After a very difficult few years it appears that the outlook for the major housebuilders, outlook is finally starting to look up. This includes Barratt, who recently announced that the group would deliver £40m pre-tax profit at their full year results, a huge improvement from a loss of £33m last year.

Taylor Wimpey has also experienced a similar improvement, having announced pre-tax profits of just under £29m in the first six months of 2011. This is in stark contrast to a loss of £2.3m in the same period last year. The Berkeley Group has also performed well, reporting back in April that they have increased their pre tax profit by 23.5% in the last year.

Let’s consider the factors that have influenced this resurgence: It has been essential for the major housebuilders to build the right product for the current market. Sales to first time buyers have slumped from 800,000 a year in the peak of the market to 200,000 following the recession. At the same time there has been a squeeze on lending to buy-to-let investors. With both of these groups making up a significant amount of the demand for flats, the major housebuilders have had to change their development model.

Rather than churning out numerous flatted schemes, they are now building out schemes exclusively or with a high proportion of houses. The schemes now comprise larger, higher-margin properties that are aimed towards families and cash-rich buyers. Construction of schemes that are predominantly flats are now limited to only the most desirable locations such as central London.

This transformation is exemplified by Barratt who is forecast to build a ratio of 70% houses to 30% flats compared with a 50:50 ratio at the height of the market.

In addition to this marked change, most of the major housebuilders have concentrated on reducing their debt and borrowings, which has been a key factor in helping them achieve these...
increased profits. Taylor Wimpey recently sold off their North American business, which has helped the group significantly reduce their debt from £634m to £166m. Persimmon has also significantly rebalanced its finances, with net borrowings reducing from £112m to £15m in the last financial year.

Finally, increased average sales prices achieved on completed schemes have been a significant factor contributing to increased profits for some of the major house builders. For example, Barratt has experienced a circa 5% increase in average selling prices. However, this has not been the case for all, with Persimmon advising that they have experienced a 3.7% fall over the last year. Nevertheless, with all of the foremost property consultancy firms (BNP Paribas Real Estate included) predicting increased average sale prices of between 2% and 6% for 2012, this should bode well for all of the major housebuilders profits over the coming year.

If the predicted increase in average sale prices occur and the major housebuilders continue to maintain their reduced level of debt and borrowings, then provided housebuilders continue to build the right type of schemes in the right locations, the increased profits seen in recent months should be sustained into 2012.

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