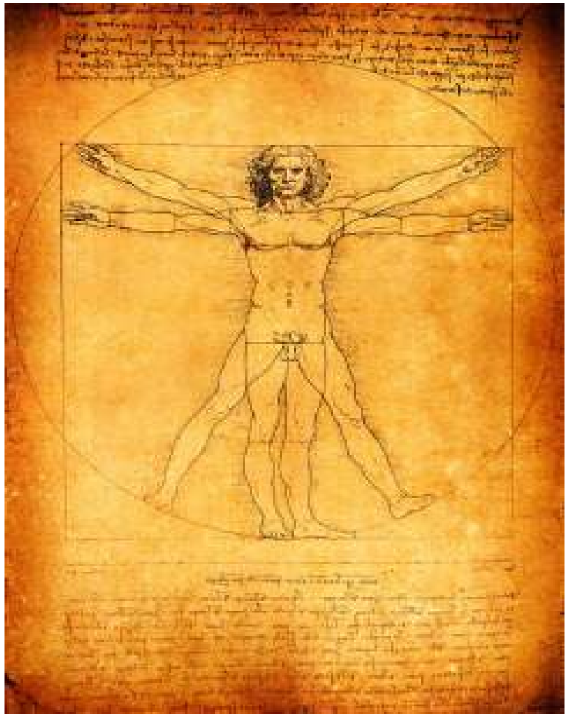
UK Housebuilding Sector



2017; et il futuro

VT

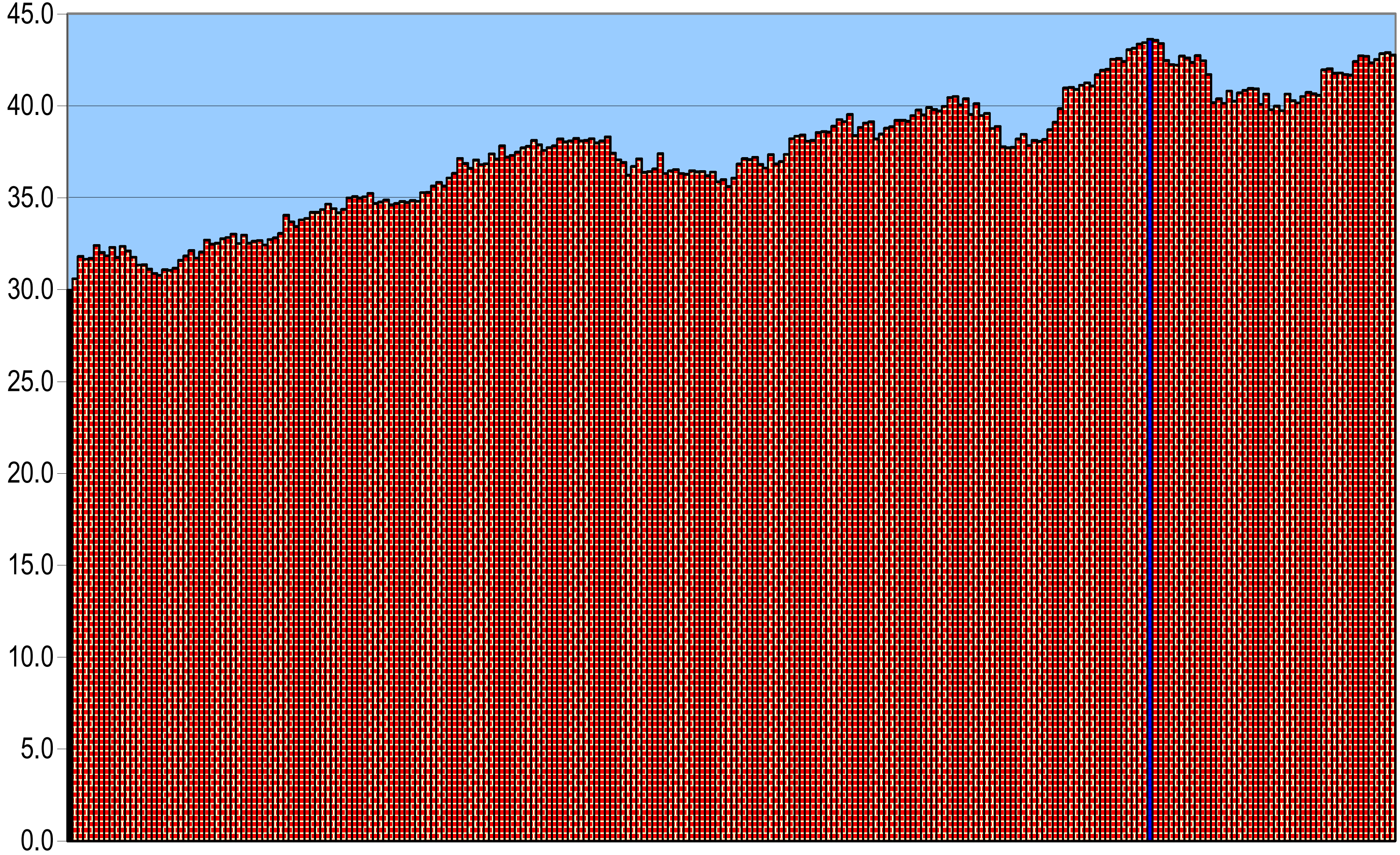
- Leonardo da Vinci's 'Vitruvian Man' (circa 1490) is often used as a representation of symmetry i.e. the workings of the human body are an analogy for the workings of the Universe
- The drawing, which is in pen and ink on paper, depicts a man in two superimposed positions and it is accompanied by notes based on the work of the architect Vitruvius. He believed that the human figure was the principal source of proportion among the classical orders of architecture
- Like most works on paper, it is displayed to the public only occasionally
- Symmetry, when it is exhibited, is a harmony of parts with each other and the whole; and it can be beautiful. Humans, for example, find bilateral symmetry in faces physically attractive. It indicates health and genetic fitness

VT 2

- The neo-classical UK Housebuilding Sector (circa 2017) is a picture of bi-lateral symmetry too
- Last year it increased in value 43% to £43 billion
- It is also healthy and exhibits genetically-modified fitness (based on empiricism)
- What could go wrong?

Housebuilding Sector value in 2017 - daily - in £ billion

- low (03/01) in black; and high (24/10) in blue -



2017

- In the calendar year, the stock market value of the UK Housebuilding Sector rose 43% to close at £43 billion (which compares with minus 14% in 2016)

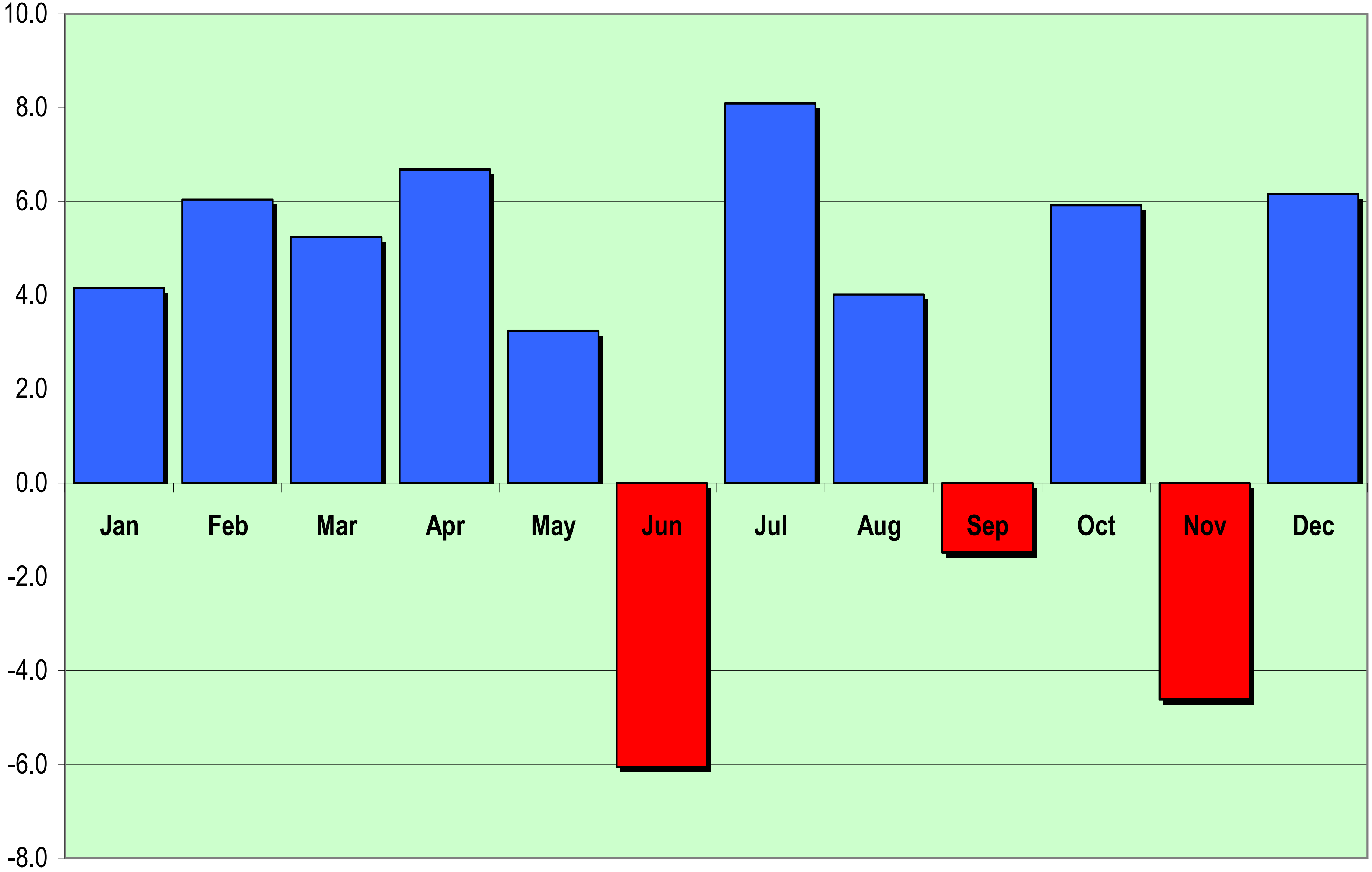
- This was also just 2% off its all-time high which was recorded on 24 October (£43.6 billion); and 22% above its pre-Brexit level

- The Sector painted new ground a record 34 times in 2017 with 14 of these in Q4

- In total, too, there were 252 trading days and the Sector rose on 60% of them and fell on 40%; and there were no flat canvases

- Similarly, in 52 weeks the rise and fall ratio was 67:33; and there were only three colour red months: June (-6%); September (-2%) and November (-5%)

UK Housebuilding Sector: month by month in 2017 (% change)



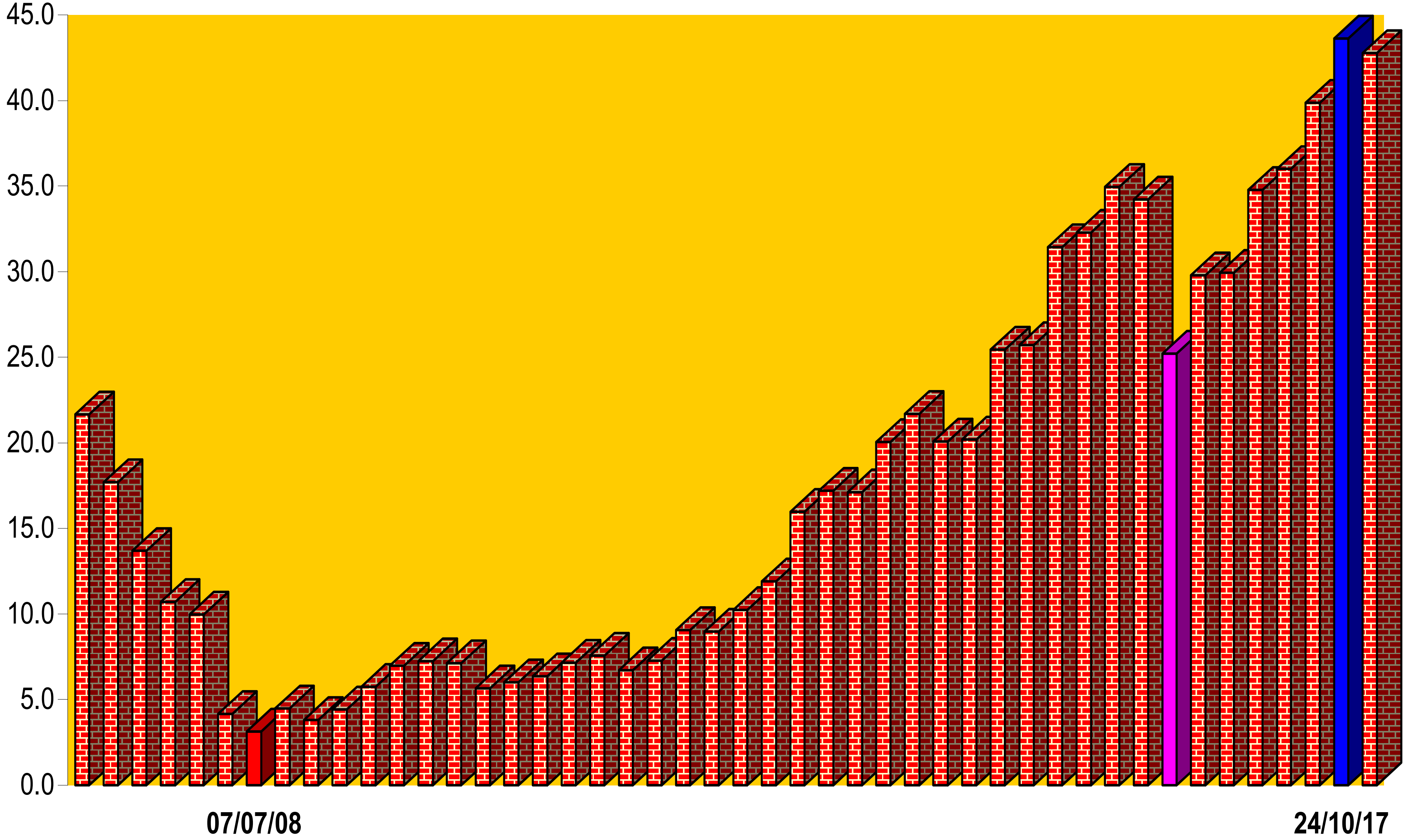
2017 cont/.

