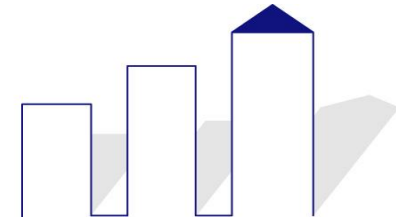


BUILDING VALUE



UK Housebuilding Sector

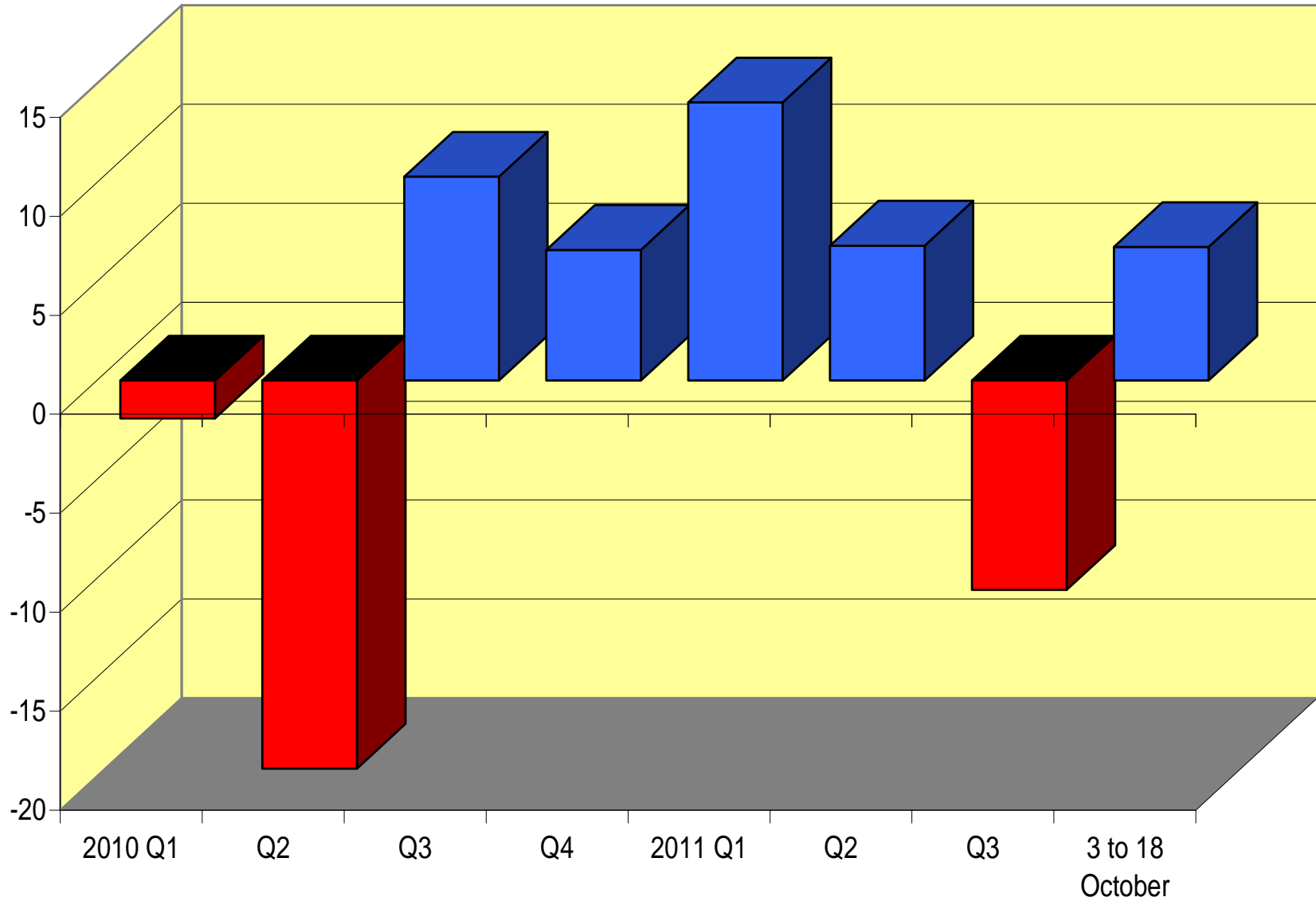


Q3 & (most of) October 2011

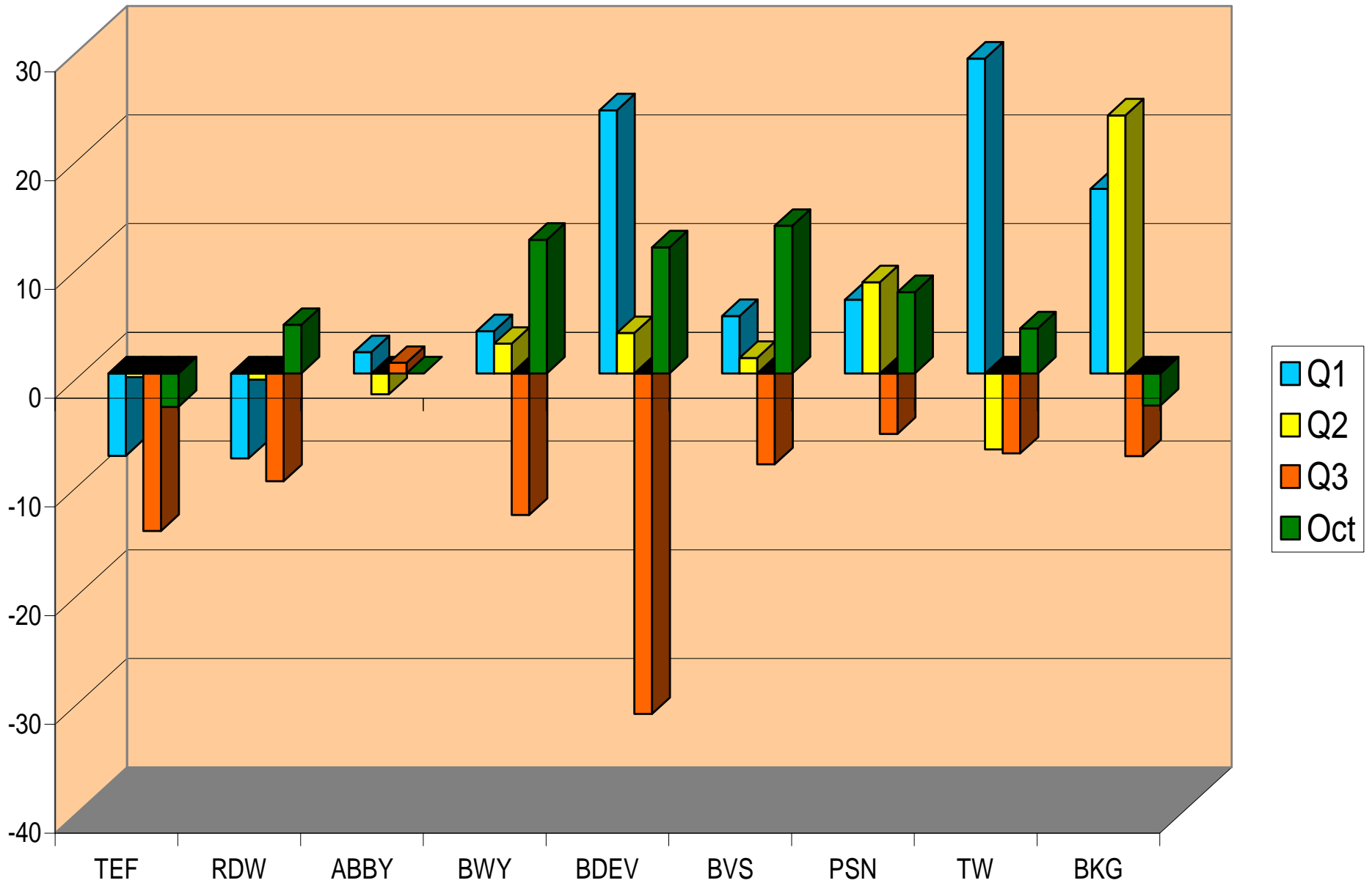
“Toto, I’ve a feeling we’re not in Kansas any more”

- So said Dorothy to her dog after they were whisked away to the vertiginous Kingdom of Oz in the seminal 1939 movie
- She-knew-where-she-wasn’t for a fact, too, because Kansas is as flat as a griddle cake
- For the UK housing sector, flat would be good
- Instead it is up and down like a Wizard’s elbow
- +7% and -11% in the last two quarters alone; and then +7% in the first dozen trading days of October

