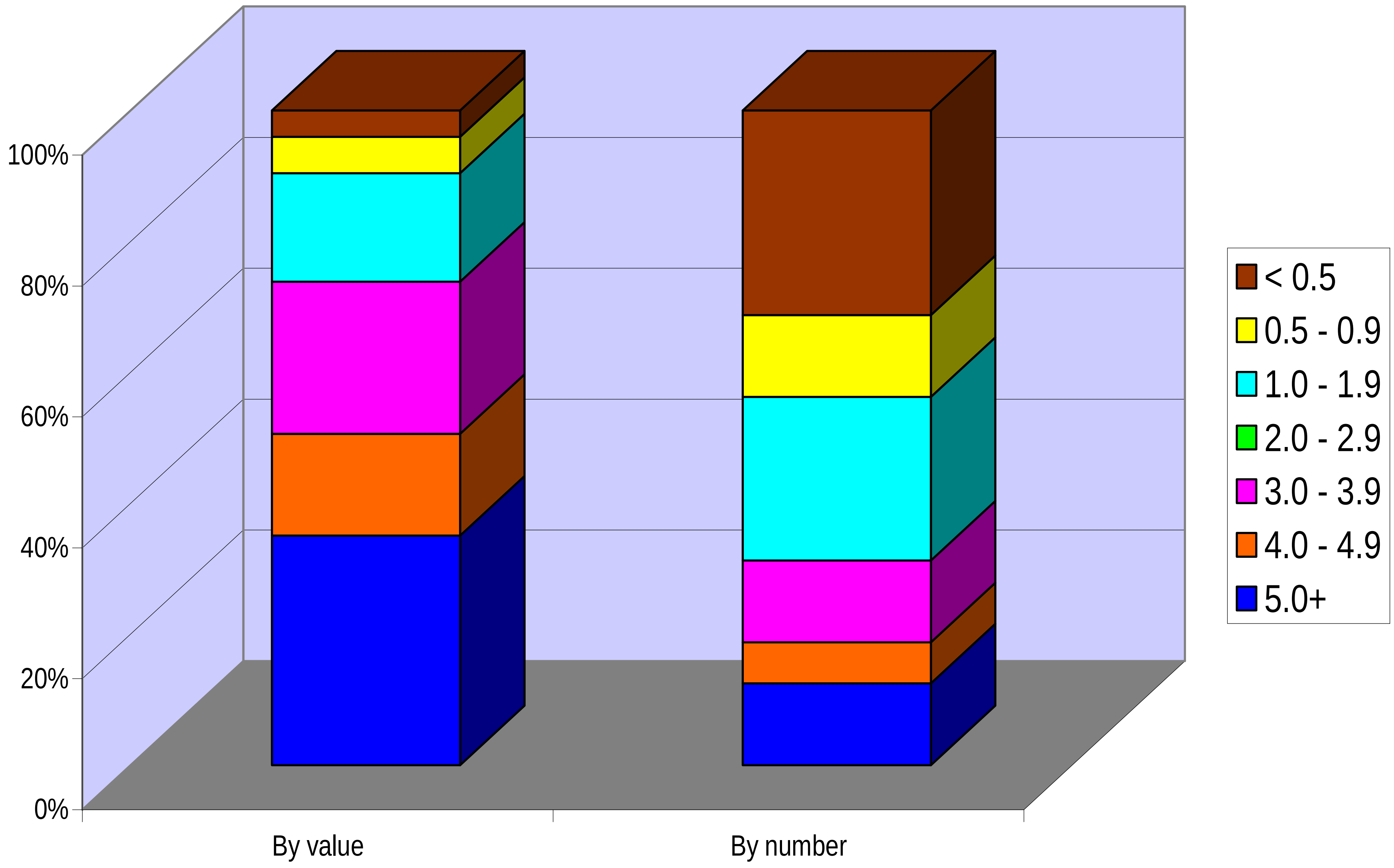
- Housebuilders' share prices are, on average, 14 times above the lows of 2008; and 59% up on more recent 52 week lows (weighted these numbers are 21 times and 61% respectively)
- But they are also some 28% below their 2007 peaks (32% weighted); and 20% off 52 week highs (21% weighted)
- Since Berkeley's relegation, too, there are now only three housebuilders in the FTSE 100: Barratt (88 at 30 December); Taylor Wimpey (85); and Persimmon (77); together, these three account for 51% of the UK Housebuilding Sector value
- Note, too, McCarthy & Stone (November 2015), Countryside (February 2016) and Watkin Jones (March 2016) are all newly listed or re-listed on the London Stock Exchange; and Cairn Homes (since June 2015) is also included in our forecourt


Share price deficits from 52 week highs at 30 December 2016
- Countryside and Watkin Jones 10.6 and 9.3 months -
0
-5
-10
-15
-20
-25
-30
-35
-40
-45
-50
MCS
INL
CRST
BKG
BDEV
TW
TEF
PSN
BVS
ABBY
CSP
BWY
GLE
RDW
WJG
CRN


Current share prices as % of all-time peak level at 30/12/16
- ex Crest, Cairn, McCarthy & Stone, Countryside and Watkin Jones -
0
20
40
60
80
100
TW
TEF
INL
BVS
BDEV
BKG
PSN
ABBY
RDW
BWY
GLE
To go
Now

Sector structure by stock market value (£29.9 billion at 30/12/16)

16 companies [legend is in £bn]