- All four Quarters were brushed positive, especially Q1 (+16%) and Q3 (+11%)
- The best week was Week 1 (+5.8%) while the worst was Week 45 (minus 4.7%)
- Best day was 5 January (+4.0%) and the worst 9 November with minus 3.7%
- Looking back to the Sector's trough (7 July 2008) the rise has been 1,263% or £39.6 billion; and the Brexit bombard - when Housebuilders lost 40% of their value in two days - is an historical charcoal
- And yet, the Sector still trades on a single digit PER a year out

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

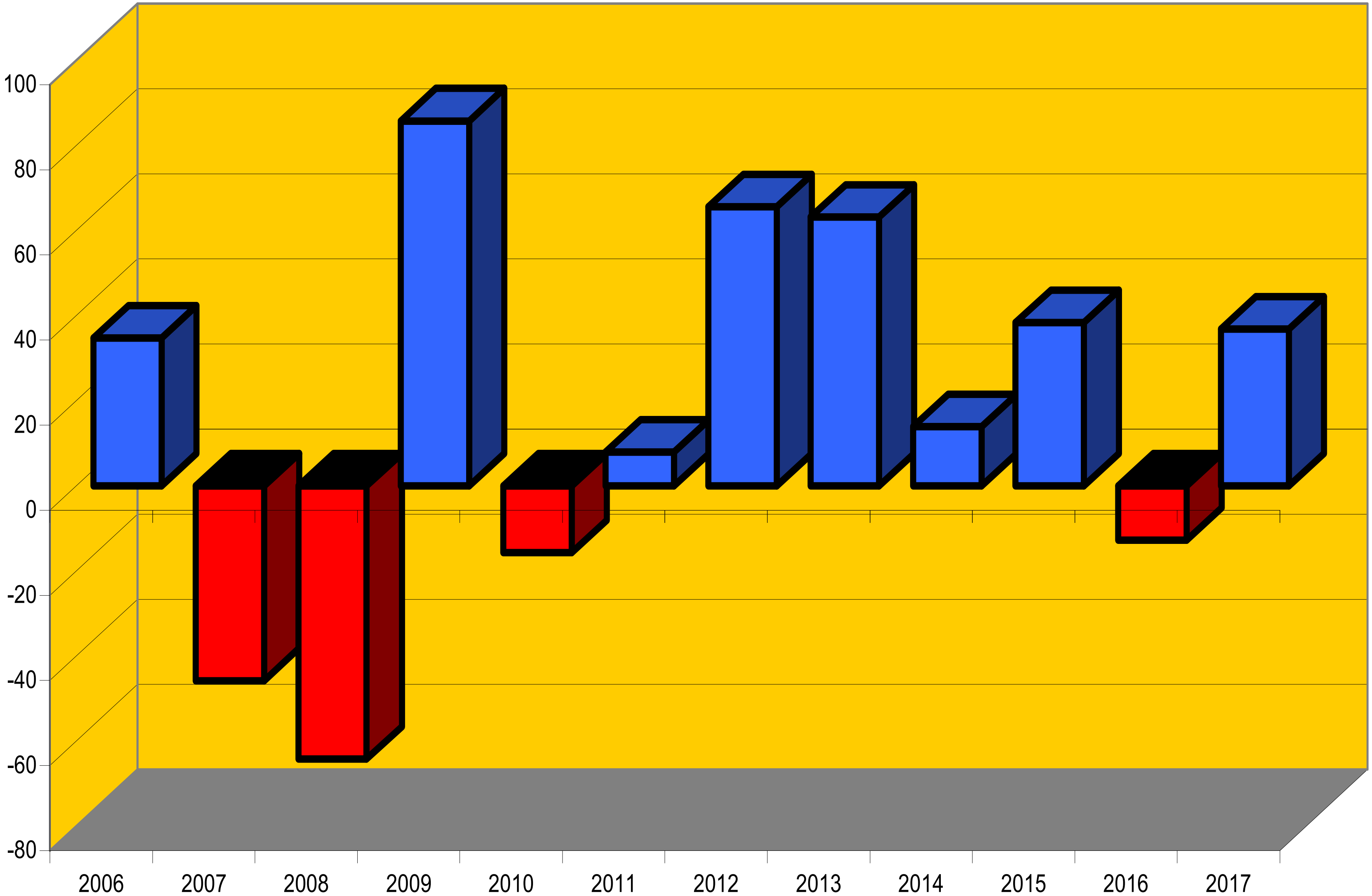
quarterly from Q1 2007 to Q4 2017

- 7 July 2008 (low) and 24 October 2017 (high); Brexit in pink -



UK Housebuilding Sector: annually 2006 - 2017

- % change in share prices -



Share prices in 2017

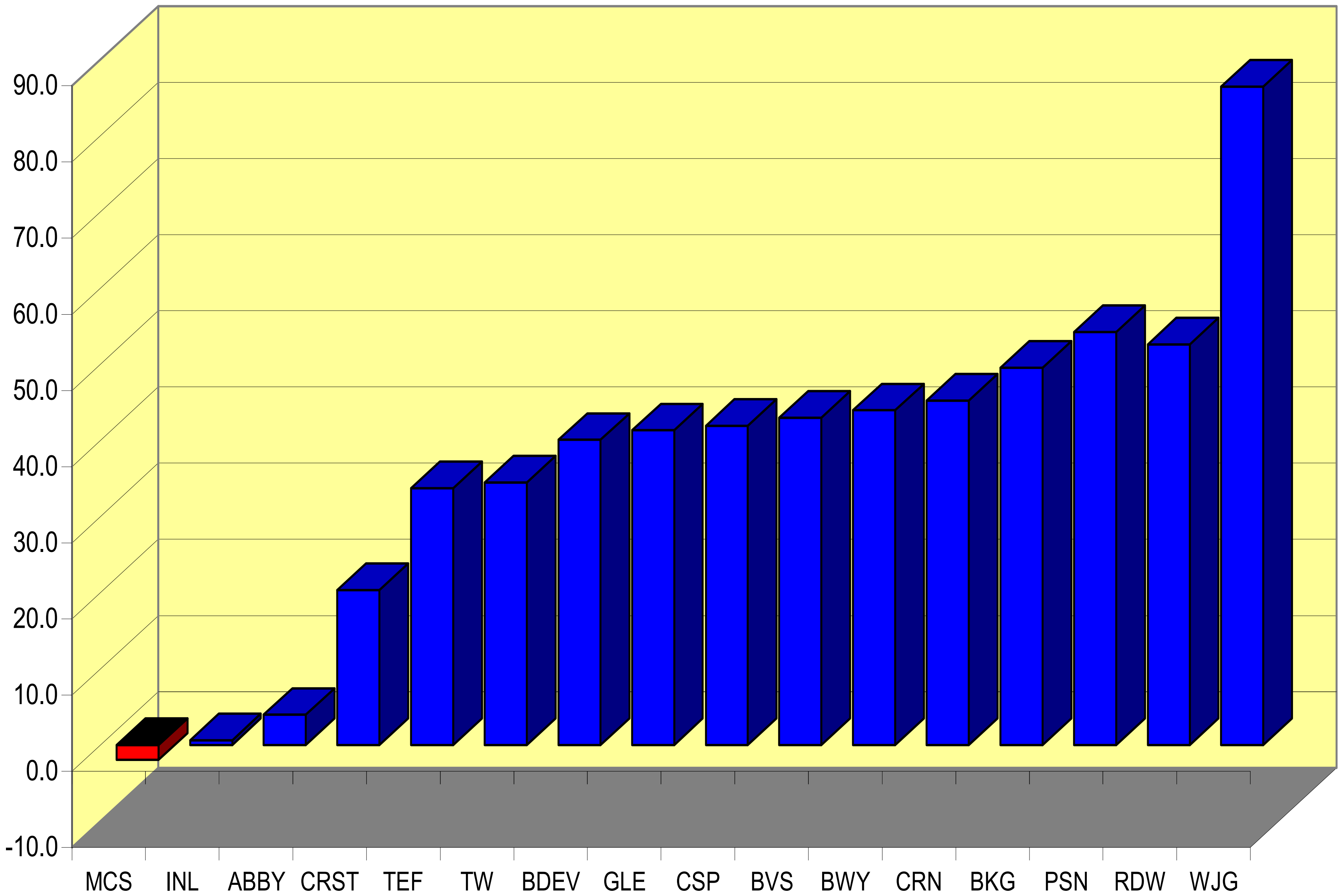
- Housebuilders' share prices rose by an average 37% last year actual or 43% weighted by market capitalisation; in 2016, there was a deficit of 13% and 17% respectively

- Watkin Jones, the artistic student flat developer, was the competition winner with +86%

- Next best with a palette were Persimmon (+54%), Redrow (+53%) and Berkeley (+50%) with six others stocks at 40% or better

- McCarthy & Stone was the sole negative engraver (-2%) in a difficult year for the re-drawn corporate; and it closed 2017 at 157.8 pence which compares with a November 2015 IPO price of 180 pence

Share prices in 2017 (% change)

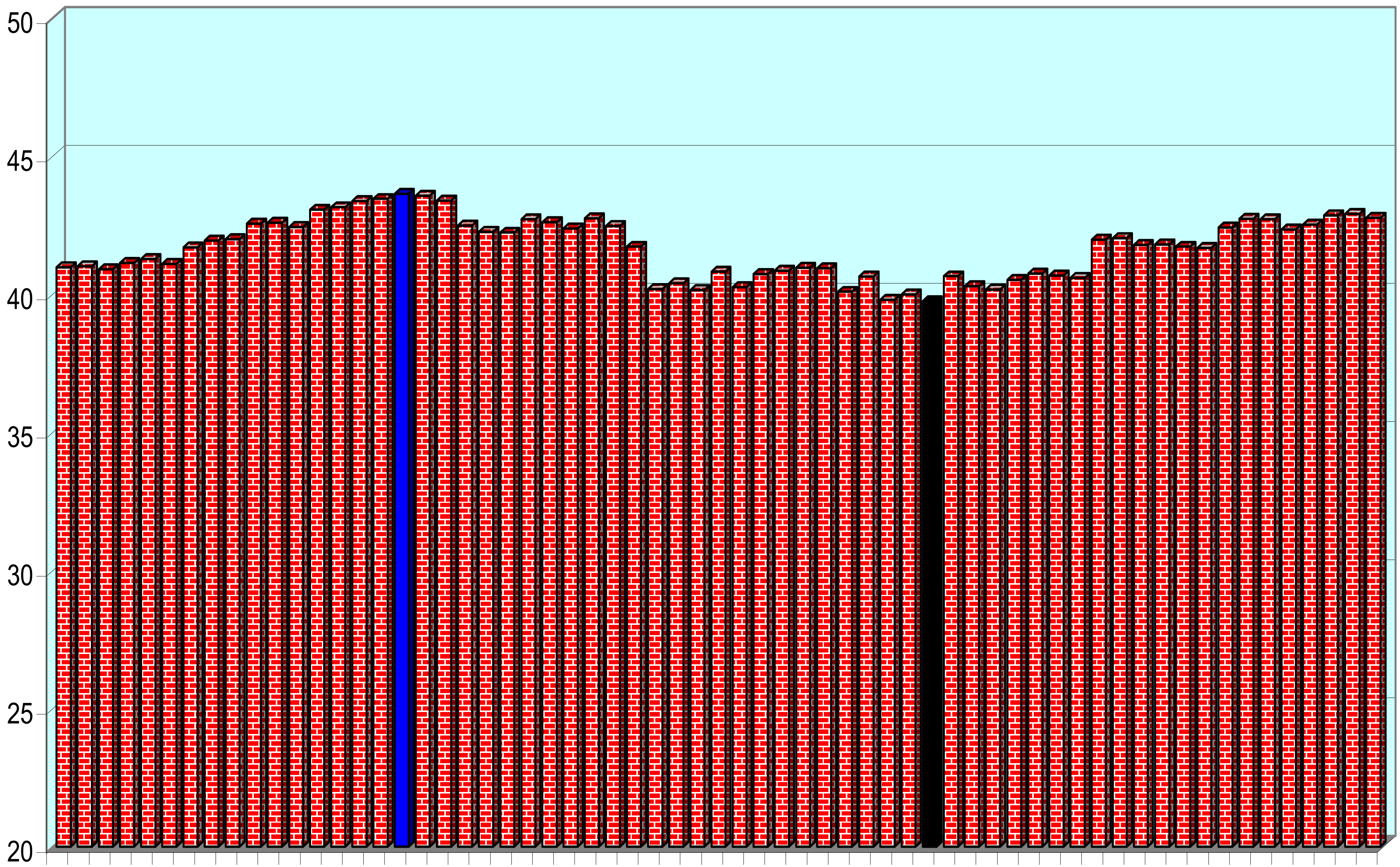


Q4

- Housebuilders' share prices added an average 5.9% in Q4 2017 on an actual basis and 7.1% weighted by capitalisation (in Q3 these paint-by-numbers were +7.6% and +11.0% respectively)
- Gleeson led from the front with +14.9% with able support from Cairn (+14.1%) plus double digit percentage gains at Berkeley and Redrow; with Crest (-1.4%) and Abbey (-2.0%) the only sole negative images
- We have also added Springfield Properties, the Scottish impressionist, in Q4 after its 16 October IPO
- In total, Q4 comprised 63 trading days and 13 weeks with rises on 34 and nine of these respectively
- Q4 2017 also marks the 26th quarter from the last 32 in which Housebuilders' average share prices have risen

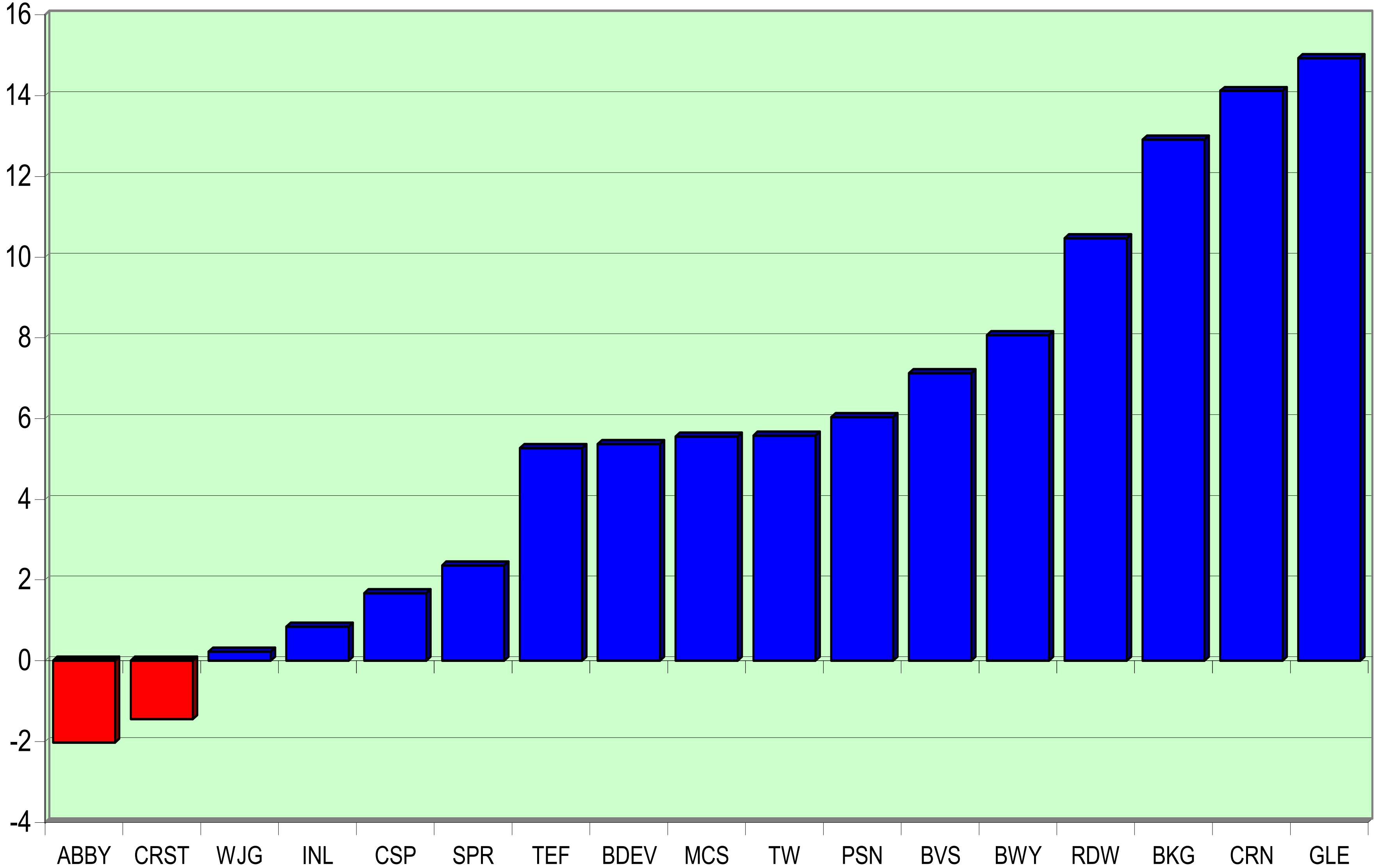
Housebuilding Sector stock market value - daily - in Q4 2017 (£bn)