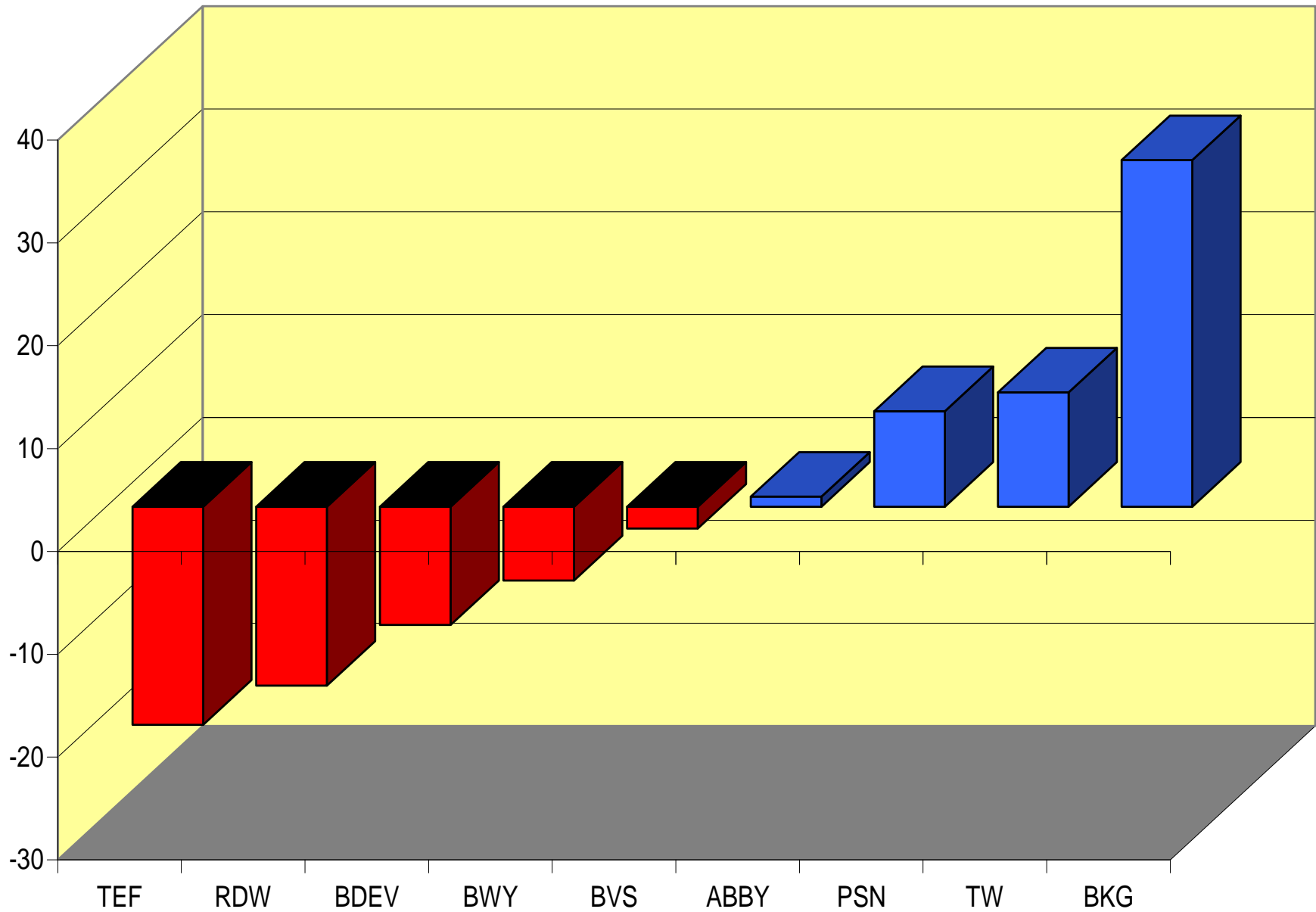
UK housing sector: % change in value quarter by quarter in 2010 and 2011; plus October to date (weighted)



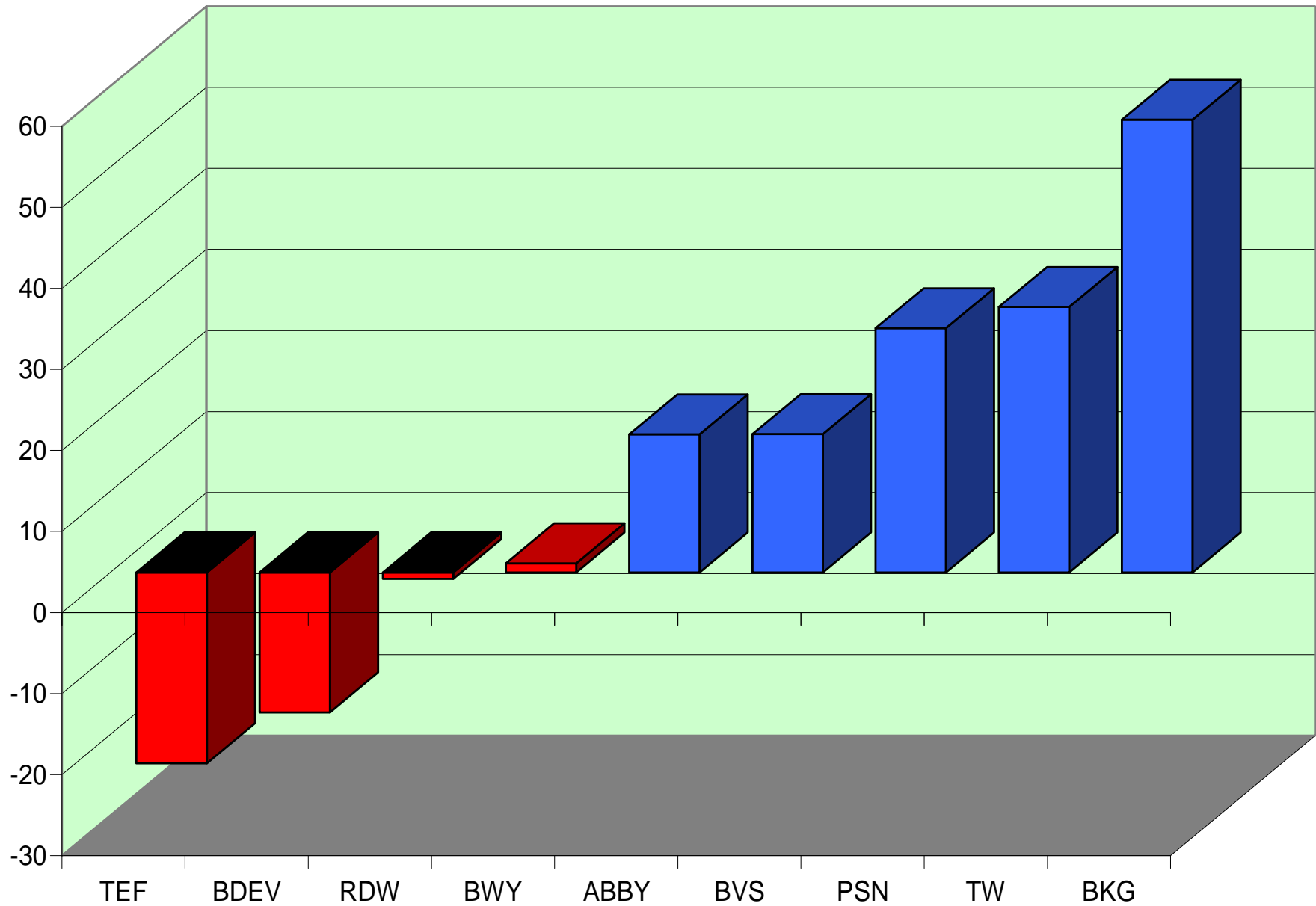
Individual share prices in Q1, Q2, Q3 plus 3-18 October - % change



