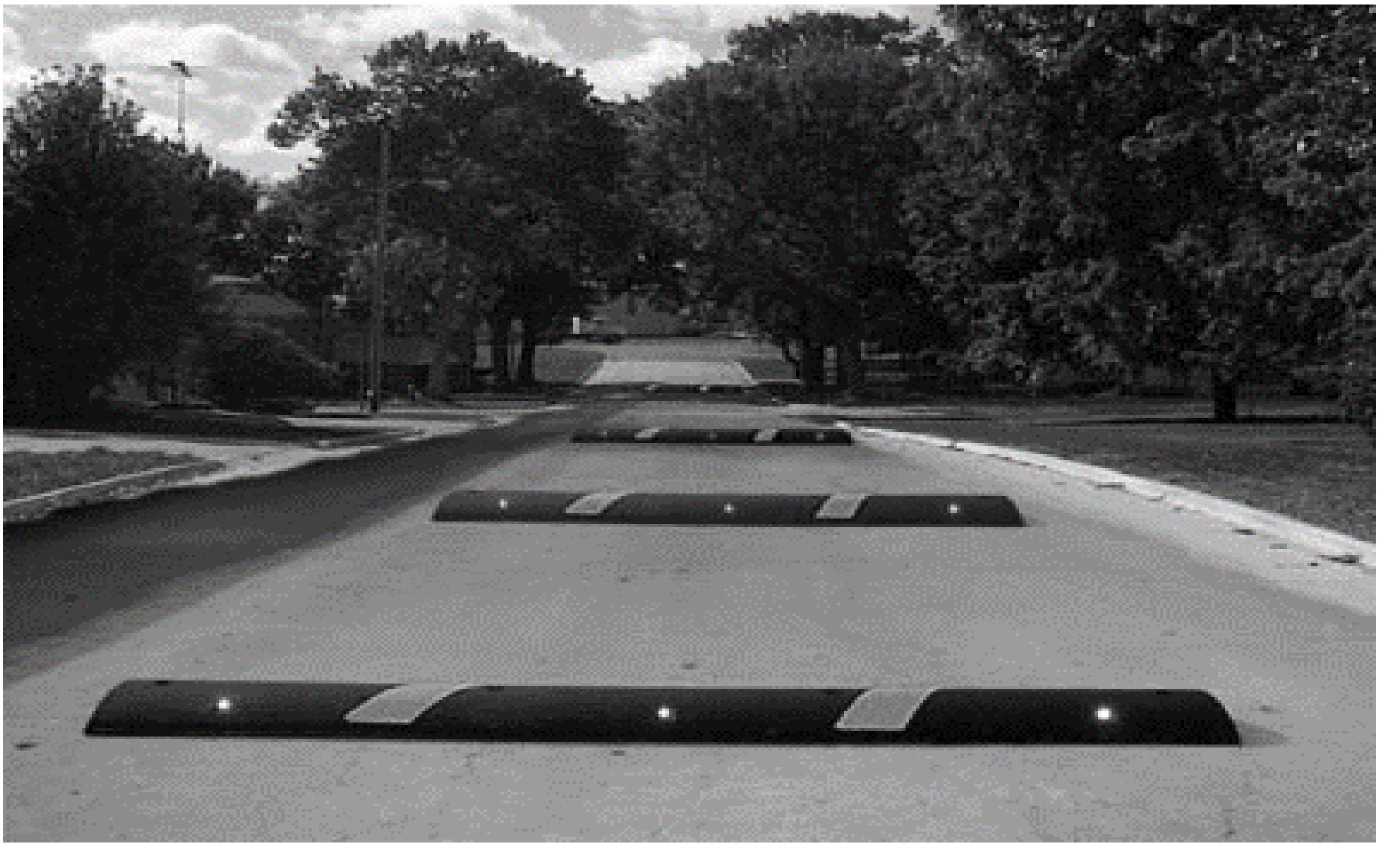
11th January 2017

hardman&co

UK Housebuilding Sector: 2016 and beyond

Winter 2017

Speed bumps



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Prologue: Speed bumps

Arthur Compton

Source: Creative Commons

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 the US 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.

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% penalty in terms of value 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 it met 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, it is proven that driver selection and lap counting are critical.

Share prices in 2016

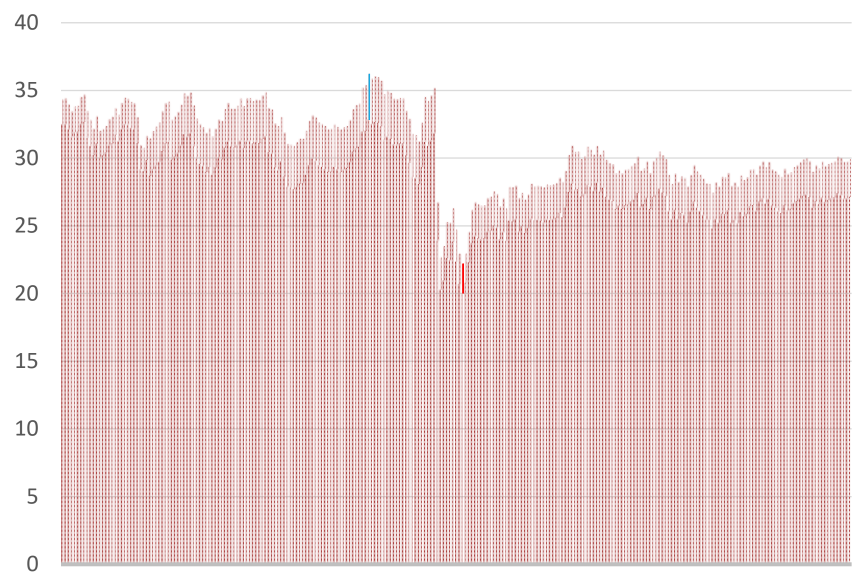
On 24 May 2016, the Sector drove to a new all-time high of £36.2 billion (or £32.9 billion ex-the new registrations in 2015-16: Cairn; McCarthy & Stone; Countryside; and Watkin Jones).

