Taylor Wimpey plc

Trading Update

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Trading Update

Jennie Daly

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Good morning, all. Thanks for joining us. I know it is a busy day today. As usual, I am joined by Chris, but I will start with some brief comments before opening up to questions.

So I think you will see from our statement today a consistent message to our comments at half year. And you should take away that we are on track and very happy with how we are positioned. If I was to describe the market, I think I would use words like steady and stable. It is certainly much better than it was at this point last year, and it is ticked up from the summer. This has continued in quarter three, albeit we did see an element of consumer caution in the run up to the recent Budget.

So in that context, I think we are pleased to have produced a good sales rate of 0.7 for the second half year to date, which is 0.68 excluding bulks, reflecting a relatively low level of bulk activity as we continue to focus on delivering value from our sites. This is testament to our attractive locations and our experienced teams.

Our year to date cancellation rate remains at normalised levels. So, as I say, much improved on last year, though perhaps not back to levels we saw before this downturn.

In terms of what we are seeing from customers, generally, confidence is good, but we know that there has been a bit of waiting for the Budget and potentially for lower interest rates.

So with this backdrop, our teams have been working hard to drive sales and educate customers with the help of our IFAs to give them the confidence to commit to their buying decisions.

Turning now to outlets, we have operated on an average of 209 outlets in the second half to date, and taking into consideration the prevailing sales rates and planned outlet openings, we expect to end the year with just over 200 outlets as we have continued to sell well. Importantly, we continue to have excellent visibility of all of the sites needed to deliver growth from next year, assuming a supportive market with 95% of our 2025 volumes coming from outlets that will be open by the end of the year.

And even though planning does remain challenging, we have had a number of successes recently, so we still expect to open more outlets in 2025 than we did in 2024, but those are likely to be weighted towards the second half.

I also know that you will be very interested in how we are selling into next year. Clearly, there is an improving sales rate and our current order book is around £2.2 billion. But do bear in mind that this includes year end completions at this stage. Underlying we are about 150 private units up on last year, with affordable slightly lower than last year. But I think as you know these sell further out, and so I think we are still well positioned for 2025 affordable deliveries.

Overall, with a stronger sales rate, we are in a good position to continue to build the order book to support next year.

As I mentioned in the summer, there has been a little bit more opportunity in the land market, and this has been helped in recent weeks by vendors acting ahead of potential changes at the recent Budget. We have been active and opportunistic in reviewing land deals, and as a result, our year to date approvals are around 11,000 plots.

So we now expect to end the year with net cash of around £500 million, subject of course to the timing of land purchases in the remainder of the year.

In terms of the new Government initiatives, the big planning announcements came earlier in the summer and these will be supportive of the industry, albeit implementation will take some time. On the Budget, it was pleasing to see continuing commitment to growth in housing and some much needed investment in planning capacity in local authorities. Whilst funding increased in the affordable housing sector, and that is to be welcomed, we still have not seen any meaningful action in respect of the Section 106 affordable housing issues we mentioned at the half year results.

For the business overall, I think it is early yet to assess the impact of the Budget on build cost inflation more broadly, but we are very mindful of the potential impacts of higher national insurance, particularly as regards our subcontractors.

So back then to the outlook for 2024. You will see that we reiterated our expectations to deliver full year volumes towards the upper end of our guidance range of 9,500 to 10,000 UK homes excluding JVs and to deliver Group operating profit in line with current market expectations.

Looking ahead, we will continue to monitor the economic environment, but we remain encouraged by the improving customer demand and affordability. And though we will hear more later today, expected rate cuts during 2025 will hopefully provide a tailwind to release some pent-up demand.

So we have talked to you previously about how we are set up to run throughout the cycle, and that this gives us the agility to optimise performance in all market conditions. This year has been very much about preparing for the next phase and ensuring all of our teams and operations are ready to take advantage of a better market when it arrives.

So while there remain market uncertainties, there is an improved outlook and we remain on track to grow from 2025, assuming support market, and have strong visibility on the land in place to deliver that growth.

With that, I will now open up for questions.

Q&A

Aynsley Lammin (Investec): Thanks, morning Jennie and everybody else. Two questions from me, please. First of all, on the completions, so call it 10,000 for the year, how much of that is actually already exchanged and completed at this point?

And then the second question, just interested to hear your view just a bit more on the cost outlook, particularly with any estimate of what you think the NICs change could be on the Group and just generally your view into next year? I guess, feel for the margin progression and any cost inflation change of view over recent weeks. That would be helpful, thanks.

