Half Year 2024 Results

Wednesday, 31 July 2024

Highlights

Jennie Daly

Chief Executive, Taylor Wimpey plc

Agenda

Good morning to you all. Thank you for joining us. As usual, I will do some brief introductory comments and the highlights on the half year, and Chris will take you through the financial review and our guidance. And then I will take you through how we are seeing things today and how we are positioning the business for the future.

I think you will already have seen the statement and noted that we now expect full year completions, excluding JVs, to be towards the upper end of our previous guidance of 9,500 to 10,000. I am very pleased to say that we performed well in the first half. Importantly, we are very well set up to grow again from 2025, if the market is supportive.

It is early days for the new Labour Government, but all early indications look positive for the sector with recognition that planning is a major barrier to economic growth, and that housebuilding contributes significantly to that much needed growth, but there will be more on this later.

First half highlights

I think some great progress in the year so far, but I will just pick out a few of the highlights this morning. We are really pleased with the private sales rate of 0.75, which is 0.69 excluding bulk sales. And while interest rates and mortgage rates remained high as the rate cut expectations were pushed out, the market has been stable. There is no doubt that the teams have worked hard to deliver this, whilst continuing to protect value.

First half completions reflect a lower order book coming into the year and are in line with previous guidance.

I think you can see along the bottom line here that this is a business in really good shape with an excellent landbank of 79,000 plots, benefiting from a mature strategic land pipeline and a record of successful pull through.

I told you last year that customer service would be a major focus. We are already a five-star homebuilder. So it has been pleasing to see customer service scores pick up as a result of this concerted effort from 90% to 96%. We have also seen some positive movement on the nine month scores in recent months, very pleasing. But as always, there is more to go.

Lastly, I think these results are a testament to our experienced teams and their dedication, but a very proud and special mention this morning for our 62 Site Managers, who recently collected Pride in the Job Quality Awards, winning more awards this year from a few less sites which, I think really speaks to the quality of our teams. I think this quality is also reflected in another period of high Construction Quality Review scores and lower Reportable Items, and there is more on those in the appendices.

Trading performance reflecting a more stable backdrop

This is an update of a chart I showed you at full year. I would not repeat all that I said then, except to say that mortgage rates, though with some improving momentum recently, have continued to be high. And this is impacting affordability, particularly for first time buyers. Of course, we have seen earlier market expectations of bank rate cuts push back. So given that backdrop, we are happy with how resilient the market has been.

There is good news, though. There are as many mortgage products on the market today with high LTVs than at any time since before the mini budget in 2022. And competition between lenders remains good, which in turn is flowing through to pricing, where we are starting to see some better lending rates come through.

So a stable first half of the year. Pricing has remained firm since quarter four last year. And it is worth remembering that overall we have only seen low single digit erosion of house prices from the peak in September 2022. As previously flagged, the order book is down slightly, and building this remains a key priority to set us up as well as possible for 2025.

So now over to Chris.

Financial review

Chris Carney

Group Finance Director, Taylor Wimpey plc

Summary Group results

Thanks, Jennie. Good morning, everyone. I am pleased to report a good first half performance, delivering in line with our expectations. As you can see from the variances on this slide, the results have been impacted by the lower order book coming into this year. But we are pleased with the good progress being made through 2024 so far, both in sales and operational delivery, setting ourselves up for growth from 2025, assuming supportive market conditions.

In the first half, we delivered 4,728 Group completions, resulting in revenue of £1.5 billion, a reduction of 7% on the first half of last year. Our focus on driving increased operating efficiency, cost savings and value improvement helped us achieve a gross margin of 19.3% and operating profit margin of 12.0%, down 2.4 percentage points on last year, and I will expand on that in a minute.

Return on net operating assets reduced to 10.9%, which you should remember is reported on a rolling 12-month basis. So the prior year comparator includes a period of strong trading before the mini budget intervened.

First half UK performance in line with our expectations

In the UK, we experienced good levels of demand in the traditionally strong spring selling season. And as Jennie mentioned, market conditions remained relatively stable throughout Q2. However, as we entered the year with a lower order book, completions in the half were lower and we delivered 45% of the top end of our full year guidance range, very much as anticipated.

22% of completions in the first half were affordable, and I am expecting affordable homes to contribute around 21% of the mix for the full year.

Consistent with our guidance, the blended average selling price in half one was broadly stable year on year. Within that and also as expected, private pricing was 2.7% lower, with most of the reduction due to some underlying market deflation, as you will see on the next slide, with the balance relating to mix.

In February, I also flagged a continuation of the increase in affordable selling prices, and the 7.8% increase you see here is a result of geographical size and tenure mix.

Looking forward, I am expecting a slightly higher blended average selling price for the full year at around the £320,000 mark, reflecting the mix in the second half.

The bottom of this slide shows our UK gross and operating profit margins of 18.9% and 11.5%, respectively, both were enhanced by the sale of commercial land in the first half, as you will see on the next slide.

UK operating profit margin

My intention with this slide is to give you the detail of the various factors influencing operating margin in the period. If you compare this slide to the one from February, you will observe that the predicted half one build cost inflation of 4% came in at 3.5%, and net pricing on completions in the half was indeed slightly lower due to market deflation of 1.5% on selling prices compared to the first half of last year.

There is also a 0.5% impact from landbank evolution as we start to trade out some of the sites acquired in the years after the Brexit referendum when the land market was most benign. These market factors combine to generate a 3.7 percentage point reduction to operating margin in the period.

Then moving further down, there is typically always a contribution from land and property sales. The contribution this half was £16 million greater than half one last year, and that enhanced operating margin by 1 percentage point.

Looking ahead to the second half, spot market build cost inflation on new tenders is pretty much zero, and the value improvement actions we have taken nudge us just into deflationary territory, say 0.5% to 1%.