This also meant that from trough (7 July 2008) to peak (24 May 2016), the Sector had increased in cubic capacity 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%

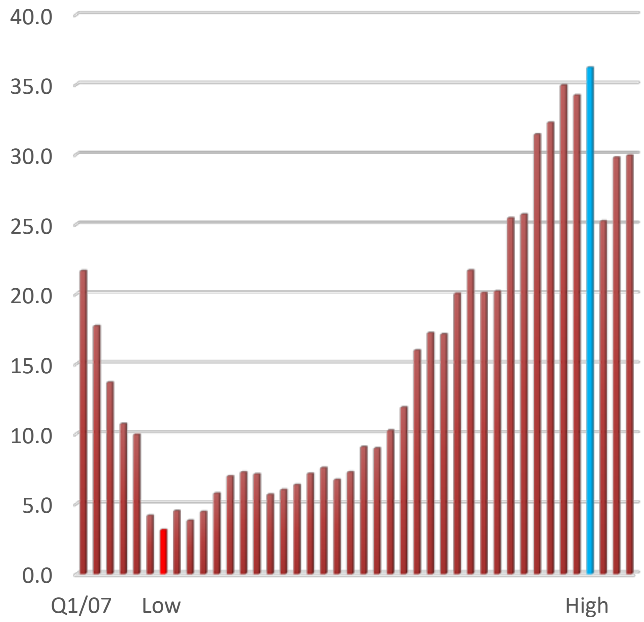
There was a pot-hole filled recovery in the second half of calendar 2016. However, by 30 December, the Sector while the Sector had gained much back, it was still 15% off its pre-Brexit level, 14% down year on year and 18% adrift of its peak level - all in Pound Notes.

UK Housebuilding: Sector stock market daily value in 2016 (£billion)



Source: Hardman & Co Research

UK Housebuilding Sector: Market value (£billion): Q1 2007 to Q4 2016 *



**Low was 7 July 2008 and (red) and high on 24 May 2016 (blue)*
Source: Hardman & Co Research

2016 continued

In calendar 2016, there was a total of 253 motor trading days and on 52% the Sector rose versus 48% when it fell in terms of value (as opposed to percentage rises in share prices).

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’ on 28 December - and seven working days later its CEO resigned.

Turning to individual share prices, these 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.

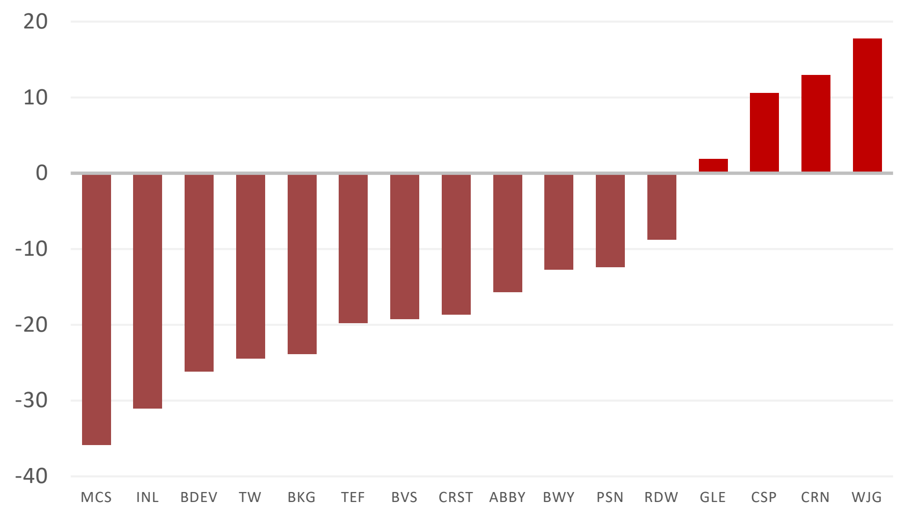
Watkin Jones was the fastest at +18% (and is included from its IPO for 9.3 months) and it was supported by co-IPOer Countryside with +11% over 10.6 months.

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, Barratt, Persimmon and Taylor Wimpey continue to vehiculate as FTSE 100 constituents.

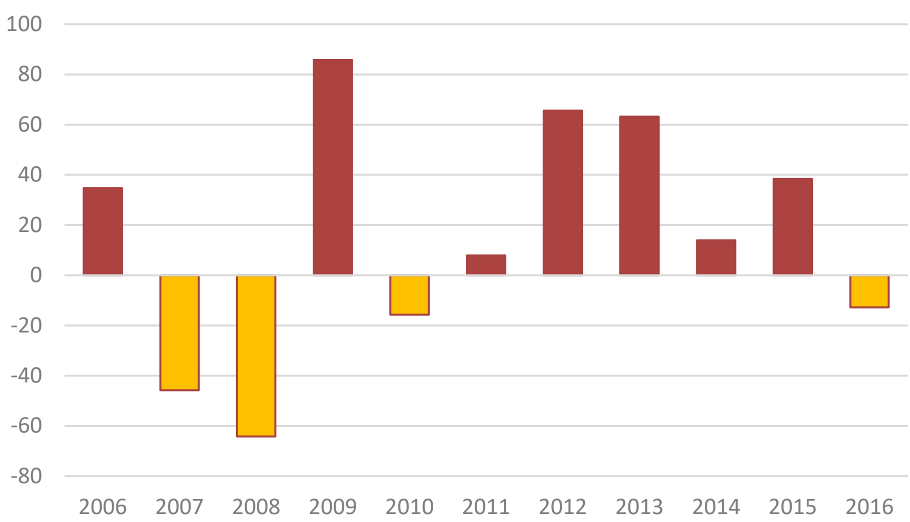
For the record, too, 2016 is the fourth negative year out of the last 11.

