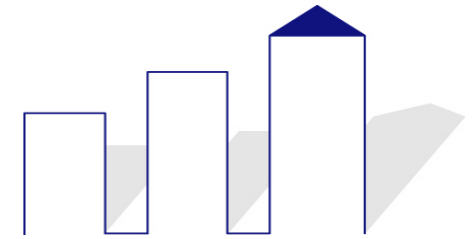
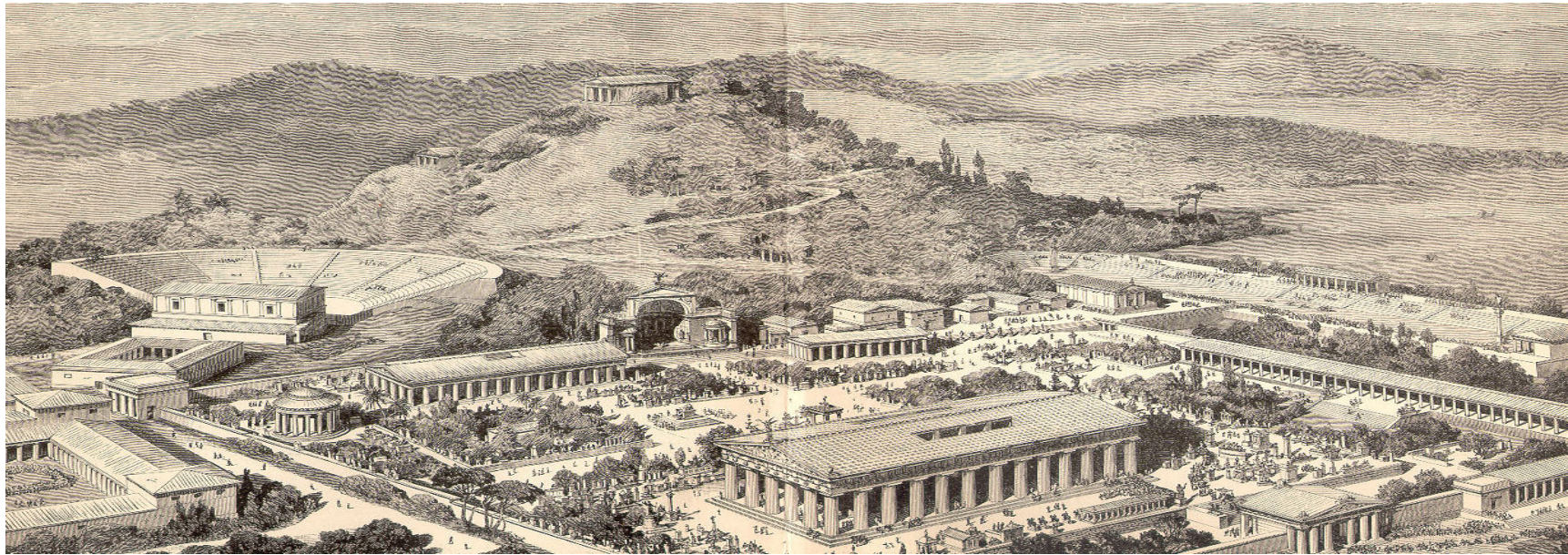


BUILDING VALUE



UK Housebuilding Sector



2010

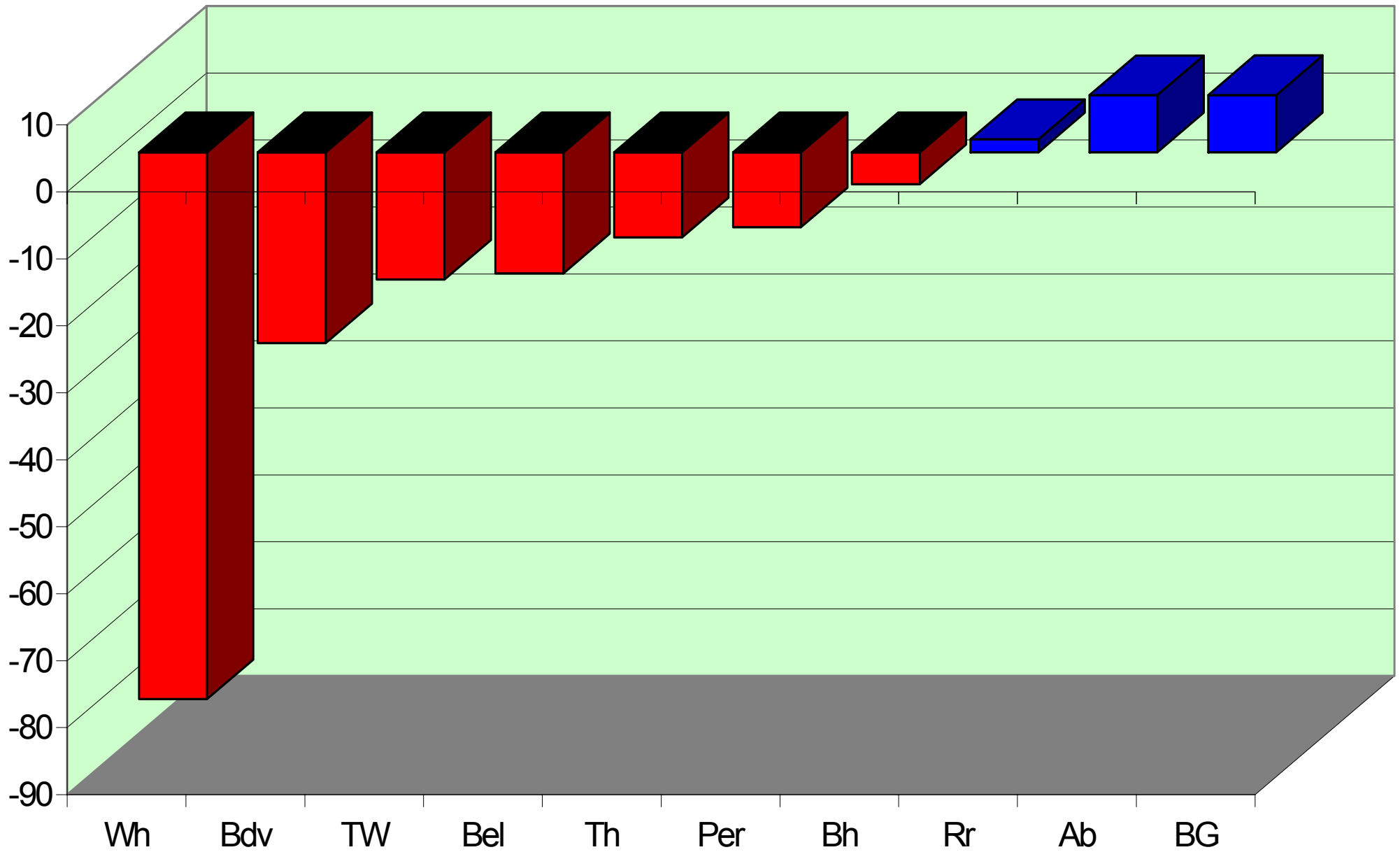
including Q4 & trading updates through
18/01/2011