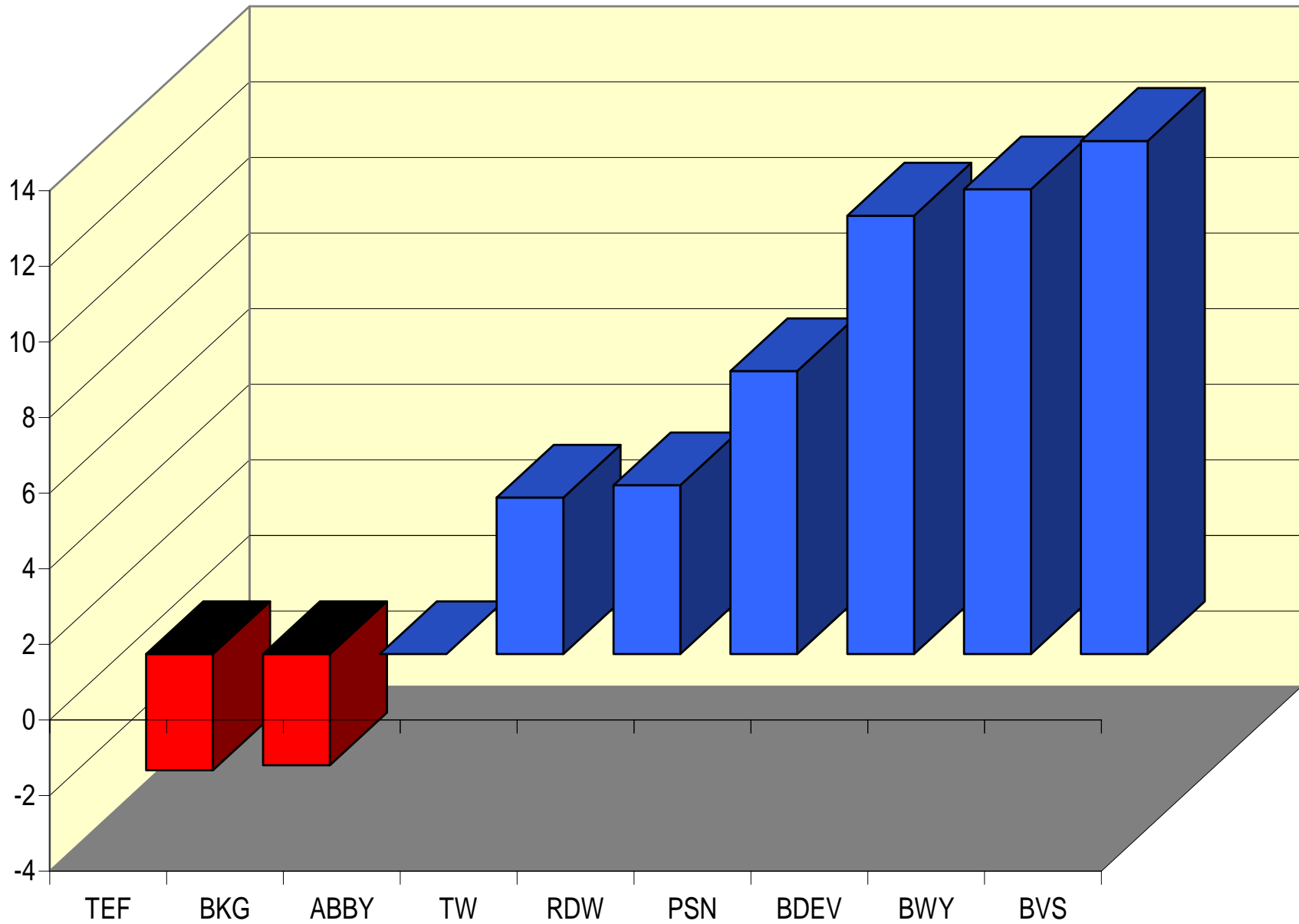
Share prices in year-to-date (to 30 September 2011) - % change



Share price movement on a year ago: % change to 30/09/2011



Share price performance: from 3 through 18 October (% change)



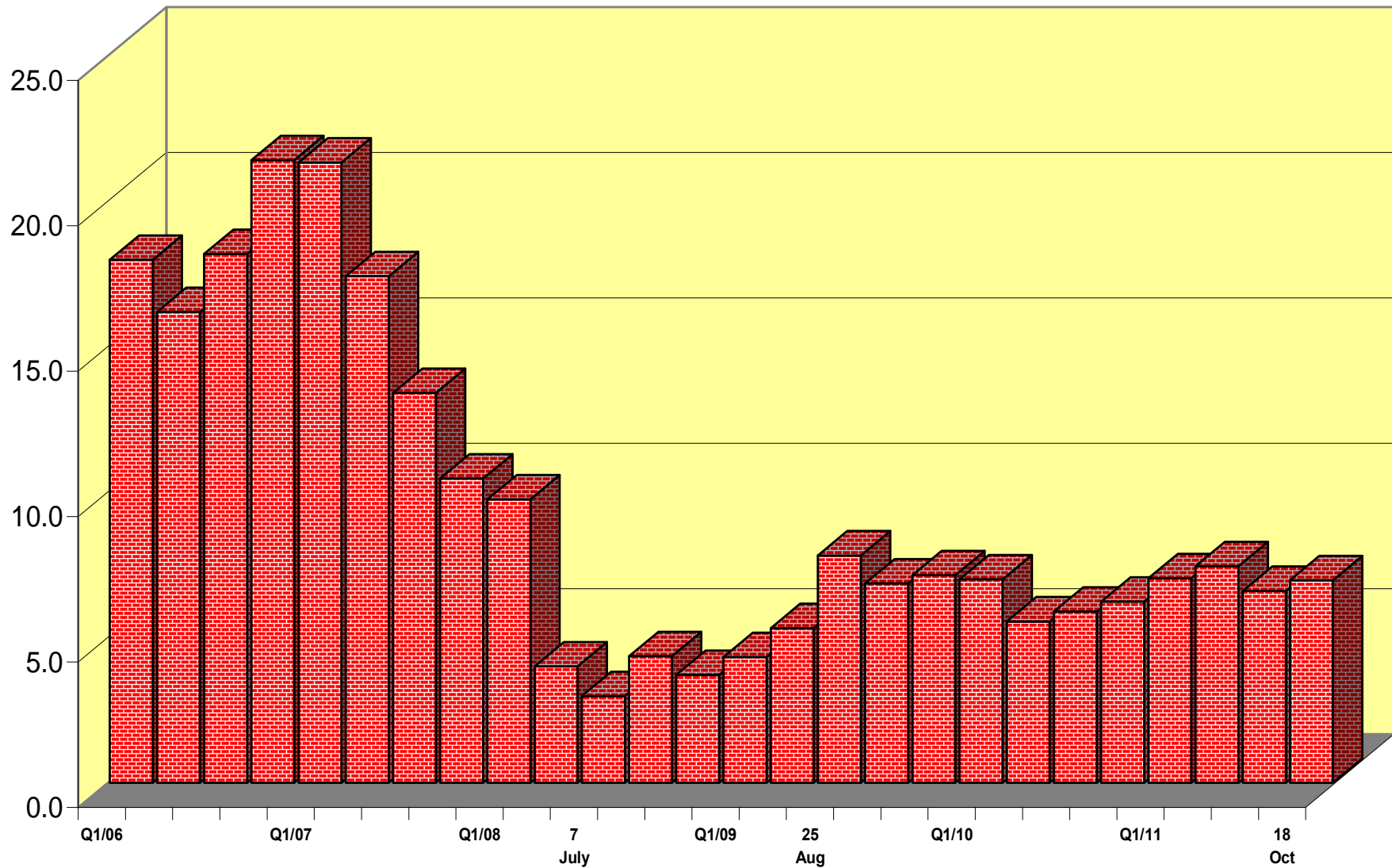
Q3 and the year-to-date

- Housebuilders' share prices fell 11% in Q3 (versus Q2) on an actual and weighted basis
- Abbey did best at +1% while Barratt was worst (-31%)
- In the year-to-date, there was a tiny deficit (-0.5%) on an actual basis but +8.5% weighted
- This was due to Berkeley's 34% surge as it promised to return £1.7 billion of capital to shareholders over 10 years
- There was also support from Taylor Wimpey (+11%) and Persimmon (+9%); Abbey was steady (+1%), while all others were negative

A year ago and this October

- Turning to the performance from this time a year ago, the Sector is up 13% on an actual basis and 25% weighted
- Berkeley again leads the way, with support from Taylor Wimpey and Persimmon; meantime Barratt and Telford languished
- In October (through 18/10), share prices are up 5% (and 7% weighted) with Bovis, Bellway and Barratt leading the way with double digits gains
- Berkeley and Telford are in negative territory in the early trading days of this month with Abbey flat

UK Housebuilding Sector - market capitalisation (£bn): quarterly from Q1 2006 to Q3 2011 (and 18 October) - 7 July 08 (most recent low); 25 August 09 (most recent high) -



Market value of around £7 billion

- At 30 September, the Sector's market capitalisation was £6.6 billion, which compares with £7.0 and £7.5 billion at the ends of Q1 and Q2 (and £6.2 billion at end Q4 2010)
- However, on 18 October, the Sector was worth £7.0 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) - which was challenged in early May - with its 'low' on 7 July 2008 at just under £3 billion