Share prices in 2016 (% change)



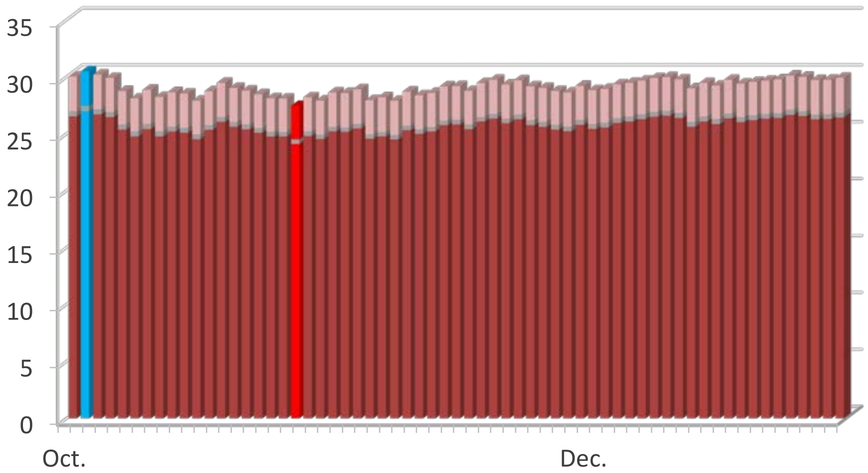
Source: Hardman & Co Research

UK Housebuilders: Share prices annually 2006-16 (% change)



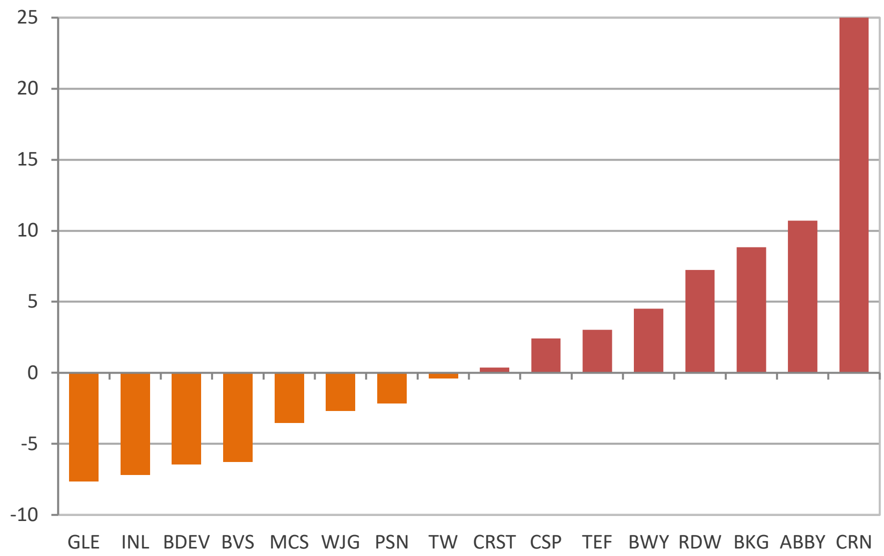
**weighted % change in share prices quarter by quarter*
Source: Hardman & Co Research

Housebuilding Sector stock market value - daily - Q4 2006 (£billion) *



Newly listed (light brown), Inland Homes and Gleeson (medium); low is red; and high is in blue)
Source: Hardman & Co Research

Share prices in Q4 2016 vs Q3 2016 (% change)



Source: Hardman & Co Research

Quarter by quarter

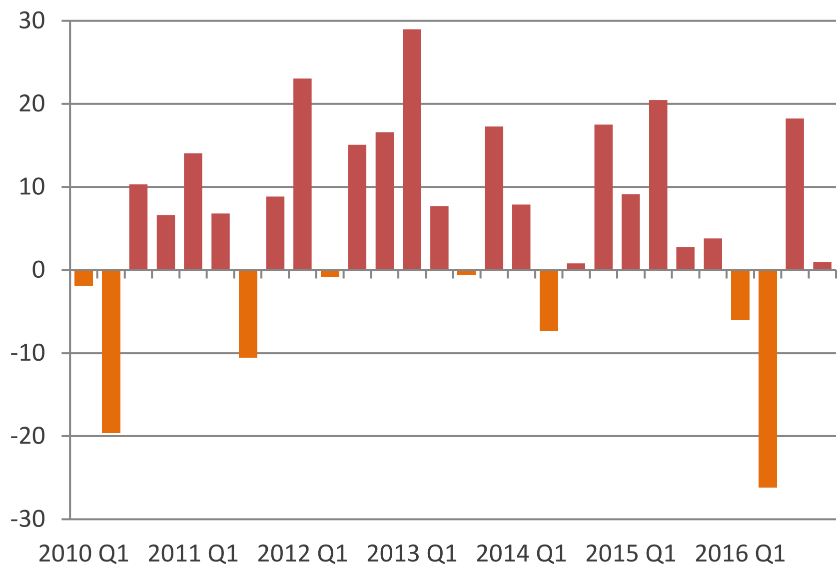
Q4 2016's 63 trading days were split 33 up and 30 down but the Sector nudged higher by the end of the quarter with shares prices rising 2% actual and +1% weighted.

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 the final quarter of last year.

The Sector has also gained in 20 of the last 28 quarters (since Q1 2010); albeit Q4 2016's was a marginal gain.

In relative terms, though, in 2016, the Housebuilders were conspicuous laggards last year with a 17% weighted deficit. Real estate entities did not fare well either, but the prime measures of the UK equity market all broke new ground and were in comfortably positive territory for the year. Oddly, perhaps, construction and building materials issues (ex-the Housebuilders) did very well in total last year.

UK Housebuilding Sector Share prices Q1 2010 - Q4 2016 (% change*)



**Weighted;*
Source: Hardman & Co Research

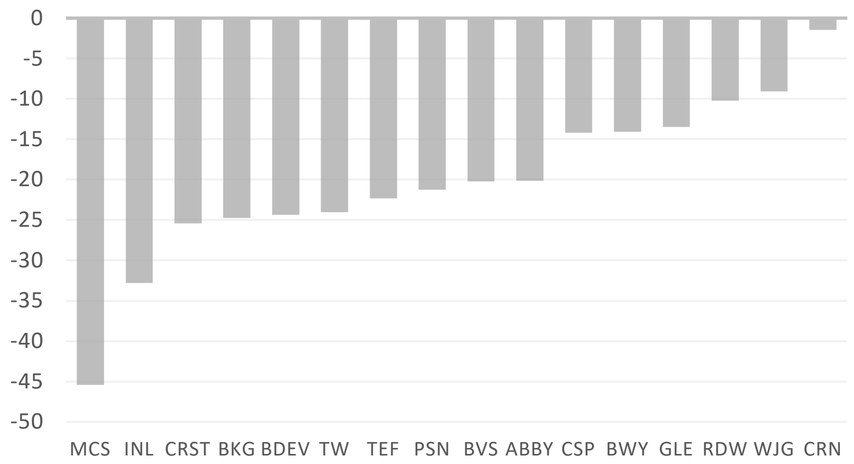
Peaks and values

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 (see later chart headed 'Sector Structure').