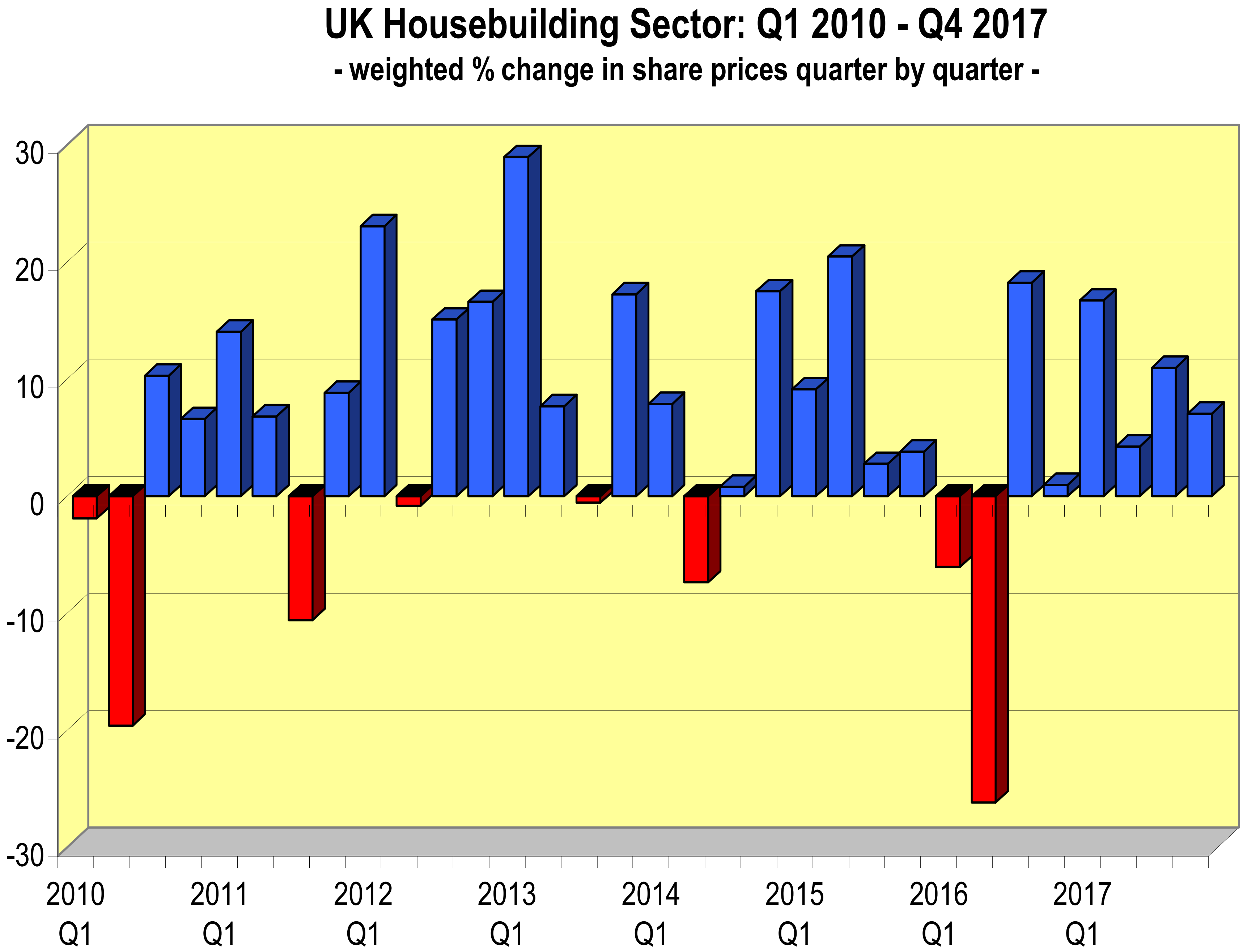
- low/high (blue and black) -



Shares prices in Q4 2017 vs Q3 2017 (% change)

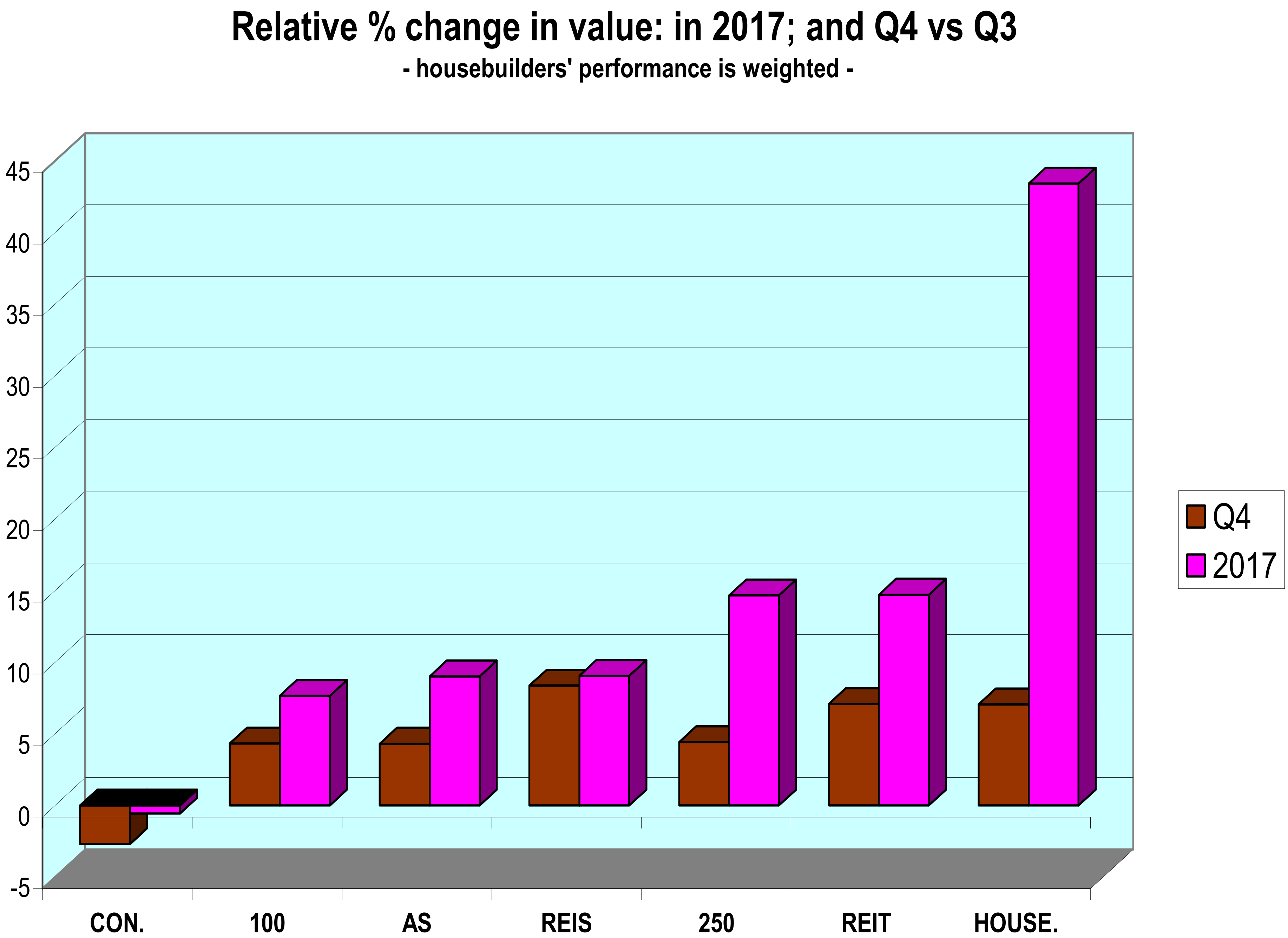
- includes Springfield Properties (SPR) floated on 16 October 2017 -




UK Housebuilding Sector: Q1 2010 - Q4 2017
- weighted % change in share prices quarter by quarter -
30
20
10
0
-10
-20
-30
2010
Q1
2011
Q1
2012
Q1
2013
Q1
2014
Q1
2015
Q1
2016
Q1
2017
Q1

Relative performance in 2017 & Q4

- In 2017, the Housebuilders beat all other measures of the UK equity market by a street
- On a weighted basis the Sector rose 43% and the next best was REITs with +15%; at the same time the Construction and Building Materials Sector (CON) was in marginally negative (-0.6%) territory
- For the record, the FTSE 100 added just under 8% last year, with the FTSE 250 at +15% and the All Share at +9%
- In Q4, the Housebuilding Sector added 7% on a weighted basis with both real estate indices (REIS and REIT) edging it out
- The prime LSE measures were up 4% or so in Q4 and, once again, Construction was negative



Relative % change in value: in 2017; and Q4 vs Q3
- housebuilders' performance is weighted -
45
40
35
30
25
20
15
10
5
0
-5
CON.
100
AS
REIS
250
REIT
HOUSE.
Q4
2017

Peak value / FTSE 100/ Structure

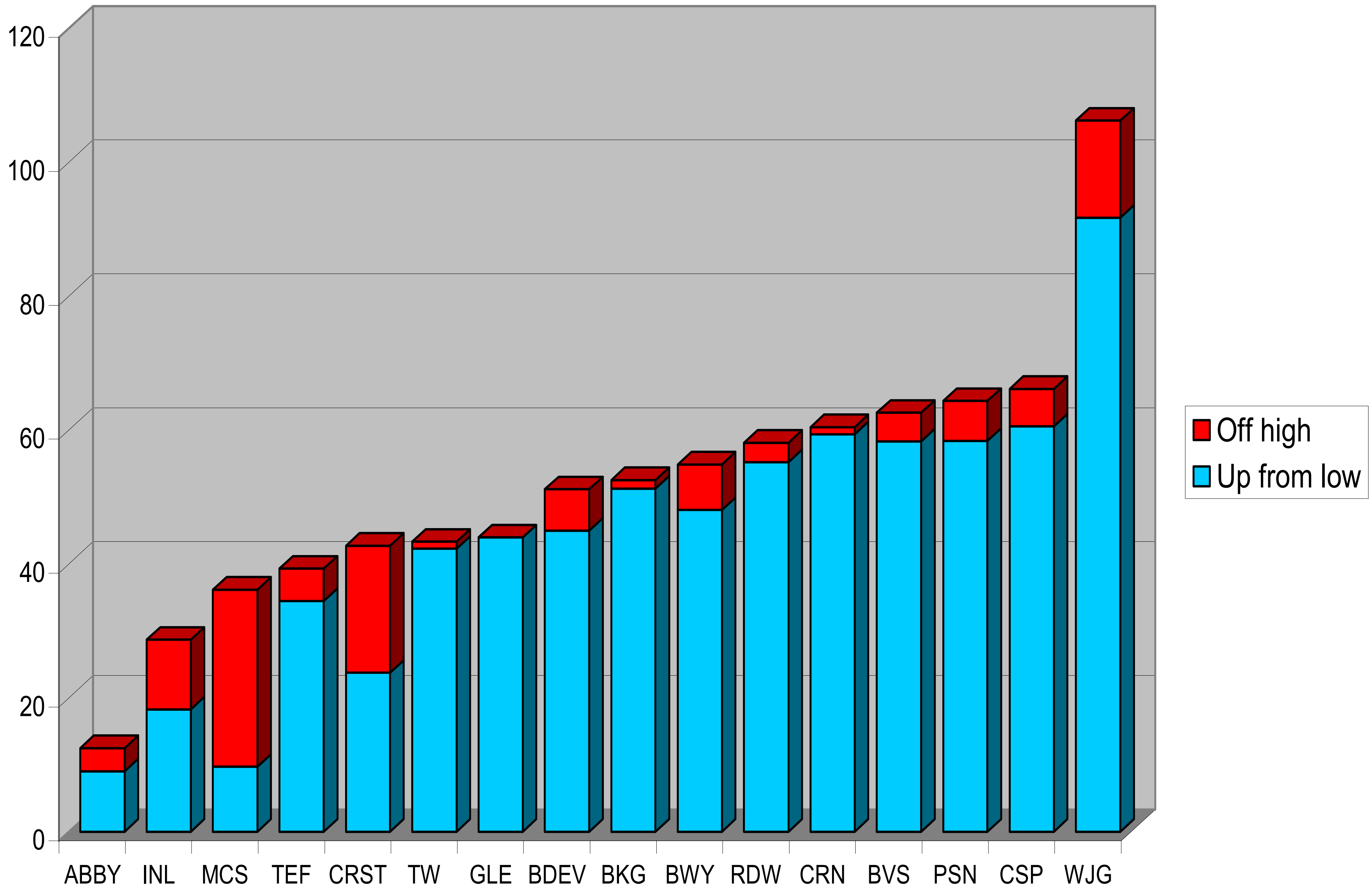
- Housebuilders' share prices are, on average, 20 times above the lows of 2008; and 44% up on more recent 52 week lows (weighted these numbers are 29 times and 49% respectively)

- But they were also some 8% below their 2007 artistic peaks (13% weighted); and 6% off 52 week highs (5% weighted)

- Four housebuilders continue to mix in the FTSE 100: Berkeley (number 85); Barratt (72); Taylor Wimpey (67); and Persimmon (53)