Ολυμπία or Olympí'a

- Classic scholars, Hellenic tourists or sportsmen will have spotted ancient Olympia on the cover
- It was the first home of the Olympic Games from, at least, 793 BC until 394 AD when they were abolished by the Romans (who had conquered Greece in 146 AD)
- The event finally returned in 1896 (to Athens) after a gap of some 1500 years
- The Olympic Games returns to the UK next year and, simultaneously, 'Team Housebuilding' will morph from competitive perambulation to conspicuous success at middle distance

Share prices in 2010 - annual % change

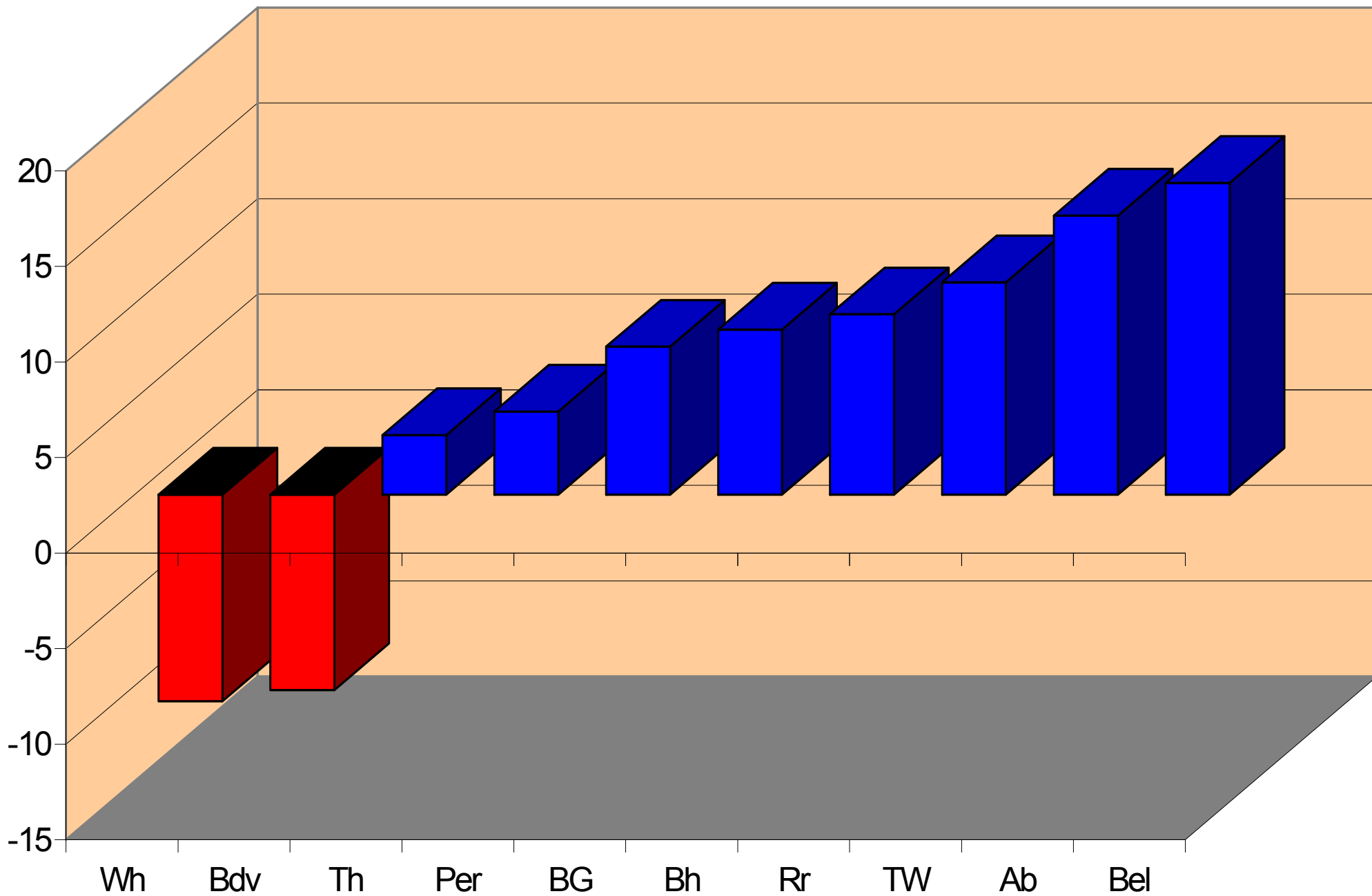
(McInerney delisted; Wren suspended)



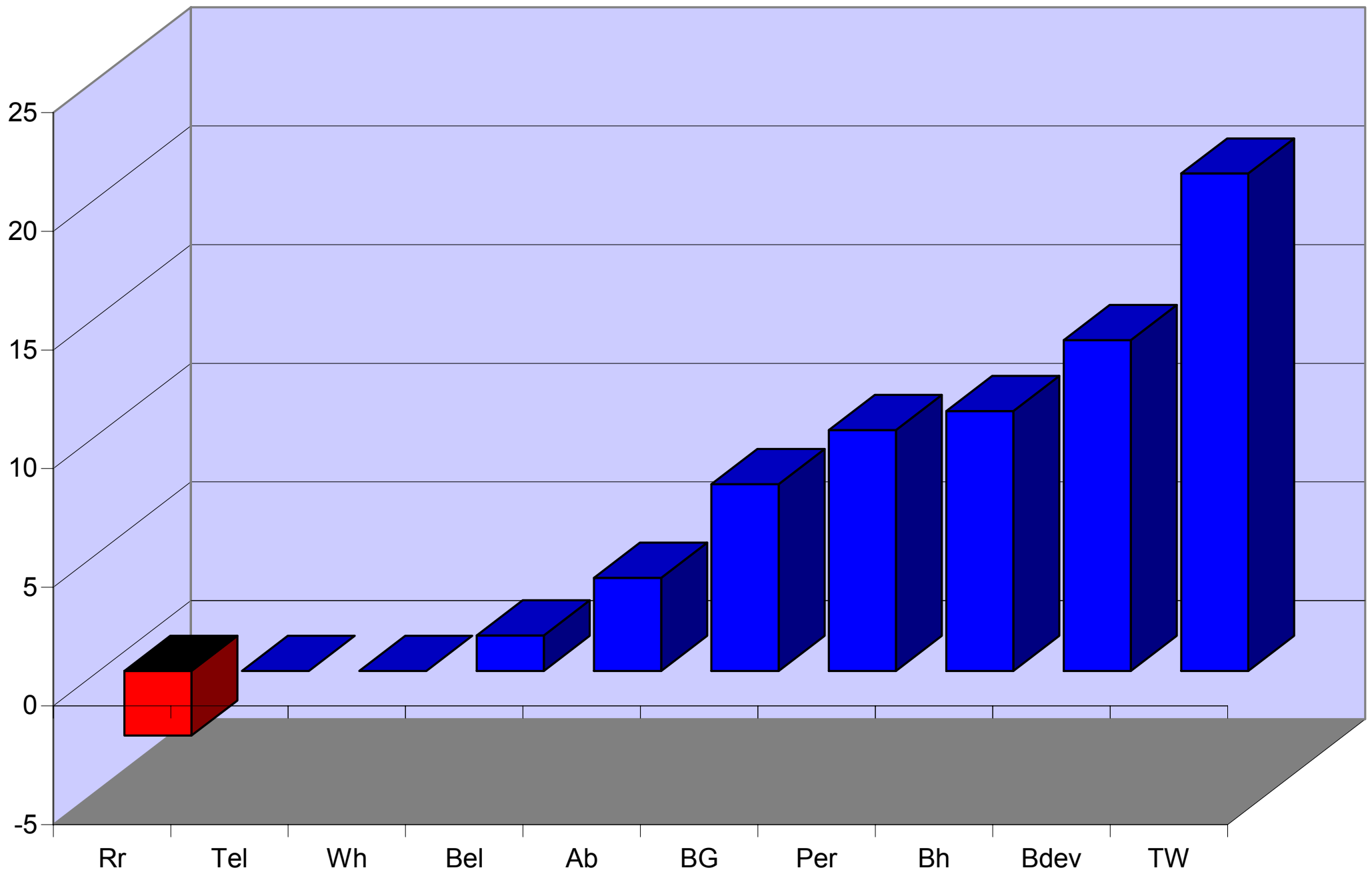
2010, Q4 and January (to date)