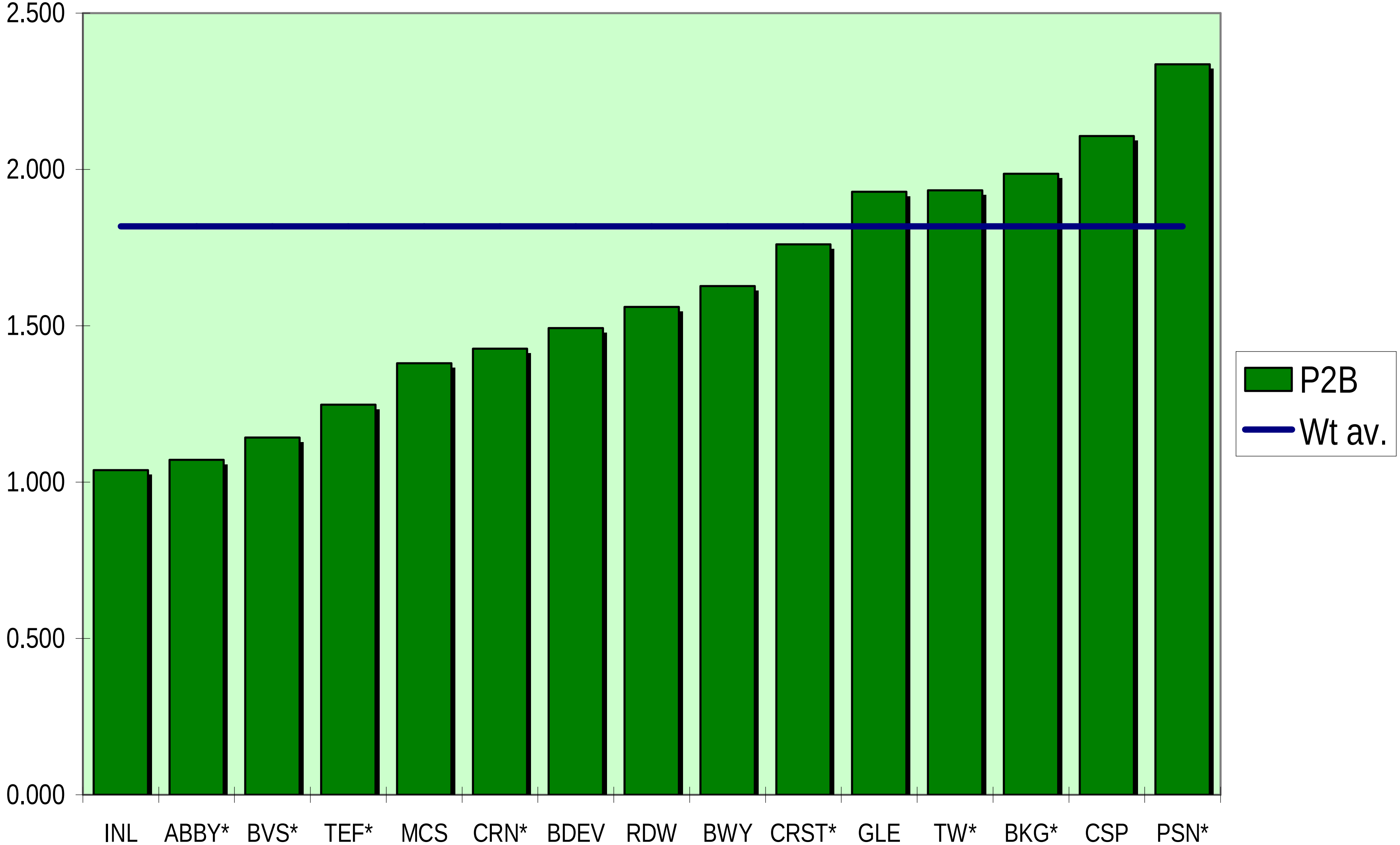


Price-to-Book / TSR

- The Housebuilders' latest average Price-to-Book valuation was 1.60 at 30 December 2016 and 1.82 weighted
- A year ago they were 2.20 and 2.41 respectively
- Three out of 15 companies are at 2.0 or better (with Watkin Jones at over 3.0 excluded)
- Total Shareholder Return (TSR) for the Sector in 2016 was a negative 10.2% actual and a negative 8.0% weighted
- Only four out of 16 stocks were in positive territory: Watkin Jones; Countryside; Cairn; and Gleeson
- In calendar 2015 average TSR was a positive 49%, preceded by +16% in 2014 and a limousine ride of +82% in 2013

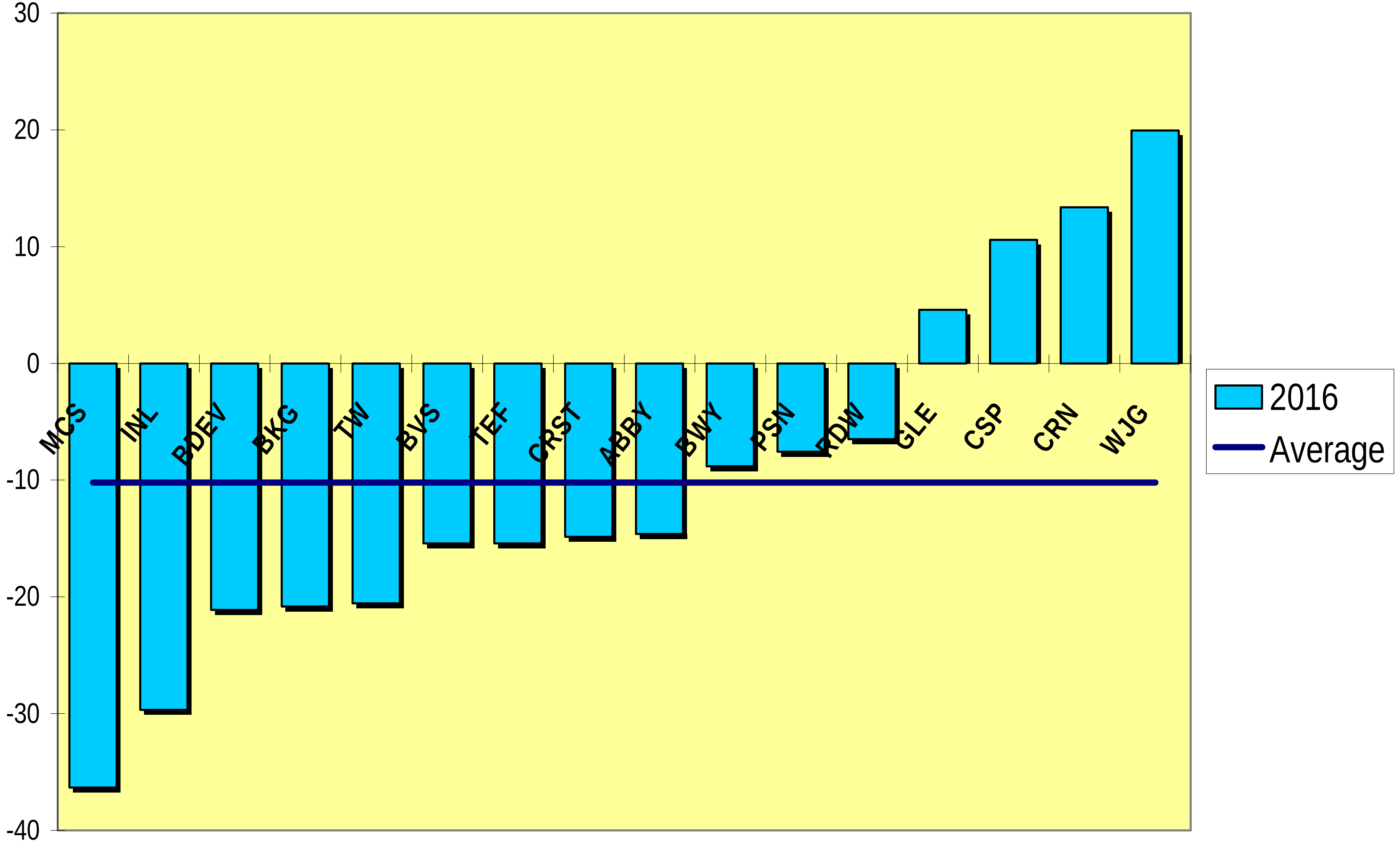
Price-to-book-value at year end/latest interim* & priced at 30/12/16

- weighted average is 1.82; actual average is 1.60; and both are ex-Watkin Jones -



UK Housebuilders TSR in 2016 (%)

- source Bloomberg except ABBY, CSP (10.6 months) & WJG (9.3 months) which are estimated -



Price Earning Ratio (PER)

- The Sector's PER for 2016 (part historic/part forward) is 9.2x with 8.8x in 2017 and 8.1x in 2018 based on consensus forecasts (15 companies are included in all years i.e. ex-Cairn which is in loss - save for 2018 when the sample is 10)

- After earnings growth of 35% in 2015, last year is at +9% followed by +5 and +9% in 2017 and 2018 respectively; but we believe analysts are confused

