

Housing Industry Margins.

Terry Fuller

This paper looks at the profit levels of House builders, Developers, Contractors, and land promoters.

House Builders.

The number of house builders operating in the English market has reduced as entities since 2000 (a) into the largest 10 (b) delivering c 40% of all new homes. Mergers are driven by house builders attempting to increase their long-term land supply and skills base together with Chair/CEO vanity.

Source of funding: The majority of major h/b are funded by shares traded on the London stock exchange (Hills are family owned and not a plc) and are therefore competing with a multitude of other plc seeking long term capital in exchange for dividends paid twice pa. Key investors are pension and insurance companies seeking to balance risk with steady returns. They also have Rolling Capital Finance facilities with a variety of banks.

Share Buyback: In 2008 all the major h/b had debts of between 60% and 100+ % of asset value, since then they have driven debt down to zero and have undertaken share buyback which improves share value and or returned surplus cash to shareholders.

Capital Allocations: Each of the top four house builders (c) operate with between 20-28 Regional operations, quite independent from each other and while each Region is 'allocated' a notional capital sum each year they each require 'approval' from Group for major land purchase and cash lock-up.

Profit Margins. Most of the majors seek a Gross Profit Margin of 20% of Revenue against private sales income, and the interrogation of annual accounts indicate a Net Margin post overheads, finance and tax of between 4.5% and 10% as dividends paid to shareholders.

Second hand competition: Total homes sold in 2024 = 1.09m of which 218,000 were new (20%) The point being that new homes do not control the market in volume or price.

Homes England Profit margins. In buying land, HE always worked on the assumption that they would buy it with a 20% *gross margin* against house sales on the site and sell it on to a house builder that worked to the same 20% *gross margin*. Homes England would also add a further 4% to cover their own Development Staff costs.

Top four house builder results 2024

	Vistry	Persimmon	Barratt ²	TW
# Homes sold	17,200	10,600	14,000	10,500
Revenue	£4.3b	£2.9b	£4.1b	£3.4b
Operating Profit £	£358m	£405m	£369m	£416m
Operating Profit %	8.3%	14%	9%	12%
Finance	£95m	£10m	£8m	£27m
Profit pre-tax	£263m	£395m	£384m	£416m ¹
Tax	£74m	£92m	£56m	£100m
Profit post tax	£189m	£303m	£328m	£219m
Profit post tax %	4.5%	10%	8%	6.4%
ROCE	14%	11%	9.5%	11%
Staff	4,600	4,700	6,000	4,300
Sites	350	270	346	270

¹ Pretax and exceptional items (£97m) including major loss on single site and provisions.

² Confusing 'adjusted' figures

Each house builder has made provision against remediation of cladding and concrete frames and other elements that have significantly reduced net profit margins.

Examination of Annual Accounts.

The annual accounts are c 220 pages and have been externally audited. None follow a simple prescribed structure to easily extract the information for these tables.

Other Majors in 2024

Name	#	Rev	GP	Tax	Net Profit
Bellway	7,600	£2.4b	£361 (15%)	£53m	£130m (5%)
Berkeley	4,000	£2.5b	£644 (25%)	£170m	£387m (15%)
Cala	2,800	£1.2b	£175 (14.5%)	£23m	£ 55m (4.8%)
Hill	2,300	£1.1b	£160 (13%)	£18m	£ 52m (4.5%)

House Builders Margins Conclusion.

While most individual site Viabilities show a Gross Profit sought of 20% of Revenue, once all costs, overheads, finance and tax have been removed together with exceptional items then the Net Profit paid as a Dividend is between 4.5% and 10% of total Revenue (Berkeley @ 15% is the outlier). Each of the majors will have between £1b and £2b work in progress across their sites, impacting ROCE.

Seeking to reduce the profit margins down from 20% will directly reduce the Net profit margin and tax and we would see share prices drop, private investment removed and housing numbers evaporate. We saw this is 2008 to 2012 when house prices, profits and numbers tumbled, impairment of assets and losses were the norm and share prices fell from £4.50 to 10p for Taylor Wimpey and others.

Developers as House builders.

Persimmon, TW, Vistry and Barratt have large Strategic Land Divisions acting as Developers and that while they are 'profit centred' will sell their serviced land onto their house building divisions and other house builders. The Strategic Land profits are absorbed by Group to produce the final annual accounts. See **Developers** margins below.

Developers and Margins.

These are companies that invest long term into land opportunities, taking a 5-20 year land Option, spending significant capital (TW circa £200mpa is locked up) to promote the land through the local plan process, secure an Outline, and s106 and upon signing the s106 buy the land from the original owner at an agreed rate/price, then invest capital in infrastructure and sell tranches of land to house builders who will secure the reserve matters and build.

Some of the major house builders have Strategic Land Divisions, who undertake the above and sell onto either their regional house building arm at a profit or sell onto other house builders.