In terms of the half two income statement, there is still some lingering historical build cost inflation in WIP, but that will pretty much be offset by value improvement and efficiencies. Net pricing has been broadly stable for a while now. So the flow through of price deflation from the order book will continue to reduce and should be smaller in the second half.

And although there will be some additional cost in half two relating to IT improvements, we expect to deliver greater volume in the second half, so there will be an operating leverage benefit compared to half one.

So overall, if you exclude the impact of land sales from half one, we expect to see a modest improvement in the underlying operating profit margin in half two.

Summary Group balance sheet

We retain an enviably strong balance sheet with net assets as of the end of June of £4.4 billion. The movement from last year is driven primarily by the increase in fire safety provision, which I will explain in a moment. The value of our land holdings, net of land creditors, is broadly flat with both balances reducing as expected.

WIP has increased year on year, reflecting a greater weighting of completions in half two this year and an intent to deliver smoothly in the second half, setting ourselves up for 2025.

Building safety update

Moving on to building safety. As you know, we have for a number of years, had a dedicated fire safety remediation team in place. And having assessed all our buildings, we are making good progress in advancing building from detailed design works to tender and through to commencing works on site. And the pie chart on the right breaks down our remediation progress to date.

Moving to our increased provision today, we continually assess our remediation provisions. And over the two years since our last update, the tenders received have generally shown that our cost estimates have been very accurate. That said, our recent tenders have reflected some inflation in remediation costs, likely driven by increased demand for limited resources, which required us to reassess the expected cost for buildings where work is yet to complete, and this has resulted in an additional charge of £46 million.

In addition, the work we have done to assess the completeness of our building register has identified a small number of additional buildings with an estimated remediation cost of £10 million.

We are very committed to getting these works done as swiftly as possible. And reflecting that, we are providing additional funds to increase the size of our remediation team and also updating our expectation on legal fees in what can, at times, be a complicated and contentious area. This amounts in total to a further £9 million.

Lastly, our experience shows that the Building Safety Fund (BSF) pre-tender costs have not been reliably controlled and monitored. And as a consequence, we have taken the decision to provide for them in full, along with a contingency on all untendered works, and this adds a further £23 million to the provision.

In total, this increases our provision by £88 million, bringing the total funds set aside for remediation to £333 million with £67 million already spent. And as I have said more than once before, the provision reflects our best estimate of the cost of getting these works done. And due to the duration and complexity of what is involved, it is not impossible that it might need to change at some point in the future. But including a small contingency and taking a prudent stance on BSF pre-tender costs, it is intended to avoid that.

WIP investment for increased delivery in H2

Moving on to cash flow. We closed the half with a strong net cash position of £584 million. On an adjusted basis, after deducting land creditors, we remain negatively geared, which underlines the strength of our financial position.

The slide shows that the reduction in cash in the six month period is mainly a function of the investment in WIP that you also just saw reflected on the balance sheet. And that investment sets us up for delivery in the second half and beyond.

We remain a cash generative business with controls on land and WIP spend that are responsive to the opportunities that we see in the market, which brings me nicely to capital allocation.

Our capital allocation priorities

This slide will be familiar because our priorities for capital allocation are unchanged. Our first priority will always be to maintain a strong balance sheet. The adjusted gearing position that

I just mentioned demonstrates that it really is our top priority, especially in the context of the market challenges of the last couple of years.

Second, where there are good opportunities to invest in land and WIP, we will deploy our capital to support growth in the medium to long term. You can see from the statement that there have been more approvals in the period because we have seen more attractive opportunities coming to market, and Jennie will talk a bit more about that. And of course, our strategic pipeline will continue to give us more choice on where and when to deploy our capital.

Third, our Ordinary Dividend Policy reflects how we have set the business up to deliver returns for shareholders through the cycle and is a key differentiator for Taylor Wimpey paying 7.5% of net assets to shareholders each year. This policy stems from our unrelenting focus on capital discipline, and it is intended to provide investors with confidence in the long term return generated from investing in Taylor Wimpey.

Today, we are announcing an interim dividend for 2024 in line with our policy of 4.8p per share, which will be paid in November.

Finally, where we have excess cash, we will return it to shareholders. And we have a strong track record of doing exactly that at the appropriate times in the cycle.

2024 guidance

Finally, turning to guidance. Based on our strong first half performance, I am pleased to report that we are now expecting to deliver UK volumes for the full year towards the upper end of our previous 9,500 to 10,000 guidance range. And we remain on track to deliver Group operating profit in line with current market expectations.

I expect net cash at the year end to be around £550 million depending on where land spend ends up in the second half. And with deposit rates remaining elevated for longer, we now expect a net interest income in the P&L of around £4 million.

So in summary, I am pleased with our first half performance, delivering in line with our expectations. We remain confident and on track to deliver in line with our guidance set at the start of the year. And assuming supportive market conditions, we are well positioned to deliver growth from 2025.

I will now hand back to Jennie.

Building for the future

Jennie Daly

Chief Executive, Taylor Wimpey plc

Performing well in the current market

Thanks, Chris. Let us talk now a little bit about what we are seeing on the ground and what this means for how we are setting up the business.

Here is the usual slide on sales performance, and I know you will focus on the first column of the numbers, so essentially the last four weeks of trading. We are running at 0.64, which compares to 0.47 in the equivalent period last year. But I would encourage you not to get too carried away. It is only four weeks, and it is against a very weak comparator.

I would say generally, that we have returned to a fully normalised cancellation rate, albeit again you can see that the last four weeks is a little high, which I think is a function of lower gross sales overall in that period. Cancellations in order book terms are not particularly noteworthy.

As you will have heard from others and noted from our statement this morning, the Housing Association sector is facing a number of significant headwinds affecting their appetite for Section 106 affordable housing. This is a sector wide issue and we do not expect it to impact our 2024 completions, but it has the potential to impact order book and affordable housing completions from 2025 onwards without action.

We are, of course, progressing mitigation actions where they are available, and we remain fully engaged with affordable housing partners and the Government.