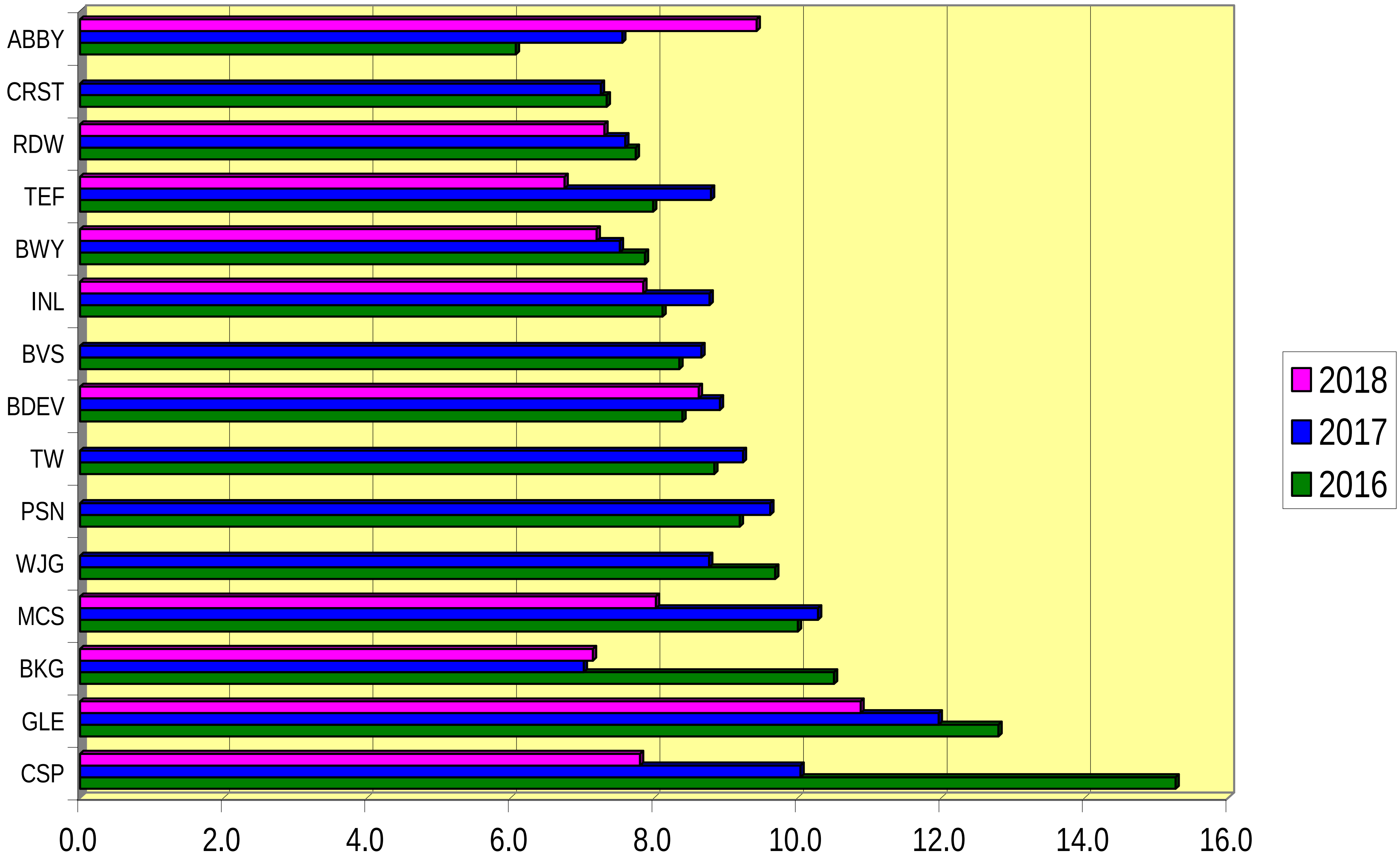
- 2017's forecast growth is also marginal at 5% - particularly against frequent forecast revisions, are all of which are downwards; a year ago, the forecast for 2017 was +14%

- Similarly, eight from 15 companies are already forecast to see a dip in earnings in 2017; and, in 2018, it is two from 10

- For the record, historic PERs for the FTSE 100, All Share Index and FTSE 250 range from 20 to 34x

PER: 2016 (av. 9.2x); 2017 (8.8x); and 2018 (8.1x)

- consensus EPS sourced from Digital Look, Reuters & FT; and priced at 30 December 2016 -



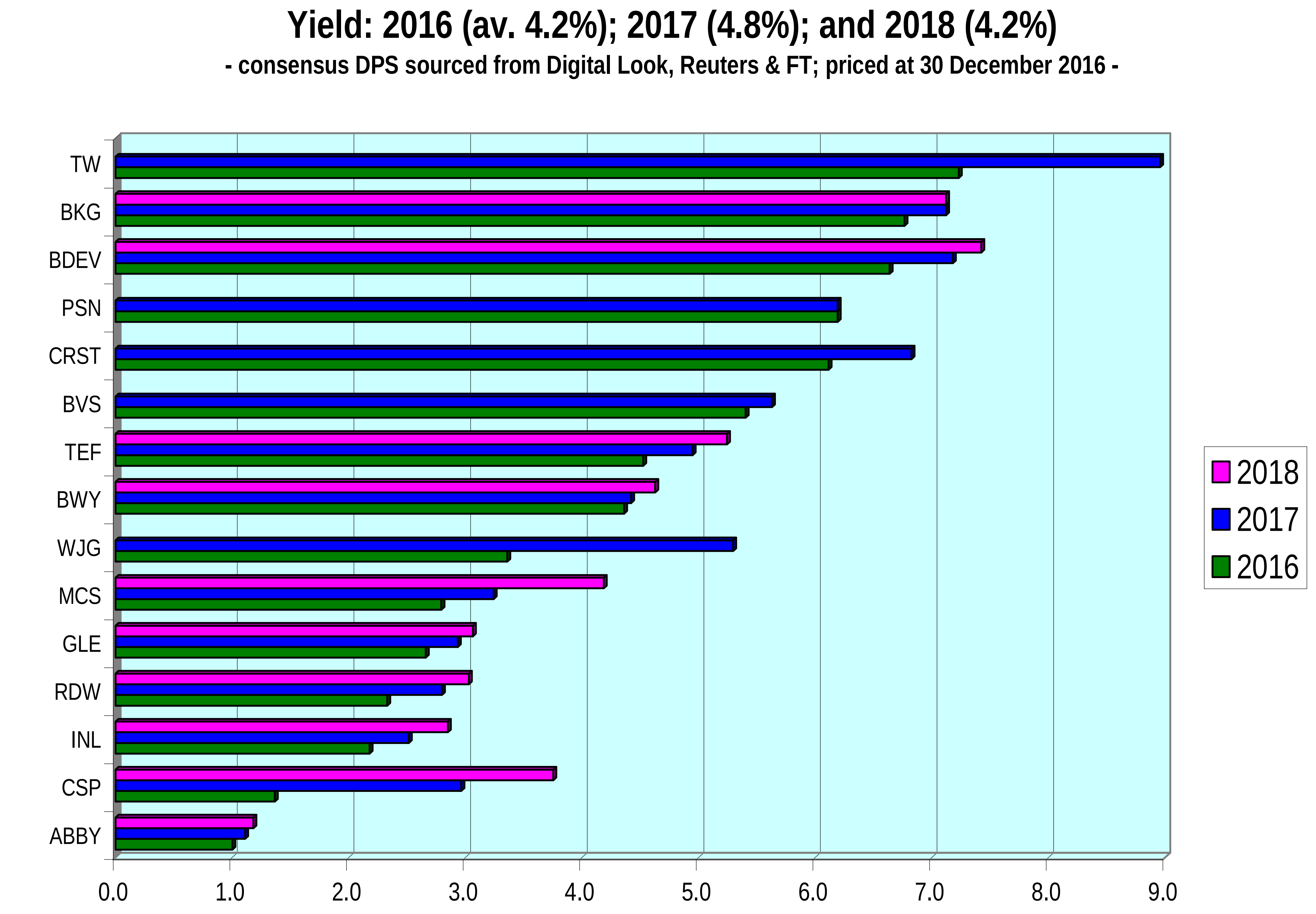
Dividend Yield

- The Housebuilding Sector (including specials) had an average 2016 yield of 4.2% covered 3.9 times; once again this includes consensus forecasts and is both part historic and part forward looking - depending on fiscal years ends

- In 2017 (15 stocks) and 2018 (10 stocks and less specials) the yield is 4.8 and 4.2% respectively which is covered 3.2 and 3.7 times

- Similarly, a number of companies has committed to paying enhanced dividends which means Persimmon, Crest, Barratt, Berkeley and Taylor Wimpey are yielding 6 to 9%

- For the record, the UK equity market yields between 2.7 and 3.7% historic with lean average cover of 1.2x; all calculations are made at the LSE close on 30 December



Yield: 2016 (av. 4.2%); 2017 (4.8%); and 2018 (4.2%)
- consensus DPS sourced from Digital Look, Reuters & FT; priced at 30 December 2016 -
TW
BKG
BDEV
PSN
CRST
BVS
TEF
BWY
WJG
MCS
GLE
RDW
INL
CSP
ABBY
0.0
1.0
2.0
3.0
4.0
5.0
6.0
7.0
8.0
9.0
2018
2017
2016

Results in Q4

- In Q4 there were four sets of final results and three interims plus 15 trading updates and one ‘profit warning’; we have also included Persimmon’s 5 January 2017 trading update