Relative % change to end Q3 2011

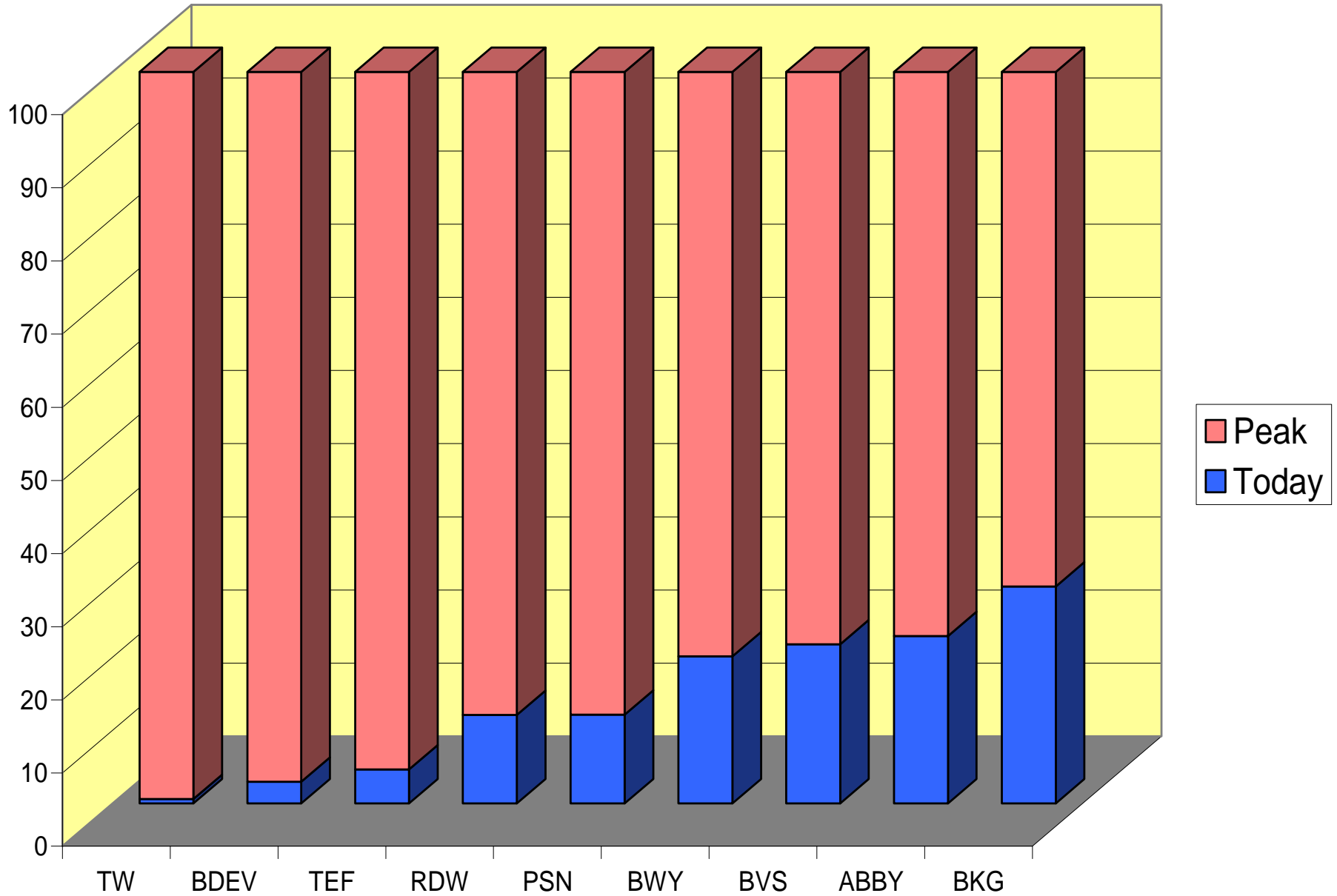
- on year ago; in year-to-date; & Q3 vs Q2 -



Relative performance

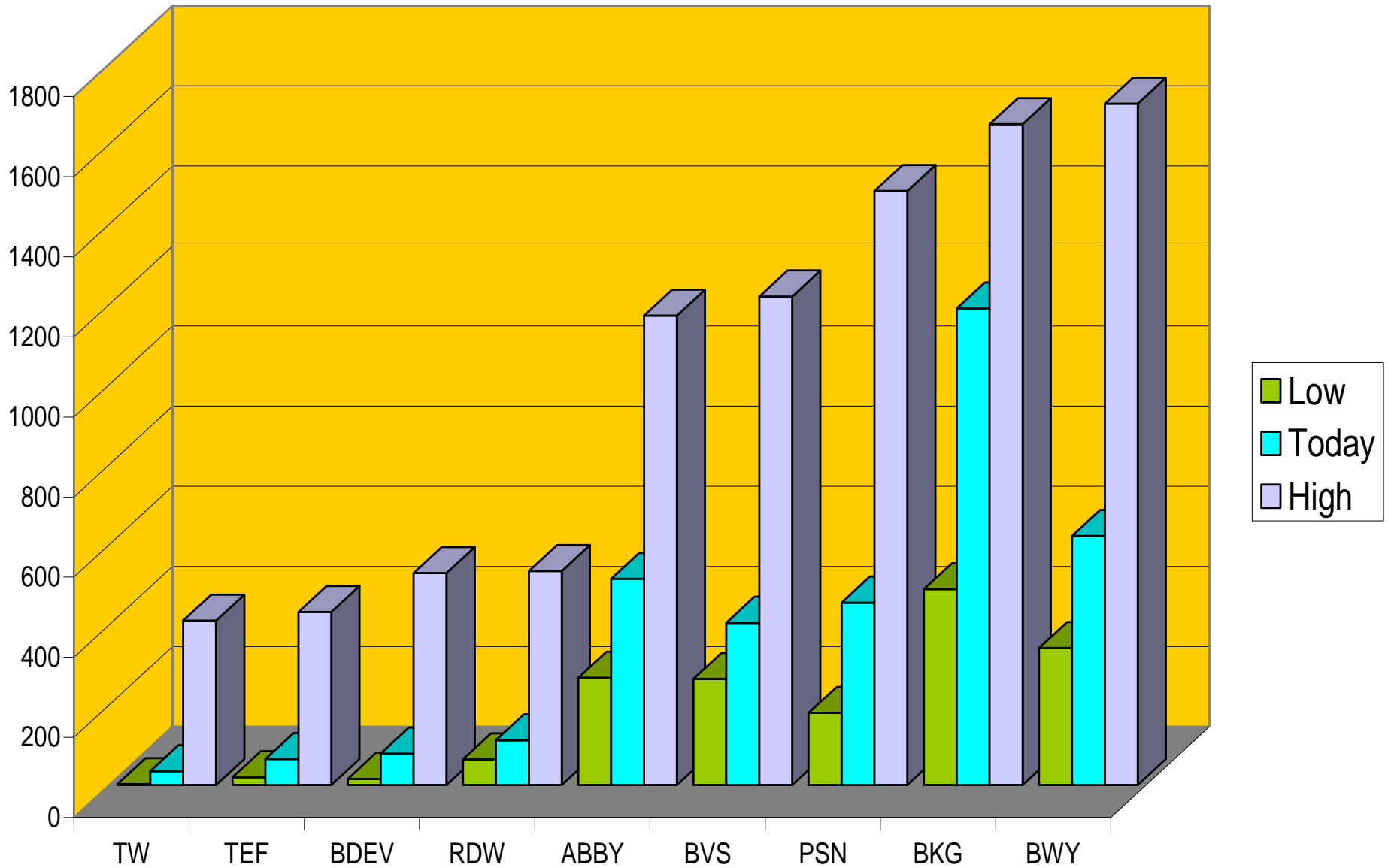
- In Q3, there were double digit negative percentage falls for all FTSE indices shown (minus 14 to 18⁰%); at the same time, Housebuilders dipped by 11% with both Real Estate gauges plus Construction & Materials worse (at minus 16 to 18⁰%)
- In the year-to-date, the Housebuilding Sector is virtually unchanged (-0.5%), compared with double digit negatives elsewhere
- In terms of a year ago, though, it is a happier picture with plus signs everywhere, save for Real Estate Investment and Services (-1⁰%); note, too, that the Housebuilders led the way here with +13%
- In October to date the UK equity market is up 4 to 6%

Current share prices as % of peak level (at 30/09/2011)