And finally, on this slide, as has been a feature over the last two years, we are seeing very low down valuations despite some uncertainty, which I think is very good to see.

Short term customer demand remains stable

As the market normalises, I wanted to share a bit more of what we are seeing and hearing from our customers. The overall sense that I would give is one of more positive customer sentiment. We did not see any meaningful change in customer behaviour in the run up to the election. And you will see from the graphs on the left of the slide that it shows a fairly normal seasonal trend for website traffic appointments and walk-ins.

Customer behaviour has, however, changed when it comes to the timing of commitment to exchanges. As we noted at the full year, these have moved out to longer than we have seen in recent years, albeit conversion time to reservation has actually decreased slightly, and the quality of enquiries has improved.

And speaking to our sales teams around the country, I think you get a sense of a certain amount of chain anxiety, and some people on the sidelines just waiting for rates to change. That said, I think it is really pleasing to see the percentage of first time buyers increasing to 40% of private reservations in the first half.

And with prices relatively flat, some of the catalysts to action are not as strong at the moment. This means that incentives have remained a factor in the market to drive commitment, albeit at a stable level of between 5% and 6%. The teams continue to work hard to support customers on a longer journey and to manage the process, making that improved customer service score I mentioned earlier even more pleasing.

Mortgage costs remain higher than in recent years, but longer term fundamentals robust

Mortgage costs are higher than pre-2022, but it still remains cheaper to buy today than rent in the UK for those with larger deposits. The red line on the graph shows the cost of a 75% loan to value mortgage.

According to our IFAs, in the first half of 2024, those Taylor Wimpey customers who took a mortgage took on average of 72% LTV, and this was 78% LTV on average for first time buyers.

So during the first half, we ran IFA and mortgage myth-busting educational events, which remain valuable to our customers. And the data from our IFAs continues to show customers both first and second time buyers utilising mortgage terms which are longer. And although five-year fixes remain the most popular, we are hearing just a little bit more of a move to two-year fixes with expectations of interest rates reducing.

So overall, underlying and longer term market fundamentals remain compelling. The desire for homeownership remains high. There is a significant undersupply on all comparison measures relative to population that will underwrite this market for the foreseeable future.

Planning backdrop remained challenging in the first half

Now we turn to planning. So I do not think that you need much reminding, but maybe for those who are listening in, I do not know, somewhere else, the current planning situation remains extremely challenging.

So looking at this graph with the HBF figures, this shows that in the 12 months to March 2024, the number of both units and sites approved continue to fall to record lows. The number of units achieving planning permission was the lowest in almost a decade, whilst the number of sites approved in quarter one in England and on a rolling 12 month basis overall, was the lowest since recording began in 2006. So that is about half the number of sites that were being approved in the latter part of the 2010s.

So we saw some localised disruption as a result of the local government elections in May with a number of more contentious planning decisions experiencing further delays as a result of the national election through June. We are seeing these decisions pick up now and more or less going the way that we would have expected them to go.

New Government plans to "get Britain building again"

So as you have heard, the Government is committed to get Britain building again and have put it at the centre of their economic growth agenda, which is very positive news. It is early stages, but these measures I believe are key. In order to deliver their manifesto promise of 1.5 million homes over the Parliament, Government recognised that it starts with planning. And all the signs so far are the Government wants to move quickly.

So we have seen the announcements of a return to mandatory housing targets, which featured prominently in the Chancellor speech and new task force to accelerate stalled housing sites, of which there are many, and funding for additional planning officers, all of which are very welcome.

We have also had confirmation in the King's speech of a new Planning and Infrastructure Bill aimed at increasing the number of homes built each year by simplifying the process to approve key infrastructure projects, modernising planning committees to speed up decision making, reform of compulsory purchase orders to ensure that fair but not excessive compensation is paid, therefore, unblocking development sites and improving the land assembly process. And it has also introduced a nature recovery and development funding provision to leverage development projects to fund nature recovery initiatives, though, Government I believe are hopeful that they will not need to wait for legislation to resolve the nutrient neutrality issues.

We expect the Deputy Prime Minister to write to Local Authorities, setting clear expectations of universal Local Plan coverage and also requiring them to prioritise grey belt, and review green belt boundaries, where necessary, to meet housing need.

And finally, in what has been a busy few weeks, and in fact a busy 24 hours, they have given a commitment to New Towns, national coverage of Strategic Plans and publication of a Long Term Housing Strategy.

"A growth focused approach to the planning system"

The consultation draft of the NPPF was issued yesterday. The consultation will run for eight weeks. And during that time, we will of course engage with Government and officials and make representations. The consultation includes various provisions intended to deliver a growth focused approach to the planning system.

It proposes reversing the changes to NPPF in December 2023, makes housing targets mandatory, and requires Local Authorities to use the same Standard Methodology.

As a result, local targets will rise to a total of just over 370,000 dwellings per year, as the new Standard Method better reflects the urgency of supply. This means that Local Authorities will have to make plans for homes proportionate to their existing communities, in other words, a stock based approach with an uplift where house prices are most out of step with local incomes.

The priority will be for housing requirements to be met on brownfield land and will require Local Authorities to review Green Belt if housing need cannot be met on brownfield land or grey belt.

And finally, Local Authorities must demonstrate a five year housing land supply going forward.

Whilst all of these measures are extremely welcome, we must recognise that it is not a quick fix or easy solution. NPPF, mandatory housing targets, five year housing land supply, they can when implemented move the dial quickly in planning terms for a willing Authority but near term housing delivery will rely on sites already in the system.

Schemes will also continue to be impacted by council resource constraints and potentially local opposition. New land opportunities released as a result of the changes are more likely to be delivering output in the medium term. But we are confident that Government does understand the importance of the industry to economic growth and the need to move on this quickly.