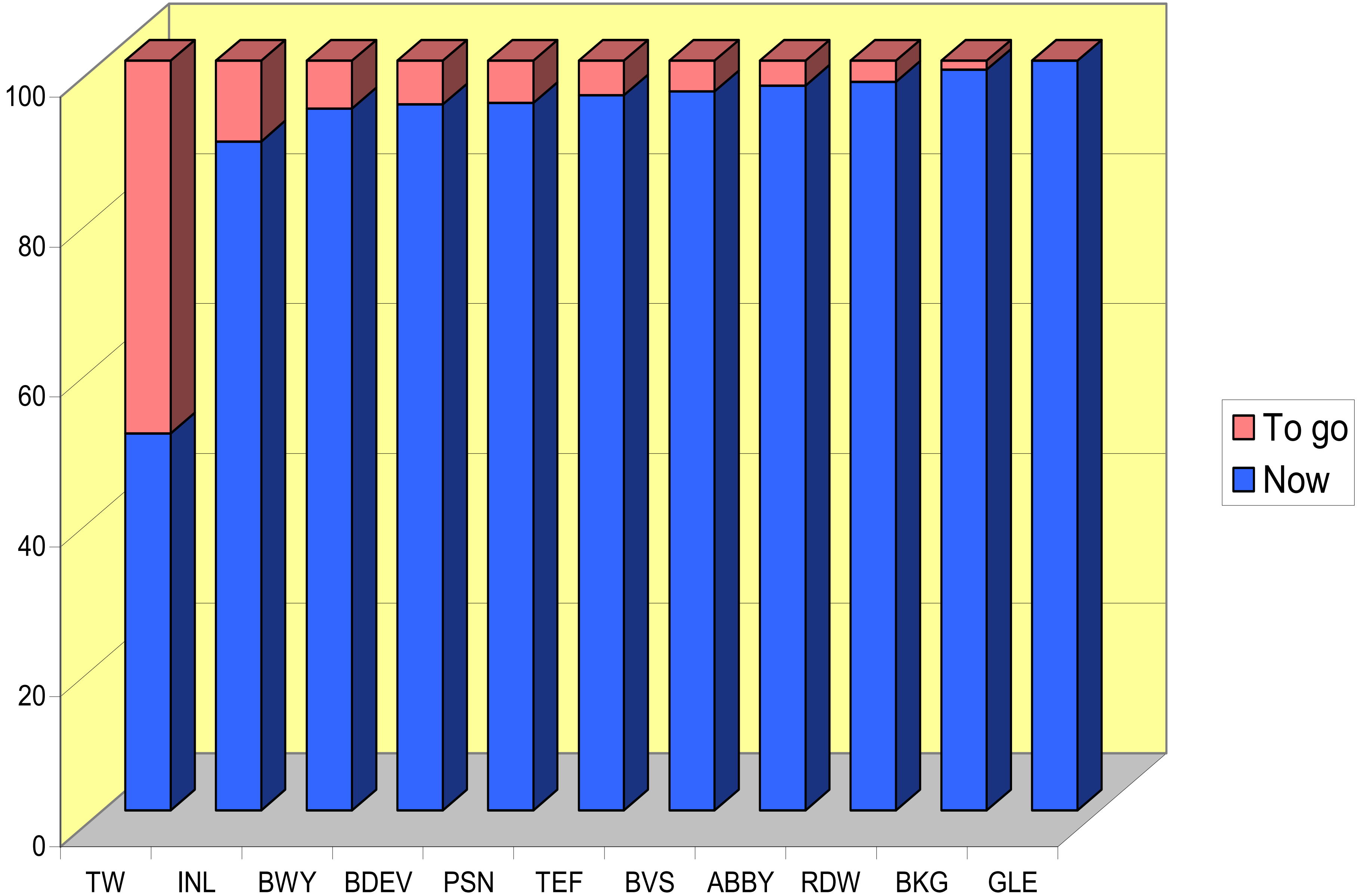
- Together, these four account for 64% of the UK Housebuilding Sector value

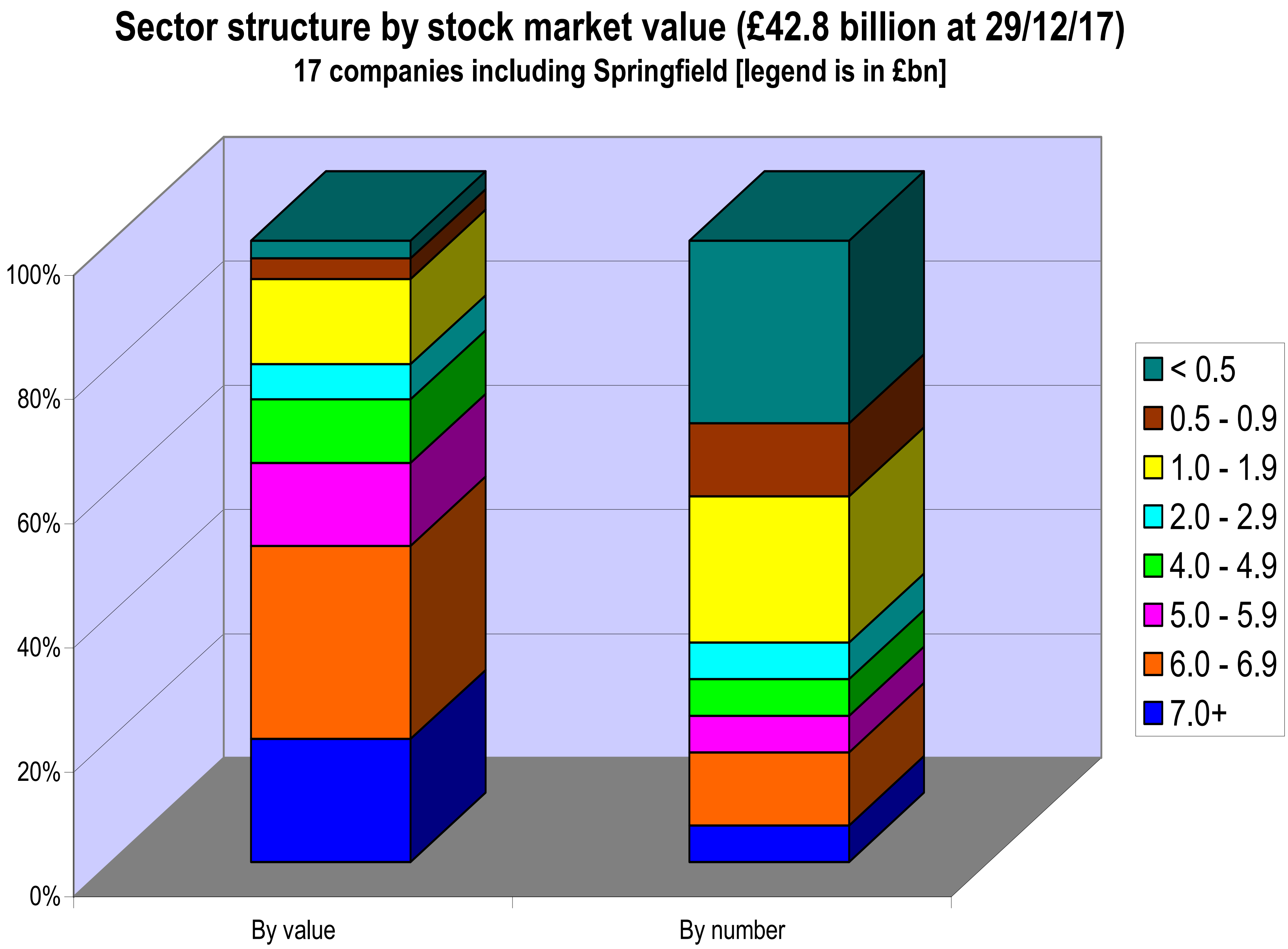
Movement against 52 week lows and highs (% change)



Current share prices as % of all-time peak level at 29/12/17

- ex Crest, Cairn, McCarthy & Stone, Countryside and Watkin Jones -




Sector structure by stock market value (£42.8 billion at 29/12/17)
17 companies including Springfield [legend is in £bn]
100%
80%
60%
40%
20%
0%
By value
By number
< 0.5
0.5 - 0.9
1.0 - 1.9
2.0 - 2.9
4.0 - 4.9
5.0 - 5.9
6.0 - 6.9
7.0+

Price-to-Book / TSR

- The Housebuilders' latest average Price-to-Book valuation was 1.94 at 29 December 2017 and 2.31 weighted (a year ago they were 1.60 and 1.82 respectively)

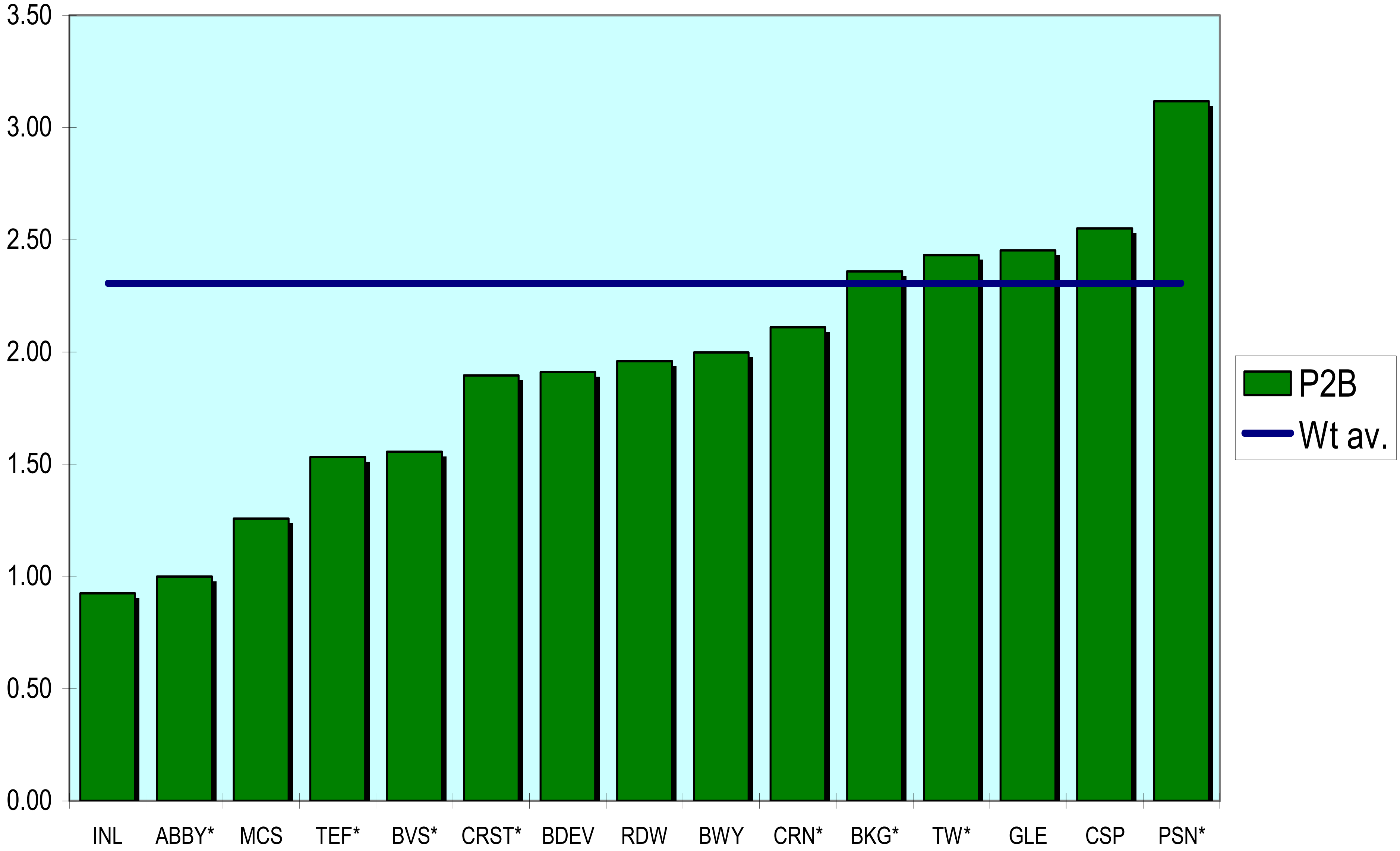
- Six out of 15 companies are at 2.0 or better with Persimmon above 3.0 (with Watkin Jones at 4.96 excluded)

- Total Shareholder Return (TSR) for the Sector in 2017 was 42% and 51% weighted (data are drawn by Bloomberg); and this compares with minus 10.2% and minus 8.0% in 2016

- In 2017, Watkin Jones was the resounding winner of the domestic art competition with 93% whilst at the other end, McCarthy & Stone was at 0.9%

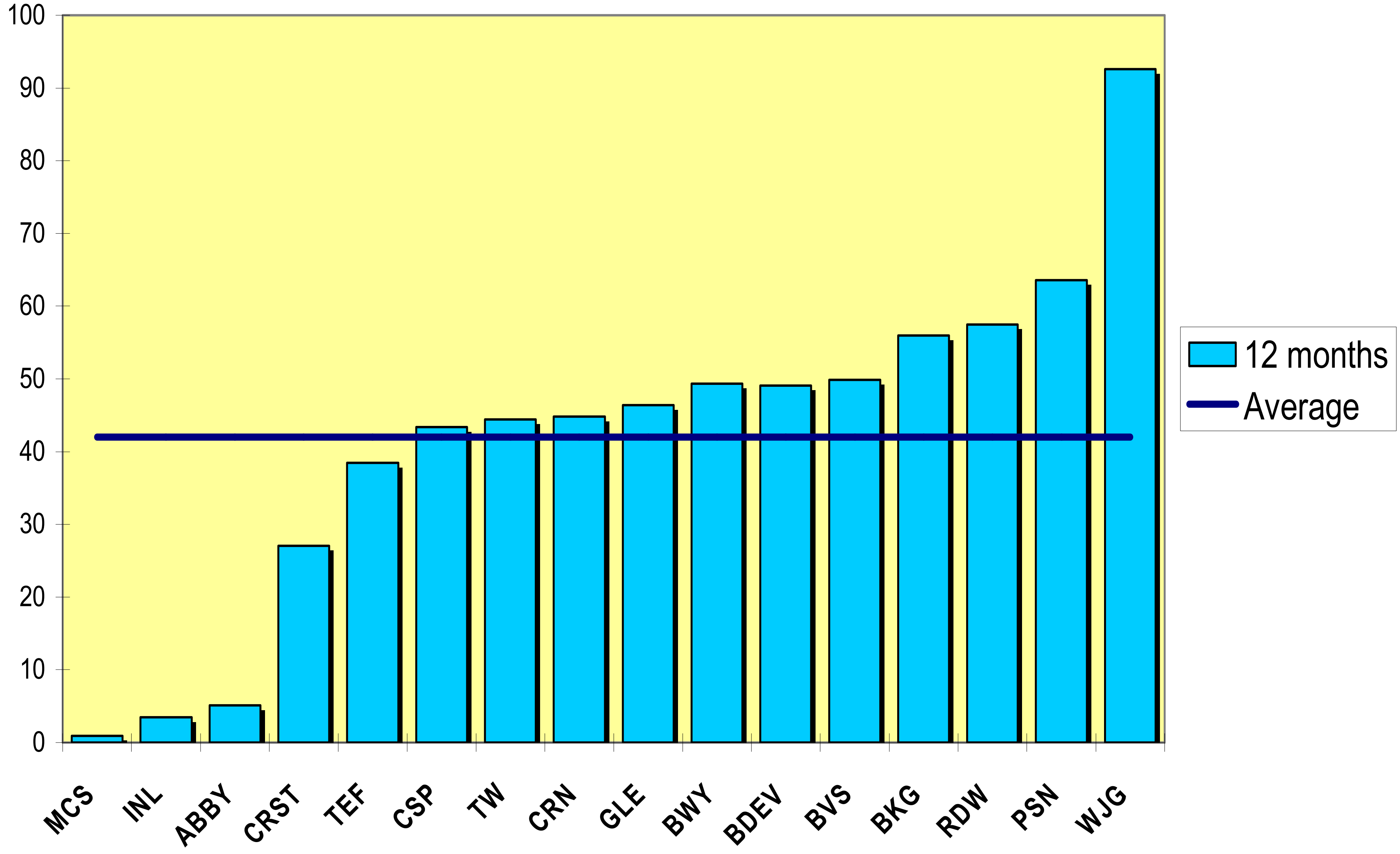
Price-to-book-value at year end/latest interim* & priced at 29/12/17