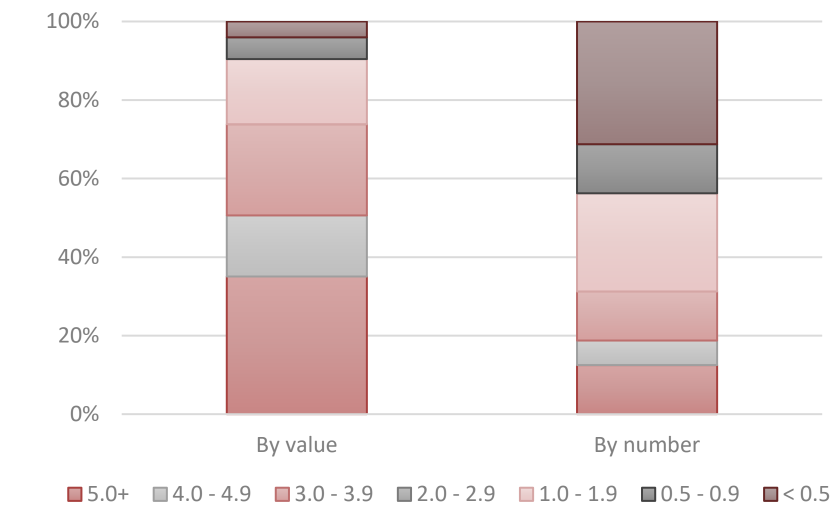
Note, too, McCarthy & Stone (November 2015), Countryside (February 2016) and Watkin Jones (March 2016) are all newly listed or re-listed on the London Stock Exchange; and Cairn Homes (from June 2015) is also included in our forecourt.

Share price deficits from 52 week highs at 30 December 2016 *



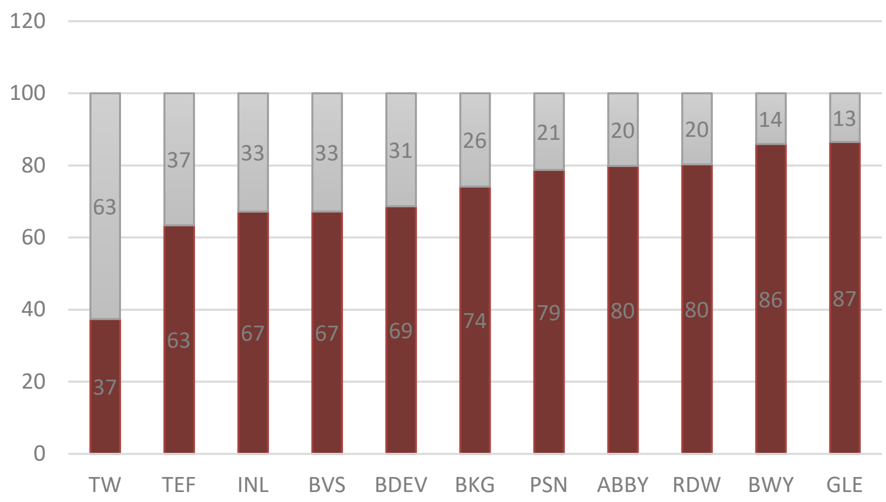
**Countryside and Watkin Jones for 10.6 and 9.4 months*
Source: Hardman & Co Research

Sector structure by stock market value: 16 firms worth £29.9 billion at 30/12/16*



**Legend is in £bn*
Source: Hardman & Co Research

Current share price as % of all-time peak level at 30/09/16 (in dark brown)



**except Abbey in Euro cents; and ex Cairn, Crest, McCarthy & Stone, Countryside & Watkin Jones*
Source: Hardman & Co Research

Price-to-book and Total Return

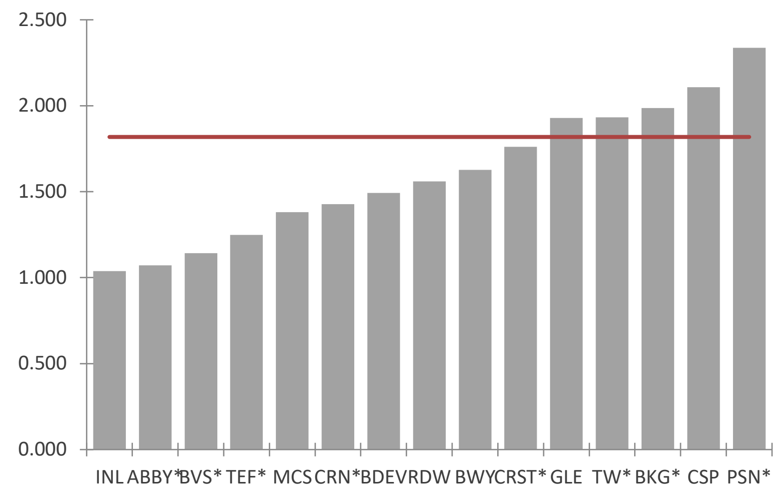
The Housebuilders' latest average Price-to-Book valuation was 1.60 at 30 December 2016 and 1.82 weighted. A year ago they were 2.20 and 2.41 respectively.

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; and only four out of 16 stocks were in positive territory: Watkin Jones; Countryside; Cairn; and Gleeson.