Well positioned for growth: good quality land acquisitions and strong strategic pipeline

So Taylor Wimpey, I believe is well positioned for growth and ready and able to play our part in delivering much needed new homes across the UK. What gives us this confidence in the future is our landbank, having land where homes are needed and where our customers want to live.

If the Government is successful in pushing through its agenda, our strong and well dispersed existing landbank and excellent strategic pipeline are a significant advantage. And as you heard from Chris just earlier, we have a balance sheet to enable us to buy land for future years, whether by converting our liberated strategic pipeline or from open market as and when land availability improves, setting us up to continue to drive strong returns through the next cycle.

We continue to have an excellent short term landbank of 79,000 plots. And given the tough planning environment, our strategic conversions of 2,000 plots whilst a good number, is lower than we have seen historically. This is the result of delays we have seen both in the determination of planning applications and in plan making.

Overall though, the landbank has held up to a really good level, and when considering our much reduced land activity over the last two years, we can expect to continue to benefit from strategic pull through as we look forward.

We do have a very big advantage in our mature strategic land pipeline of around 140,000 potential plots, which is ripe for delivery across the medium term. We have, in my view, the best strategic land position in the sector, which we have invested in consistently, offering the flexibility and optionality to take advantage of the execution of our strategy today. That flexibility is not just the mark to market nature of valuation and optionality of timing, but a demonstration of its flexibility and optionality in changing policy environments.

While the land market does remain constrained, we have seen a bit more opportunity than would have been expected at the start of the year in some areas. And we have been able to take an active and opportunistic approach approving 5,000 units in the first half. We will continue to be opportunity led, but I do want to be clear that our focus remains on the quality of the deal.

Strong visibility of land to prepare for growth from 2025, assuming supportive market conditions

So just taking a step back for a moment, I think you will remember me talking about how we very deliberately, and I think, thoughtfully set the business up to manage through the cycle.

There is of course a reason why we have been giving you visibility in the last year or so of the number of plots that we have in applications in the system. We have been actively preparing for potential planning changes over the last 24 months when we set our strategic land teams a challenge to bring forward more assertive applications, and we have been deliberately loading the basis in anticipation of a change in policy direction.

As at 30 June, we have 30,000 plots in planning for first principal determination, a combination of outline, full and hybrid applications. And as a reminder, that is roughly double the level that we have had in the past. And to be clear, this is all before we consider the more business as usual work of liberating the short term landbank.

So as the policy environment starts to crystallise, we have also been analysing our strategic pipeline for the next level of potential applications we can ready, which could benefit from the anticipated changes in planning policy I outlined earlier.

And there is also I think, some optimism that Local Plan reviews, including the recently paused or abandoned Local Plans will restart, enabling more traditional strategic promotion and securing the necessary housing land supply needed to deliver on the Government's commitment to build 1.5 million homes.

What I would want to reiterate is that while we are very hopeful that the Government changes to the planning system will materially move and improve future prospects, I am also realistic that it will take time for many changes to flow into deliverable sites, which in turn can become outlets and future volume.

We have said that we are well placed to grow for next year, assuming supportive market conditions. But I do want to be clear, this is based on our current visibility of land and outlets already under control with planning, rather than any short term fix or proposed planning changes. We own and control all land for 2025 completions, almost all of it with detailed planning.

So touching now on outlets, we are exactly where we expected to be. As a reminder, outlets have reflected landbuying being reduced in the last couple of years and planning issues, and they have been under pressure. And you will continue to see that for the balance of the year.

But I am really pleased to say that against that backdrop, we are on track on our own expectations and have added 26 new outlets and are already started on site for 14 of the outlets due to open during half two of this year. So we have better visibility today on outlets for next year than we have ever had at this time of year.

And while we do not guide on outlets, I can say that we expect to open more outlets next year than this, irrespective of planning changes.

Driving operational efficiencies to protect value and prepare for growth

So we have spoken at length about our efforts to drive operational excellence through the business to protect value, and I am extremely pleased to say that the teams now see this focus on efficiency and execution as business as usual. But there are some areas I think worth calling out.

Our timber frame facility successfully delivered its first units in the first half, and we are pleased that the facility received its ISO accreditation which is a great achievement for such a young facility and a testament to our approach and to the great work of our experienced management team. This will be key to our capacity for growth as we target 30% of volume from timber frame over the medium term.

And of course, we are making sure that we are active now to ensure that we have the skills developed and ready to deliver growth. This cannot be done overnight and requires a long term approach and effort. We are, for example, working with the skills partnership, and we are trialling different ways to increase new apprenticeships, including working with key subcontractors to support them in accessing funding and training for more trade apprentices.

We have also talked to you about the value we are deriving from a more data driven approach, ensuring that we are optimising this to simplify and where we can add value.

In the case of our Touchpoint customer portal, we are adding value to the customer experience in an easy to use and engaging interface, which allows customers to track their journey, monitor build progress, and log issues. And as it is fully integrated into our CRM system, it also means that our teams can pull data in real time, highlighting trends and adding decision making.

Building for the future

To conclude, we remain extremely focused on managing the business effectively through the cycle as well as on building the business and doing all we reasonably can to prepare for growth.

A brief reminder then of our priorities, which we continue to pursue. We continue to work hard to protect and prioritise value and are focused on building as strong of an order book as possible to set us up for 2025. As ever, we are tracking demand and expectations to be able to match our build to market circumstances. We remain focused on progressing land through the planning system. And you will have heard today that we are active in the land market where we see good opportunities to invest and have seen a bit more activity and opportunity this year than we expected coming into the year. We continue to invest in the long term sustainability of our business, throughout our activities and particularly by investing in our people, to ensure that we have the operational capacity for growth and the ability to execute.