- Average individual pretax profits for the seven reportees in Q4 rose 23% whilst EBIT margins, on the same basis, dipped from 20.5 to 19.7% on revenue larger by 24% at £5.2 billion

- Earnings per share rose 28% on average (with four pluses and three negatives) and with them dividends were raised by an average 22%. In turn, average individual cover was still very comfortable at 4.6x actual or 3.4x ex-Abbey

- The average increase in orders was 6% (five companies)

- Average individual ROCE dipped from 21.7 to 19.4% with Capital Turn little changed at 0.93 (versus 1.00)

Q4 profit & loss

Date	Company	Event	Period	Pretax profit (£m)		PBT	*EBIT margins*		*Orders*	DPS	DPS cover (x)	
			ending	Old	New	*% chge*	*Old (%)*	*New (%)*	*% chge*	*% chge*	*Old*	*New*
10-Dec	Abbey (Euro)	Half Year	31-Oct	30	22	*-27*	*26.2*	*24.4*	*-*	*17*	*18.4*	*11.6*
10-Dec	Abbey (GBP)	Half Year	31-Oct	21	18							
18-Oct	Bellway	Full Year	31-Jul	347	481	*38*	*20.4*	*22.0*	*3*	*40*	*3.0*	*2.9*
02-Dec	Berkeley	Half Year	31-Oct	242	366	*51*	*22.1*	*26.3*	*-11*	*11*	*1.5*	*2.1*
29-Nov	Countryside	Full Year	30-Sep	37	94	*153*	*14.8*	*15.9*	*64*	*-*	*-*	*4.8*
14-Oct	Inland Homes	Full Year	30-Jun	20	16	*-20*	*24.8*	*22.8*	*-28*	*30*	*8.1*	*5.7*
14-Nov	McCarthy & St.	Full Year	31-Aug	88	105	*19*	*19.6*	*16.9*	*4*	*-*	*-*	*3.6*
30-Nov	Telford	Half Year	30-Sep	21	9	*-56*	*15.8*	*9.9*	*-*	*11*	*4.3*	*1.4*
TOTAL (£m)				777	1088							
Individual average change (%) / cover (x)						*23*			*6*	*22*	*7.0*	*4.6*
Sector average change (%) / cover (x)						*40*				*22*	*2.9*	*2.8*
Individual average margin (%)							*20.5*	*19.7*				
Sector average margin (%)							*20.0*	*21.4*				
<u>Notes:</u>												
(i) Pretax profit numbers are adjusted where necessary and are net of exceptionals												
(ii) EBIT is Earnings Before Interest & Tax; DPS is dividend per share												
(iii) Abbey is Irish-domiciled (hence the Euros) but is listed on both the Dublin and London stock exchanges; only its GBP are included in totals												
(iv) Berkeley's revenue (and profit) from sale of ground rent is excluded: H1 2016 £27.2m (est. £27.2m); and H1 2015 £53.4m (£51.0m)												
(v) Countryside and McCarthy were re-listed in 2015 and 2016; and there was no prior year dividend												
(vi) Telford's revenue (and profit) are gross of its share JVs: H1 2016 £5.3m (£1.2m); and H1 2015 £0.8m (£0.4m)												
(vii) Telford has £700 million of forward sales which compares with fiscal 2016's annual revenue of £246m												

Q4 balance sheets

Date	Company	Event	Period	Net Assets (£m)		Net (Debt)/Cash (£m)		*Gearing*	*Gearing*	*ROCE^*	*ROCE^*	*Capital*
			ending	Old	New	Old	New	*Old %*	*New %*	*Old %*	*New %*	*Turn (x)*
10-Dec	Abbey (Euro)*	Half Year	31-Oct	273	266	95	85	*-35*	*-32*	*21.4*	*16.2*	*0.7*
10-Dec	Abbey (GBP)*	Half Year	31-Oct	195	239	68	76					
18-Oct	Bellway	Full Year	31-Jul	1,576	1,867	-39	26	*2*	*-1*	*21.8*	*25.9*	*1.2*
02-Dec	Berkeley	Half Year	31-Oct	1,760	1,969	263	208	*-15*	*-11*	*26.0*	*35.3*	*1.3*
29-Nov	Countryside**	Full Year	30-Sep	-	531	-	12	-	*-2*	*24.2*	*21.9*	*1.4*
14-Oct	Inland Homes	Full Year	30-Jun	89	116	-35	-55	*39*	*47*	*19.5*	*12.4*	*0.5*
14-Nov	McCarthy & St.	Full Year	31-Aug	469	627	-42	55	*9*	*-9*	*16.8*	*15.5*	*0.9*
30-Nov	Telford	Half Year	30-Sep	135	189	-51	-40	*38*	*21*	*22.3*	*8.5*	*0.4*
TOTAL (GBP)				4,224	5,538	164	284					
Individual average change (%)					*26*							
Sector average change (%)					*31*							
Individual average ROCE (%) adjusted										*21.7*	*19.4*	*0.9*
Sector average ROCE (%) adjusted										*22.0*	*24.6*	*0.9*
Individual average gearing (%)								*6*	*2*			
Sector average gearing (%)								*-4*	*-5*			
Notes:												
^ ROCE is return on capital employed; and adjusted where required for half year												
** Abbey helds gilts and restricted cash of Euro 15.0 million at end H1 2016 (H1 2015 = Euro 14.8 million) within its net cash tally*												
*** Countryside was re-joined the stock market in 2016 and it prior year adjusted net assets were negative and it held £343 million of net debt*												

Performance & outlook

- **Persimmon (Trading Update - 5 January):** the Group said that 2016 revenues (i.e. with an ‘s’) rose 8% to £3.14 million with completions ahead 4% at 15,171 and average selling prices rising by some 4% to £206,700; note, too, that the Group’s shares also rose 7.2% on 5 January to £19.40

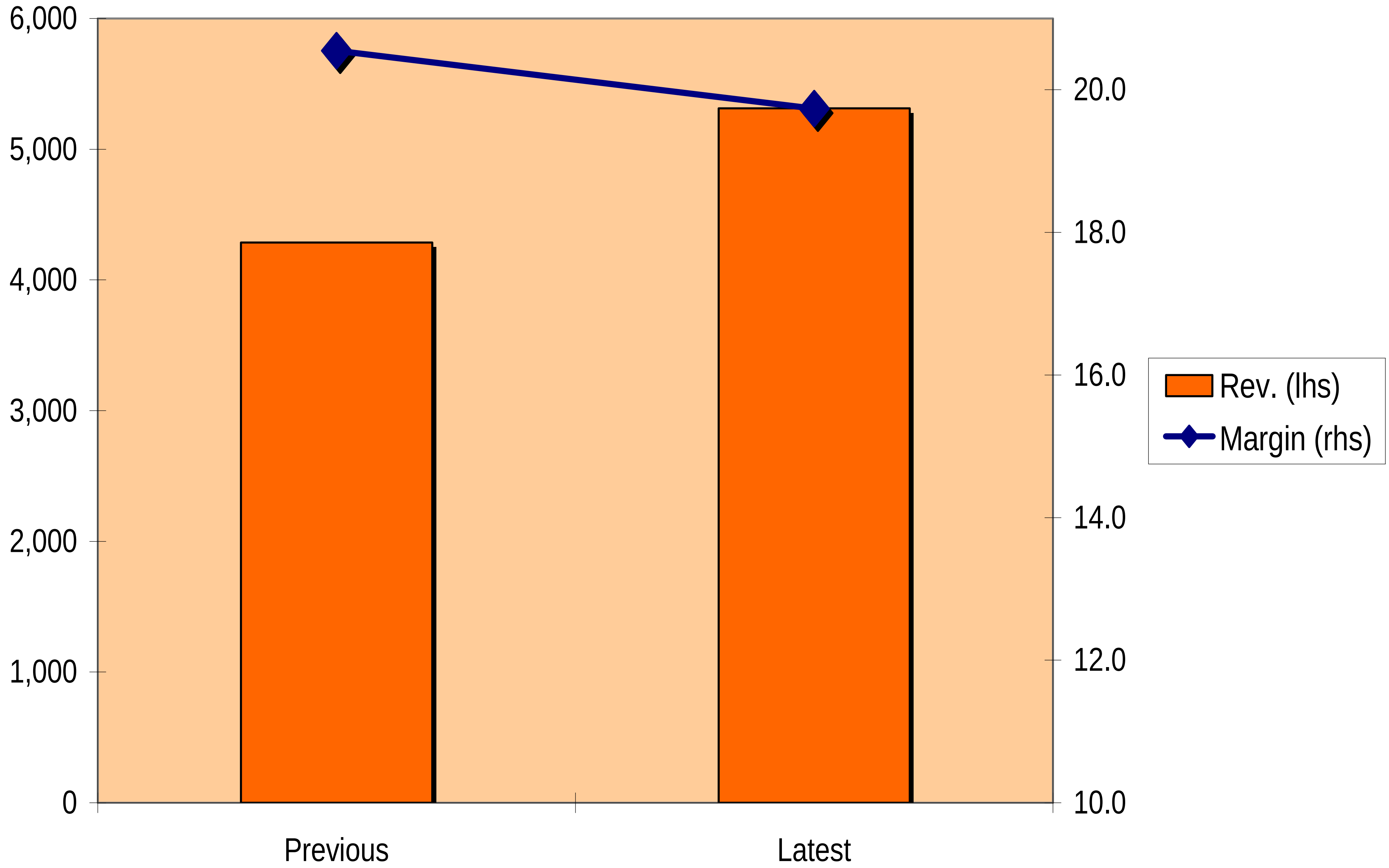
- “Sales reservations through the autumn season were strong with healthy customer demand for new homes” and the Group’s private sales’ rate for H2 2006 was 15% ahead year on year