- weighted average is 2.31; actual average is 1.94; and both exclude Watkin Jones on 4.96 -



Total Shareholder Return (TSR) in 2017 (%)

- source Bloomberg -



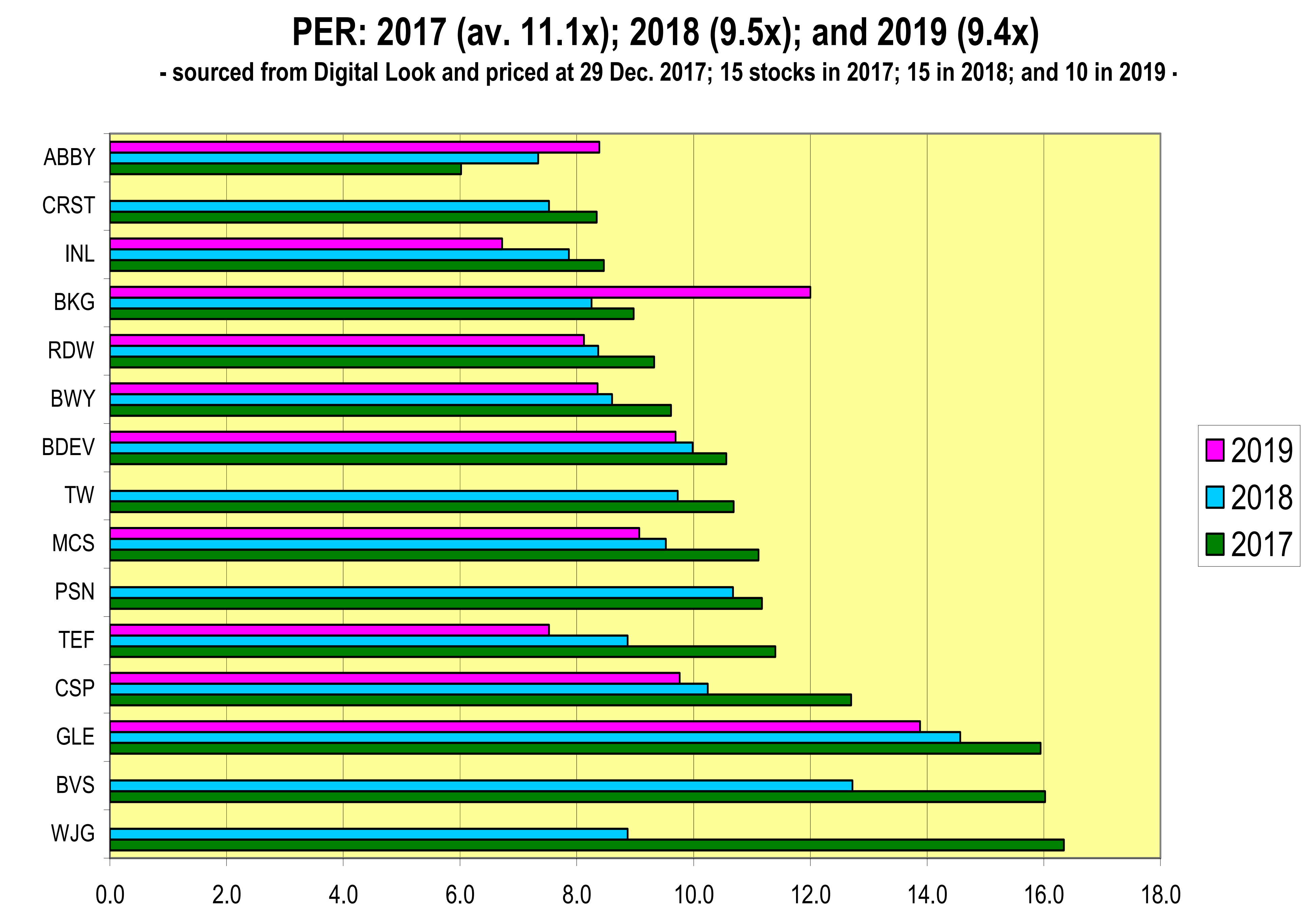
Price Earning Ratio (PER)

- The Sector's prospective PERs are 11.1x in 2017 (with only six still to report) followed by 9.5x in 2018 and 9.4x in 2019. These are based on results from and consensus forecasts for 15 companies in 2017; 15 forecasts in 2018; and 10 forecasts in 2019 (currently loss-making Cairn is excluded pro tem)

- Earnings growth is forecast at +14% in both 2017 and 2018. However, 2019 sees expected earnings growth slow to 2% on the storyboard

- Berkeley is forecast to see earnings drop sharply in 2019 which impacts the average; perhaps it is a more honest painter? In an event, it was also paid handsomely for its work with a new record share price on the day it exhibited

- For the record, trailing 12 month PERs for the FTSE 100, All Share Index and FTSE 250 range from 18.4 to 22.5x


PER: 2017 (av. 11.1x); 2018 (9.5x); and 2019 (9.4x)
- sourced from Digital Look and priced at 29 Dec. 2017; 15 stocks in 2017; 15 in 2018; and 10 in 2019 -
ABBY
CRST
INL
BKG
RDW
BWY
BDEV
TW
MCS
PSN
TEF
CSP
GLE
BVS
WJG
0.0
2.0
4.0
6.0
8.0
10.0
12.0
14.0
16.0
18.0
2019
2018
2017

Dividend Yield

- In 2017 and 2018, the UK Housebuilding Sector yields 3.9% (including five companies still to report 2017 metrics) followed by 4.3% - which is covered 3.3 and 3.1 times respectively

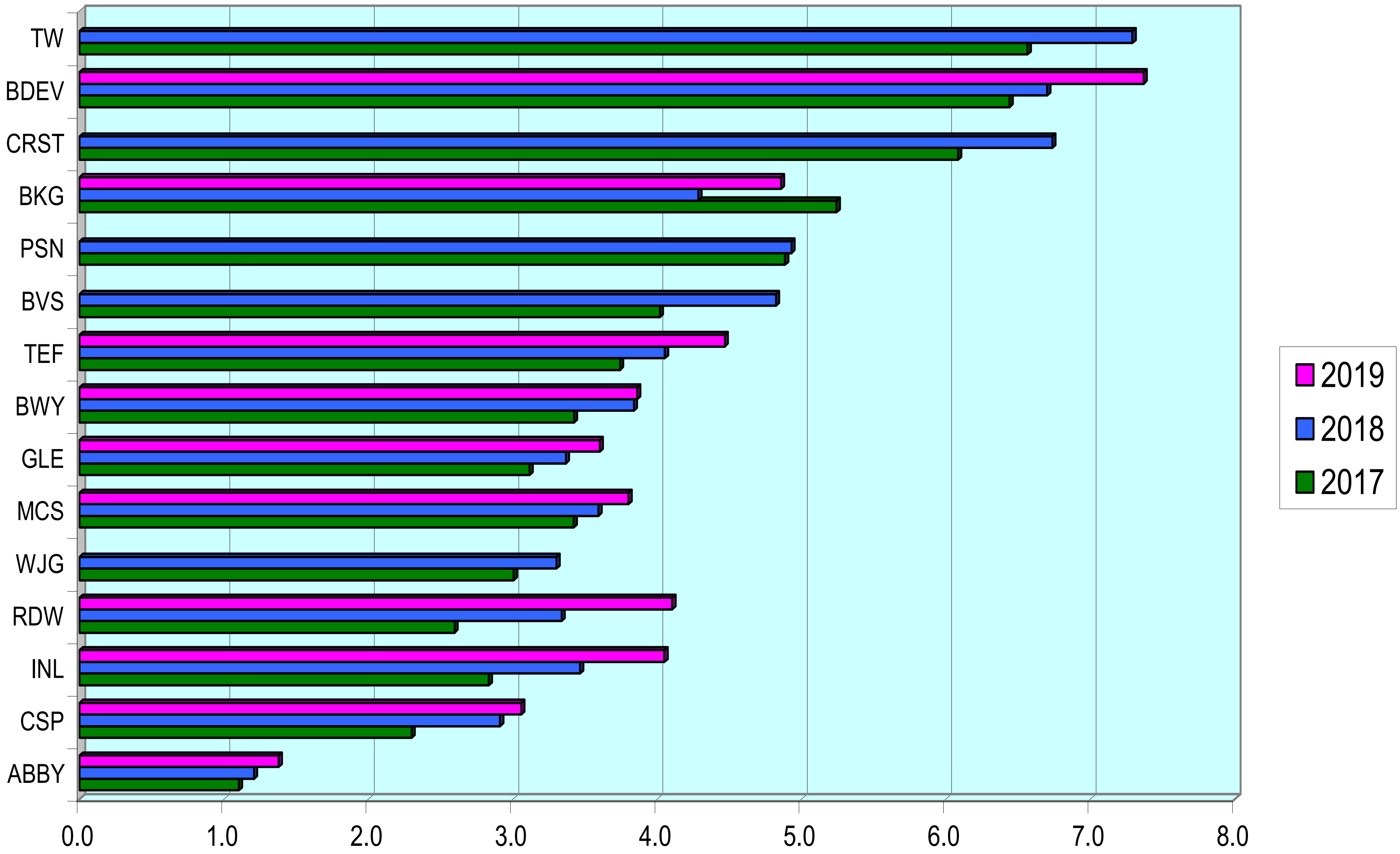
- In 2019, the yield is 4.1% covered 3.3 times

- Note, too, that a number of companies has committed to layout enhanced dividends which means Barratt, Crest and Taylor Wimpey are yielding 6.5 to 7.5% in 2018

- For the record, the UK equity market yields between 2.4 and 3.8% historic with average cover of just 1.5x; all calculations are made at the LSE close on 29 December 2017

Yield: 2017 (av. 3.9%); 2018 (4.3%); and 2019 (4.1%)

- sourced from Digital Look and priced at 29 Dec. 2017; 15 stocks in 2017; 15 in 2018; and 10 in 2019 -



Results in Q4

- In Q4 there were three sets of final results, three interims and 22 other trading related Sector announcements
- Average individual pretax profits for the Q4 reportees rose 18% period-on-period whilst EBIT margins inched up from 19.2 to 19.8% on revenue larger by 15% at a touch over £6 billion
- EPS rose 11% annualised on average (including two negatives) albeit this excludes Countryside's +71%. On the same basis dividends were raised 11% (ex CSP's +147%); in turn, average individual cover dipped from 2.5 to 2.2x (ex-Abbey's 11.6 and 11.1x respectively)
- The average increase in orders was 6% (four sketchers only)
- Average individual ROCE dipped 30 basis points to 20.3% with Capital Turn pretty much static at 0.87 versus 0.85

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*
08-Dec	Abbey (Euro)*	Half Year	31-Oct	22	23	*9*	*24.4*	*25.9*	*-*	*14*	*11.6*	*11.1*
08-Dec	Abbey (GBP)*	Half Year	31-Oct	18	21							
17-Oct	Bellway	Full Year	31-Jul	481	561	*17*	*22.0*	*22.3*	*17*	*13*	*2.9*	*3.0*
08-Dec	Berkeley*	Half Year	31-Oct	366	505	*38*	*26.3*	*30.5*	*-11*	*0*	*2.1*	*3.0*
22-Nov	Countryside	Full Year	30-Sep	98	155	*59*	*15.8*	*16.0*	*8*	*147*	*4.8*	*3.3*
14-Nov	McCarthy & St.	Full Year	31-Aug	105	94	*-10*	*16.9*	*14.6*	*11*	*20*	*3.6*	*2.6*
29-Nov	Telford*	Half Year	30-Sep	9	9	*-4*	*9.9*	*9.7*	*-*	*11*	*1.4*	*1.2*
TOTAL (£m)				1076	1344							
Individual average change (%) / cover (x)						*18*			*6*	*12*	*2.5*	*2.2*
Sector average change (%) / cover (x)						*25*				*12*	*2.8*	*3.2*
Individual average margin (%)							*19.2*	*19.8*				
Sector average margin (%)							*21.4*	*22.4*				

Notes:

(i) Pretax profit numbers are are net of exceptionals and subject to adjustments where required

(ii) EBIT is Earnings Before Interest and 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 2017 £28.4m (est. £28.4m); and H1 2016 £27.2m (est. £27.2m)

(v) Countryside's 147% increase in DPS is excluded from averages; Abbey's double-digit DPS cover is also excluded from averages

(vi) Telford's revenue (and profit) are gross of its share JVs in H1 2017-18: £12.7m (£1.6m); and H1 2016-17: £5.3m (£1.2m)

(vii) Telford had £580 million of forward sales at end-November 2017 which compares with fiscal 2017's annual revenue of £292m