Looking forward, as you have heard today we expect full year UK completions, excluding joint ventures, to be towards the upper end of our previous guidance range of 9,500 to 10,000. We have retained the infrastructure and the ambition to grow our business in the medium term. We have focused on getting land into the planning system and are well positioned but the positive changes to the system announced and expected will take time. We have put in place a strategy focused in leveraging the inherent value of our existing landbank and strategic land pipeline, as planning and market conditions allow, and are focused to deliver growth and shareholder value. And finally, we have never had better visibility of sites than we do now, so we remain confident of achieving growth, if market conditions allow in 2025.

Now this time, Chris and I are happy to take questions.

Q&A

Glynis Johnson (Jefferies): Forgive me, I am going to go with four to start with, apologies to everybody. On the landbank first of all, there is a few. The plot cost to selling price has gone up a little bit in terms of what you have approved. If you can just talk through if there is any nuance in that in terms of is it slightly more oven ready, and therefore, more on the build costs, or more on the land rather than necessarily the build cost. But just any kind of colour around that?

Second of all, just a clarification, the 30,000 plots in primary determination, I think you said they were different from your strategic land. Can you just talk about how that sits relative to your strategic landbank? And again, I am focused very much in terms of timing of when you can actually start building on that. Is there any difference? Should we think about them as more longer term sites, those 30,000?

And then just in terms of two more things. One, previously, you talked about putting extra factories, build teams, however you want to phrase it, on sites. I am just wondering have you started to do that now? Are you starting to, on some of those bigger sites, think about how you can maybe increase the build rates?

And then, Chris, cash. You talked us through your capital allocation. But what level of leverage would you be willing to take this business to? When do we have to start thinking about the priorities of growth versus dividend? Just a bit more colour around maybe the nuances of when things start to get a bit more stretched.

Jennie Daly: Okay. I will just take them in order, Glynis. So in terms of land cost on approvals, it is something that fluctuates quite a bit. But you talked about oven ready sites and the difference between that and perhaps a strategic site. So looking at the balance of acquisition, you will have noted over the last 18 months strategic land conversions have reduced over our run rate in previous years. And strategic land generally comes in at a much lower land cost.

So you are seeing a little bit of that just eroding. I have had a quick look at our land approvals. There are a couple of sites that I would describe as oven ready, fully serviced. That does tend to lift the land price, probably no more than, I would say, in a normal year but they do tend to drive that average up a little bit. I mean I think the average is still sitting at around 15.5%, which I think is a very healthy balance.

On the strategic land pipeline and those 30,000 plots, we tend to think of our strategic land pipeline in two buckets for ease. A bucket that our long term specialist strategic land teams are managing that tend to be larger, probably initially a focus on Local Plan promotion. And then we have got strategic land that we would consider to be a little bit more front footed that our business units would run.

But the 30,000 plots that we have, and that I am referencing is a combination of strategic land in its purest form and some that we are running through the businesses. But as I said, that does not include anything that is in our short term landbank. So that liberation work is a different bucket.

And then I mentioned a third that we are analysing and sieving through the strategic landbank now, given the changes as the communication from Government became more crystallised of what else we could prepare for promotion.

In terms of putting extra factories, I mean that is still a strategy that we utilise. We do still have some sites, which have multiple factories on site. It is a very live conversation. It is quite intuitive with our businesses and from the Divisional Chairs to make sure that we are keeping pace as the market moves.

And as we have described quite a bit over the last year or two, it would be wrong to think that all sites move at the same pace. So it is very much site by site and then ensuring that we are putting the resources in place and if that requires a second factory outlet, that is what happens. We are not holding back on WIP where there is the market to deliver that.

And then cash, your question, Chris.

Chris Carney: Glynis, I would say that our strategy now for a number of years has been to set this business up to perform through the cycle and our differentiated dividend policy to provide a consistent return based on net assets is entirely consistent with that strategy.

So the fact that we remain in a negative adjusted gearing position and with the short term landbank, as Jennie said, at 79,000 plots, means we have got a long way to go before we have any issues in that regard.

Glynis Johnson: Can I just quickly follow up? Are you increasing the number of factories on your sites?

Jennie Daly: I would say at this point, it is still stable but that is something that is very much a live discussion. We talked about agility a lot, Glynis, as we were controlling WIP and managing build rates to a falling sales market. We are looking at the reverse approach now where we are extending more WIP. But if a site gets to the point that the demand requires the second factory, then we will open it. Certainly, those sites have been set up that way, so they will be ready for it, yes.

Will Jones (Redburn Atlantic): First, just around the market, please. Clearly, achieving pretty good sales rate so far this year and up to July. How close does that bring us to being able to tweak a bit on either gross prices or incentives looking to autumn?

And then maybe just around planning and outlets. Just, I guess, on the Government agenda, you talked, fairly, about it likely to be taking time. But if you were pushed on it first half of next year, would you say that is a reasonable expectation for these measures to start benefiting the system? And to what extent do you worry that the affordable housing demands of the Government might have somewhat constrained progress on that?

And then just I guess big picture on your outlets. I appreciate you do not want to guide, but I think this year and last, you will open in the order of 50 outlets in each of those two years. Before that, you are running at 70 to 100, I think as an annual range. High level, I suppose, in a better planning environment. Is that 70 to 100 ballpark something you could aim for, or does the land somewhat constrain you getting back to there, I suppose?

Jennie Daly: Okay. So market wise, I mean, you will see that the pricing has been really quite flat since quarter four last year. We are seeing good levels of customer interest. I think the quality of our enquiries is good but there is still definitely an affordability issue. We have had to maintain a level of incentive to drive commitment because with house prices stable and maybe the prospect of interest rates falling, we need that enticement to drive commitment.

I think we are constantly reviewing, and we have talked before about plot by plot, site by site looking at nuancing our pricing. I can see that flowing through on the weekly sales. Some sites are actually gaining a little bit, some sites not moving, maybe even a little bit on the down. So it is a balance.

I think if there is a rate movement, that certainly will help. I am really pleased to see first time buyers coming back to that 40%, but it has still got a way to go. And first time buyers certainly behave in a more procyclical way. So a little bit of movement on house price in the positive could help drive that demand.