- At the same time, the value of forward sales at 31 December was an annualised 12% ahead at some £1.23 billion

- “We continue to see good opportunities to acquire additional land whilst remaining mindful of the risks associated with the uncertainty arising from the UK’s decision to leave the EU”

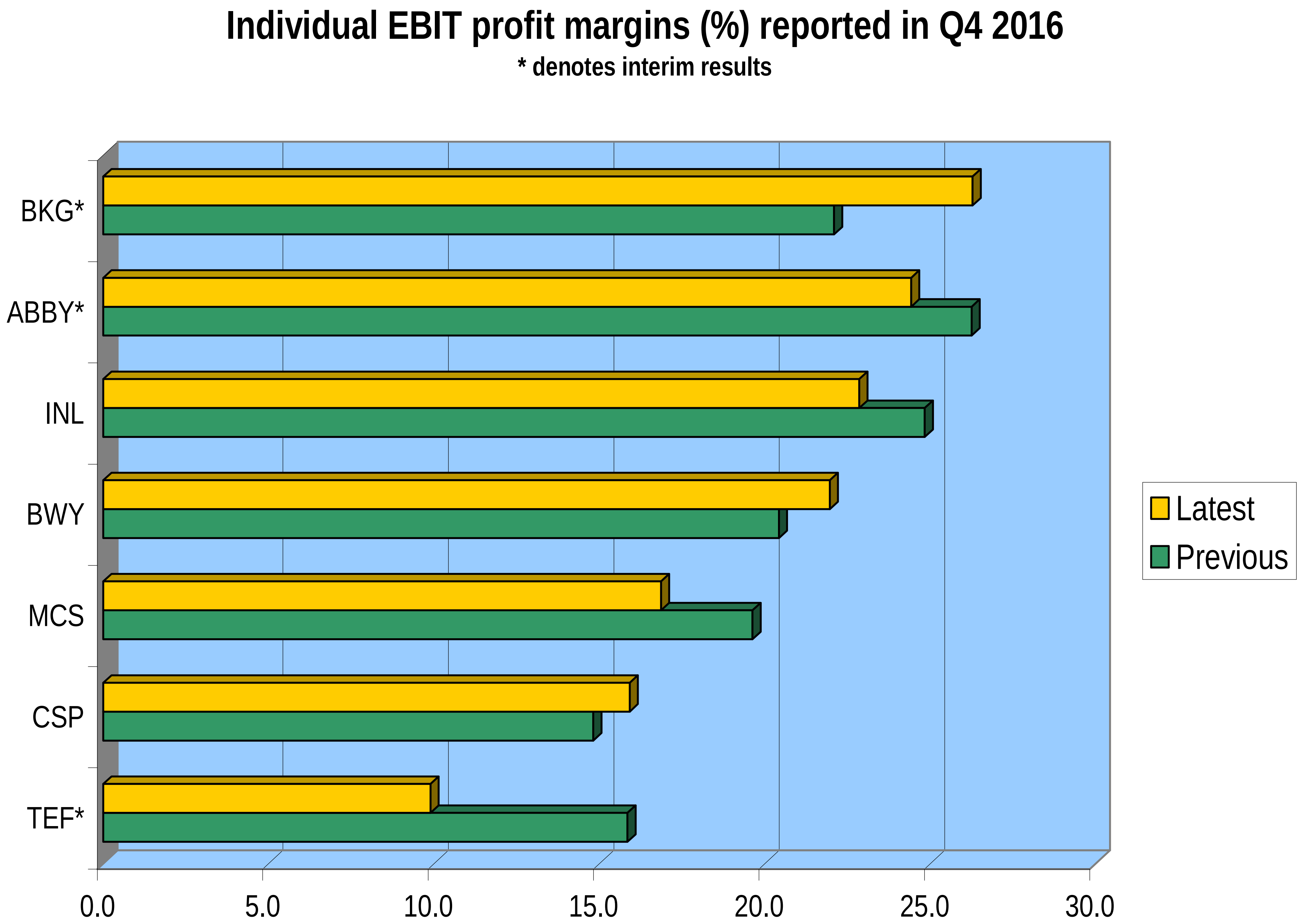
Sector revenue (£m) and EBIT margin (%) - reported in Q4 2016