- Share prices fell 23% last year or 16% (ex-delisted McInerney) on an actual basis and -10% weighted; this compares with +86% and +126%, respectively, in 2009
- Only three stocks rose, including best-in-class Abbey and Berkeley (both ahead by 9%) supported by Redrow (+2%)
- The worst performer (aside from McInerney and the suspended Wren) was Barratt (-29%) followed by Taylor Wimpey (-19%) and Bellway (-18%)
- Q4 was better with a 7% weighted rise (vs Q3) where Bellway (+15%) led and only Barratt (-10%) was negative; and, in the first 11 trading days of 2011, weighted prices rose 10% with nine out of 10 stocks up (only Redrow is negative)

Share price performance in Q4 vs Q3 2010 (% change)



New Year performance: 4 - 18 January 2011 (% change)



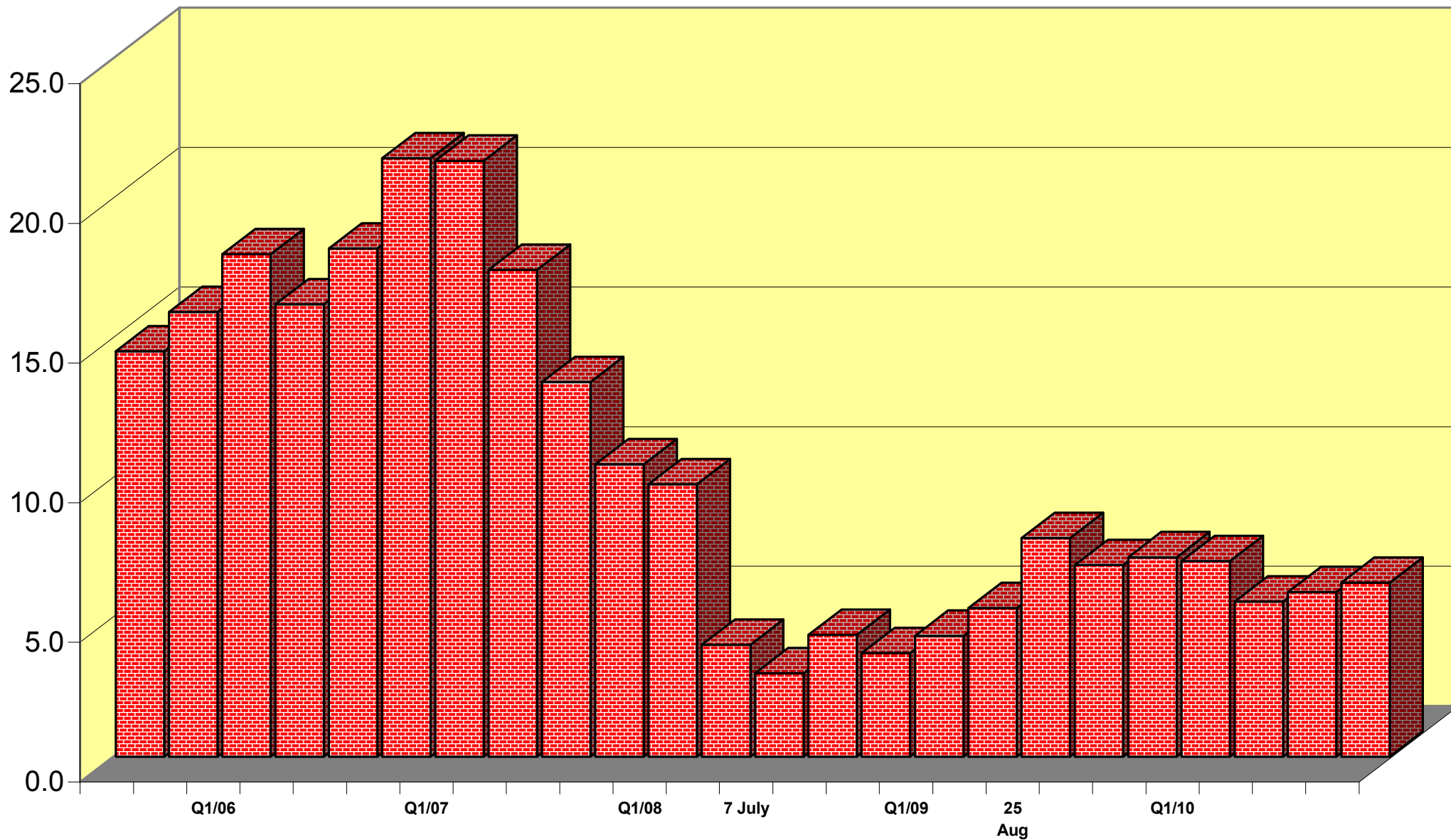
Market value falls 13% in 2010

- At 31 December, the Sector's market capitalisation was £6.2 billion, which was down 13% year-on-year (but 5% up Q4 on Q3)
- By 18 January, however, it had increased by a further 9% to £6.8 billion (profit taking notwithstanding)
- In 2009, the Sector's value rose by a fund-raising-assisted 93% to £7.1 billion
- In the Spring/Summer of 2007 the Sector's peak value was £21 billion
- The most recent 'peak' was 25 August 2009 (£7.8 billion) with its 'low' on 7 July 2008 at just under £3 billion

UK Housebuilding Sector - market capitalisation (£bn)