On planning and outlets and how they would flow through, I mean, look I am really pleased with the draft NPPF that was issued yesterday. It holds a lot of promise and opportunity, but it is a consultation. So the first thing, Will, is in terms of a Local Authority sitting today and deciding that what decision is going to make, the Minister’s Statement in Parliament is a material consideration, so to get a bit planning anorak-y. And so some authorities might move a little bit more to the positive. But many more will wait until the consultation is complete. That is at the end of September. And then we can expect quite a lot of revisions.

And I think the message yesterday was NPPF commentary at the end of the year, then it becomes a material consideration.

So what does it mean for the first half of 2025? Will, you would like to think that as a material consideration, it would start to drive planning decisions. But again, history would show is that there will be a reasonable community of Local Authorities that will need more incentive in order to do that.

So I think planning approvals is something that first half of 2025, anything that is in the system now you might see a little bit of improvement, but I would caution you in your optimism. And really then, new applications going in to fit the new model of housing need, those determinations late 2025, start of 2026 and then volume flowing out through them.

But one of the reasons why I bore you with the HBF graph on a regular basis is that land supply, the amount of approvals, has fallen to a really low level. And so there is a need for a recharge just to get back to something that was vaguely normal before you get into the being able to drive growth. So I think that we just need to look at how long it takes for those to flow through.

On affordable housing, I mean I think there is two issues. There is the comment that we made about affordable Housing Associations and the current problem really, which is around the current affordable housing programme, is fairly committed now up to 2026. And so the spending review will be an important signal for the direction of travel there. As too, I believe, the Chancellor has indicated that she will make a statement at the time of the autumn budget around rent provisions for Housing Associations, which I think would be very helpful for them.

But in terms of overall affordable housing demand, Government has been really clear about what their aspiration is for Green Belt review, so they have talked about 50%. And they have talked about a 40% requirement for New Towns. So that is very much on the look forward, things to come. I think there is a healthy understanding that there are viability challenges and that development cannot deliver everything, and that there is a need for a continuing viability discussion. And certainly, it is a relatively small reference, but continuing reference in the new draft of the NPPF on subject to viability. So we will need to look at that.

And then outlets, as we look forward and we have talked about loading the bases, we have done that deliberately to try to drive the best of our strategic land pipeline into the system that did require quite a lot of work. It is not an instantaneous action. And we would hope to be able to drive an uplift in outlets coming through from our strategic landbank over the coming years.

And back to that point about the land availability environment, the land market overall needs a little bit of a recharge. As that is recharged, then my expectations and ambitions for increased outlets would increase in line with that.

Aynsley Lammin (Investec): Just two actually. Obviously, lots of focus on the supply side and planning, but just interested with your discussions for Government. Any hints that they might be looking at something on the demand side, not exactly Help to Buy but something equivalent? Does the industry feel that is needed? I am just interested to hear your thoughts there.

And then secondly, just on M&A. Obviously, been a couple of ongoing deals in the sector. I think I read that Taylor Wimpey had a look at one of the private players. And just interested to hear your views there. Is it something you rule out or would you consider it, just anything there?

Jennie Daly: Okay. I mean, on demand side, I would really just reflect back what I have read in the manifesto, Government are very supply side focused. They have talked about a mortgage guarantee scheme. I do think that will have relatively low levels, if any, impact but there would be no other discussions that I am aware across the sector on demand side stimula.

And on M&A, look, as a point of principle I am not going to comment on M&A. But I would reflect, I think that we are as a business in a fantastic position. We have got a strong and resilient landbank. We have got an excellent balance sheet and a great business platform. And we have retained the infrastructure within the business to drive volumes to that 16,000 to 17,000 plots.

And I hope that over the last two years, you have heard a lot from us too about how we are setting the business up, using the challenges and this time in the market not just to mitigate for the current environment but to really prepare the business on our platform for a growth opportunity. That includes some of the strategic land actions that we talked about, the timber frame investment, IT investment and people investment.

So we will do what we think drives the best value for shareholders, Aynsley.

Ami Galla (Citi): A few questions from me. The first one was on capital allocation again. Could you give us some colour in terms of land spend? What is your ambition in terms of investment in land over the next couple of years? What is a sensible level that we should budget in?

The second one was on build costs. Your comment on build costs being flat today on new tenders is helpful. But in terms of a line of sight for next year, as we think about the moving parts and the recovery on track and most of the housebuilders getting on site more rapidly, how do you think that changes? And any sense as to what is the normalised level of build cost inflation on a sustainable level that we should think about in the sector for the next couple of years?

Sorry, I have a couple more to go. One on grey belt sites. Within the landbank, within the strat land that you have, can you give us some sense of what is potentially in the Green Belt definition that exists?

And the last one on the remediation of the recladding work that you are doing. What is your best estimate of how many years would this take to complete?

Jennie Daly: Okay. So Chris, if I take the grey belt, Green Belt question and I send the rest to you, is that okay?

Chris Carney: Yes, fine.

Jennie Daly: So grey belt, I mean, it is a new definition. Certainly in my mind, I am thinking of it as urban fringe, urban edge, liminal space between urban and Green Belt. We have got a bit more detail from yesterday, previously developed land in the Green Belt and land that makes limited contribution. So that is probably a little bit wider than we might have been expecting.

We do have land that we flagged as fulfilling grey belt. What we then need to do is a second assessment as to where those Local Authorities are on their land supply because grey belt really only kicks in, if they are not meeting their housing need.

Green Belt, overall we have got probably I would say about 40% of our strategic land, that 140,000, is Green Belt. I would say some of that is already moving through Local Plans. There have been authorities that have still been willing to take a reasonable and medium term view of allocations. So some of that is already in emerging local plans.

Chris?