- average individual margin -



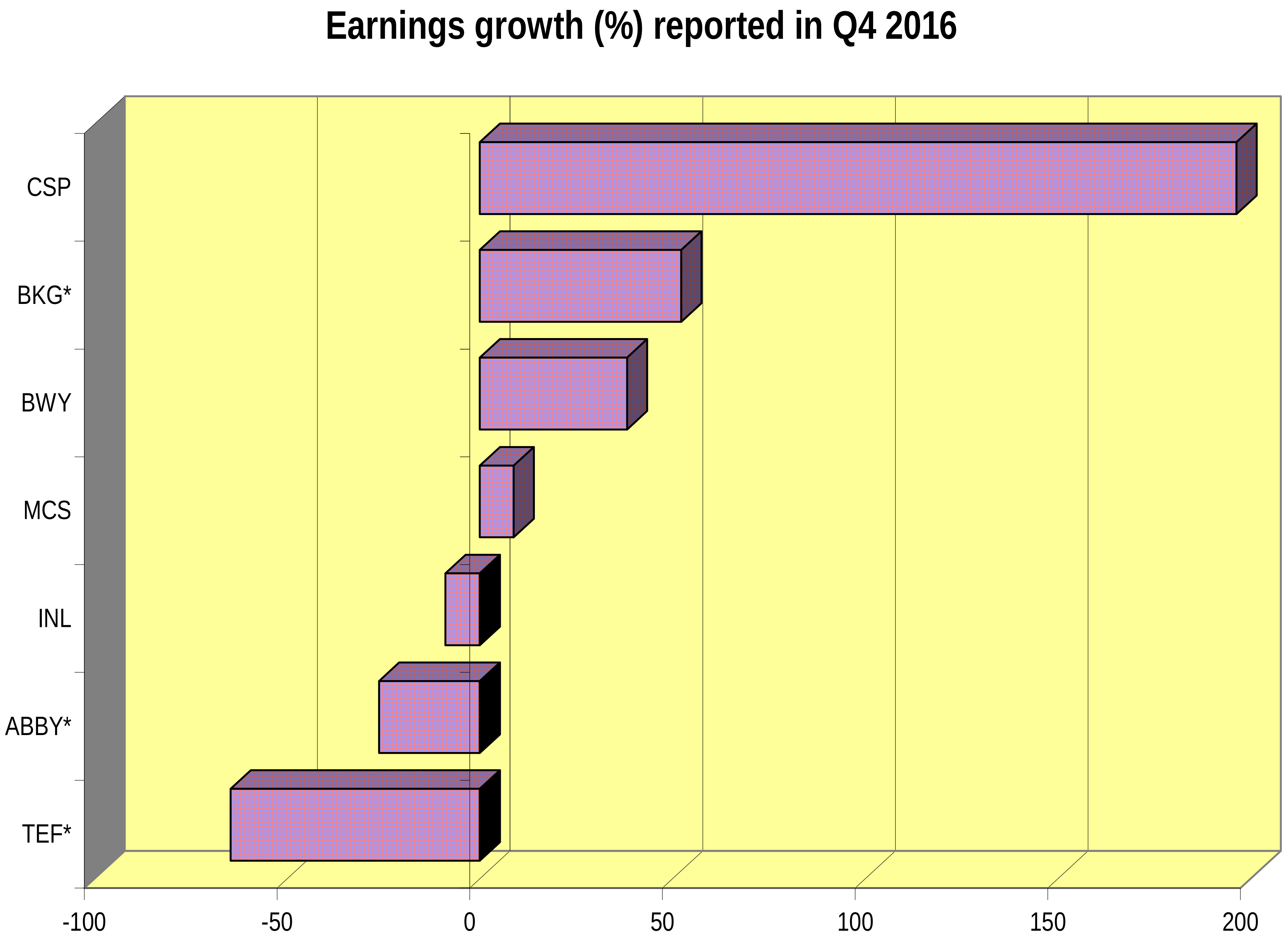
Performance & outlook 2

- **Bovis ('profit warning' - 28 December):** they called it a 'Pre close update' but it was a profit warning in all but name; and was aired in the dog days between Xmas and New Year
- It also came just 32 working days since a 10 November Trading Update when CEO David Ritchie said: "another year of both growth in volume and increase in average sales price is expected to deliver record revenues for the Group in 2016. As a result, we are on track to deliver increased profit"
- Now, however, with what must be red faces: "we expect the volume delivery for 2016 will be lower than previously anticipated at between 3,950 and 4,000 homes" (2015: 3,934)
- It seems that some 180 largely built and sold private homes did not complete and are deferred into early 2017


Individual EBIT profit margins (%) reported in Q4 2016
* denotes interim results
BKG*
ABBY*
INL
BWY
MCS
CSP
TEF*
0.0
5.0
10.0
15.0
20.0
25.0
30.0
Latest
Previous

Performance and outlook 3

- **Bellway (AGM - 13 December)**: “in the context of this positive market backdrop, since 1 August the Group has taken an average of 176 reservations per week (2015 - 165), an increase of 7% compared to the same period last year, supported by the opening of 46 new trading outlets
- “The pricing environment is firm across the country in those areas where the Group has a presence, with sales prices achieved on reservations in line with expectations. In London, where Bellway’s focus continues to be on affordably priced new homes, prices have remained stable and demand robust”
- The Group also said that “whilst remaining mindful of the longer term uncertainty as a result of the vote to leave the EU” it had cautiously recommenced a programme of land acquisition, following a brief planned hiatus in the weeks after the referendum


Earnings growth (%) reported in Q4 2016
CSP
BKG*
BWY
MCS
INL
ABBY*
TEF*
-100
-50
0
50
100
150
200

Performance and outlook 4

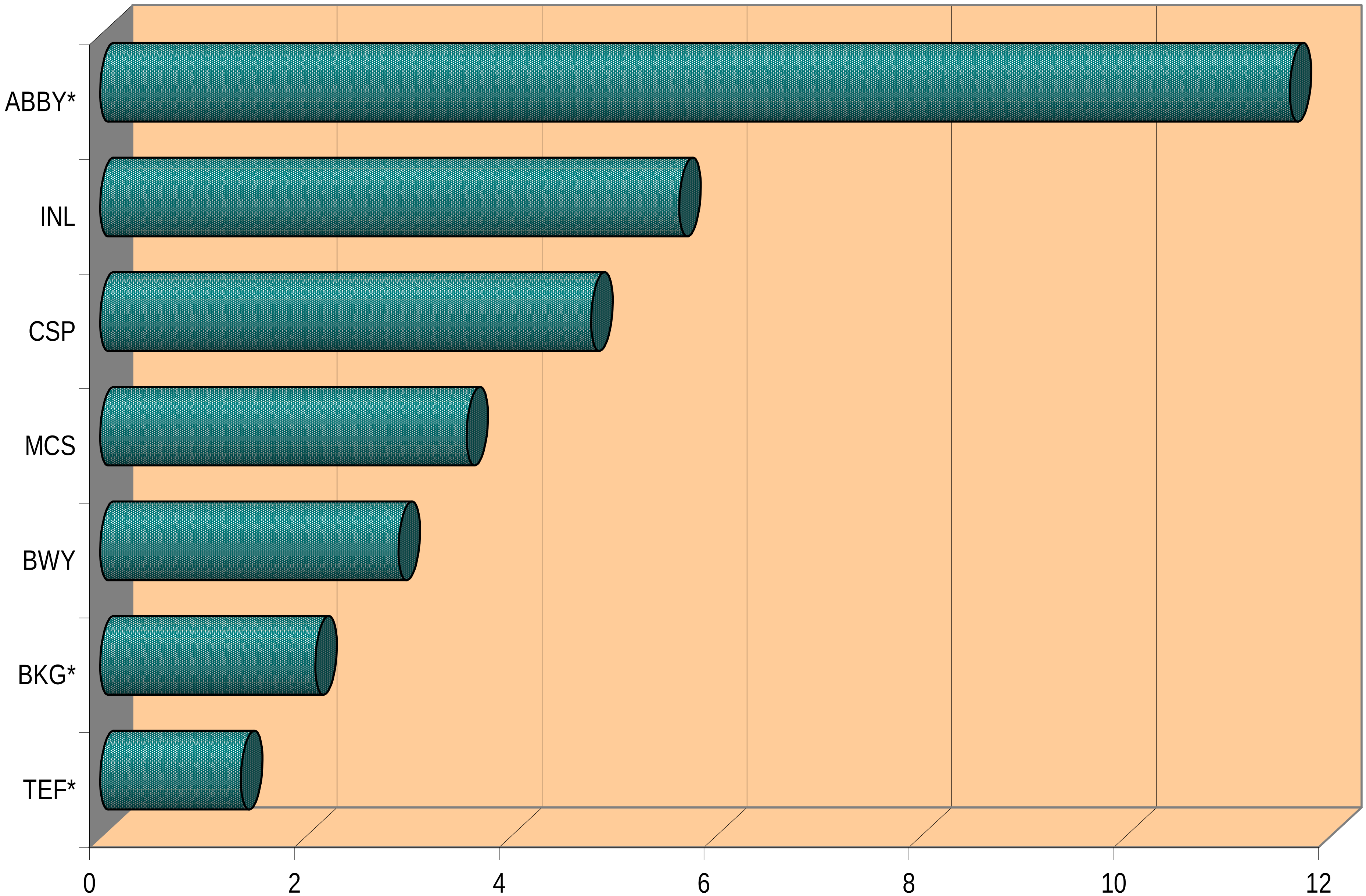
- **Abbey (Interims - 9 December)** announced a rare dip (but significant at minus 27%) in pretax profit to Euro 21.6 million with the UK off by a fifth and Ireland moving from loss to profit costing Euro 1.7 million

- Few clues were offered save for “production is under pressure to keep up” albeit the statement was far from bearish i.e. strong UK margins and good forward sales

- Similarly, “a strong second half should allow physical activity to surpass last year. In England, uncertainty is affecting sentiment and this may impact the business in 2017”

- “In Ireland gradually easier credit conditions for first time buyers is supporting the slow recovery”