Jennie Daly: Yeah, Okay. So completions, nice straightforward one, I think we are 88% exchanged or completed for 2024, Aynsley. So in a decent position at this point.

On National Insurance, I think our overhead impact in 2025, that will be April through to December, will be about £3.5 million to £4 million. On an annual basis, probably around that £5 million to £6 million level. Obviously, that is something that we will look to as we go into next year.

I mean on sort of build cost inflation, on a spot basis I would still say we are seeing new tenders at zero. We talked earlier in the year about self-help, and the various cost management measures that we had put in place in the business and they are still giving us some benefit on that.

I mean, I think it is too early to tell what the flow through will be. It is something that we are mindful of, and you heard it in my opening overview, but we are not going to be passive in that either. We will engage with our supply chain, and we will continue to look at self-help measures. I think we have got a very good track record of that and we will just keep tightening the nuts and bolts over the interim period.

Aynsley Lammin: Ok, thank you very much.

Chris Millington (Deutsche Bank): Thank you, morning everybody. A bit of a follow on from Aynsley, can you just break down that exchanged and completed number year to date? I just want to reconcile where the order book is likely to be sitting at year end? That is the first one.

Second one is, I know it is difficult to generalise on these sort of things, but how do you think about the increase in net investment required per one outlet increase? We have had one of your peers talk about £10 million net investment per one outlet increase. I am just curious about how you think about that.

And then the final one I just wanted to ask was, I suppose it is a bit theoretical, but we have seen HMRC transactions recover to within 9% of 2019 in 2024 so far. What would the strategy be of Taylor Wimpey if this is the new current demand environment, in light of higher rates, lack of Help to Buy, how would you think about the business going forward? Would you keep it the same? Would you look to invest more? I am just curious about what the options would be?

Jennie Daly: Okay. So maybe Chris, you can help me out with the breakdown of exchange and completions.

Chris Carney (Group Finance Director, Taylor Wimpey plc): Yes, it is 17% exchanged and 71% completed.

Jennie Daly: So you got that, Chris?

Chris Millington: Yeah, got that, thank you.

Jennie Daly: Then on net investment required to open an outlet, I think to an extent you answered your own question. Every site is different and the investment profiles vary quite considerably from small sites that you would take off the back of an existing highway to some of the larger sites with a significant element of highway opening or infrastructure that needs to go in.

I mean, your third question is interesting. It is not our thesis that we are going to enter a persistent low demand period, we see really good customer activity, improving customer confidence, we see a huge level of unmet demand and an undersupply. But look if those conditions were to appear, then we would have to look at what we thought was going to drive the best value for our shareholders, both the infrastructure in the business and the way that we hold and the quantum with which we hold our land.

If demand was going to remain subdued over a longer period, then we would be running down what we think is a very strong landbank and poised to drive growth through the next cycle, but if that was not to materialise, then we would look at winding that back.

Chris Millington: I hear you on that. That is very clear, Jennie. If you were to dial down the investment in the landbank, could you hold outlets where they are, or would that just follow in suit? Is there something which would change the correlation there?

Jennie Daly: I mean, look again, I think that there is a range of colour, size, shape and location within our landbank. The answer would be in some areas, you would be able to wind back the overall quantum of the landbank and still hold a strong level of outlets. In other locations, we don't get to order up land in a nice shape. It can be very, very hard.

So look, the answer, probably unhelpful to an extent is, in some areas, yes, we could absolutely do that and other geographies that would be a bit more challenging.

Chris Millington: That's very clear, thanks for all the answers.

Jennie Daly: No problem Chris.

Will Jones (Redburn Atlantic): Thank you and morning. I might try three, if I can, please. First, perhaps you could just talk us through your tactics around price through the autumn, be it incentives or gross pricing.

The second was maybe just coming back on land. Another quite big step up in Q3 there with regard to the 11,000. I think there is an additional 4,000 from strategic year to date as well. Perhaps you could just give us some more colour around what you are seeing and able to purchase. And I do not know if it is possible to give any view on, on the average site size that intake is providing.

And then the last one was just around 2025. Clearly outlets, order book, we have got some moving parts to work with. You have got a view in mind around 2025 completions, I just wondered whether you were any closer to sharing with us what a possible range might look like? Thank you.

Jennie Daly: Okay, I am going to answer your last question first, Will. I am going to stick to the knitting, this is a 2024 trading update, and I am not going to get teased into 2025. But look, we would be very happy obviously to talk to you at the prelims.