30 Sept. 2005 to 31 Dec. 2010

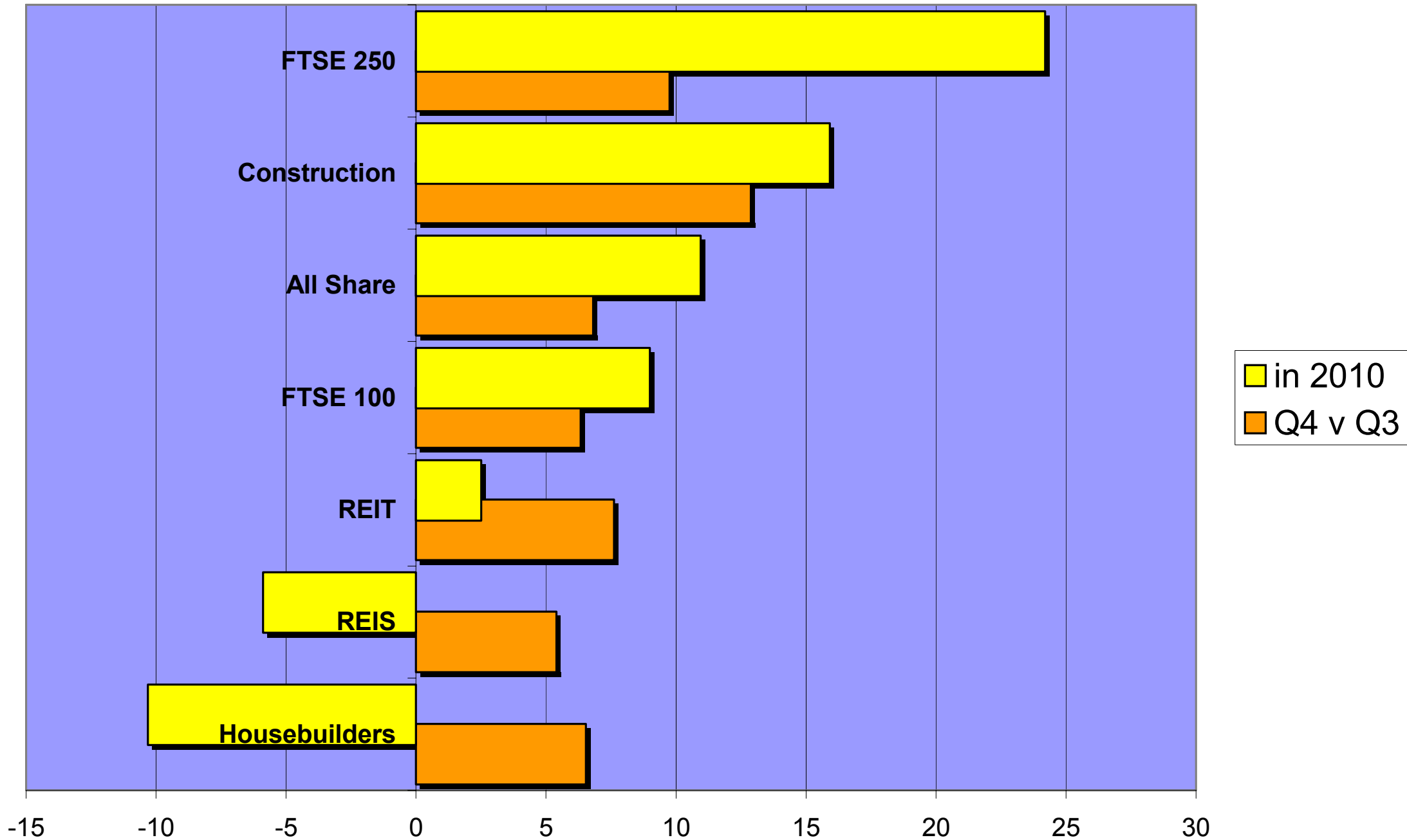
plus 7 July 08 (most recent low); 25 August 09 (most recent high)



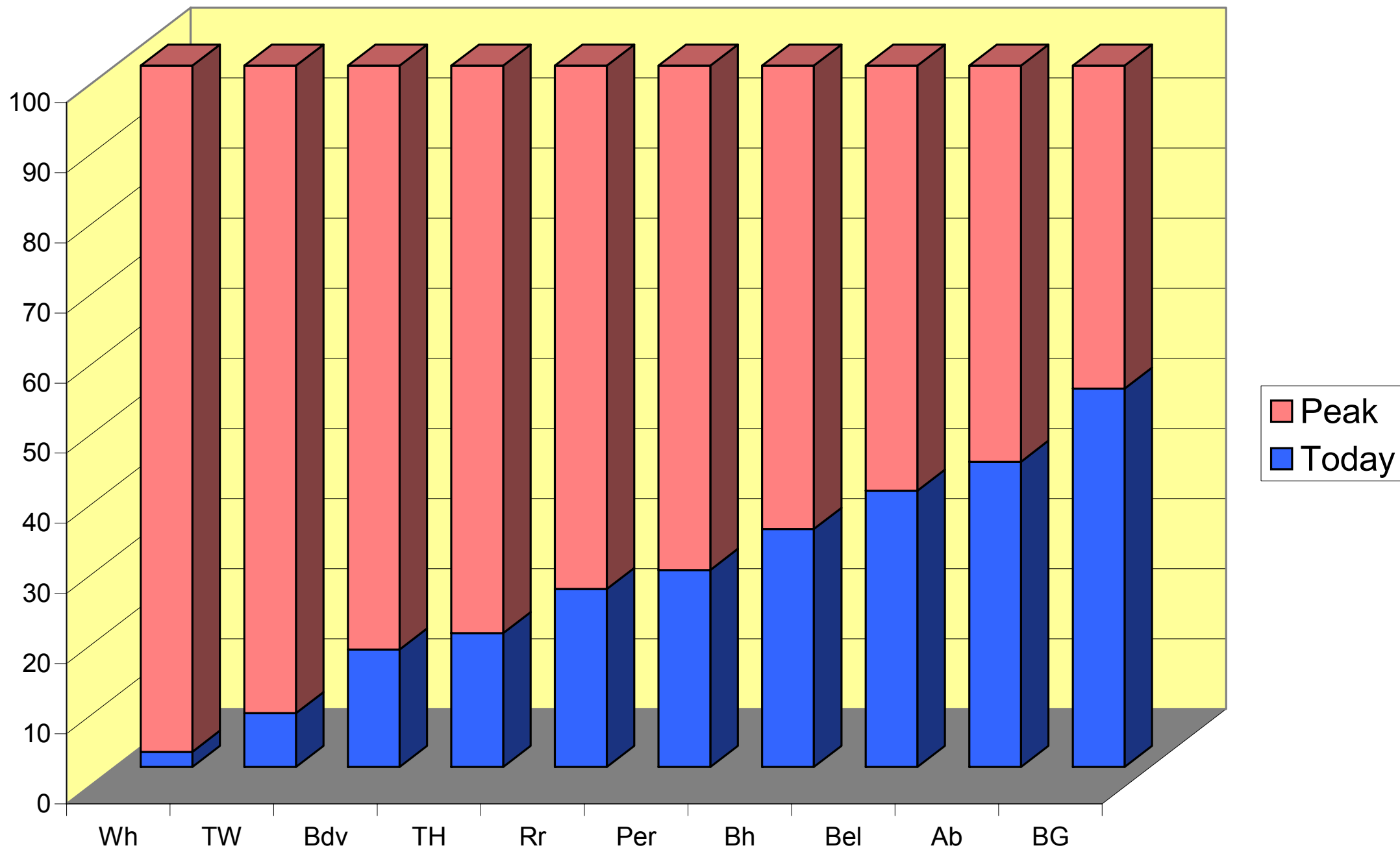
Relative performance in 2010

- The Housebuilding Sector was at the foot of the table in 2010 with a 10% weighted fall in calendar 2010
- At the other end, the FTSE 250 rose 24% with support from Construction (+16%) and the All Share Index (+10%)
- Real Estate Investment Trusts (REIT) and Real Estate Investment & Services (REIS) laboured, too, with a 3% gain and 6% fall, respectively, year on year
- In Q4, all were positive with gains of between 5% (REIS) and 13% (Construction) with Housebuilders at +7%