Cover reported in Q3: av. = 4.6x (3.4x ex-Abbey) after 22% increase



Performance and outlook 5

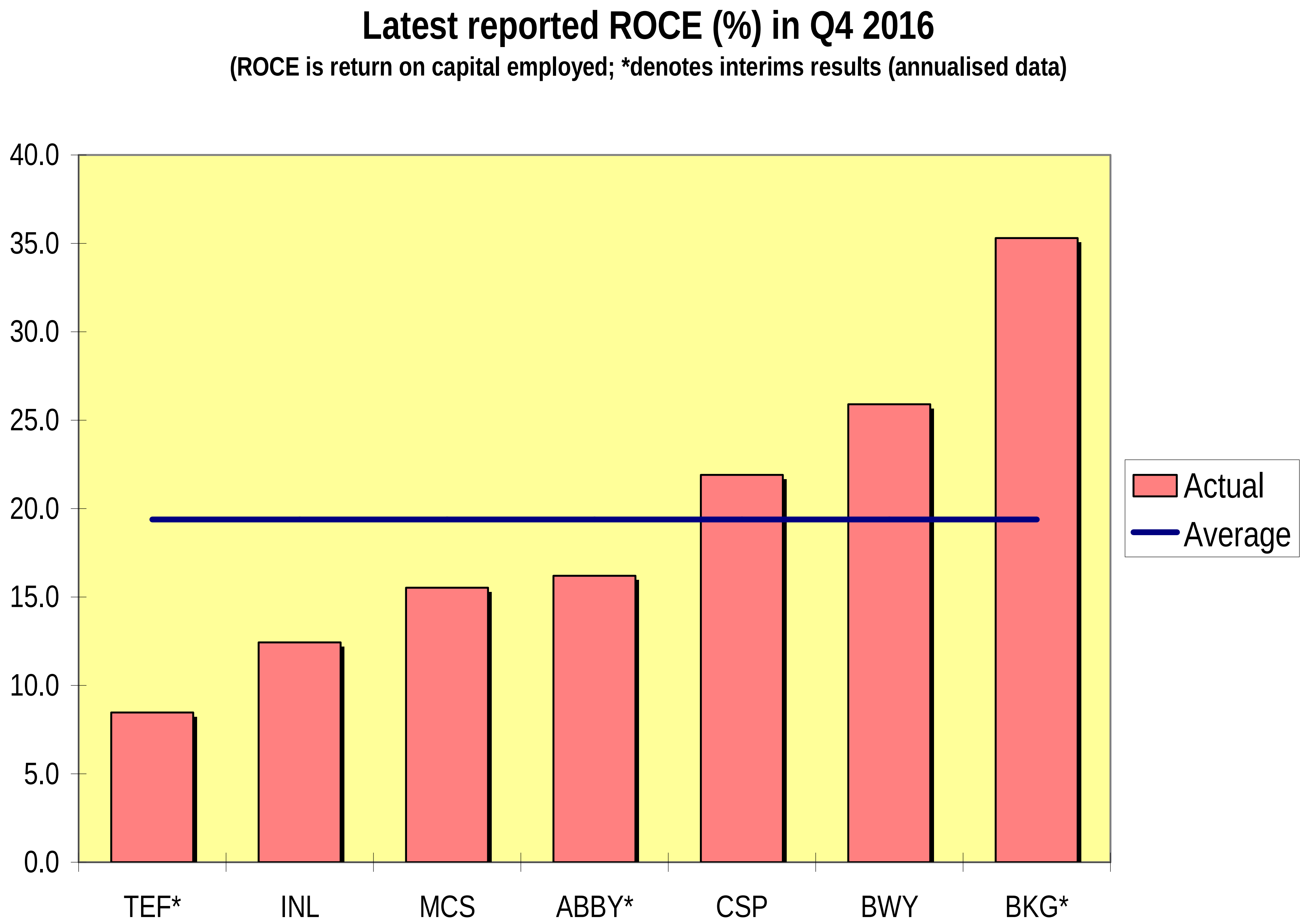
- **Berkeley (Interims - 2 December)** enjoyed a good half year with EBIT, pretax profit (to £365.5 million) and EPS all ahead by more than 50% (excluding ground rent profits); and, on the day of its announcement, the share roses 8.4% (to £27.60)

- The Group reiterated, too, that it was on target to deliver a three year pretax profit of £2.0 billion from 1 May 2015 and for good measure introduced a new one: a five year target to deliver at least £3.0 billion of pretax profit in the five years beginning 1 May 2016

- It also said that in tandem with special dividends it would offer share buybacks (to date £6.34 has been paid per share with £10 to come through September 2021); "this recognises that, at certain price points, the Board is of the opinion that the Company is materially undervalued"

Performance and outlook 6

- **Berkeley cont/.** this was despite the fact that forward sales were 11% off at £2.9 billion and "excluding an hiatus around Brexit, reservations are 20% down on the same period last year, as a result of the market adjusting to increased stamp duty and the economic uncertainty arising from the result of the EU Referendum"
- "The prevailing environment is one of uncertainty and we expect this to continue with short-term fluctuations, both up and down, likely to be a reality. Our business is well set-up to perform strongly in these conditions and is centred around London and the South East
- "Notwithstanding the UK's decision to leave the European Union, we believe that London will endure as a global financial centre and a place where people from all walks of life and corners of the world will continue to aspire to live and work"



Latest reported ROCE (%) in Q4 2016
(ROCE is return on capital employed; *denotes interims results (annualised data)
40.0
35.0
30.0
25.0
20.0
15.0
10.0
5.0
0.0
TEF*
INL
MCS
ABBY*
CSP
BWY
BKG*
Actual
Average

Performance and outlook 7

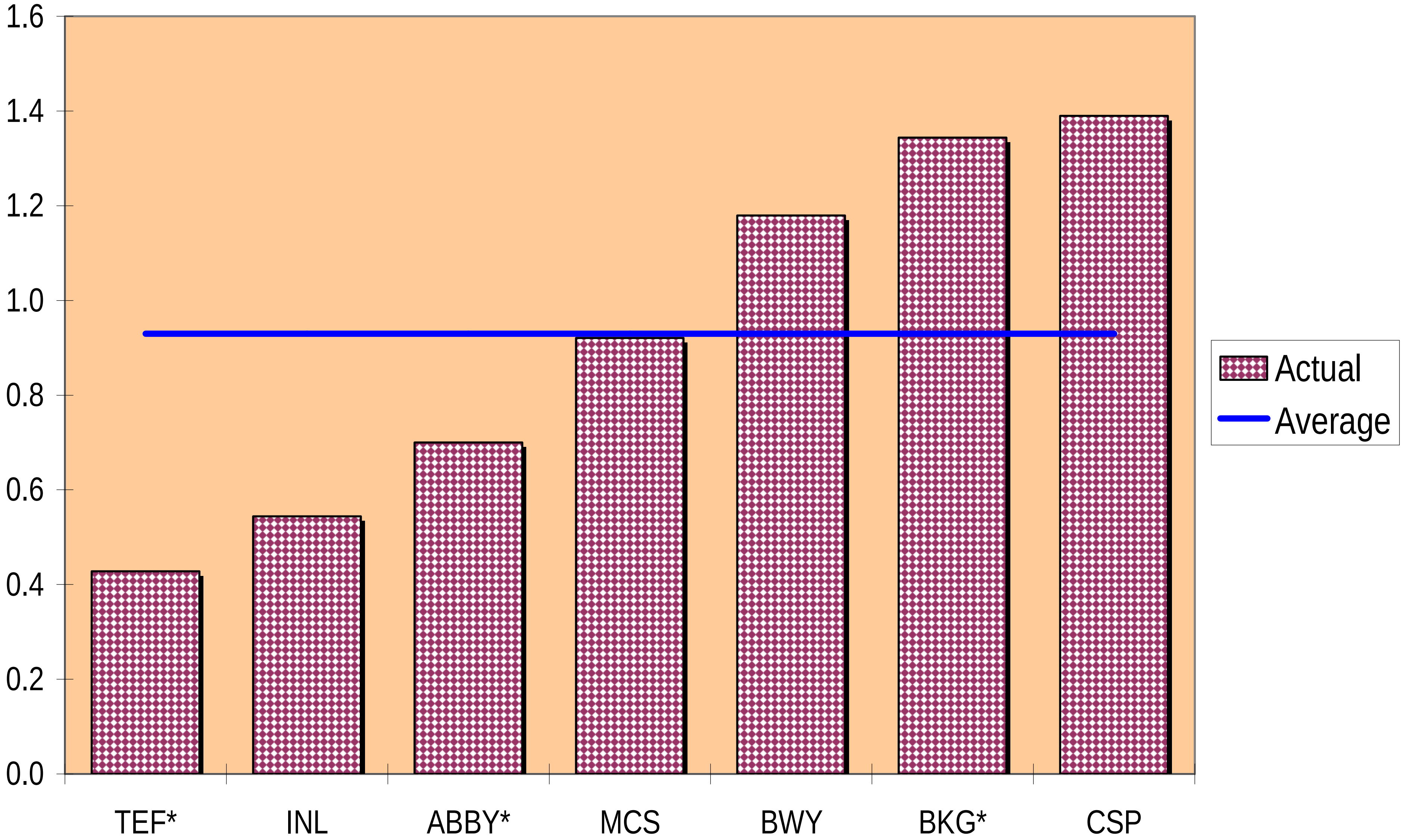
- **Telford Homes (Interims - 30 November):** on face value it was a difficult six months, with gross revenue down by 25% to £104 million and pretax profit more than halving to £9.3 million - but this was down to “development timings” which “do not always fall evenly across the year”