Peak share price, today's price (30/09/11) & recent lows

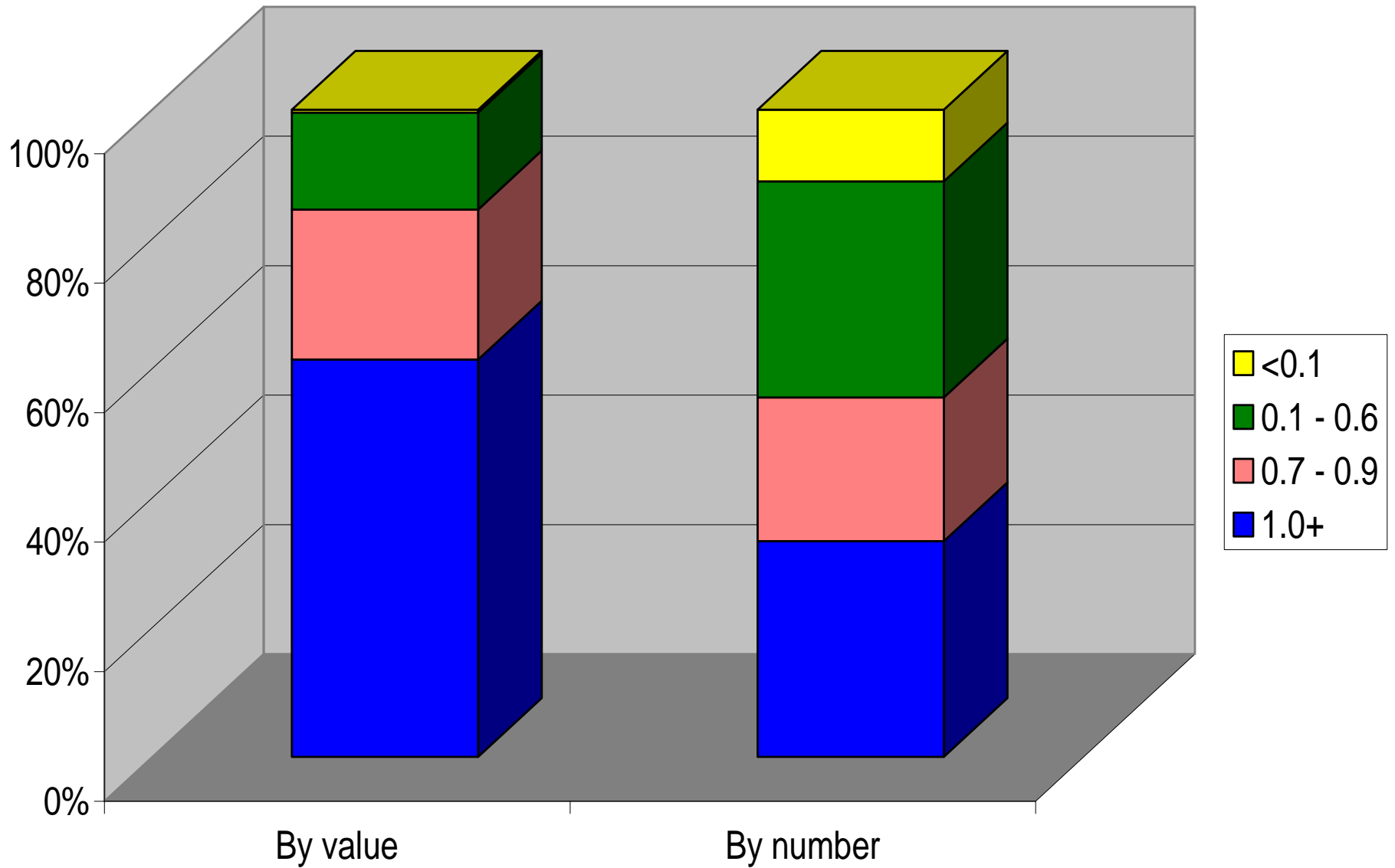
since 2002 in pence per share; except Abbey in Euro cents



Peak values / Sector structure

- Prices are almost three-fold up from their all-time lows (recorded mostly in Q2 and Q4 of 2008) and, on a weighted basis, in excess of three; however, they are only 38% above their current 52 week lows
- They are also, on average, 69% below their 2007 peaks (65% weighted)
- This means the Sector is worth about the same as Reed Elsevier plc, the publisher and FTSE 100 constituent
- Three stocks - Berkeley, Persimmon and Taylor Wimpey - are worth more than £1 billion each and together account for 61% of total Sector value

**Sector structure by market capitalisation (£6.6 billion)
& number (9) of companies [legend is in £bn]**



Price Earning Ratios (PER)

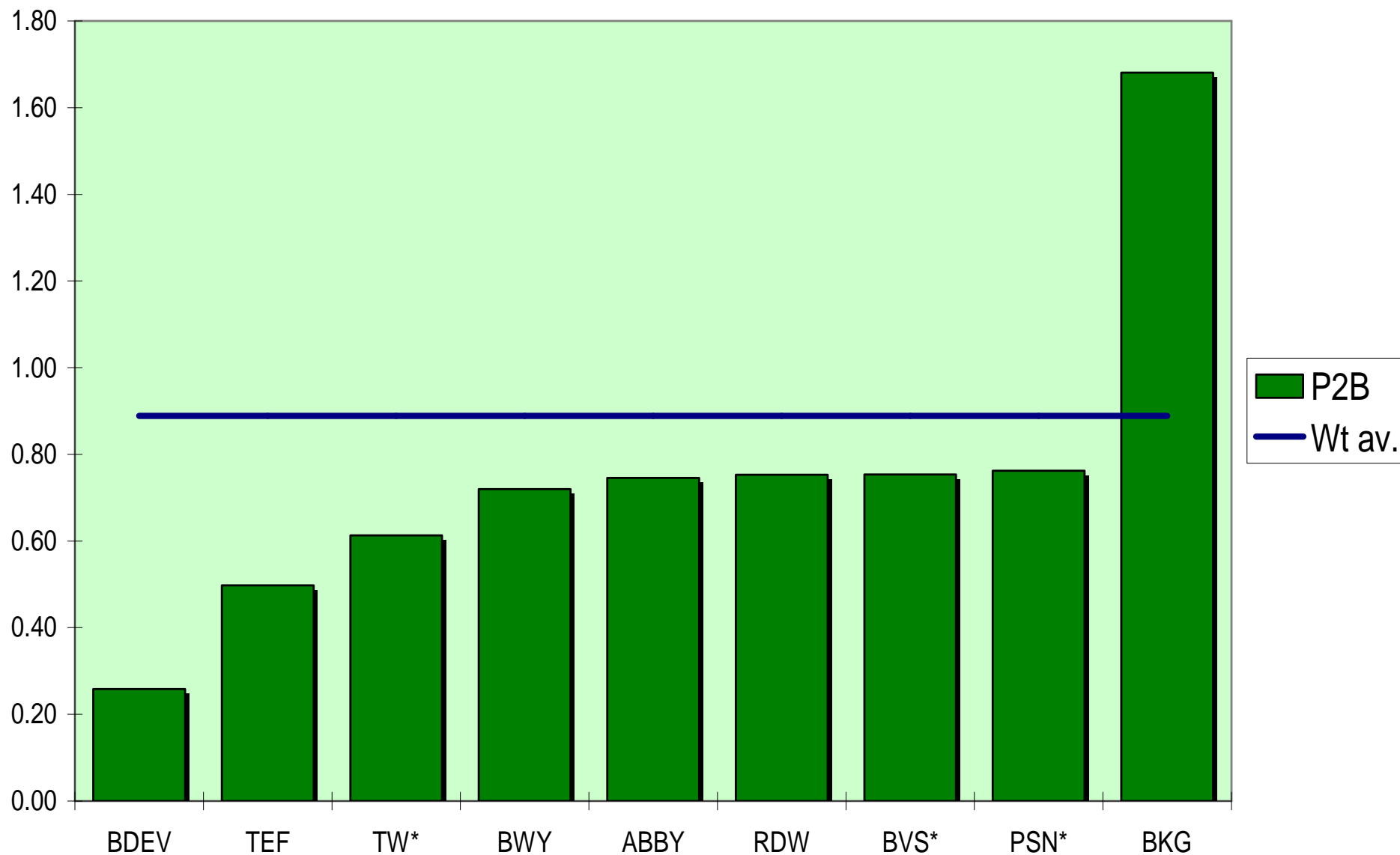
- Amid a number of loss making or marginally profitable companies, calculating a PER is a challenge
- Our best guess, is 16.1x actual and 16.8x weighted on an historic basis; a year ago they were 13.8x and 15.7x respectively; dividends are also re-appearing and yield is around 2.3% with cover of 3.2x (all at 30 September)
- Construction & Materials was at 11.8x (same date), while the FTSE 100, All Share Index and the FTSE 250 were in a band from 8.2 to 14.4x
- Construction yields 5.0% with cover of 1.7x, with the main market at 3.0 to 3.8% with cover of 2.3 to 3.2x

Price-to-book

- The Housebuilding Sector's average price-to-book valuation is 0.67 on an actual basis and 0.89 weighted (as at 30 September)
- Berkeley is at 1.68 and, if it is excluded, the actual and weighted ratios fall to 0.56 and 0.64 respectively
- A year ago the averages were 0.66 actual and 0.74 weighted; and the peak was circa 2.0 in the Spring of 2007
- For the record, price-to-book-value relates a company's market capitalisation to its stated net assets

Price-to-book-value at year end/latest interim* & priced at 30/09/11

weighted average is 0.89 (ex-Berkeley's 1.68, this falls to 0.64); actual averages are 0.67 (and 0.56 ex-BKG)