Q4 balance sheets

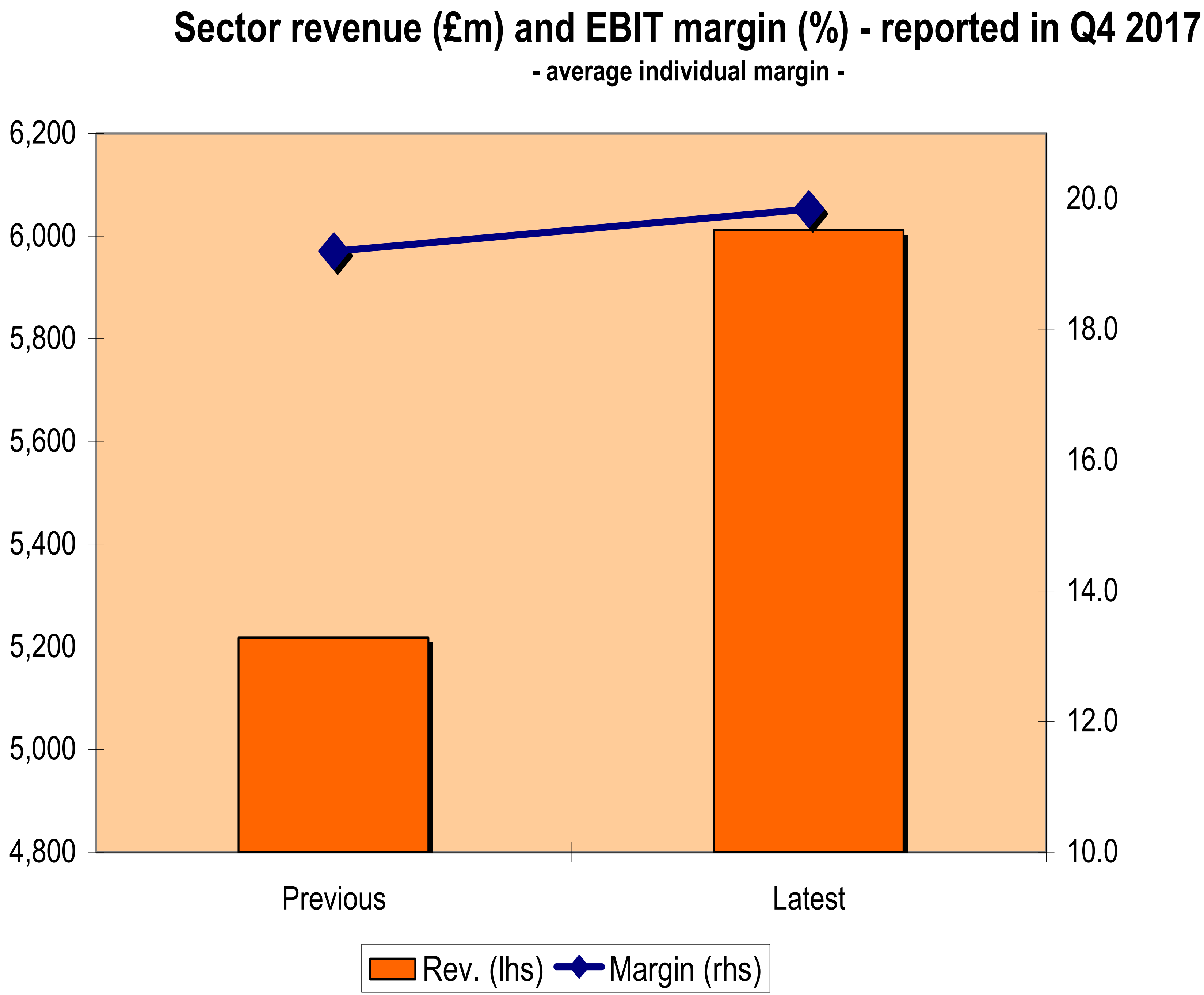
Date	Company	Event	Period	Net Assets (£m)		Net (Debt)/Cash (£m)		*Gearing*	*Gearing*	*ROCE^*	*ROCE^*	*Capital*
			ending	Old	New	Old	New	*Old %*	*New %*	*Old %*	*New %*	*Turn (x)*
08-Dec	Abbey (Euro)*	Half Year	31-Oct	266	315	85	90	*-32*	*-28*	*16.2*	*14.8*	*0.6*
08-Dec	Abbey (GBP)*	Half Year	31-Oct	239	277	76	79					
17-Oct	Bellway	Full Year	31-Jul	1,867	2,191	26	16	*-1*	*-1*	*25.9*	*25.7*	*1.2*
08-Dec	Berkeley*	Half Year	31-Oct	1,969	2,409	208	627	*-11*	*-26*	*35.3*	*34.4*	*1.1*
22-Nov	Countryside	Full Year	30-Sep	531	623	12	77	*-2*	*-12*	*21.9*	*26.2*	*1.6*
14-Nov	McCarthy & St.	Full Year	31-Aug	627	674	55	34	*-9*	*-5*	*15.5*	*14.1*	*1.0*
29-Nov	Telford*	Half Year	30-Sep	189	206	-34	-61	*18*	*29*	*8.5*	*6.7*	*0.3*
TOTAL (GBP)				5,422	6,380	344	772					
Individual average change (%)					*14*							
Sector average change (%)					*18*							
Individual average ROCE (%) adjusted										*20.6*	*20.3*	*1.0*
Sector average ROCE (%) adjusted										*25.1*	*25.7*	*0.9*
Individual average gearing (%)								*-6*	*-7*			
Sector average gearing (%)								*-6*	*-12*			
<u>Notes:</u>												
^ ROCE is return on capital employed; and adjusted where required for half year												
** Abbey held restricted cash of Euro 0.7 million at 31/10/17 (Gilts and restricted cash of Euro 15.0 million at 31/10/16) within net cash tally*												

Performance and outlook

- **Bellway (Finals - 17 October):** it was another first class performance from the thinking man's housebuilder with units up 11% to an unprecedented 9,644 and revenue even better at +14% to £2.6 billion

- EBIT margins were little changed (22.3% plays 22.0%) and pretax profit (£561 million) and EPS were ahead 13% each (adjusted for 2016's exceptional gain) - as was the dividend

- Perhaps best of all though was an order book as at 1 October 17.4% to the good in value at £1.36 billion representing 5,034 homes which was ahead 7.1%; and this comprises a plus 5.6% increase in reservations in the first nine weeks of the new fiscal year (Bellway is a July year-end). The Group also expects volume growth in the current fiscal year and 5% on average selling price to approximately £280,000


Sector revenue (£m) and EBIT margin (%) - reported in Q4 2017
- average individual margin -
6,200
6,000
5,800
5,600
5,400
5,200
5,000
4,800
20.0
18.0
16.0
14.0
12.0
10.0
Previous
Latest
Rev. (lhs)
Margin (rhs)

Performance and outlook 2

- **McCarthy & Stone (Finals - 14 November):** in a bumpy year, completions did manage to edge up to 2,302 units (2016: 2,296) while revenue increased by 4% to a new record of £661 million with an average selling price up 3% to £273,000

- EBIT margins dropped from 16.9 to 14.6% for the year (albeit 17.0% in H2) with profit before tax off 10% at an underlying £94.1 million due to a range of legacy issues

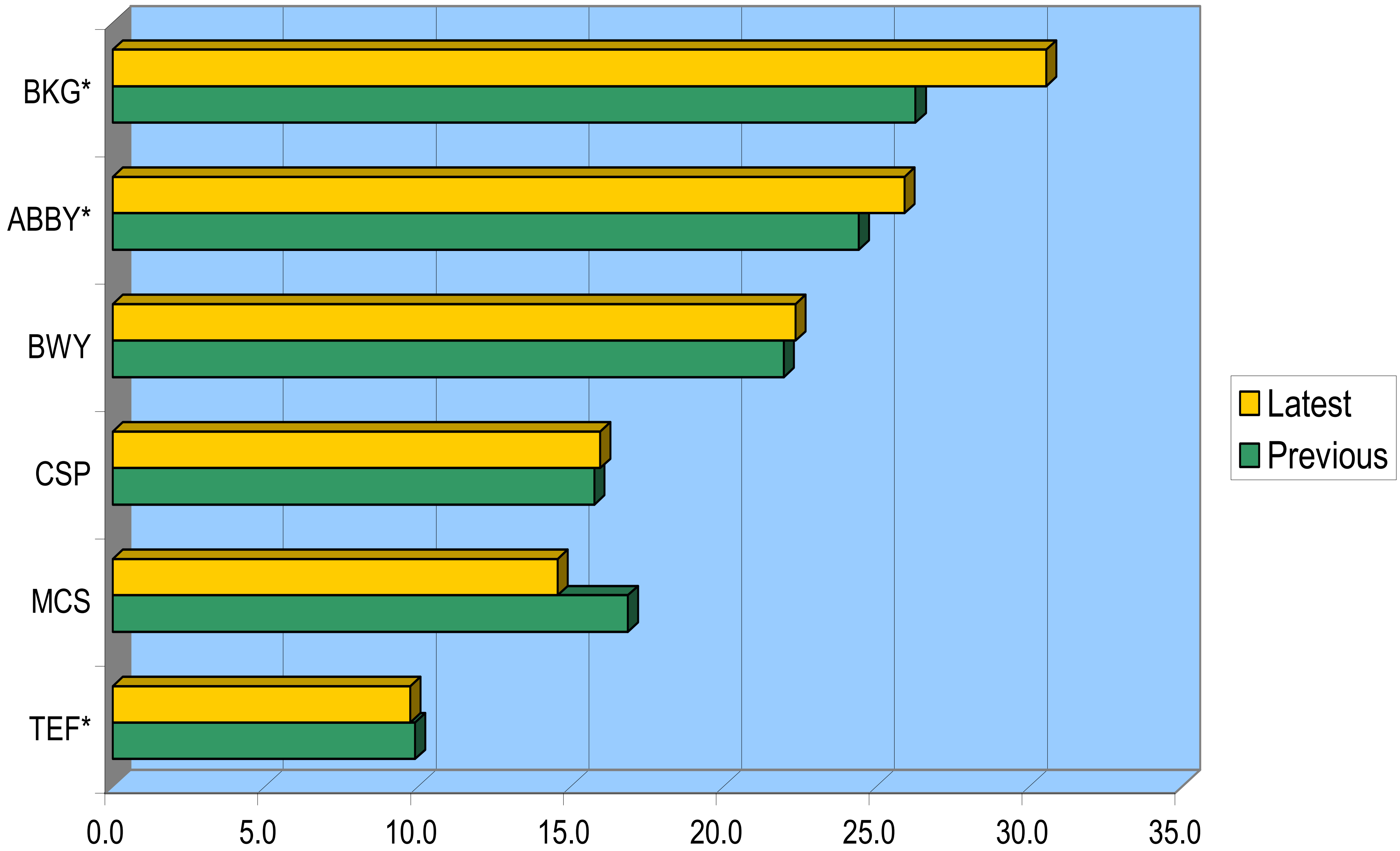
- Underlying EPS fell 12% but the DPS was raised 20% and the Group closed the year with net cash of £31 million

- Forward sales as at 10 November 2017 (week 10) were up 11% at £277 million

- "The demand for high quality retirement housing remains strong" and the Group has retained its medium term growth objective of more than 3,000 units per annum

Individual EBIT profit margins (%) reported in Q4 2017

* denotes interim results



Performance & outlook 3

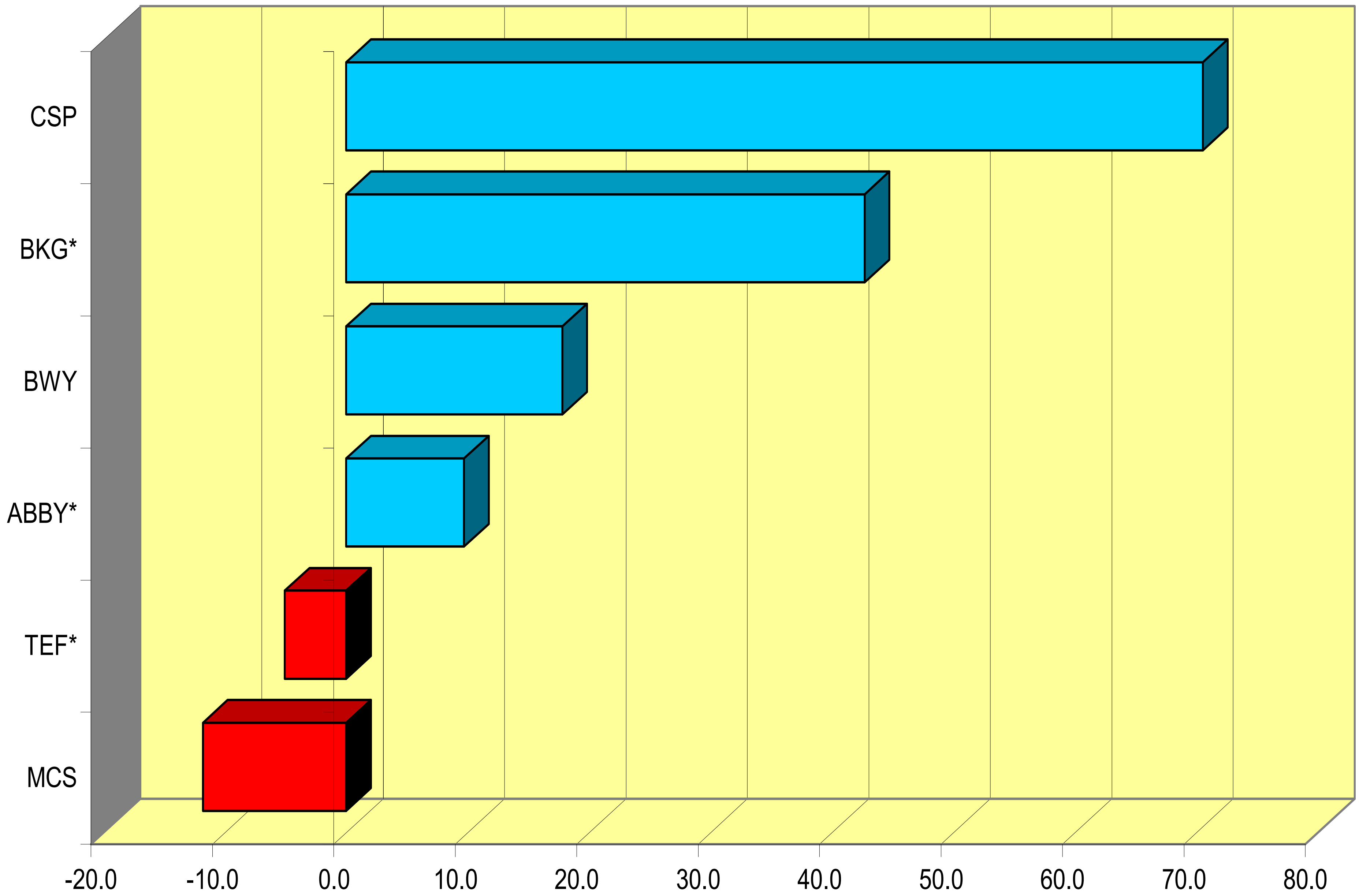
- **Countryside (Finals - 22 November):** revenue rose 28% to in excess of £1 billion on which it earned an adjusted 16.0% operating margin (2016: 15.8%) and a profit of £164.1 million (+34%)

- At the same time, profit before tax almost doubled to £142 million and the dividend for was hiked 71%

- Looking forward, the Group's year-end private housing forward order book was up 8% £242.4 million. Countryside also has a thriving partnership unit which accounted for the majority (2,192) of last year's unit output (3,389) which leaves 1,197 in the private sector).