Chris Carney: Yes. So on capital allocation land spend over the next couple of years. Obviously, the land market has the potential to change with the announcement of the NPPF. That is not going to kick in, as Jennie says, immediately. So our approach on land is very opportunistic. It is selective. And as a consequence, it is going to be a function of what is available in the land market. So our capital allocation is every single land site that we buy, Jennie reviews, it goes through a rigorous process.

So we are not going to be changing our approach or our aspirations, because, as Jennie said, we have got a really good land position. And therefore, we are not in a desperate need to buy land. And if the market gets a bit better in the future as the supply of consented land improves, then we have the ability to take opportunities now and also wait as that unfolds.

In terms of build costs, yes, build cost inflation what is it going to normalise to in the future. I would be quite rich if I knew that. I think if you went back to history, a stable market, I think the industry would wish for like house price inflation of 1% to 2% and build cost inflation of 3% to 4% can be sustained within that and that would be a happy place to be.

And I guess, it depends on affordability to some extent, and how that eases in future years and what that means for levels of demand. Whether it is going to be a sharper trajectory, who knows. But history would say if we have a steady, growing market. But I think what is undeniable is that there are scarce resources, whether they would be materials or labour, and as volumes increase, there will be pressure on costs.

Sorry, the last one was remediation. I mean with the additional investment that we have put into increasing the team, I would be really disappointed if it was longer than four years.

Harry Goad (Berenberg): I have got two, please. Firstly, just going back on your comments on land, Chris. If you could talk a little bit more about what you are seeing in terms of land pricing and whether you feel at a high level whether the land prices have declined enough. Because if we think about the extent of build cost inflation, we have had in the last two to three years, we think about pricing incentives. It just feels at a high level that land prices still need to reset quite materially lower. And I am interested to the extent to which you are seeing sites coming up that you can actually make your hurdle rates on.

The second one, please, is around partnerships. I do not think you are going to tell us that you are going to pivot the business model like Vistry has. But at the margin, are there certain sites where you might think about doing that partnership transaction right at the outset? I am not talking about the bulk deals, but it is almost like budgeted, pre-emptive bulk type deals?

Jennie Daly: Yes, I will take those, Harry. I mean, look, from a land pricing perspective in a world where land supply is constrained, land prices have maintained at a level that I think surprises us given the sharp change in overall output. But I do think that is just a signal to demonstrate just how little land there is available in parts of the market.

We are looking at that quite carefully, but it is demand and supply economics. The more land that there is available, the more keenly landowners need to assess their position. So what would I expect? I would expect that if we started to see more increases in planning, some freeing up of planning friction, then you would expect land supply to start increasing.

I think because we are at a low level, it is not going to change overnight, but you would expect a gradually improving position around land pricing to come through. And as to hurdle rates, I am happy with the land that we have bought. We described it as opportunity and quality deal-led, and that is exactly what I see when I run my finger down the list of opportunities. I am very comfortable with them.

And then on partnerships. I mean, I think we have been at pains in the past to confirm that we do have partnerships. We do some bulk deals. We do prefer them to be part of our assessment of a site and to set the site up to manage the output to bulks, very much on a project basis. But I am happy that we will continue to do that.

And our preference is to work with established partners, who recognise the quality of the build and the service that they receive from Taylor Wimpey.

Charlie Campbell (Stifel): Just a couple of questions from me, really. First question, so the short landbank has got 79,000 plots in it. What proportion of those, roughly speaking, are on sites which are under construction? And how would that proportion vary between, let us say, now and 2019 before planning got really difficult again? Just to understand, I suppose, what happens if you free up planning, how many more sites you can get from the land you already own really effectively?

And the second question, the 106 and Housing Associations struggling a bit. I mean what happens worst case that I should understand? I mean if you have got permission to build 100 units on the site and 20 is social, do you actually have to deliver the 20 social or can you say, well look we could not find a buyer for that so can we change the plans effectively? I mean does the 106 cause a problem to the private delivery effectively, I suppose is what the question is.

Jennie Daly: Yes. Okay. It is a good question, Charlie. I mean in terms of the short term landbank, the way that we segment the short term landbank the easiest way, I think as to describe it, everything that is saying that is detailed planning permission. You can assume that is on a site that is running through. There is a slide, I think in the appendices that will also show you a little pie chart. I think if you really, really squint, you might be able to see a very small representation of sites with implementable planning permission that we are not on site for.

So we are very active. The business does not sit around on schemes with detailed implementable planning consent there. They are all open.

I think the area that you want to look at is that that is sitting with outline planning permission in the short term landbank, and then you would add to that big bundle of applications that I have been discussing this morning. I cannot, Charlie, honestly bring to mind the 2019 breakdown, but you will be able to see that in the appendices of the slides.

And in Housing Associations worst-case scenarios, I talked about mitigation and mitigating actions, which our teams are really active pursuing. There is a range of them. There is for-profit players in the market that are looking at things a little bit differently and would not be as bound by some of the factors that we talked about in terms of balance sheet legacy cladding and other things.

But most Section 106 also have what is called a cascade mechanism, which is effectively a series of different exercises that you would go through with the Local Authority if you could not deliver a particular housing association. So what would that cascade look like? It could go from one type of housing association structure to another. It could move from tenure so rather than affordable rent, it could move to shared ownership, it could move to a discounted market. It could move then to payment in lieu of. So there is a range of options that can be engaged with, and it really will be for each individual scheme and conversation.

I think that we may also see something like passporting, or an opportunity where if there is an issue that you reach a headline and some Section 106s could have 'you shall not deliver more than 90% of your open market housing until 100% of affordable housing is delivered'. There is quite a range of different structures that an authority can give you leniency and you can continue to deliver a private sector.

So there is quite a range of options available, but it is all friction, and it does require engagement with the Local Authority. Is that helpful? Yes. Excellent. Okay. At the back of the room?