On pricing, broadly stable, pretty flat. I would say, and you will have heard me say over a number of calls when asked about regional variation that I didn't feel the various regions were acting significantly out of their normal offset or their normal differential, other than London.

I think more recently we have seen the South more reliant on incentives than we have in the past. And there is a little bit of offset, the North is perhaps doing a little better, so when that all averages out, incentive levels are still sitting at on average at that 5% to 6%. So overall pretty flat.

So first of all, the 4,000 strategic land conversions, really happy with that, given the backdrop that we have seen in that strategic land environment and local plan delays and the likes, so very happy. Have aspirations for more, and you will have seen me referring in the statement that we continue to poise ourselves for the adoption of the NPPF and to drive more opportunities from our strategic land position.

The 11,000. I mean look, it is definitely a higher number than I would have expected going into the year, and there is two elements to that. There was a bit more opportunity in the market, at the start of the year, you will remember me saying that some of that was deals that we brought in really delayed and had reworked and reworked from 2023.

And then the Budget, I mean look, that is just a once in a Parliament opportunity really. I would say that there were a couple of new new deals in there that we were really pleased to have, but there is a little bit of landowners that we have been negotiating with over a protracted period who have been holding out, and there was certainly an incentive for them to transact. So a little bit of catch up from 2023 and a little bit of pull forward where it was advantageous for us to do it from what might otherwise have been an early 2025 deal. But land transactions of the size and technical complexity that we do, we do not tend to see them dropping out with really short timelines too often, so opportunity.

And average site wise in the approvals, I think under 250 would be the average site size.

Will Jones: Great, thank you.

Allison Sun (Bank of America): Good morning everyone, two questions from my side. So first question is on the land margins, because you guys saying you are more active in land purchase. So I wonder, how do you expect the future land margin to trend? That is number one question.

Number two is, looks like you guys still have a quite solid cash position, even considering all the land creditors. So you guys have any thoughts on the share buyback?

Jennie Daly: Okay, I will leave Chris to answer the share buybacks, Allison. I mean, in terms of land margin, we do not disclose margins, but I am really pleased with the overall margin in the land being purchased.

I would describe parts of the land market, competition is quite intense. Not everywhere, but it is pretty strong. So I am pleased with the quality of the deals that our teams have been presenting. We do have still some advantage, in those approvals is a reasonable chunk of strategic land that is in drawdown, and we get a benefit to margin for those sites as well.

Chris Carney: Hi, Allison. Yes, you are quite right, we do have a strong balance sheet, that is very much intended. And as you have heard from Jennie, our principal focus at the moment is investment in land and WIP to drive future growth. And obviously that is, as you can imagine, a priority in terms of capital allocation. And then obviously there is paying the ordinary dividend.

Once we have maintained that strong balance sheet, we have invested in land and WIP to drive growth, we have paid the dividend, if we then determine that we have excess cash, it is at that point that we would look to return it to shareholders. We have got a very good track record of having done that over recent history, and depending on the conditions at that time that will drive whether that return is a buyback or whether it is a special dividend.

There are no plans for an excess return at this point in time. But the Board does keep that under regular review.

Allison Sun: Thank you very much.

Marcus Cole (UBS): Hi, good morning both, I have got three questions as well. The first one is can I just push you a bit more on your build cost commentary, I think one of your competitors yesterday was talking around increased build costs for next year around nutrients, heat pumps and wider build cost inflation outside of the NI increase. So just wondered what your impact was there. That is the first one.

The second one is just more about I know you do not want to give commentary in terms of 2025, but I wonder in terms of how we should think about the trajectory of net sales, outlet openings. You had 25,000 own plots without detailed planning permission at the first half.

And then the last one is just more around your comments on Section 106 funding. There you said that there was no impact from the Budget, but I just wondered how constrained is that and what do you think is needed before that that market starts moving again?

Jennie Daly: Okay. Thanks for that, Marcus. On build cost, so I think we have been talking for quite a long time about building in the costs of L, F, O, S I think got added along the way, and then the next step to Future Homes Standards. And we have been embedding those costs into all of our land acquisitions from that time.

So the fact that some local authorities are running ahead of policy is something that would already have been calculated into our land transactions. And generally where local authorities are running ahead of policy, it has to be a policy that they have adopted somewhere along the way. And so the teams will have assessed that.

So look, the changes in the building regulations are not fully confirmed. You will recall that Future Home Standards consultation closed in March. We talked about at the prelims, the fact that there were two quite extreme solutions, option one and option two. One, which we felt was probably more costly and maybe practicably undeliverable, and the other, which was much more cost effective. And we have been assuming costs that would sit within that spectrum, I think quite comfortably.