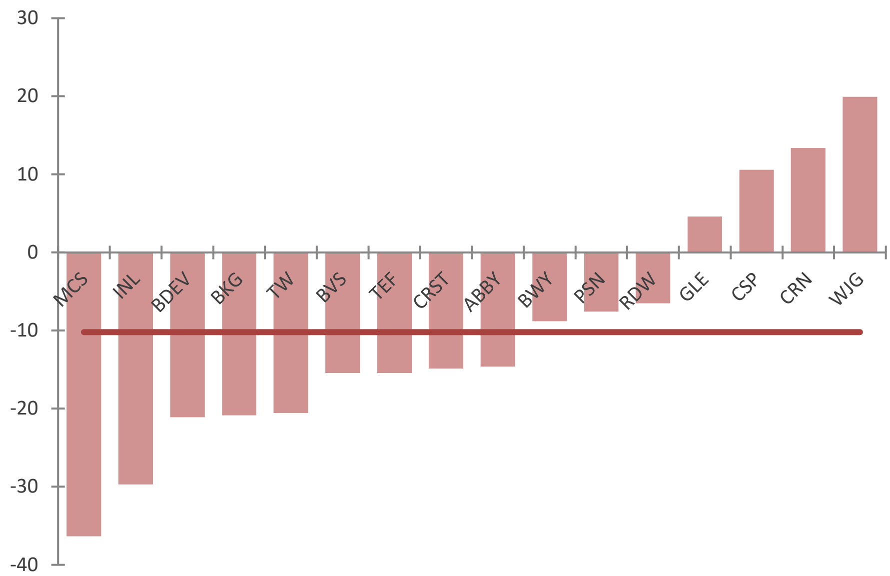
In calendar 2015 average TSR was a positive 49%, preceded by +16% in 2014 and a limousine ride of +82% in 2013.

Price-to-Book-Value at year end/latest interim * & priced at 30/12/16



**denotes interims; weighted av. is 1.82 is shown as a line; actual av. is 1.60; and is ex-Watkin Jones*
Source: Hardman & Co Research

Housebuilders TSR in 2016 (%change) *



** Abbey, Countryside (10.6 months) and Watkin Jones (9.3 months) are calculated by Hardman & Co*
Source: Bloomberg

Valuation

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

After 2015's 35% earnings growth, 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 marginal at 5%, too, amid what are now frequent forecast revisions - all of which are all downwards. A year ago forecast earnings growth for 2017 was +14%.

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

For the record, historic PERs for the wider UK equity market range from 20 to 34x.

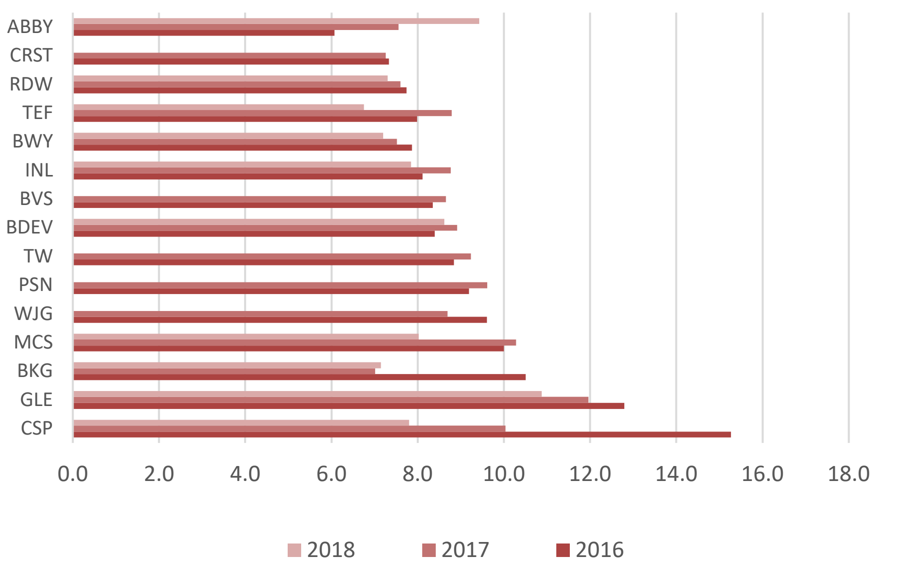
Turning to dividends, the Housebuilding Sector (including specials) had an average 2016 yield of 4.2% covered 3.9 times (at 30 December); once again this is based on results and consensus forecasts and is, thus, both part historic and part forward looking - depending on fiscal year ends.

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.

It is also the case, that a number of companies has committed to paying enhanced dividends which means Persimmon, Crest, Barratt, Berkeley and Taylor Wimpey are yielding 6 to 9% (at 30 December).

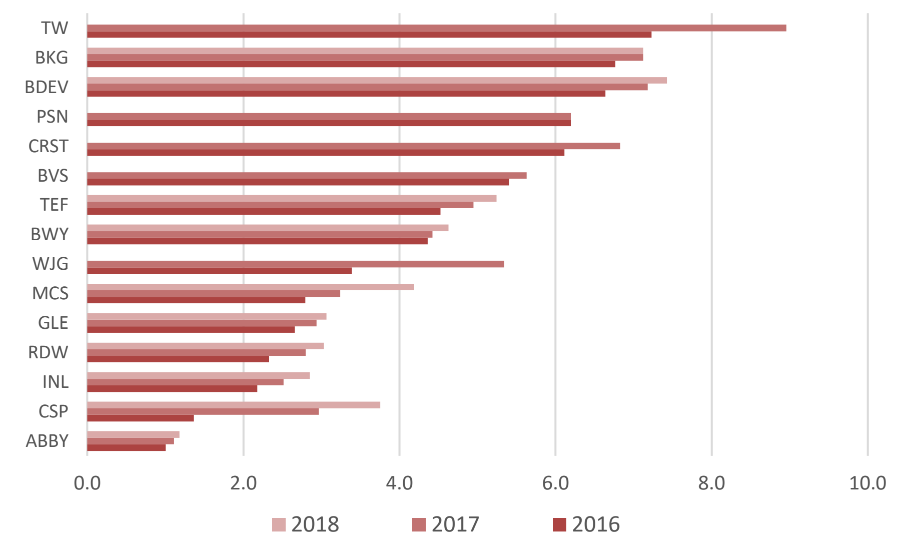
For the record, the UK equity market yields between 2.7 and 3.7% historic with lean average cover of 1.2x; all calculations are made at the London Stock Exchange close on 30 December.

PER: 2016 (av. 9.2x); 2017 (8.8x); and 2018 (8.1x) at 30 December 2016 average = 8.5x



Source: consensus forecasts from Digital Look, Reuters and FT; Hardman & Co Research

Yield: 2016 (av. 4.2%); 2017 (4.8%); and 2018 (4.2%) at 30 Dec. 2016



Source: consensus forecasts from Digital Look; Hardman & Co Research

Results and trading 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 companies reporting 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).