- In fact, the Statement was positive and both the dividend (+11%) and capital employed rose (+23%) in the half year and the Group says it is “well positioned to deliver on targets to exceed £50 million of annual pretax profit by 31 March 2019 and double the size of the business over the next five years”

- More immediately, it enjoys a strong forward sold position exceeding £700 million of revenue to be recognised from the year to 31 March 2017 onwards (+21% year on year). It is also developing an increasing number of ‘build to rent’ units

Latest reported Capital Turn (x) in Q4 2016

Capital Turn = revenue divided by capital employed; *denotes interim results (annualised data)



Economics corner 1

- **GDP** in Q3 rose 0.6% in volume terms (revised up from 0.5%) on an annualised basis and +0.4% quarter on quarter; Construction, however, was off 0.8%

- **CPI** continues to gather momentum and was +1.2% in November which compares with +0.9% in October and +0.1% a year ago; it is also the highest since October 2014 (+1.3%)

- **Unemployment** was a lean 4.8% in the October quarter (which is near enough an academic definition of full employment); a year ago it was 5.2%

- **Retail Sales** in November, by volume, increased 5.9% year-on-year and by 2.1% in the three months to end November which is the 35th consecutive quarter on quarter rise

Economics corner 2

- **CML:** gross mortgage lending in November was £21.1 billion, which was 3% up both on the year and the month; but forecasts for 2017 have been revised downwards with gross advances estimated at +0.6% now rather than +6.1%

- **BBA:** mortgage approvals in November (40,659) were 9% lower year on year and, in the first 11 months of 2016, the cumulative tally was off 4% annualised (data are ex-building societies i.e. almost a third of all mortgages)

- **BoE:** mortgage approvals in November (67,505) were the best since March but only inched ahead (0.2%) of October and were 4.1% off year-on-year

- **Experian*** forecasts Private Housing Output growth of 5, 2 and 1% in 2016, 17 and 18 respectively

*where Building Value is an advisor

House price corner

- **Nationwide:** +0.8% in December and +4.5% for 2016 as a whole and it still expects that a small gain of around 2% is more likely than a decline in 2017

- **Rightmove:** national average asking prices dipped 2.1% (£6,511) in December to £299,159 but 2016 as a whole was still 3.4% to the good; and Rightmove is forecasting +2% in 2017

- **Reuters** and its Housing Market Poll (which Building Value contributes to) is also on a median +2% for house price inflation in 2017 (including minus 0.5% in London) with +2.7% scheduled in 2018 (with London at +2.0%)

- Meantime, the **Halifax** is keeping its options open at +1 to 4% in 2017; and the **RICS** is at +3% for this year

Bumps

- Just as Brexit is not Brexit, speed bumps are not just speed bumps
- On the former, Theresa May said it was - but it’s not that simple and the egress will take time to enact, perhaps a long time; and does she rue that statement now?
- Equivalently, speed bumps don’t just slow vehicles down
- Nor is either of them universally embraced
- In 2016, the Housebuilders hit many speed bumps and a speed wall in June, in the wake of the Brexit vote
- In the second half of the year, too, whilst the Sector has been a model autoist, the road to value has undulated like a speed bump warning sign

B2

- The paint job of uncertainty is brighter than usual, too, which engenders a wholly disproportionate reaction to both positive and negative sign posts; which means Housebuilders' share prices can move up and down by several percentage points in a day (even double-digits)

- Amongst the positives, UK GDP should grow by circa 1% in 2017, unemployment (4.8%) is a low wheel base and retail sales have risen every quarter for the last 35

- Balancing this, are the Brexit sleeping policemen, with the most senior being a very weak currency and, while it may be good for manufactured exports, the majority of the UK's raw materials are imported which means that, while the top line may grow, margins will fall

- At the same time, inflation (1.2% in November) is rising and the price of UK petrol in the first week of January rose to its highest since July 2015 (an average of 117.23 pence per litre)

B3

- Another push/pull comes from UK car sales which reached a record high in 2016 of 2.7 million units (the fifth consecutive rise); but they are forecast to fall 5% this year
- Average real earnings growth remains under pressure and unsecured consumer credit (including credit cards, car loans and second mortgages) grew 10.8% in the year to November (to £192.2 billion), the fastest rate for 11 years
- Finally, three month US dollar Libor rose above 1% in the first week of January for the first time since May 2009 i.e. the tide is turning for global interest rates
- Mortgage approvals are also slowing as are transactions with buy-to-let purchasers under pressure from higher stamp duty; and, okay, there are the straws in the wind of Government starter homes and garden villages

B4

- Similarly, whilst we believe analysts are confused, eight out of 15 company forecasts in 2017 are for lower earnings
- Contrast this, though, with Berkeley (2 December) sticking with its target to deliver a three year pretax profit of £2.0 billion from 1 May 2015; and Persimmon (5 January) reporting forward sales ahead 12%
- As the Housebuilders negotiate both smooth tarmac and speed bumps, there is money to be made in choosing when and on what surface they are running (with spare fuel in the form of 4% plus dividend yield)
- For example, in the first (four day) trading week of the New Year, share prices rose 3.6% on average with three of them - Persimmon, Taylor Wimpey and Crest - up by 9 to 10%
- But driver selection and lap counting are critical

“There are speed bumps. You will have flat tyres.
But if you have a spare called Determination, an engine called Perseverance and a driver called Will Power, you will make it to a place called Success”

- Dormiens Lictores

Legend

- Abbey (**ABBY**), Barratt Developments (**BDEV**), Bellway (**BWY**), Berkeley Group Holdings (**BKG**), Bovis Homes Group (**BVS**), Cairn Homes (**CRN**), Countryside Properties (**CPS**); Crest Nicholson Holdings (**CRST**), M J Gleeson (**GLE**), Inland Homes (**INL**), Redrow (**RDW**), McCarthy & Stone (**MCS**), Persimmon (**PSN**), Taylor Wimpey (**TW**), Telford Homes (**TEF**) & Watkin Jones Group (**WJG**)
- BBA = British Bankers Association; BoE = Bank of England; C&BMat. = Construction & Building Materials; CPI = Consumer Price Index; CML = Council of Mortgage Lenders; plus REIS and REIT = Real Estate Investment & Services and Investment Trusts; Libor = London Interbank Offered Rate; and LSE = London Stock Exchange
- Share prices at 30/12/2016 and sourced from Bloomberg and Yahoo
- Adjustments have been made to share prices, where appropriate, due to capital issues and the like
- Selected stocks are excluded from charts and Sector averages due to extreme movements or for structural reasons

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