January to October: P&L

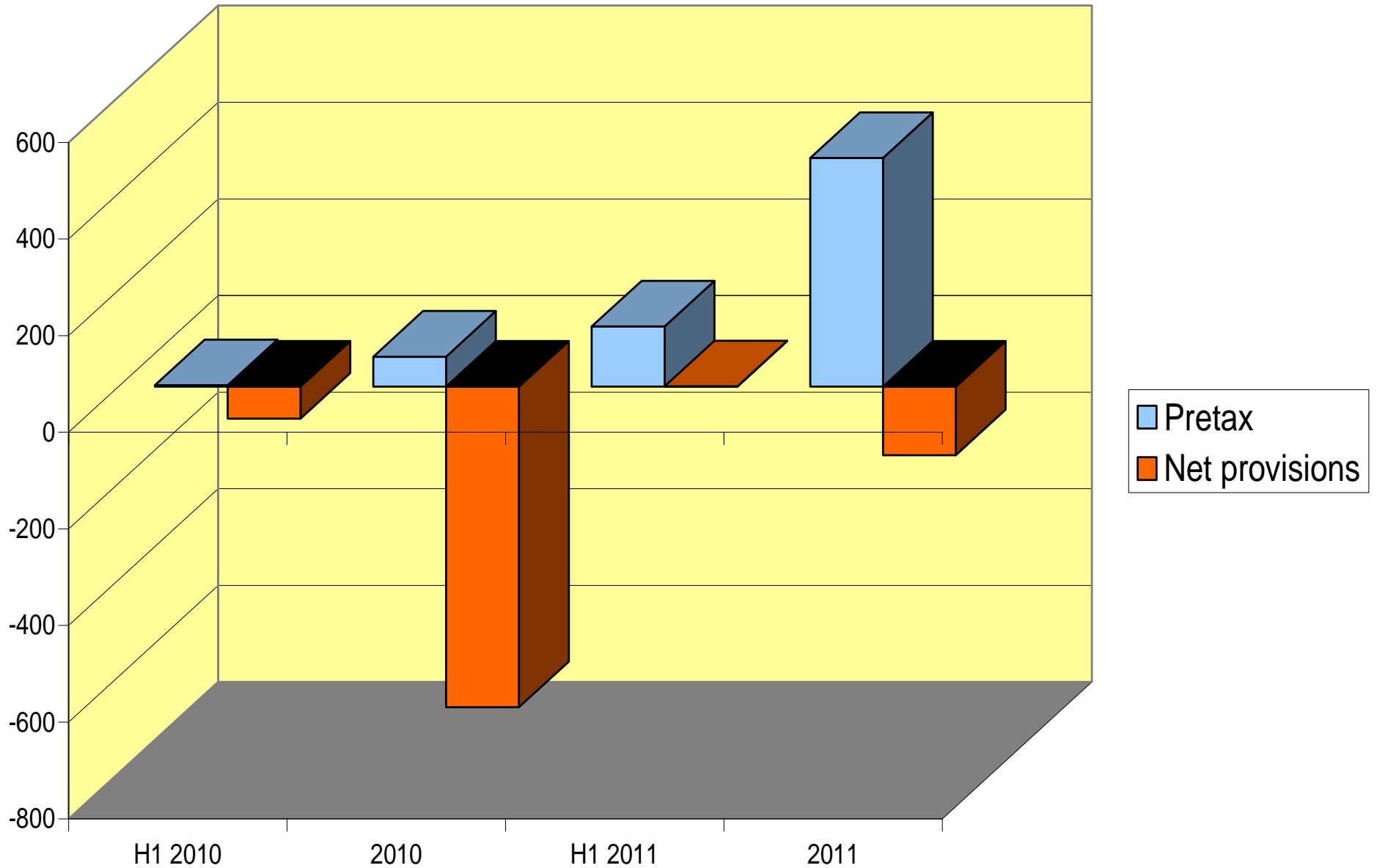
- All nine UK quoted housebuilders reported in this period (six of them twice)
- In terms of half year results, the collective pretax profit was £125 million in the latest period due to an absence of provisions; this compares with a pretax loss £65 million
- Full year pretax profit hit £332 million compared with a loss of £602 million last time
- Pre-provisions, half year pretax margins were just 5.6% (versus 4.5%) on unchanged revenue of £3.2 billion
- On the same basis, full year margins hit 8.8% (versus 6.8%) on revenue 7% lower at £7.7 billion

Half & full profit & loss accounts: reported January to October

HALF YEAR		Event	Period	Provisions (£m)		PBT (£m)		Adjusted PBT (£m)		Adjusted margins (%)	
Date			ending	Old	New	Old	New	Old	New	Old	New
30-Mar	Bellway	Half Year	31-Jan	0	0	19	24	19	24	5.3	5.9
17-Feb	Redrow	Half Year	31-Dec	0	0	-9	9	-9	9	-4.6	3.9
24-Feb	Barratt	Half Year	31-Dec	-130	0	-178	-5	-48	-5	-5.5	-0.5
03-Aug	T.Wimpey	Half Year	03-Jul	0	0	-2	29	-2	29	-0.3	3.5
23-Aug	Persimmon	Half Year	30-Jun	64	1	101	60	39	60	5.1	8.4
30-Aug	Bovis	Half Year	30-Jun	0	0	4	8	4	8	3.0	6.1
TOTAL				-66	1	-65	125	3	125		
% change									4,169		
% margin (pre-provisions)										0.5	4.5
% margin (pp and adjusted to exclude loss makers)										4.5	5.6
FULL YEAR		Event	Period	Provisions (£m)		PBT (£m)		Adjusted PBT (£m)		Adjusted margins (%)	
Date			ending	Old	New	Old	New	Old	New	Old	New
28-Feb	Persimmon	Full Year	31-Dec	71	58	78	154	7	96	0.5	16.8
03-Mar	T.Wimpey	Full Year	31-Dec	-604	-146	-700	-71	-96	75	-3.7	2.9
14-Mar	Bovis	Full Year	31-Dec	0	0	8	19	8	19	2.7	6.2
01-Jun	Telford	Full Year	31-Mar	-1	1	7	3	8	3	5.1	2.1
24-Jun	Berkeley	Full Year	30-Apr	0	0	110	136	110	136	17.9	18.3
14-Jul	Abbey	Full Year	30-Apr	0	0	13	10	13	10	15.6	17.3
14-Sep	Barratt	Full Year	30-Jun	-130	-54	-163	-12	-33	43	-1.6	2.1
08-Sep	Redrow	Full Year	30-Jun	0	0	1	25	1	25	0.2	5.6
18-Oct	Bellway	Full Year	31-Jul	0	0	44	67	44	67	5.8	7.6
Total				-664	-142	-602	332	62	473		
% change									662		
% margin (pre-provisions)										4.7	8.8
% margin (pp and adjusted to exclude loss makers)										6.8	8.8

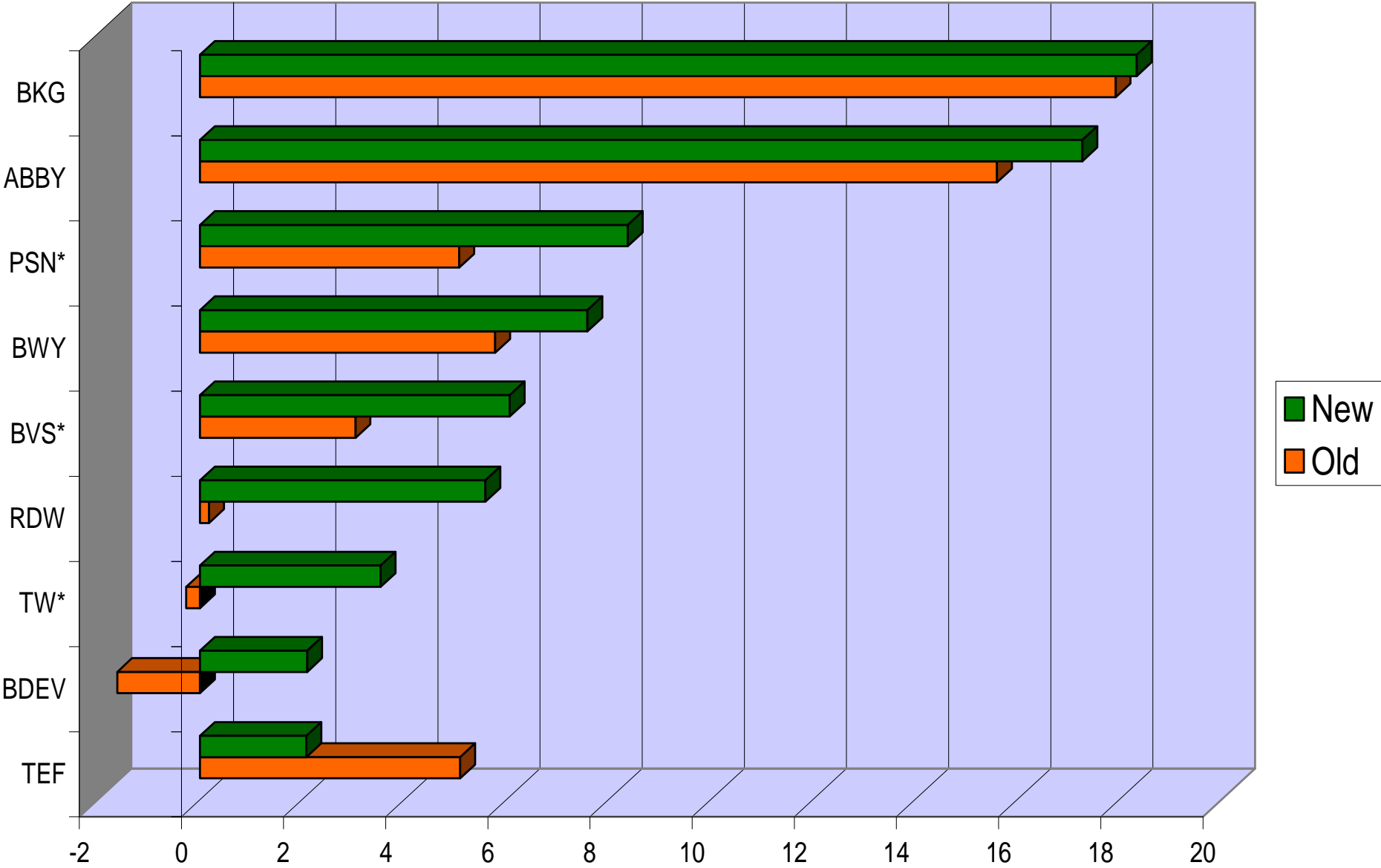
Half and full year profit & loss accounts