Profit & Loss

Date	Company	Event	Period ending	Pretax profit (£m)		PBT (% chge)	EBIT margins		Orders % chge	DPS % chge	DPS cover (x)	
				Old	New		Old (%)	New (%)			Old	New
10-Dec	Abbey (€)	Half Year	31-Oct	30	22	-27	26.2	24.4	-	17	18.4	11.6
10-Dec	Abbey (£)	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 H.	Full Year	30-Jun	20	16	-20	24.8	22.8	-28	30	8.1	5.7
14-Nov	McCarthy S.	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 (%)						23			6	22	7.0	4.6
Sector average change (%)						40				22	2.9	2.8
Individual average margin (%)							20.5	19.7				
Sector average margin (%)							20.0	21.4				

Source: Company announcements and Hardman & Co Research
Notes:
(i) Pretax profit numbers are adjusted where necessary and are net of exceptional items
(ii) EBIT is Earnings Before Interest & Tax; DPS is dividend per share
(iii) Abbey plc is Irish domiciled but is listed on both the Dublin and London Stock Exchanges; it reports in Euros (€) but only GBP (£) are included in totals
(iv) Berkeley's revenue (and profit) from the sale of ground rent is excluded: H1 2016 £27.2m (est. £27.2m); and H1 2015 £53.4m (£51.0m)
(iv) Countryside and McCarthy were re-listed in 2015 and 2016; and there are no prior year dividends
(v) Telford's revenue (and profit) are gross of its share of JVs: H1 2016 £5.3m (£1.2m); and H1 2015 £0.8m (£0.4m)
(vi) Telford also held £700m of forward sales at end H1 which compares with fiscal 2016's annual revenue of £246m

Balance Sheets

Date	Company	Event	Period ending	Net Assets (£m) Old	Net Assets (£m) New	Net (Debt)/Cash (£m) Old	Net (Debt)/Cash (£m) New	*Gearing Old %*	*Gearing New %*	*ROCE Old %*	*ROCE New %*	*Capital Turn (x)*
10-Dec	Abbey (€)	Half Year	31-Oct	273	266	95	85	*-35*	*-32*	*21.4*	*16.2*	*0.7*
10-Dec	Abbey (£)	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 S.	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			*21.7*	*19.4*	*0.9*
Individual average change (%)					*26*					*22.0*	*24.6*	*0.9*
Sector average change (%)					*31*							
Individual average ROCE (%) adjusted												
Sector average ROCE (%) adjusted												
Individual average gearing (%)								*6*	*2*			
Sector average gearing (%)								*-4*	*-5*			

Source: Hardman & Co Research

Notes:

(i) ROCE or return on capital employed and is adjusted where required for goodwill, other intangibles etc.

(ii) Abbey's net cash included gilts and restricted cash of €15.0m at end H1 2016 (H1 2015: €14.8m) within its net cash tally

(iii) Countryside re-joined the stock market in 2016 and its prior year adjusted net assets were negative; and it held £343 million of net debt at that time

Performance and outlook

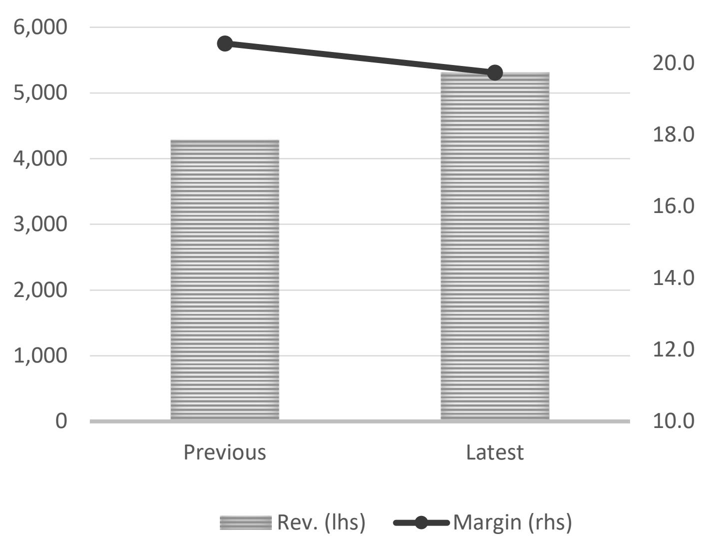
Persimmon (Trading Update - 5 January 2017)

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% up 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 (£million) and EBIT Margin (%): reported in Q4 2016



Source: Hardman & Co Research

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).

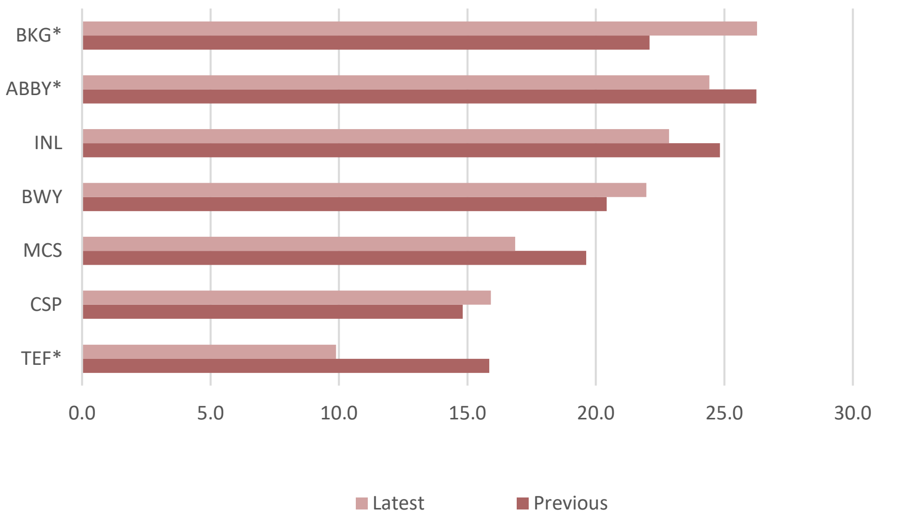
It seems that some 180 largely built and sold private homes did not complete and are deferred into early 2017.