- "Current trading remains robust with strong demand from owner occupiers"; and since its IPO in February 2016, the shares have risen 57% to 353 pence

Earnings growth (%) reported in Q4 2017



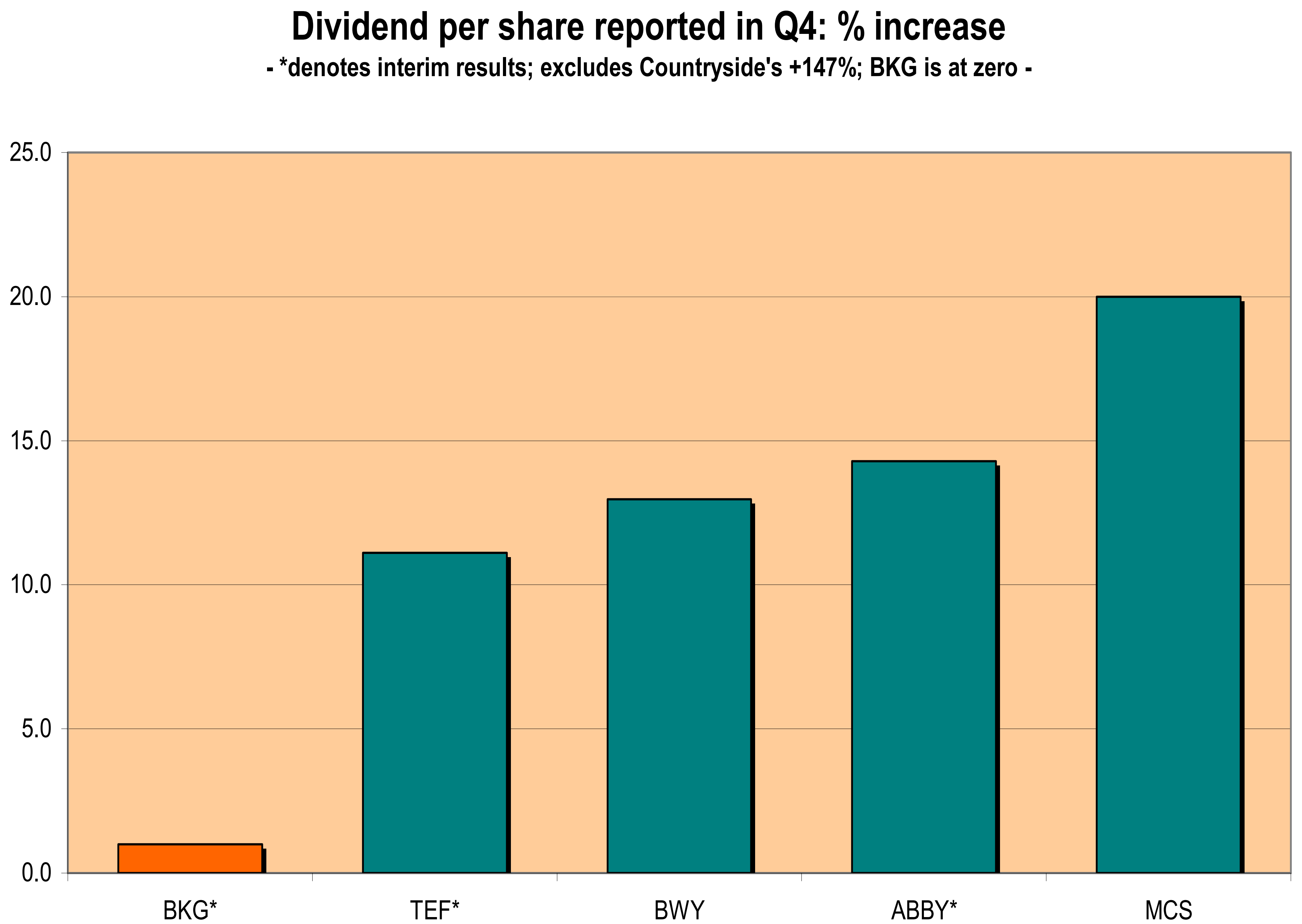
Performance and outlook 4

- **Telford (Interims - 29 November):** in common with a number of its peers, the Group's six month profit movement was impacted by the timing of developments and was down £300,000 at £8.7 million
- However, for the current 12 month accounting period it is "well positioned to meet market expectations for the full year to 31 March 2018 with over 95% of gross profit secured"
- This means it is "on track to deliver over £40 million profit before tax for fiscal 2018 and it has secured over 65% of the gross profit required to exceed £50 million in fiscal 2019"
- Telford also boasts a development pipeline of over £1.4 billion of future revenue comprising some 4,200 homes with an expected average selling price £540,000 including build to rent and affordable housing

Performance and outlook 4a

- **Telford cont/.** "Notwithstanding the need for more homes, ongoing uncertainty surrounding Brexit and a lack of political stability has deterred some potential buyers from making a purchase particularly at higher price levels. Changes to the tax system, especially the phased removal of tax relief on mortgage interest, have also dampened demand from UK based investors despite an active rental market in our typical locations"

- Nonetheless, London - despite facing "a prolonged period of uncertainty" - continues to attract individual investors including those based overseas who typically invest from a larger asset base. There is a growing realisation, too, from Londoners that renting rather than buying is not as undesirable as some make it out to be and the proportion of tenants versus owner-occupiers will continue to increase in the coming years mirroring the situation in many other cities globally"



Dividend per share reported in Q4: % increase
- *denotes interim results; excludes Countryside's +147%; BKG is at zero -
25.0
20.0
15.0
10.0
5.0
0.0
BKG*
TEF*
BWY
ABBY*
MCS

Performance and outlook 5

- **Berkeley (Interims - 8 December):** this was a masterclass in communication. Firstly, it described the super-duper financials of the first half, Group strategy and good citizenship. Secondly, it spoke coherently about the risks in the market place; plus the potential undulations of its own performance

- There was a slap or two of politicking and, yes, a whiff of arrogance but that's okay given how well the Group has performed. The shares rose 6.9% on the day of the results at £41.13 and a then new all-time high

- Unit sales were only marginally ahead (+2%) at 2,117 in H1. But with prices 10% better (at an average £719,000), revenue was 14% to the good at £1.6 billion - with net operating margins at a remarkable 30.5% (2016: 26.3%). Inevitably, net pretax profit surged 31% to £482 million

Performance and outlook 5a

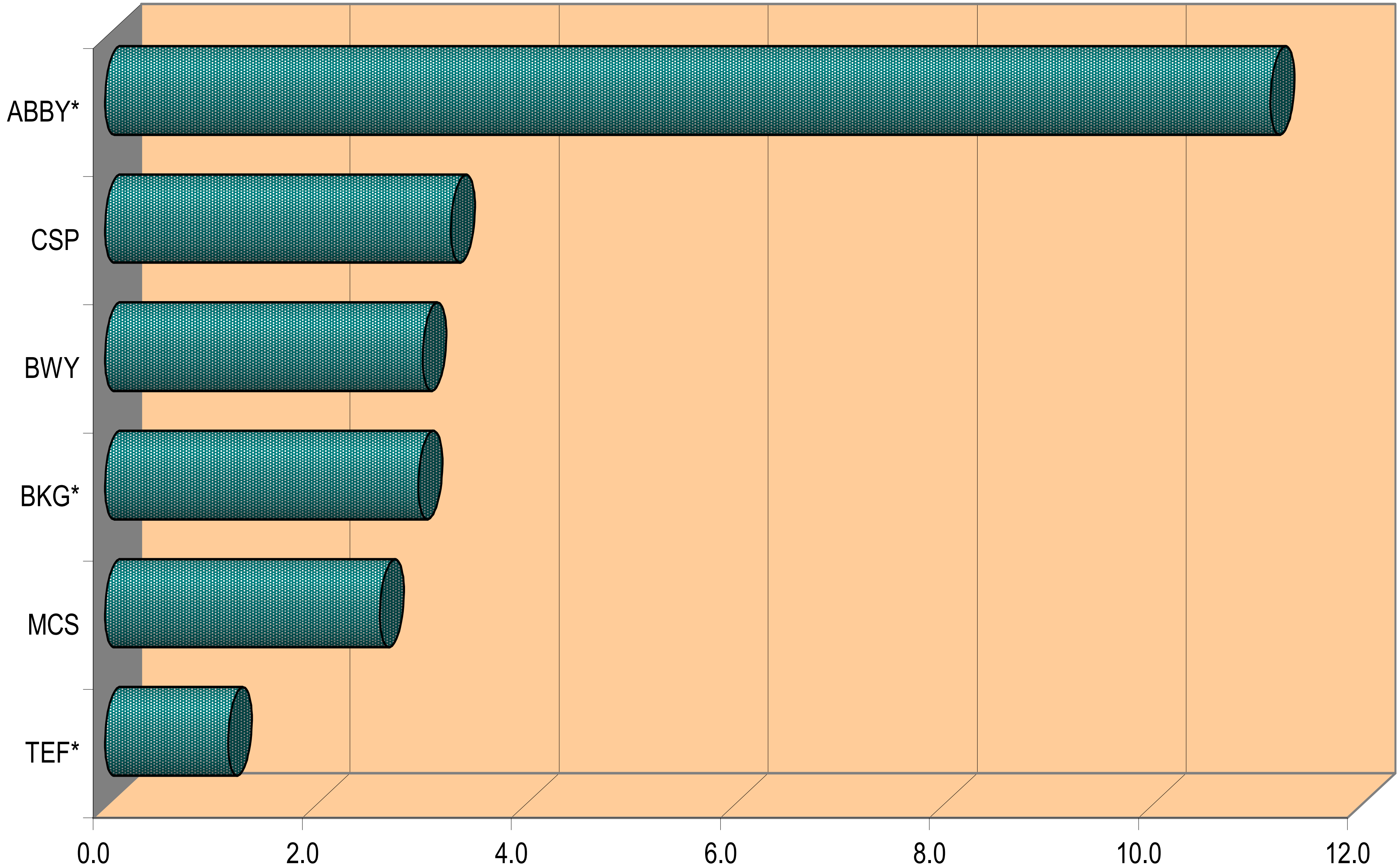
- **Berkeley cont/.** However, “the 2017-18 full year results will represent a peak for Berkeley, before returning to more normal returns in 2018-19. Our guidance of £1.5 billion of pre-tax profit for these two years will be approximately 60% weighted towards the current year”

- Yes, Berkeley did increase its earnings guidance by 10% for the five years ending 30 April 2021 to at least £3.3 billion of pretax profit. However, it also expects operating margins to moderate to more normal levels of 17.5 to 19.5% (H1 fiscal 2018: 30.5%)

- Similarly, and what appeared to go unnoticed was the fact that cash due on forward sales had dipped 11% to £2.45 billion against end-April

- “We should remember, above all, that housing is not a numbers game. Fundamentally, it is about people and community”

Cover in Q4: av. = 2.2x (4.1x inc. Abbey) after 10% net increase

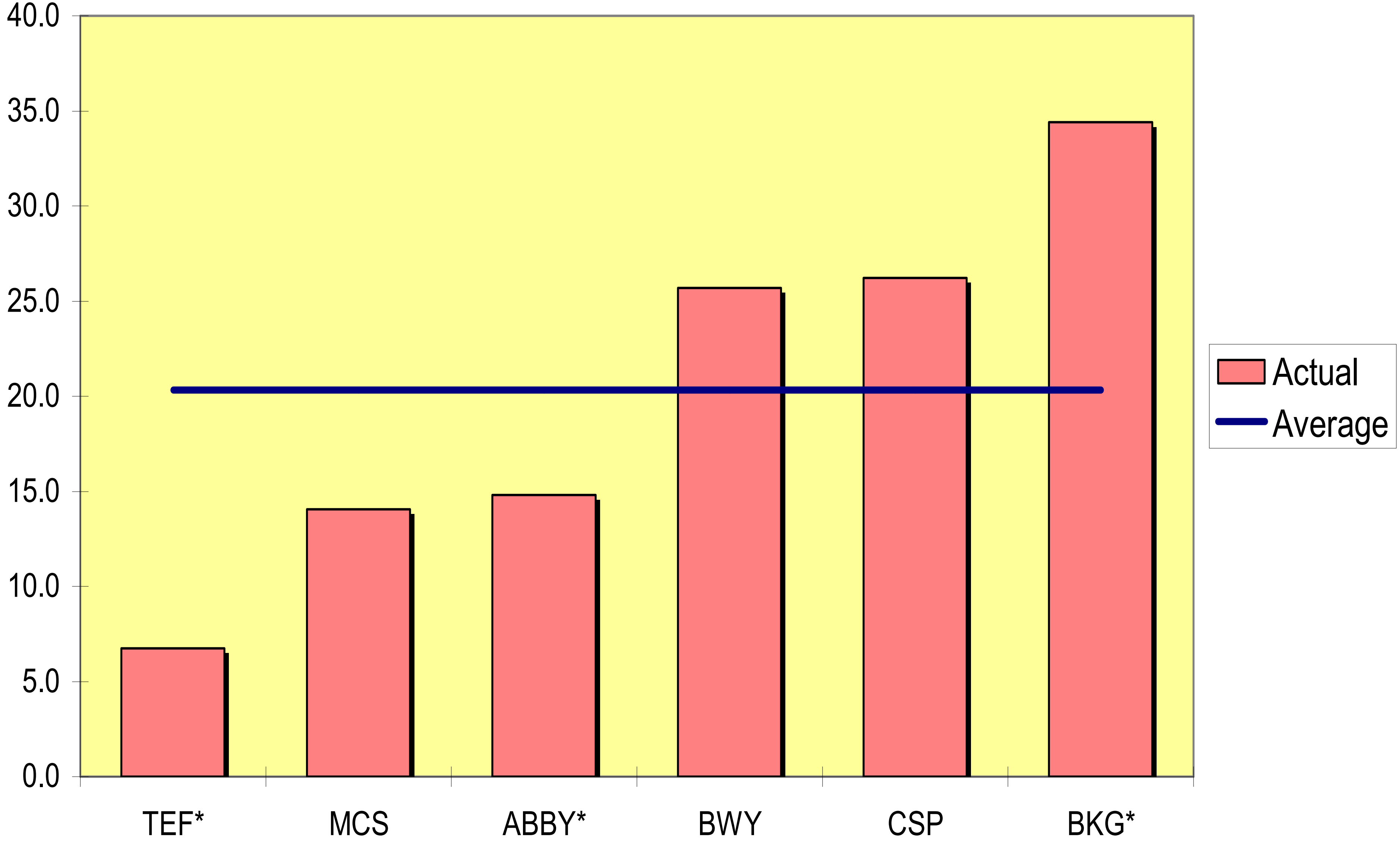


Performance & outlook 6

- **Abbey (Interims - 8 December):** revenue in Ireland more than doubled with EBIT up from a Euro 1 million loss to a profit of Euro 2.4 million and a 22.7% margin
- The UK, however, accounted for three-quarters of Group revenue (Euro 68.2 million) and, although EBIT dipped 1.3% in GBP, margins remain excellent at 27.9% (2016: 29.2%)
- Group EPS rose 10% and the DPS by 14% and yet cover remains above 11x. Cover may be luxuriant but the Group's prose is lean and lithe (i.e. a 453 word Interim Report)
- "The recent rise in interest rates in the UK together with moderate economic growth naturally tempers the outlook in the medium term. The uncertainty and dislocation associated with Brexit may impact both Britain and Ireland. Overall however the Group supported by a strong balance sheet continues to plan for growth"

Latest reported ROCE (%) in Q4 2017

(ROCE is return on capital employed; *denotes interims results (annualised data)