Relative % change in Q4 and 2010

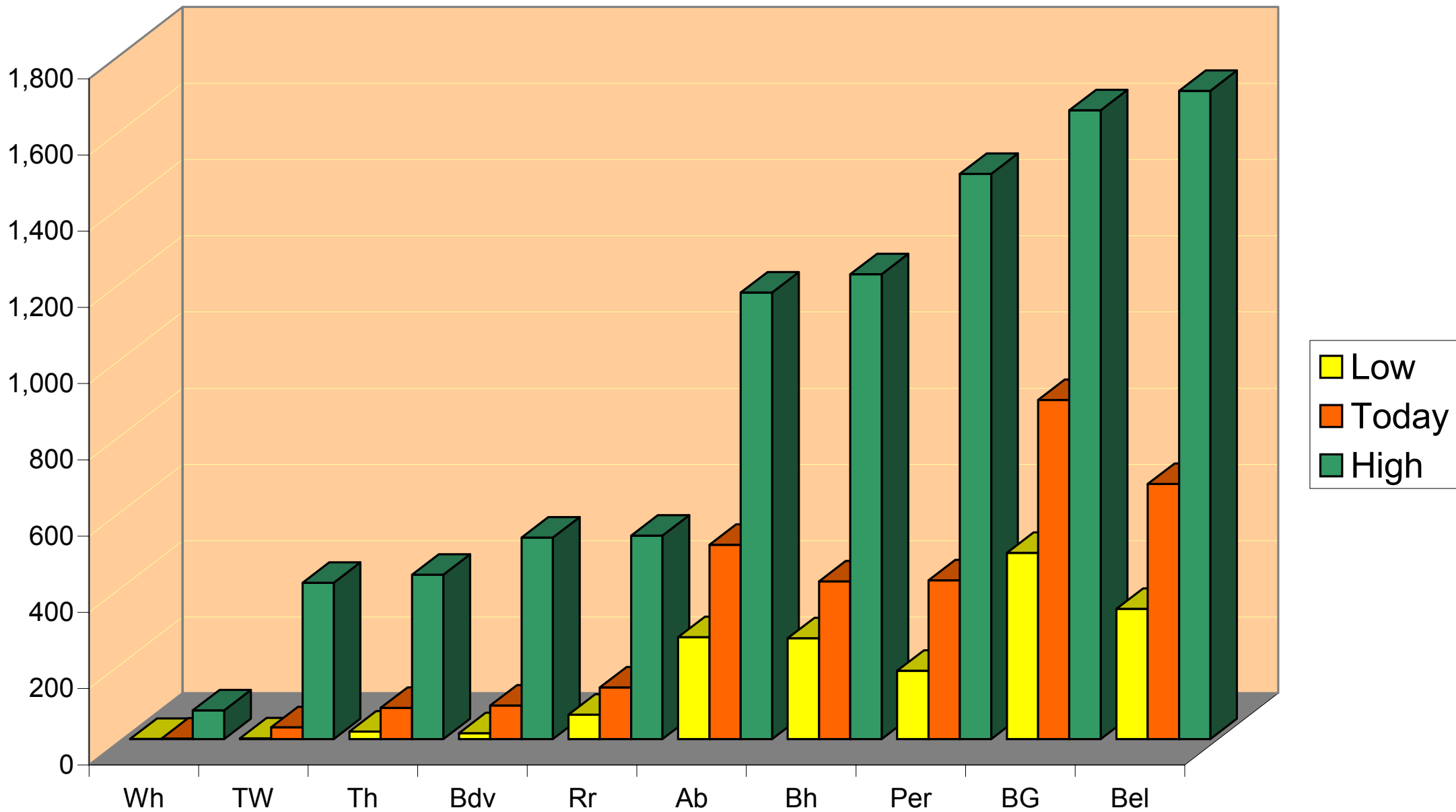


Current share prices as % of peak level (at 31/12/2010)



Peak share price, today's price (31/12/10) & recent lows

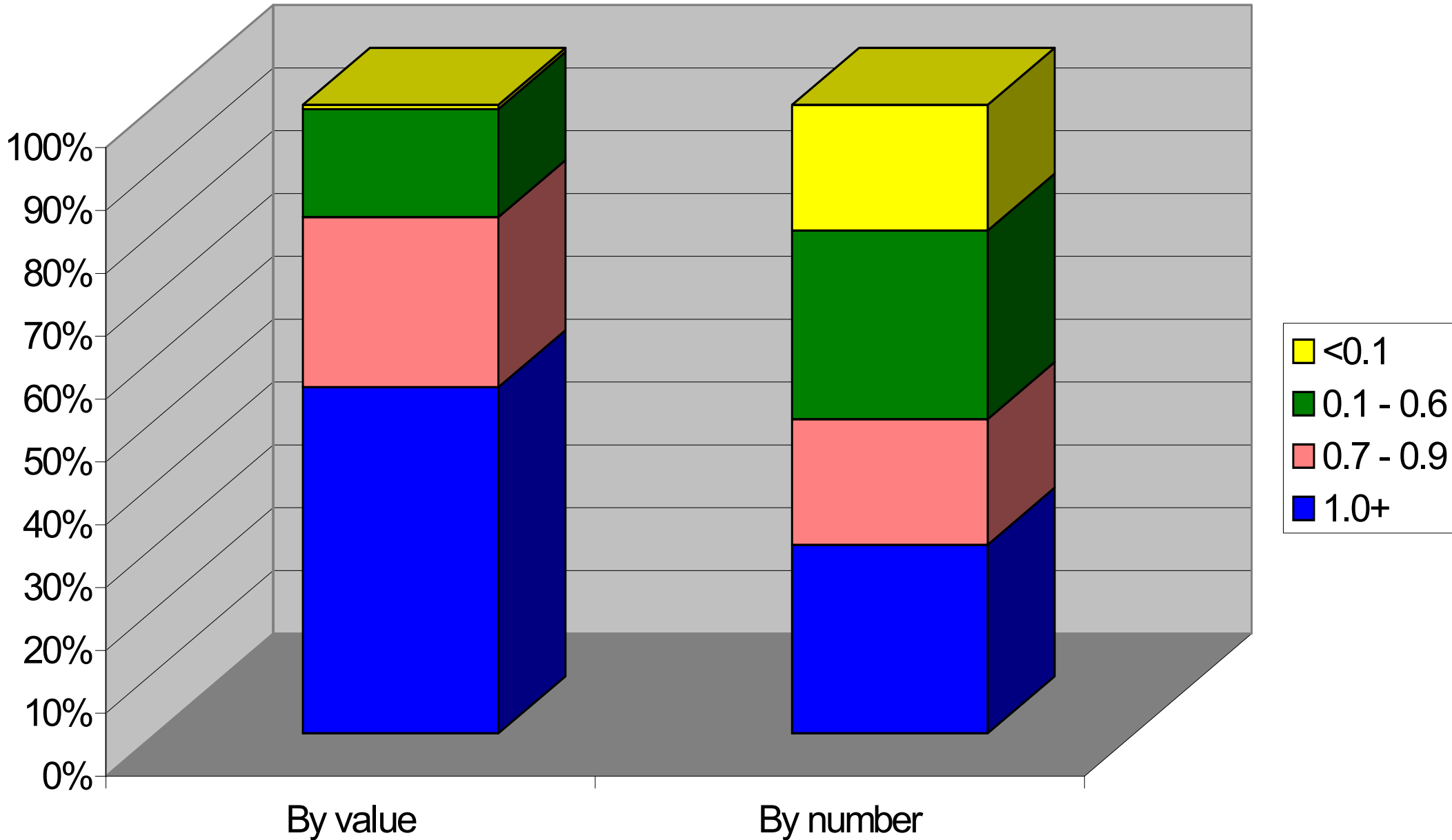
since 2002 in pence per share; except Abbey in Euro cents