Total revenue in 2017 is also expected to be £1.04 to 1.06 billion (2015: £946.5 million) while the operating profit margin "is expected to reduce modestly" (2015: 17.3%). This means that pretax profit for the year is now expected to be in a range of £160 to 170 million (2015: £160.1 million).

Turning into 2017, the Group expects to be holding around 900 private forward sales (+7%). Bovis has continued to buy land, too, and envisages no change to its dividend policy. Last February, it spoke of "maintaining a level of dividend ahead of our base policy of one third of retained earnings"; and this reflected confidence in the strategic plan.

Seven working days after the 'profit warning', CEO Ritchie (incumbent since 2008) resigned.

EBIT profit margins (%) reported in Q4 2016 *



**denotes interim results*
Source: Hardman & Co Research

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".

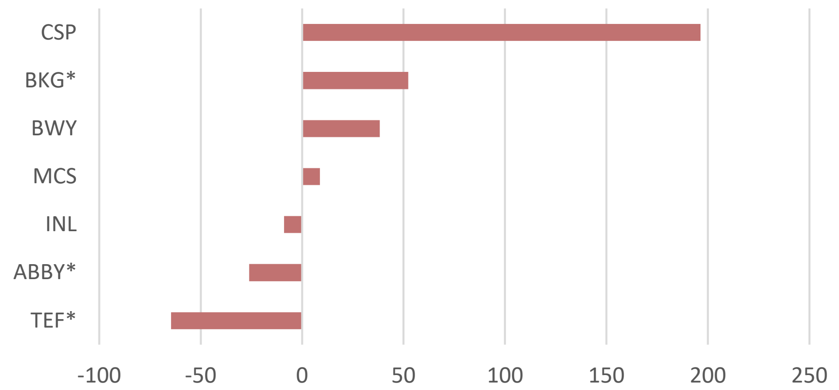
The Group also said that "whilst remaining mindful of the longer term uncertainty as a result of the vote to leave the EU", it had cautiously recommenced a programme of land acquisition, following a brief planned hiatus in the weeks after the referendum.

Abbey (Interims - 9 December)

The Group 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. But 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.

"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". Meantime, "in Ireland gradually easier credit conditions for first time buyers is supporting the slow recovery".

EPS growth (% change) reported in Q4 2016 *



**denotes interim results*
Source: Hardman & Co Research

Berkeley Group Holdings (Interims – 2 December)

Berkeley 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.

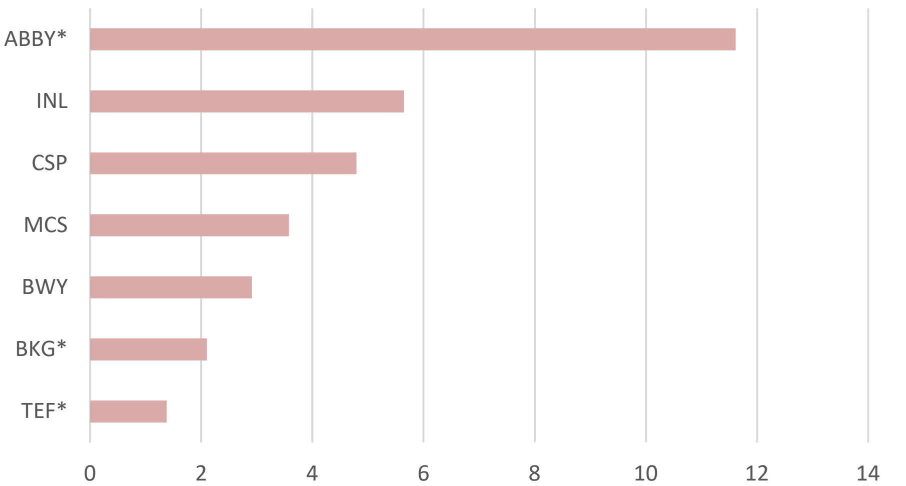
It also said that in tandem with special dividends it would offer share buybacks (to date £6.34 has been paid per share with £10 to come through September 2021); "this recognises that, at certain price points, the Board is of the opinion that the Company is materially undervalued".

This was despite the fact that forward sales were 11% off at £2.9 billion at the time of reporting 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".

Dividend Cover (x) reported in Q4 2016 *



**denotes interims; average = 4.6x after a 22% increase)*
Source: Hardman & Co Research

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 (+23%) rose 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".

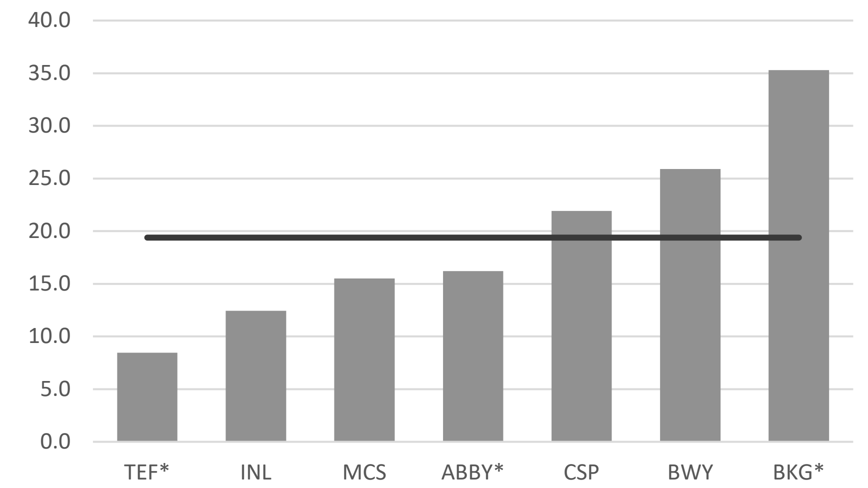
More immediately, it enjoys a strong forward sold position exceeding £700 million of revenue to be recognised from the year to 31 March 2017 onwards (+21% year on year). It is also developing an increasing number of PRS or 'build to rent' units.

The Group is focused on residential development in non-prime London (£500 to 900 per square foot) where it says there is "a fundamental lack of supply of new homes compared to significant demand.

"The outcome of the EU referendum in June 2016 created some ripples in the economy, and in the housing market, but underlying demand has not diminished.

"Over the last two years sales price inflation has slowed to a moderate but stable rate in low single digits differing slightly across specific locations. Build cost inflation is still evident but this has also moderated and remains in line with the Board's expectations".