These include:

	Strat Plots	Promo Plots	Plots sold	Value	Profit
Taylor Wimpey	136,000	0			
Persimmon	70,000	0			
Barratt	106,000	105,000 (Gladman purchased by Barratt)			
Vistry	76,000	0			
U&C	40,000?	?	990	£106m	£8m

The Profit is frequently the 'discount to market value of the serviced land value' So if the serviced land is worth £1mpa, the Developer might secure 13% (£130k) discount from that value.

Eg 10 acre site (excluding open space = zero value) with 160 homes, 112 PD & 48 AH

£ 10m Value

£ 1.3m Discount (developers gross profit)

£ 3.0m s106 payments (paid by developer)

£ 1.6m infrastructure (paid by developer)

£ 3.0m Planning costs (paid by developer)

£ 8.9m Total Costs

£ 1.1m land value paid to farmer. £110kpa (paid by developer upon s106 being signed)

Developers frequently enter Options with a 'minimal land value' to be paid to the landowner.

Other Developers.

Urban and Civic are not house builders but promoters and developers, and their agreements with the Ministry of Defence at Alconbury and Waterbeach are not based upon a discount on serviced land value but a percentage of house sales value on the land (10%) which is far greater than a discount to serviced land value.

U&C purchased L&Qs land portfolio of 2,000 acres /30,000 plots in 2024, for £150m (L&Q had purchased the original 42,500 plots portfolio from Gallagher Estates for £530m in 2018.)

Conclusion.

Because the accounts for the top four house builder do not split the costs and values for Strategic Land from house building accounts, it requires detailed interrogation and understanding from having worked for them in Strategic land to understand the process. Strategic land is about ensuring a steady land supply for the house builder but locks up substantial capital over many years.

Contractors and Margins.

This short element looks at Contractors working in Repairs, Maintenance and new build affordable housing.

Most contractors (Willmott Dixon; DJ Higgins; Keir; Rydon; Wates; Henry Boot; Barnes; Carter, et al.) appear to cover new build in housing, health, commercial and infrastructure and they rarely split the results for public consumption. Some (Wates, Lovell et al) also undertake open market sale, making it more difficult to analyse the returns on work undertaken.

Contractors rarely purchase land or build for sale, they tend to work for low margins, higher Return on Capital Employed, but the build cost increases frequently erode their profits so tend to look at what 'extras' they can gain from existing contracts.

	<u>Turnover</u>	<u>Net Profit</u>	<u>%</u>	
Bell.	£202m	£4.2m	2	
Mears	£1.1b	£47m	4.2	
Willmott	£1.2b	£20m	1.6	
Keir	£4.0b	£51m	1.2	
Wates	£2.3b	£24m	1.0	(£550m maintenance turnover)

The above illustrates 5 contractors working in this sector, their group turnover and net profit that is paid as a dividend to shareholders and hence their net profit on turnover.

Such a small profit against turnover would not attract major investment, it doesn't even keep pace with inflation, indeed building societies will give you a better return on investment than the above!

Conclusion

In the building industry, Profit is related to risk, the higher the risk the higher the profit is expected by shareholders. Contracting assumes that the risk is far lower as no sales risk or capital is involved.

Promoters and Margins.

There is a group of land promoters who secure a land option, promote through the local plan to secure an Outline and s106, but do NOT invest in the infrastructure or s106 or build homes. Gleeson; Rydon; Wates; Lion Court; Hallam Land and Ptarmigan are examples. It is difficult to extract the details from annual reports apart from this:

	Plots	Sold	Turnover	Net Profit	%
Hallam Land.	?	2,661	£78m,	£18m	23% profit.
Ptarmigan	25,000	further information	u/k		
Lioncourt	6,000	further information	u/k		

Conclusion

It may just be that the 'middleman' land Promoter is taking out the most value in terms of net profit. And hence why Barratt bought out Gladman.

Overall Conclusion

The private sector require private investors, either in the form of bank loans or Shareholders, and to attract the investment requires the ability to compete in the global market for funding and provide returns. The following is a selection of other plc companies and their profits:

HSBC = £32 billion

BP = £15 billion in 2023

Tesco = £3 billion in 2024

Bae = £3billion in 2024

British Gas = £752m in 2023

Rio Tinto = £7billion in 2024

In seeking more out of house builders to contribute to greater social benefits, puts at risk the returns they may achieve and hence the investment they attract.

Key

(a) Previous h/b entities include Bryant; Wilcon; Heron; Taylor Woodrow; McClean; Westbury; Beazer; Higgs and Hill; Ideal; Admiral; Laing; Hall and Tawes; Lovell; Charles Church; David Wilson; McAlpine; Redrow.

(b) Barratt/Redrow; Vistry; Persimmon; TW; Bellway; Berkeley; Cala; Bloor; Crest; Hills.

(c) Vistry; Barratt; Persimmon; Taylor Wimpey

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