- all results reported in January to October 2011 -



Latest reported profit margins (% and adjusted for provisions)

*denotes interims



January to October: balance sheet

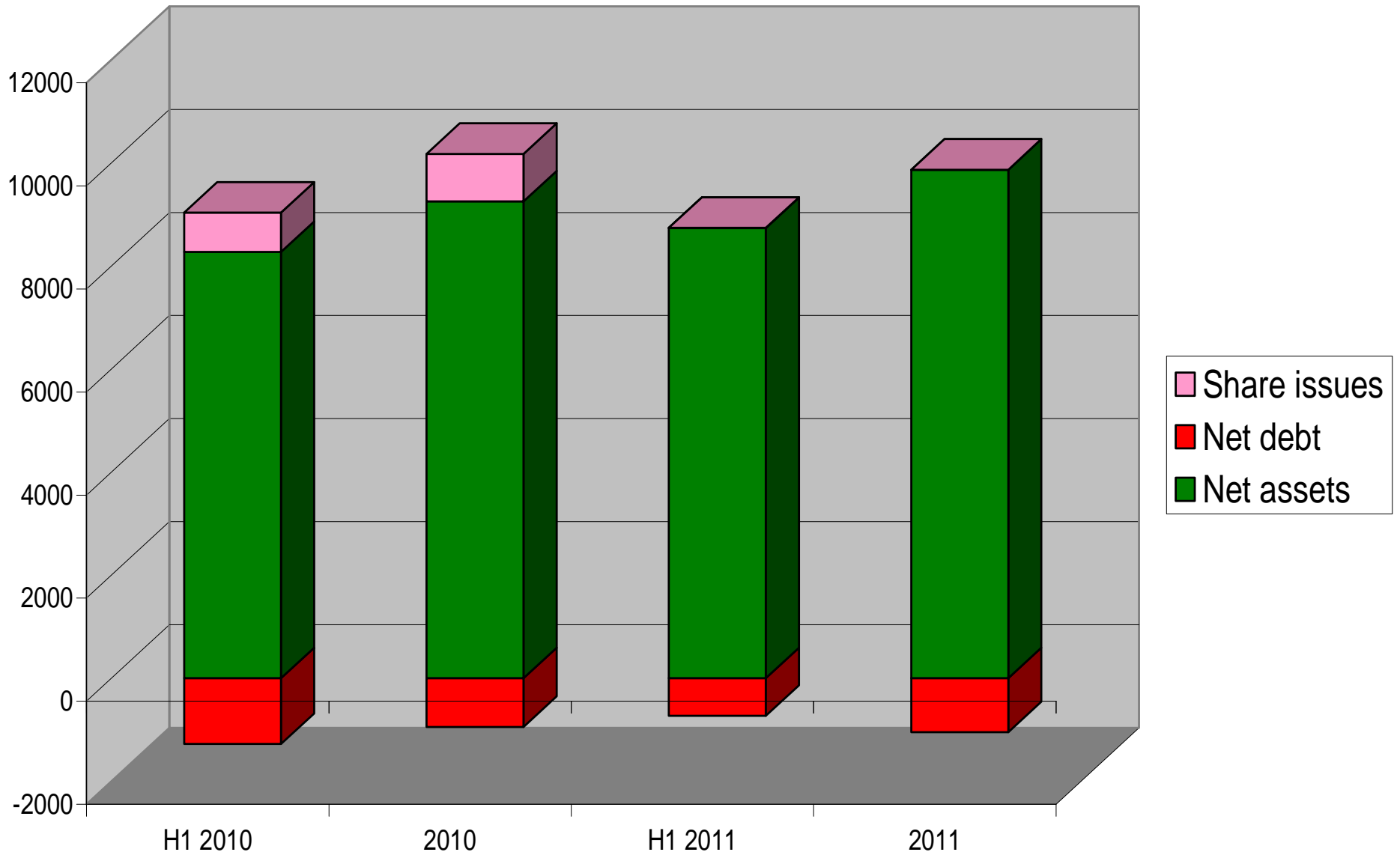
- Half year balance sheets sported net assets of £8.7 billion (+6%) with gearing of 5.7% (down from 10.9%)
- Return on net assets (RONA) was just 1.4% on a half year basis versus nil last time
- Full year balance sheets enjoyed collective net assets of £9.9 billion (+7%) with gearing of 12.2% (up from 6.3%)
- Full year RONA was 4.8% versus 0.7% - moving in the right direction but untenable longer term

Half & full year balance sheets: reported January to October

HALF YEAR		Event	Period	Net Assets (£m)		Net (Debt)/Cash (£m)		Gearing (%)	
Date			ending	Old	New	Old	New	Old	New
30-Mar	Bellway	Half Year	31-Jan	1017	1,047	41	-7	-4	1
17-Feb	Redrow	Half Year	31-Dec	434	442	-49	-52	11	12
24-Feb	Barratt	Half Year	31-Dec	2,916	2,905	-603.3	-537	21	18
03-Aug	T.Wimpey	Half Year	03-Jul	1,510	1,826	-634	-166	42	9
23-Aug	Persimmo	Half Year	30-Jun	1,702	1,802	-110	-15	6	1
30-Aug	Bovis	Half Year	30-Jun	693	717	79	46	-11	-6
TOTAL				8,272	8,739	-1,277	-731		
% change				-	6	-	-43		
Gearing %								10.9	5.7
RONA (%) pre-provisions				0.0	1.4				
FULL YEAR		Event	Period	Net Assets (£m)		Net (Debt)/Cash (£m)		Gearing (%)	
Date			ending	Old	New	Old	New	Old	New
28-Feb	Persimmo	Full Year	31-Dec	1,623	1,744	-268	-51	16	3
03-Mar	T.Wimpey	Full Year	31-Dec	1,501	1,823	-751	-655	50	36
14-Mar	Bovis	Full Year	31-Dec	693	711	112	52	-16	-7
01-Jun	Telford	Full Year	31-Mar	63	65	-37	-46	59	71
24-Jun	Berkeley	Full Year	30-Apr	862	929	317	42	-37	-5
14-Jul	Abbey#	Full Year	30-Apr	140	135	49	23	-35	-17
08-Sep	Redrow	Full Year	30-Jun	436	459	-47	-75	11	16
14-Sep	Barratt	Full Year	30-Jun	2,900	2,930	-367	-323	13	11
18-Oct	Bellway	Full Year	31-Jul	1,035	1,073	46	-17	-4	2
Total				9,253	9,869	-946	-1,049		
% change				-	7	-	11		
Gearing %								6.3	12.2
RONA (%) pre-provisions				0.7	4.8				
<i># Abbey held UK gilts worth Euro 52.1 and 52.6 million, respectively, in addition to the above</i>									