Latest reported and average ROCE (%) reported in Q4 2016 *



**denotes interims; ROCE is return on capital employed*
Source: Hardman & Co Research

Countryside (Finals - 29 November)

Maiden final results following its re-listing a year ago showed pretax profit increasing two-and-a-half fold to an adjusted £93.9 million; albeit operating margins dipped from 15.8 to 14.8%.

Last year, the Group sold 783 (+20%) private units at an average price of £465,000 which was up 21%; it also completed 1,874 partnership units.

Its private unit order book is up an outstanding 64% at £225 million; in addition, it is at preferred bidder status on partnership work to the tune of 6,623 plots which compares with 2,957 a year earlier.

"Current trading remains robust with sales rates and values above year end numbers. The markets in which we operate have recovered post the EU Referendum and we continue to trade well."

McCarthy & Stone (Finals - 15 November)

The Group is the "UK's leading retirement housebuilder and returned to listed status in November 2015; and these were the first annual results since then and showed pretax profit ahead 13% at £105 million after adjustments.

Legal completions increased by 20% to 2,299 with net average selling price rising 8% to £259,000.

The Group also entered its new fiscal year with a forward order book 13% down at some £114 million but is sticking with its medium term objective of 3,000 units per annum.

Note, too, that the DCLG (Department for Communities and Local Government) said in July 2016 that around 74% of household growth in the UK to 2039 is expected to come from those aged 65 and over.

Inland Homes (Finals - 14 October)

Inland is a brownfield development specialist and saw revenue (£102 million) and adjusted pretax profit (£16 million) dip 11 and 20% respectively in the fiscal year to end June. This was due, largely, to timing differences on house unit completions (pretax profit here excludes the revaluation of investment properties and the like).

The Group also chooses to focus on asset value and has adopted EPRA measurement and, here, on an adjusted basis, its NAVPS (Net Asset Value per Share) rose 8.5% to 91.54 pence per share (EPRA or European Public Real Estate analysis takes account of the "unrealised value" within the land bank).

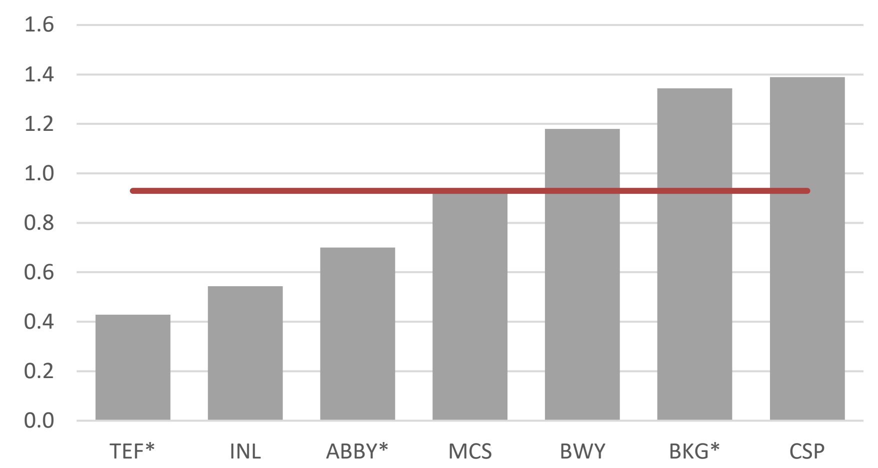
The dividend was also hiked 30%.

In the year, the Group sold 425 (2015: 440) consented plots to other housebuilders and completed the sale of 147 (2015: 248) private homes at an average price of £337,000 (+28%) plus 21 (2015: 39) equivalent affordable housing units; it also generated £2.1 million of rents (2015: £0.8 million).

Forward sales were also 28% lower by value at £22.5 million but note that Inland fattened its land bank by 29% to 6,681 plots including 17 sites under option.

And, it added the following: "despite the hysteria leading up to the referendum, the housing market has emerged relatively unscathed from the turmoil that surrounded the UK's decision to leave the EU, although it is still early days".

Capital Turn (x) reported in Q4 2016 *



**denotes interims; Capital Turn is revenue dividend by capital employed*
Source: Hardman & Co Research

Macroeconomics

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 (Consumer Price Inflation) 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%).

Meantime, 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%.

Elsewhere, 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.

Mortgages

CML (Council for Mortgage Lenders): 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 (British Bankers Association): 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).

The Bank of England (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.

Volumes and prices

With my forecasting pencil sharpened, too, I can tell you that Experian (where I am an advisor) is forecasting that Private Housing Output will grow by 4, 3 and 2% in 2016, 17 and 18 respectively.

And, on the price of houses front, the Nationwide reported +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.

In addition, Rightmove reported that the national average asking price dipped 2.1% (£6,511) in December to £299,159 but 2016 was still 3.4% to the good; and Rightmove is forecasting +2% in 2017.

On a wider plane, Reuters and its Housing Market Poll (which I also contribute to) is 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%).

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

Bump conclusion

Speed bumps sign

Source: Shutterstock

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.

The paint job of uncertainty is brighter than usual, too, which tends to cause a wholly disproportionate reaction to both positive and negative sign posts; which means that 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 policeman, 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).

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.

It is also the case, that 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 (London Interbank Lending Rate) 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.

At the same time, whilst we believe analysts are confused, eight out of 15 company forecasts in 2017 are for lower earnings.

By contrast, though, Berkeley (2 December) is 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.

Quote:

"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"

Source: Dormiens Lictores

Glossary

Abbey (ABBY)

Barratt Developments (BDEV)

Bellway (BWY)

Berkeley Group Holdings (BKG)

Bovis Homes Group (BVS)

Cairn Homes (CRN)

Countryside Properties (CSP)

Crest Nicholson Holdings (CRST)

M J Gleeson (GLE)

Inland Homes (INL)

McCarthy & Stone (MCS)

Persimmon (PSN)

Redrow (RDW)

Taylor Wimpey (TW)

Telford Homes (TEF)

Watkin Jones Group (WJG)

Note:
Share prices at 30 December 2016
Adjustments have been made to share prices where required
Selected stocks are excluded from charts and Sector averages due to extreme movements or for structural reasons

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