Peak values / Sector structure

- Prices are two-and-a-half times up from their all-time lows (recorded mostly in Q2 and Q4 of 2008) or on a weighted/adjusted basis they have almost doubled; that said they are only 30% above their 52 week lows
- They are also, on average, 75% below their 2007 peaks (70% weighted and adjusted)
- This means the Sector (£6.2 billion) would rank at 56 or 57 in the FTSE 100, worth about the same as Kingfisher, the retail group or, ironically, Wolseley, the building materials distributor
- Three stocks - Persimmon, Berkeley and Taylor Wimpey - are worth more than £1 billion each and account for 55% of total Sector value

Sector structure by market capitalisation (£6.2 billion) & number (10) of companies *[legend is in £bn]*



Price Earning Ratios (PER)

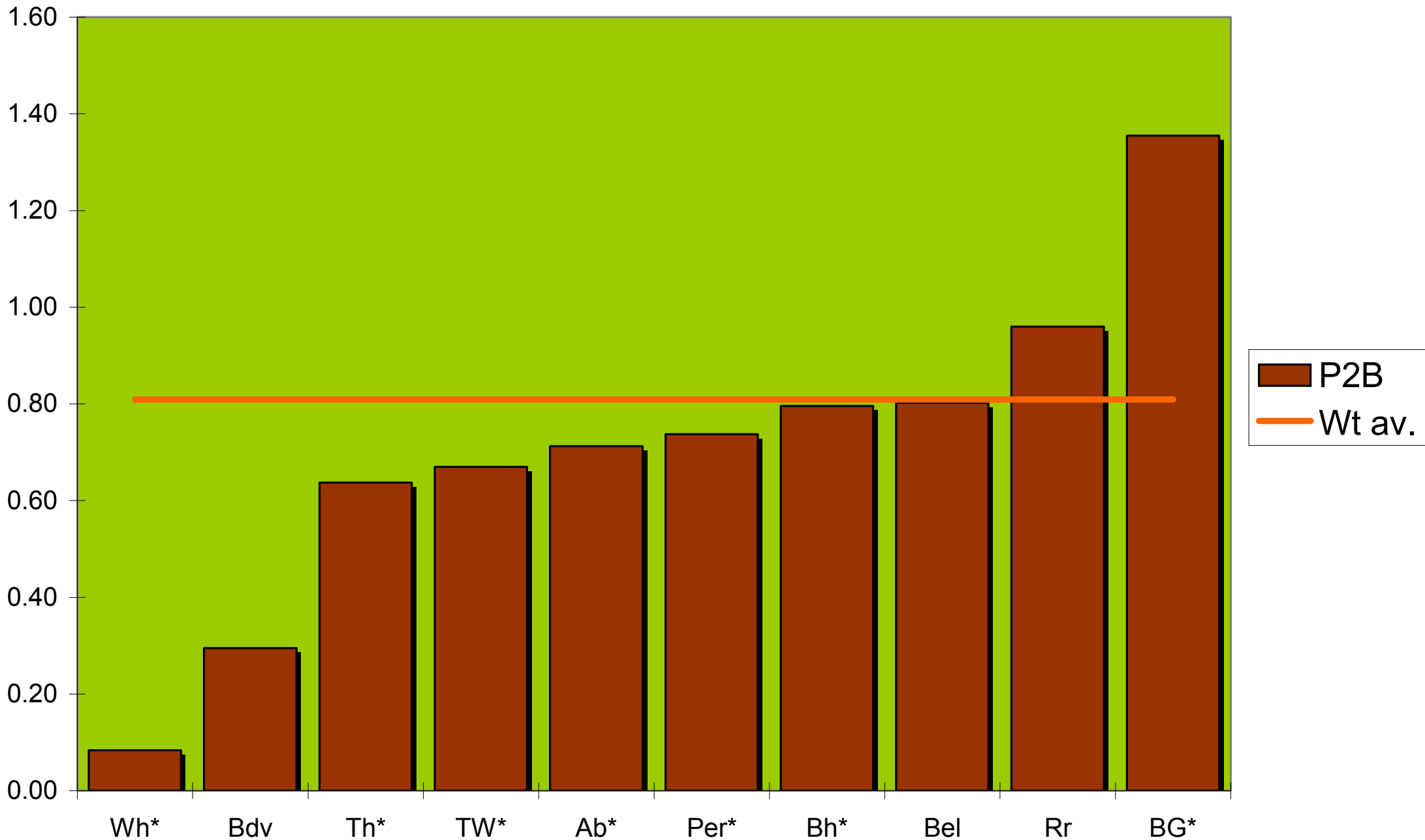
- When businesses are marginally profitable, it can serve to inflate PERs to where they are no longer representative
- Our best Sector guess, however, is 13.8x actual and 15.7x weighted on an historic basis; a year ago they were 12.2x and 12.5x respectively; dividends are also re-appearing (at Abbey, Bellway, Persimmon and Telford)
- The Construction & Materials Sector was at 10.9x (at 31 December), while the FTSE 100, All Share Index and the FTSE 250 were, in order 12.1, 12.9 and 19.1x
- A year ago, Construction was at 15.3x while the main market was on 17.8, 19.0 and 26.6x (as above)

Price-to-book

- The Housebuilding Sector's average price-to-book valuation is 0.67 on an actual basis and 0.81 weighted (at 31 December)
- Berkeley is at 1.36 and, if it is excluded, the actual and weighted ratios fall to 0.60 and 0.68 respectively
- Wren is suspended, but excluding it does not impact the averages significantly
- A year ago the averages were 0.90 actual and 0.95 weighted; and the peak was circa 2.0 in the Spring of 2007

PRICE-to-BOOK-VALUE (at fiscal year-end or latest interim*)

weighted average is 0.81 (ex-Berkeley's 1.36, this falls to 0.68); actual averages are 0.67 (and 0.60 ex-BG);
- share prices are at 31 December 2010 -



Results reported in Q4

- Three companies reported interim results in Q4: Telford; Berkeley; and Abbey
- There were also a clutch of other updates (running into Week 3 of 2011)
- Abbey (a 54% increase in pretax profits) and Berkeley (+18%) did very well with mid-teens profitability and substantial net cash at hand
- Telford, on the other hand, saw pretax fall sharply (65%) and remains heavily geared (83%); it was also only marginally profitable at 2.5%