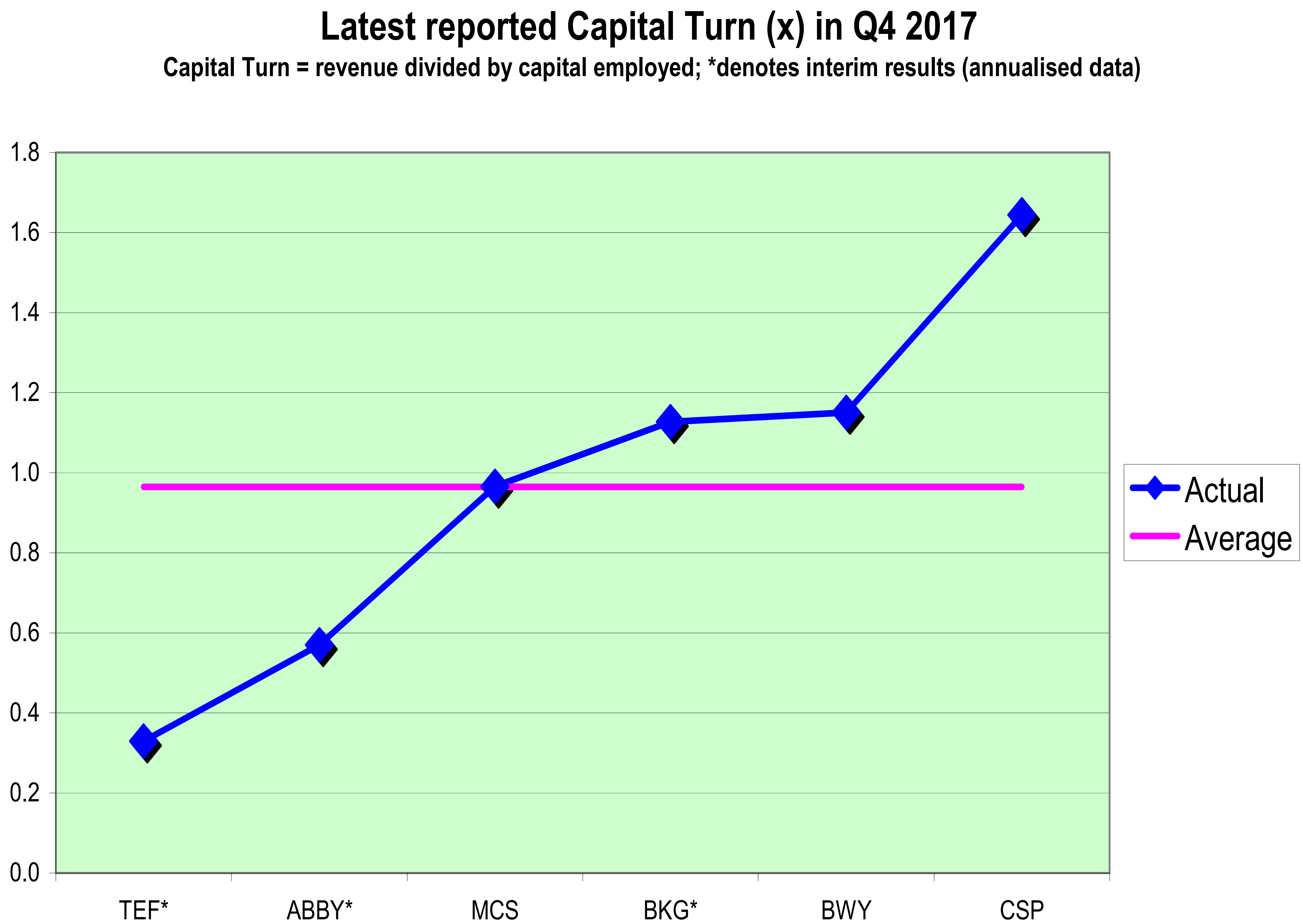
Performance & outlook 7

- **Persimmon Trading Update (TU) 8 November:** H2 2017 sales were in line with the previous year while forward sales beyond 2017 are 10% ahead at £909 million

- **Taylor Wimpey TU 13 November:** the current total order book, excluding joint ventures, was at 8,751 units which was 2.6% down year on year

- **Barratt AGM on 15 November:** total forward sales (including JVs) were up by 8.4% to £2,876 million

- **Crest Nicholson TU 15 November:** "there may be some impact from current economic and political uncertainty" and there was a softer market in Central London, albeit sales rate below £1 million remain generally strong. At the same time, total forward sales were ahead 13% at 1,997 units


Latest reported Capital Turn (x) in Q4 2017
Capital Turn = revenue divided by capital employed; *denotes interim results (annualised data)
1.8
1.6
1.4
1.2
1.0
0.8
0.6
0.4
0.2
0.0
TEF*
ABBY*
MCS
BKG*
BWY
CSP
Actual
Average

Performance and outlook 8

- **Inland Homes (Trading Update - 2 January):** the specialist brownfield land developer and housebuilder picked the first business day of 2018 to issue a positive message
- At end November, the land bank ran to almost 7,000 plots and there has been churn since then including two sites sold for £12.5 million (including one in Birmingham to Crest)
- Inland also has more than 500 housing units under construction plus £41.5 million of partnership house contracts
- More land is in the process of purchase in Maidenhead and Elstree; and the Company has also entered into a joint venture with the Anderson Group, an East Anglian construction firm
- CEO Stephen Wicks: "as we head into the New Year, Inland Homes is well placed to achieve further significant growth in 2018"

Performance and outlook 9

- **M J Gleeson (Trading Update 4 - January)** "the urban regeneration and strategic land specialist" will report its interim results (to 31 December) on 19 February - and promulgated a further Trading Update on the third business day of the year (and this also follows closely on the AGM which was held on 7 December)

- For the record, Gleeson Homes sold 593 units in H1 which was an increase of 31% annualised

- Gleeson Strategic Land was not so busy and sold the same name of sites (three) in each half year; which had been flagged. However, it is progressing the sales of a further eight sites from what is a chunky pipeline of 63 sites (12 with planning permission) comprising 21,455 plots

- "The Group results for the first half-year are expected to comfortably exceed those of the prior year comparable period"

Economics corner 1

- **GDP** growth was confirmed at 0.4% in Q3 2017 (vs Q2 2017) including strong Services and a strengthening of household spend. Year on year, the gain is 1.5%
- The **CPI** (Consumer Price Index) continues to rise and was at 2.8% annualised in November 2017 which was the same as October but up from 1.2% in November 2016
- **Unemployment** was at 4.3% in the October quarter which compares with 4.8% a year ago; and both tend to indicate 'full employment' by any rational definition
- **Retail Sales** in November, by volume, increased 1.1% month on month and 1.6% annualised; note, too, that food stores had their largest price increase in November (i.e. 3.6%) since September 2013

Economics corner 2

- **UK Finance** (incorporating the BBA and CML data): house purchase mortgages by High Street banks fell to 39,507 in November which is 2.3% adrift of October and minus 5% annualised

- BBA is the British Bankers Association and CML is the Council of Mortgage Lenders

- **BoE:** mortgage approvals in October 2017 (67,709) edged up 2.2% but down a little - i.e. minus 0.7% - year on year

- **Experian*** estimates that Private Housing Output will have risen 6% last year with then 5, 4 and 1% growth forecast in 2018, 19 and 20 respectively (all in real terms); meantime the Public Sector, from a low base, is forecast at +8, +3 and +6% on the same basis (after an estimated +6% in 2017)

*where Building Value is an advisor

House price corner

- **Nationwide:** +2.6% in 2017 (+4.5% in 2016) across the UK with London off 0.5%; and its forecast is +1.0% this year which would be the lowest since 2012

- **Rightmove:** said that 2017 closed with an annual gain of 1.2% and its forecast for 'new seller asking prices' this year is 1.0% which includes higher gains for first timers and second steppers and top of the ladder falls in London and its commuter belt

- **Halifax:** keeping its options open, the forecast here for 2018 is 0-to-3% with weakness in London and the south east of England

- **Reuters Housing Market Poll** (which includes Building Value) expects a median +1.3% for UK house price inflation in 2017 (including minus 0.3% in London); and then 2.3% in 2019 and 3.0% in 2020

The Da Vinci Code

- In arts and science - and sport - being known by a single name is an apogee and the Italian Renaissance polymath was known latterly simply as Leonardo

- He has also been called the father of palaeontology, ichnology and architecture as well as being dubbed one of the greatest painters of all time

- In November last year, one of his works, 'Salvator Mundi' sold for a World record US$ 450.3 million

- Noted for wisdom, too, he also said "just as courage imperils life, fear protects it"

- Despite the beauteous equivalence of last year's 43% increase in value to £43 billion, a number of the UK's listed housebuilders are, more prosaically, heedful of the latter of Leonardo's emotion as 2018 commences

DC2

- Berkeley has probably been most utilitarian with guidance of a significant annualised fall in pretax profits in fiscal 2018-19 (as at the exhibition of it Interims on 8 December)
- Similarly, it said that looking out to fiscal 2020-21, the end of its guidance period, operating margins will moderate to more normal levels of 17.5 to 19.5%; in H1 of fiscal 2017-18, the operating margin was 30.5%
- At the end of its half year, too, the cash due on forward sales had dipped 11% to £2.45 billion against end-April
- The minimalist Abbey (also painting on 8 December) added "the recent rise in interest rates in the UK together with moderate economic growth naturally tempers the outlook in the medium term. The uncertainty and dislocation associated with Brexit may impact both Britain and Ireland"

DC3

- Telford, a strictly London artist, is largely sold out for two years (as at 28 November). However, it also noted "ongoing uncertainty surrounding Brexit and a lack of political stability"; and said London is facing prolonged uncertainty

- Earlier, on 13 November, Taylor Wimpey sketched a current total order book, ex-JVs, which was 2.6% lower at 8,751 units

- It was followed by Crest Nicholson, on 15 November, and "there may be some impact from current economic and political uncertainty". It also spoke of a softer art market in Central London, albeit sales rates below £1 million remained generally strong

- To be fair, other housebuilders - see earlier pages - are more positive with their brush work

DC4

- What is certain, though, is that the UK listed Housebuilding Sector has reinvented itself since the Global Financial Crisis; okay with the help of £5.3 billion of provisions during 2008-10 (i.e. 41% of pre-GFC combined net asset value) and £1.7 billion of new cash from their shareholders
- It is wiser now, too, better managed, largely ungeared and spectacularly generous with dividends
- The UK economy is none of these and although it is forecast to grow at 1-to-2% per annum through 2020, this is below trend. Inflation is rising, too, household incomes and consumption are under pressure; and Brexit etches large
- For the housebuilders, this means volume growth is tight, prices are under pressure (and with them margins) which means commensurate pressure on earnings growth i.e. 2% in 2019 based on a consensus

DC5

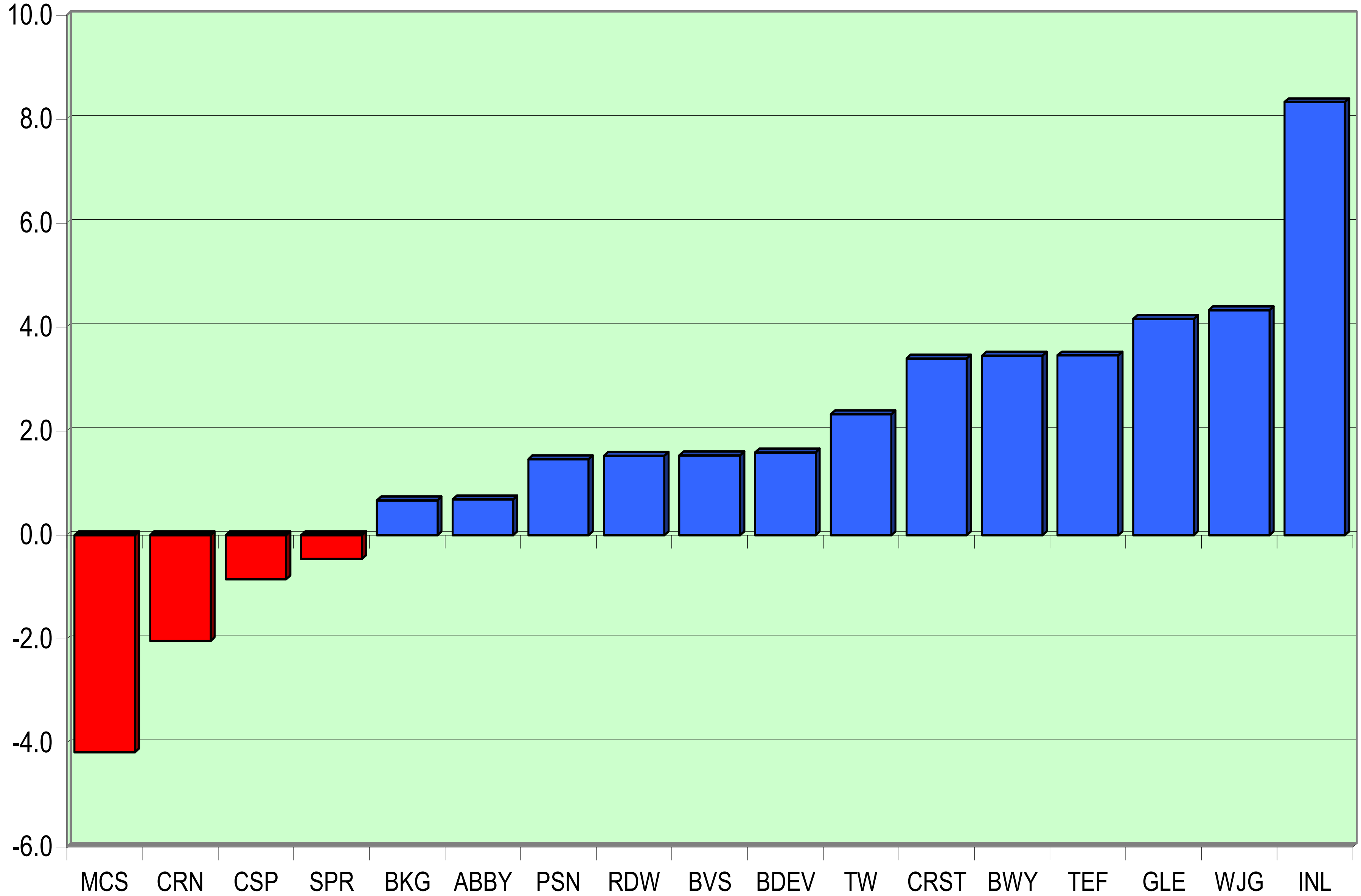
- 43% and £43 billion are likely not to be re-drawn in 2018; albeit, in Week 1 of the New Year (four trading days) the Sector rose 1.6% in value; pretty much starting where it left off in December

- Both Gleeson and Inland also issued very positive Trading Updates, too, on 2 and 4 January; and both share price rose sharply

- We believe there could well be a profit warning early in 2018 too but, as with Berkeley, honesty appears to be rewarded

- Near term, the Sector may well continue to rise but it is on a single digit PER a year out for a reason i.e. it is still not trusted by art lovers

Housebuilders share prices in Week 1 of 2018 (% change YTD)



"Just as courage imperils life, fear protects it"

- Leonardo -

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**), Springfield (**SPR**), Telford Homes (**TEF**) & Watkin Jones (**WJG**)
- BoE = Bank of England; CON = Construction & Building Materials; CPI = Consumer Price Index; GDV = Gross Development Value; GFC = Global Financial Crisis; IPO = Initial Public Offering; REIS and REIT = Real Estate Investment & Services and Investment Trusts; TSR = Total Shareholder Return; and LSE = London Stock Exchange
- Share prices are at 29/12/2017 and sourced from Bloomberg and Yahoo Financial UK
- 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
- Other adjustments have been made to reported numbers and metrics

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