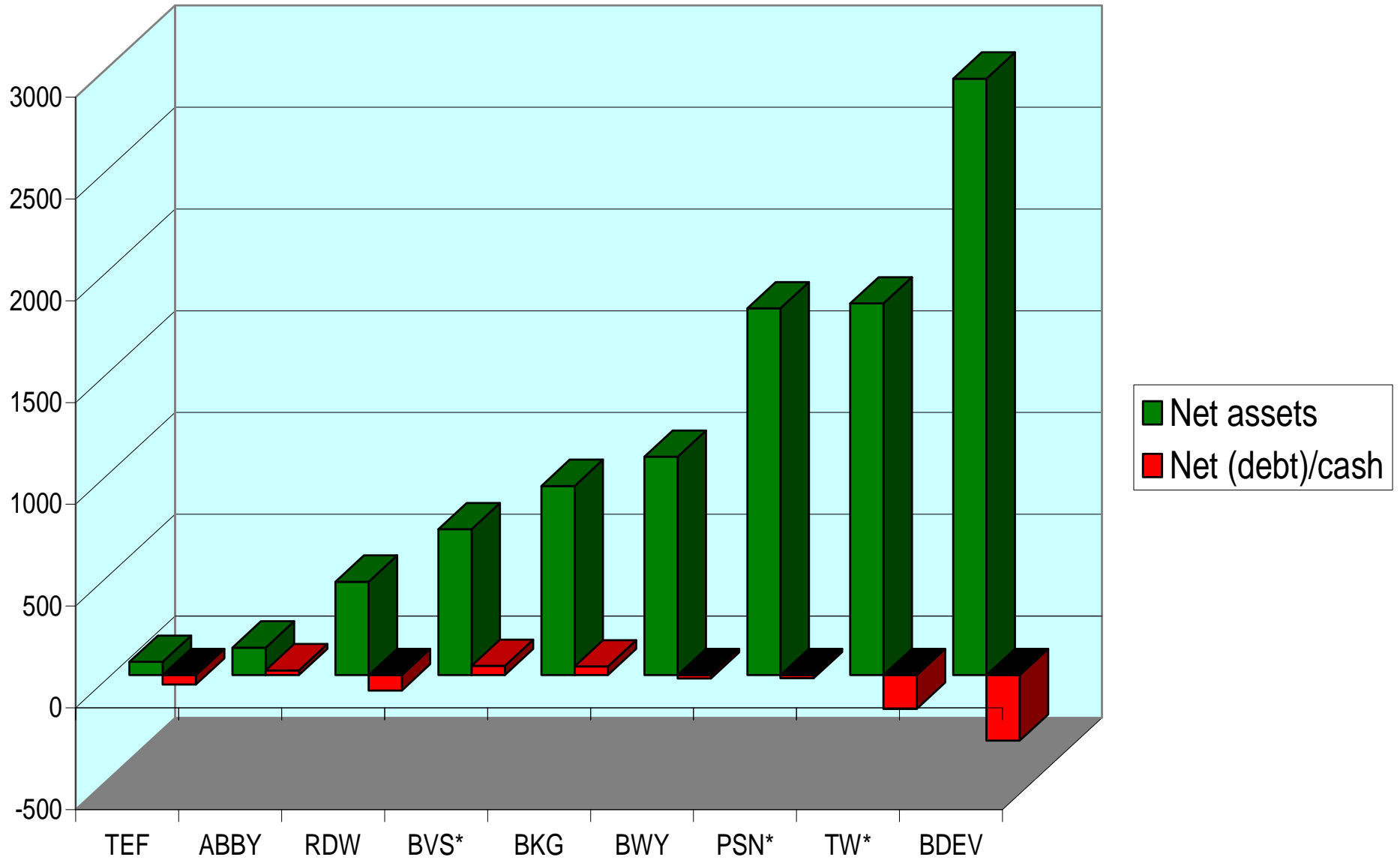
Half and full year balance sheets

- all results reported in January to October 2011 -



Latest individual net assets and net (debt)/cash

*denotes half year balance sheet



Outlook 1

- Bellway reported its full year figures on 18 October and said that “against a backdrop of ongoing economic uncertainty, the housing market has stabilised”
- Similarly, reservations in the first nine weeks of the new fiscal year are ahead almost 11%
- Special mention must also be made for the fact that Bellway has an uninterrupted record of paying dividends since 1975, “which is unique in the UK housebuilding industry”
- Meantime, Abbey continues to buy its shares back and from November 2009 through 14 October, it has bought 2.5 million (circa 10%) on its way to a target 14.9%

Outlook 2

- In mid-September, Taylor Wimpey hosted an ‘Analyst Day’ and spoke of stable current trading; it also said net sales in H2 to date are above 2010
- Also in September, Barratt (with its finals) said life was “challenging”, especially outside London
- Redrow also said it was “challenging” in September as it posted its full year numbers; nonetheless, the Group still managed to deliver “another robust performance improving both revenue and profitability”
- Finally, in August, both Persimmon and Bovis plumped for the “c” word too as they announced their interim results

Economics corner

- Q2 GDP in the UK inched up by 0.1% (which follows +0.8% in Q1) and means that forecasts for the full year of 1% are being challenged
- Not that this stopped inflation in September hitting a record 5.6% as measured by the RPI (highest since June 1991); similarly CPI at 5.2% matched the highest comparable number since 1997 (and this is the Government's favoured measure)
- Unemployment hit 8.1% (2.57 million souls) in the August quarter (versus 7.7% a year ago) and the highest since July 1996; what's more unemployment amongst 16 to 24 years olds at 21.3% (991,000) has never been higher

Economics corner 2

- Retail sales, by volume, were flat in August year on year and 0.2% down on July; however, by value, they rose 4.7% from August 2010 - which underlines the domestic inflation rate
- UK mortgage approvals in August rose to their highest in 20 months i.e. 52,410 (July was 49,644) according to Bank of England data
- In 2010, Private Housing Output rose 17.3%, in real terms, and Experian* is forecasting a 2% rise this year followed by +5% in 2012 and +7% in 2013
- Public Housing Output rose an astonishing 54% last year and is forecast to fall 5% this year, and then drop 25% in 2012 with minus 10% expected in 2013

*where Building Value is an advisor

House price corner

- **Nationwide:** +0.1% in September (after -0.6% in August) and -0.3% on the year, while the smoothing three month rate was flat at 0.0%; nonetheless, downside risks have increased it said
- The **Halifax** was at -0.5% in September and -2.3% on the year; but the quarterly trend was positive (+0.1%) for the first time since Q1 2010
- **Hometrack** in September said prices fell 0.1%, the fifteenth month of decline; and the number of properties coming to the market so far this year has risen 22%, with just an 11% rise in demand
- **Acadameetrics** said prices fell 0.3% in September (and by minus 2.3% on the year); but transactions rose 9.5% last month boosted by cheaper prices and low mortgage rates

Conclusion 1

- Dorothy Gale discovered that when you seek redemption - its delivery comes from within...
- ...and along the Yellow Brick Road, her companions proved this empirically
- The Scarecrow did have a brain - which he discovered when he actually had to use it; the Tin Man was kind and sympathetic, despite his clobber; and the Lion, although still terrified, learned that he could face danger
- And this all without the smoke and mirrors of the Wizard (who was not really a Wizard at all)

Conclusion 2

- UK housebuilders have employed their own version of self help
- They have used their grey matter - and found their heart and courage - in terms of dealing with a truly spectacular reversal of fortunes
- Earlier we highlighted the movement in both profits and margins...
- ...i.e. latest full year pretax profits hit £332 million compared with a loss of £602 million earlier; and pre-provision margins rose from 6.8 to 8.8%

Conclusion 3

- The same is true of their finances
- Full year balance sheets enjoyed collective net assets of £9.9 billion (+7%) with gearing of just 12.2%; it was 56% in 2008
- Okay, full year RONA was just 4.8% but this compares with 0.7%
- All they need now is for the UK economy to sort itself out (unemployment at 8%+ is now serious); a quick fix for the national basket cases in the EU and a stout recovery in the US
- If only Glinda, the Good Witch of the North actually existed

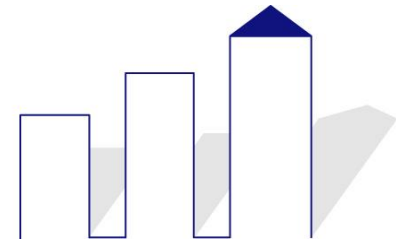
Conclusion 4

- Okay, we have Mervyn King...
-although when he likens our current travails to the 1930s, you know that the worst maybe past
- Nor is the stock market plumbing the depths of March 2009 (3512.1 on 03/03/09) and on 18 October it was 5410.35
- Yes, it will be a long haul but the optimists have pencilled in 2% GDP growth in 2013
- Similarly, the peace-time low for UK housing starts (73,000) was in 2009; and Experian is forecasting 105,000 in 2012 and 116,000 in 2013
- Over the rainbow, skies really are blue

Legend

- Abbey (**ABBY**), Barratt Developments (**BDEV**), Bellway (**BWY**), Berkeley Group Holdings (**BKG**), Bovis Homes Group (**BVS**), Redrow (**RDW**), Persimmon (**PSN**), Taylor Wimpey (**TW**) and Telford Homes (**TEF**)
- Bellway's market capitalisation incl. quoted preferred shares
- Share prices are at 30/09/2011 unless stated otherwise; REIS and REIT = Real Estate Investment & Services and Investment Trusts; RPI = retail Price Index; and CPI = Consumer Price Index
- 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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