Reported P&L and balance sheet: Q4

P+L	Date	Event	Period ending	Provisions (£m)		Profit before Tax (£m)		Change (%)	Profit margins (%)	
				Old	New	Old	New		Old	New
Telford	01-Dec	Half year	30-Sep	-0.8	0.6	5.7	2.0	-65	7.7	2.5
Berkeley	02-Dec	Half year	31-Oct	0.0	0.0	52.0	61.6	18	17.9	18.3
Abbey*	09-Dec	Half year	31-Oct	0.0	0.0	3.6	5.6	54	8.6	15.1
Average								3	11.4	12.0
<i>*in Euros</i>										
LATEST OTHER:										
	Date	Event				Date	Event			
Redrow	04-Nov	AGM			Bellway	07-Jan	AGM			
T. Wimpey	16-Nov	IMS			Persimmon	10-Jan	Trading Update			
McInerney	19-Nov	Cancellation of listing			Barratt	12-Jan	Trading Update			
Wren	23-Dec	Change of accounting date			Bovis	14-Jan	Trading Update			
					T.Wimpey	18-Jan	Trading Update			

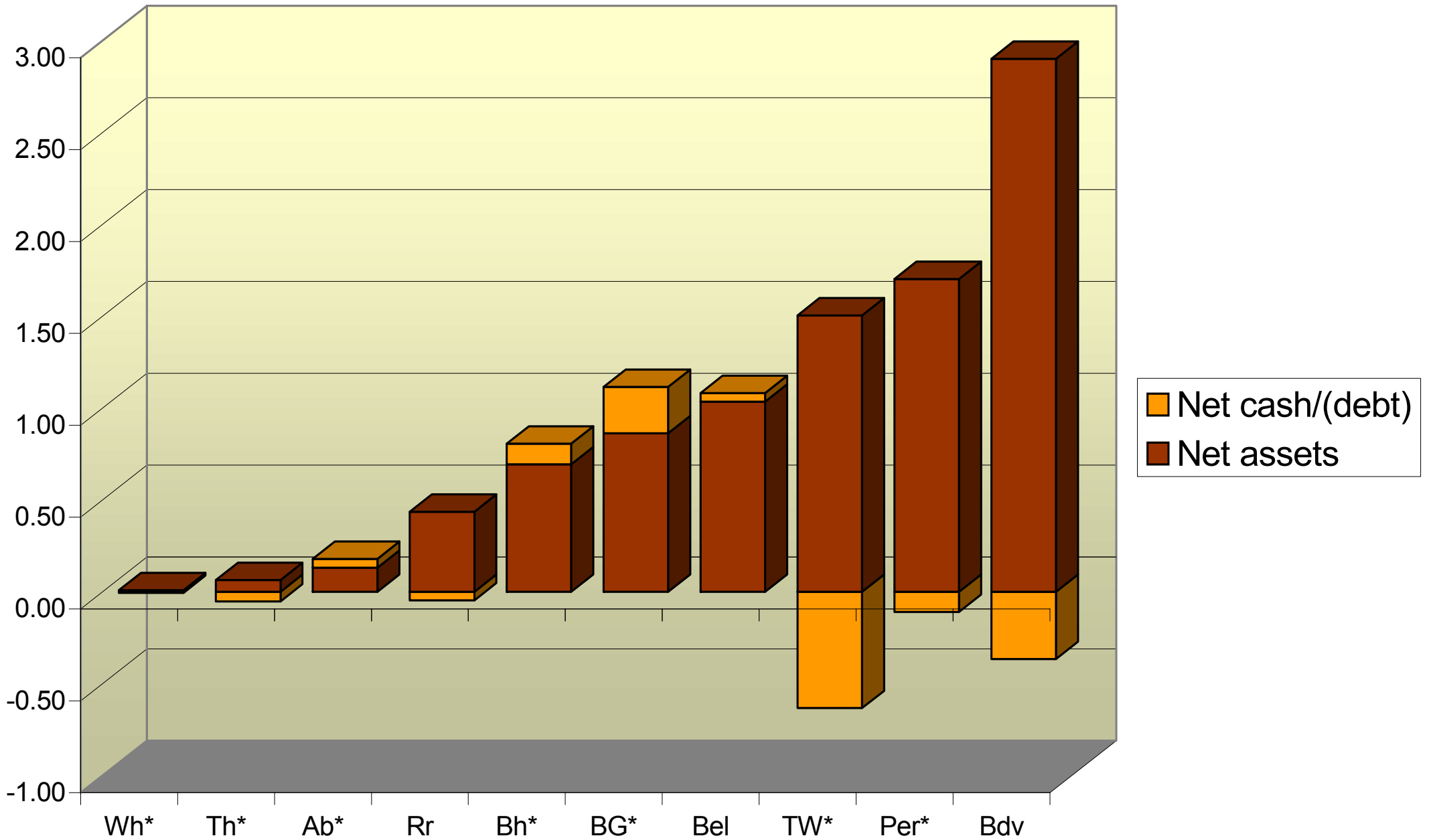
B.SHEET	Event	Period ending	Net Assets (£m)		Net (Debt)/Cash (£m)		Share Issue (£m)	Gearing New (%)	RONA (%) New	
			Old	New	Old	New				
Telford"	Interim	30-Sep	55	64	-37	-54	0	83	6	
Berkeley	Interim	31-Oct	840	878	317	253	0	-29	14	
Abbey*#	Interim	31-Oct	154	166	46	47	0	-28	7	
Average								9	9	
NOTES:										
<i>Gearing % (plus=net debt; minus= net cash)</i>										
<i>RONA (%) is adjusted for full year</i>										
<i>"Telford sold shares worth £166,000</i>										
<i>* in Euros</i>										
<i># Abbey held UK gilts worth Euro 55.3 and 52.1million, respectively, in addition to the above</i>										

Balance sheets at 31/12/2010

- The latest reported balance sheets include seven interim and three finals
- At that time, the industry had £9.3 billion of assets employed and was 16% geared
- This includes four companies with net cash: Abbey; Bellway; Berkeley; and Bovis
- Those indebted range from Persimmon (6%) to Wren (93%)
- The net return on net assets (RONA) for the Sector, however, remains marginal (0.1%) but improving

All companies: net assets & debt (£bn) at last balance sheet

*denotes half year balance sheet



Share buying is back

	Who	Number	Price paid pence/cents*	Total GBP/Euro*	Price now pence/cents	Gain (%)
T.Wimpey	Directors	600,291	27.1	151,085	38.1	41
Abbey*	The Company	875,000	506.7	4,383,750	520.0	3
Barratt	Directors	143,993	76.7	111,440	101.0	32
Notes:						
<i>(i) Berkeley: in Q2 the Company bought 3.6 million shares at £28.2 million, which implies an average price of 783 pence versus 951.5 pence now i.e. +22%</i>						
<i>(ii) Bovis Directors bought 660 shares in Q4</i>						
<i>(iii) Average price paid is arithmetic</i>						
<i>(iv) Price now is at close on 18/01/2011</i>						

- In Q4, Abbey spent Euro 4.4 million with TW and Barratt adding £262,500; Abbey is planning to buy up to 14.99%
- In each case, too, timing has been well judged
- T.Wimpey and Barratt did best with a 42% and 32% price rise since purchase, respectively

Outlook 1

- Q4 witnessed the landmark of McInerney (19 November) being delisted - earlier it had been under the aegis of the High Court in Ireland; and Wren remains suspended
- In November, Redrow Chairman, Steve Morgan, lambasted the Government: “the medicine risks killing the patient”; nonetheless, like-for-like sales were up 9%
- Meantime, Berkeley - with reference to London and the South East - said “the current market in terms of prices and transaction levels should remain stable”
- Also, in December, Abbey spared no blushes with: “the outlook for the foreseeable future is quite bleak”; and UK mortgage lending may be further constrained in 2011-12