Peter Ajose-Adeogun (Morgan Stanley): Just have a question around, so we have discussed planning and land availability and how that might potentially impact the pace of volume recovery. In an environment where the rate backdrop improves, how quickly do you think volumes can recover? But then also, what are some of the other maybe supply chain issues you might face, for example, maybe labour. Maybe a bit of colour on that, labour availability and how that might also affect the volume recovery as well? That is it for me.

Jennie Daly: Okay. Look, I am going to struggle to give you a rate of volume recovery because it depends on what the shape of interest rates and the pace of interest rate reductions look like. So we will be very much measuring that or basing that based on what we are seeing in the market at any time, and we will update you as we go.

But supply chain constraints and labour constraints and other things are part of that exercise of preparing for growth that we have been really actively engaged with across the business. And Chris mentioned the material suppliers and others could be a source of constraint.

And I do believe that this is one place where Government can help because by being consistent about what their aspirations are, consistent about their intentions in respect of net zero or Future Home Standards and other things will give more confidence to the supply chain and encourage them to gear up the types of things that we can do. We have talked about engagement with our subcontractors. We communicate quite clearly with our subcontractors on a regular basis about what our aspirations and expectations for growth in the near term are.

The timber frame facility is certainly part of our delivering on expectation for growth and the benefits that timber frame can bring, both in terms of the speed and taking certain trades off the critical path. And we have worked really hard over a number of years. Our procurement process is considerably, I dare say, slicker, but more informed, much more analytical and data driven. And our relationships with our supply chain and subcontractors, material manufacturers are considerably closer.

So I do think that there will be challenges, as Chris talked about, but we are working really hard to take as much friction out of that as we possibly can, as we work to ensure we have got a good platform to grow from.

Chris Millington (Deutsche Numis): The first one is really just a couple on margins, actually. I do not know if you can comment on where you think your embedded landbank margin is after some of the pressures we see in the last few years.

Next one is about the direction of administration costs. I mean, you are one of the few who have actually made a reduction year over year here. Are we going to see that bounce back, as things like bonuses come back in and activity levels build?

Sorry, there is another one on the margin there. Affordable housing margins, how do you account for those? Are they materially different? Some normalised, some have a differential there?

And then the final one I have got really is just about this premise around a supportive market will help you grow in 2025. Because if we look at reservation rates today, they are fairly consistent with your volume outlook at the moment. So when we talk about a supportive market, we are talking about sales rates uplifts, outlet uplifts. I am just curious about what that driver needs to be to move you on somewhat further.

Jennie Daly: Okay. From a margin perspective, Chris?

Chris Carney: Yes. So let us start with affordable. How do we account for that? It is a blended basis. So each site has a site budget and the margin across both the private and the affordable completions is equalised.

In terms of the margin embedded in the landbank, we have never disclosed that to my memory ever. But obviously, what you can see is that the results that are there today and the potential for margin recovery in the future is to do with scaling up the business and driving better recovery of our fixed costs. So as time progresses and we scale up that and respond to that demand, then that is how the margin improves.

In terms of admin costs, yes, you would see I think the admin costs are actually flat in the half one income statement, net operating expenses, which is slightly different, the definition is less. So it is mainly the other income expense line that has shown a benefit, and that is the absence of aborted pre-acquisition land costs in this period compared to the first half of last year. And the last one was –

Jennie Daly: Affordable housing margins?

Chris Carney: No, I have done affordable housing. I was doing them in a confusing order.

Chris Millington: I think that was it on the margin. There was something on the admin cost, whether or not starting to grow again.

Chris Carney: Yes. So I referenced, I think Jennie did too, that we will have some increased IT costs in the second half. So we are changing our IT service provider this year. So there will be some costs coming through in that regard. So admin expenses probably looking at 2%, 3% increase year on year. So that is admin, not net operating expenses, yes.

Jennie Daly: And then, look, I think we have been really clear, Chris, that we have got excellent visibility for our outlets for 2025. And we are in an excellent position in terms of planning for those outlets. So supportive market means the consumer market.

Chris Millington: So we should think of outlets being higher year over year, if it is outlet driven? I know you do not guide to outlets.

Jennie Daly: We do not. And we are drifting into that difficult position. But look, we are splitting it down. We have got really great visibility for outlets. We have talked about year on year that our new outlets will grow, so more outlets open next year than this year and then a supportive market. So hopefully, we will see some rate reductions that will support that as well. Okay, thank you.

Okay. Sam, right? Is this the last one?

Sam Cullen (Peel Hunt): Yes, I think so. Just one. Just coming back on the strategic land in the Green Belt, did you say 40%?

Jennie Daly: About 40%.

Sam Cullen: Are they concentrated in a few more enlightened Local Authorities?

Jennie Daly: No, when I talk about having a widely dispersed landbank, both strategic land pipeline and short term landbank, we have a really robust position. So in some areas that are more constrained by Green Belt, you might see a bit more concentration of Green Belt because there is no other strategic land options, in which case, I think that we have got a good position in the beauty parade. And in areas that are not constrained from Green Belt, you are not likely to see much representation of it.

Sam Cullen: And the follow up, I guess, was in terms of the 50%, I think of affordable housing provision that has been outlined, is that going to be a net negative in terms of viability issues? Or do you think half of something is going to be worth more than 100% of nothing to the land vendor?

Jennie Daly: I think it is absolutely a function of where you are, but not just where you are, but what are the technical constraints, the infrastructure burden, the Section 106 requirements required to deliver it. So I think it is, in the same way, as I would caution Government in setting a 50% target on the basis that the perception might be that all Green Belt is in wonderful areas. I would say that even in good areas, if you have got a high Section 106 or high requirement for a community, you might struggle to deliver 50% affordable.

In other areas, if you can get straight off the back of a highway and you do not have any material ground conditions, then it is entirely possible. So there is just a real significant range of variables involved in that.

Okay. All right. That was a bit of a long one this morning. Thank you all very much for coming. For those of you who have not been on holidays yet, I wish you a very good summer holiday, and we will see you in the autumn. Thank you.

[END OF TRANSCRIPT]