Outlook 2

- In January, Bellway (7/01) said it was “still a tough and testing market”
- Persimmon (10/01) added that there was no usual autumn upturn, after which the weather has been a negative
- Barratt (12/01) sees the restricted availability of mortgage finance as the key constraint on market growth in the near term; while Bovis (14/01) expects trading conditions in 2011 to be subdued relative to historical levels
- Finally, Taylor Wimpey (18/01) said “constrained mortgage lending and the continuing uncertainty in the wider economic environment remain the greatest restriction on the market and we continue to run the business cautiously”

Economics corner

- Q3 GDP in the UK was revised down to 0.7% (from 0.8%) but remains 2.7% up year-on-year
- The consensus is for a repeat 'short' 2% growth this year (i.e. c1.7%) before nudging to 2.0% in 2012 and clear of it in 2013 as currency benefits and manufacturing growth are galvanised (albeit a 'normal' recovery would be stronger)
- CPI annual inflation - the Government's target measure - rose to an eight month high (3.7%) in December; air fares and oil were factors but it is still a palpable source of worry
- Unemployment rose 0.2% (49,000) to 7.9% (or 2.5 million people) in the November quarter; and includes one of the highest numbers of unemployed women (1.02 million) since 1988

Economics corner 2

- Retail sales rose 0.3% in November for a second month, and they were 1.1% up on a year ago; however, the British Retail Consortium said December dipped 0.3% from 2009
- UK house purchase loans were unchanged at 44,000 in November, says the CML, but this was a fall of 15% on a year ago; similarly, the value of loans (£6.3 million) was down 13% year on year – albeit BoE data were slightly better
- In 2010, private housing output rose 9% in real terms, according to Experian* estimates; but its forecast is flat this year before respite in 2012 (+12%) and 2013 (+10%)
- Public housing output rose by an estimated 39% last year but is forecast to collapse 18% this year and by minus 25% in 2012 before levelling off in 2013 (+5%)

*where Building Value is an advisor

House price corner

- **Nationwide:** +0.4% in December (after -0.3% in November) and +0.4% in 2010; however, the smoothing three month rate was at -1.0%, the fifth minus in a row
- The **Halifax** was at -1.3% in September and +1.6% in 2010; the quarterly trend was also negative (-0.9%) for the ninth consecutive month
- **Hometrack** produced the fourth negative in a row in December (-0.4%) and a deficit of 1.6% in 2010, with 71% of the country seeing a decline; it also forecasts a 2% dip in 2011
- **Acadametrics** said prices dipped by 0.2% in December for the third month but rose 2.9% in 2010 as a whole; that said transactions fell 33% in December (to 53,000)

Conclusion 1

- The immediate macro view is not a box of fluffies, with middling GDP growth, spiking inflation and stubbornly high jobless rates; plus, of course, the Coalition's swingeing spending cuts (as much as a fifth in real terms over five years)
- Specifically on the industry, too, the CML says that UK net mortgage lending will fall a third this year to £6 billion (in 2008 it was £40 billion)
- Similarly, a survey of 24 forecasters points to a fall of 2.6% in UK house prices this year, in a range from -10% (Capital Economics) to +3% (Schroders) with four on zero
- On the face of it, too, the mood amongst the housebuilders, themselves, appears gloomy-to-circumspect

Conclusion 2

- But as the Nationwide quipped: “the experience from 2009 - when house prices were widely expected to see a large fall and then ended up rising by 6% - illustrates the uncertainty of the outlook and shows that anything can happen”
- It is also the case that the industry, last year, lifted off (Experian says +9%) the 40 year low in output that was 2009
- Similarly the reason that 2011’s output will be flat relates to the diaspora of the Kickstart programme (6,602 private starts in year to March 2010)
- More broadly, transactions appeared to have bottomed at 160,000 in the March quarter 2009 (say HMRC data for units worth £40,000 or more) and, in the September quarter of last year, they were 277,000

Conclusion 3

- Affordability has also shifted with the Halifax price to earnings ratio falling from 5.8x in mid-2007 to 4.5x now
- The cash buyer (or those with a little help from their friends) also appears to be active insofar as mortgage approvals in September were less than a fifth of transactions (see previous)
- The wider economy also continues to benefit from weak sterling which has lost 12% of its value against the Yen in 2010 and 5% versus the Yuan; similarly it is down a fifth against the US dollar over the last two calendar years
- Many manufacturers share prices have doubled in a year and activity rose to a 16 year high in December (Markit PMI Index); consumer confidence in that month was also up and off a 20 month low (Nationwide)

Conclusion 4

- Economic growth in the UK should clear 2% in 2012, which is not great but pretty good to be getting on with
- Experian also says that private house completions will rise from 90,000 this year to 105,000 in 2012 and 120,000 in 2013; note, too, that Building Value has worked with this organisation on its forecasts for more than two decades
- Okay, completions even in 2013 remain below 2008's tally (and are just 60% of 1989's peak) but, once again, it is pretty good to be getting on with

Conclusion 5

- Empirically, the stock market looks forward a year or 18 months and in the opening trading days of 2011 - does someone know something? Perhaps it even started in Q4?
- In calendar 2010, the Housebuilding Sector fell 10% on a weighted basis, which would have been worse had it not been for Q4's 7% gain
- This was followed by a 10% weighted rise in the first 11 trading days of 2011 (putting aside inevitable profit taking); by comparison the FTSE 100 is up less than 3% to 6056.43 - albeit the best since 3 June 2008

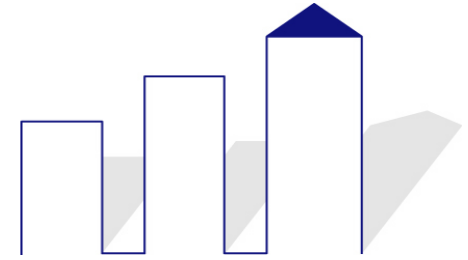
Conclusion 6

- The housebuilding industry has also adopted, and continues to implement, good housekeeping
- It has also proved an astute buyer of its own stock; Taylor Wimpey and Barratt in particular
- Training is, thus, going well and fitness is pretty good
- Keeping injury free (from double dips, interest rate ligaments etc) will be vital....
- ...and, while ability may not be peaking in 2012, medals will be won

Legend

- Abbey (**Ab**), Barratt Developments (**Bdv**), Bellway (**Bel**), Berkeley Group Hld (**BG**), Bovis Homes (**Bh**), Redrow (**Rr**), Persimmon (**Per**), Taylor Wimpey (**TW**), Telford Homes (**Th**) and Wren Extra Care Group (**Wh**)
- Bellway's market capitalisation incl. quoted preferred shares
- Share prices are at 31/12/2010 unless stated otherwise; *yoy* = year on year; BoE = Bank of England; CML = Council of Mortgage Lenders; NIESR = National Institute of Economic & Social Research Statistics; CPIS = Chartered Institute of Purchasing & Supply; CPI = Consumer Price Index; RONA = Return on Net Assets
- Adjustments made to comparative changes where required
- Selected stocks are excluded from charts and Sector averages due to extreme % movements or for structural reasons

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