Nutrient neutrality is a bit of a different and difficult one, because if you remember back to when we first talked about this issue landing on all our desks, it was unexpected, and there was a need to absorb some additional costs. And the spectrum of costs that are applied to nutrient neutrality are really variable. So you can go from some really quite passive, we have got a site over in East Anglia that really some of the open space land we just had to put into fallow land, right up to pumping stations and treatment works and quite costly. So there is a really big range there. But we have been chipping away at nutrient neutrality for a few years now. We have got a couple of sites that are still very stuck, they sit predominantly in our strategic land portfolio. They will require a bigger solution, and so it was really pleasing to see the housing minister write to local authorities just a few days ago to talk about getting a solution moving for those larger problems.

But generally, particularly with strategic land, we are able to build in the cost of nutrient neutrality into the land deal. And one very recent example of that, we had to buy credits from the Natural England credit system, but that flowed straight through to a cost against the land price. So I am feeling reasonably comfortable there.

In terms of Section 106 and funding, what is needed? I mean, really, we need Government to recognise that we have, as a nation, been issuing lots of planning consents, requiring developers to deliver affordable housing and the market for affordable housing through the various headwinds that we know exists in with Housing Associations are such that really they have no appetite or very reduced appetite for Section 106.

So either Government need to support Housing Associations and the acquisition of Section 106, or they need to be more forgiving around the structure of Section 106's in the interim. I think the CPI plus 1%, that has been issued for consultation, Marcus, will help Housing Associations, but they have got a little bit of catch up to do, I think, in terms of they have seen their own cost escalation and they will need to catch up on that a little bit.

So I am looking to Government to try to take a more concerted action that there is still probably an interim problem that they need to advise local authorities on how to deal with it. And that is certainly what we are asking ministers for whenever we get the chance.

Now, just on your question on 2025, because it sticks out, because there is a question on 2025, Marcus. I am not quite sure that I understand what you are trying to get behind. So maybe if you would like to either repeat it or reframe it and I will give it a go.

Marcus Cole: Yes, I will reframe it. I was more asking not specifically in terms of 2025, but more in terms of if we look at the owned landbank that does not have detailed planning permission, that number has gone up material over the last couple of years. How should we think about the evolution of that in terms of how that converts into sales outlets over – maybe, say, not next year, but the next couple of years, how should we think about the evolution of sales outlets in that context?

Jennie Daly: Okay, I have got you. And I think you might just sneak in under this is a 2024 call. Look, the nature of planning, as you know, there is a range of different ways that you can achieve planning. Full detailed planning or an outline and reserve matters.

And for larger sites or sites that we plan on a multi-phase basis, the teams tend to approach them on a rolling reserve matters basis. And that is sensible, it's sensible for a range of reasons, but predominantly in a market that is changing or has changed, it really means that the teams get the opportunity as they look to the next phase to define the sales mix and sales route, I mean, how that mix is distributed around the phase optimally.

And it also means that, we are not allowing infrastructure and other things to run well ahead of drawing down the land for delivery. So I am not overly concerned about that, it is just the discipline of drawing the land down to detail as and when the phase will be opening up.

Marcus Cole: Ok, thanks very much.

Jennie Daly: Thank you Marcus.

Ami Galla (Citigroup): Morning everyone, a couple of questions for me. One was on trading, I mean, can you give us some colour as to the relative mix of the customers that you are seeing in current trading? Is this a market which is pretty much dominated by first time buyers? Any colour in terms of the incremental pressure that you have seen from the different cohorts of customers would be helpful.

The second one was on the operational side of the business. Are you deploying multiple build teams across your larger sites, or are we looking at signs of strength before we implement that, and is that a 2025 event that we need to think about?

And the last one was just a follow up on build cost inflation. As we run through the 2025 negotiations, how far ahead would you typically be at this point in the year, i.e. would you have had the conversation with most of your supply chain in terms of the projected pricing that they are going out for next year?

Jennie Daly: Okay. So I think in terms of trends and mixes, we have seen more representation of first time buyers coming through the sales centres this year. I think it is still a balance, it is not dominated by first time buyers. We have probably got a slight weighting to second time buyers at the moment. And back to that sort of point in the maybe towards the south weighted to second time buyers with chains and that is certainly one of the managing customers to completion that I know our sales execs are working really hard on.

What are the typical issues for first time buyers? It is very much affordability, getting that first step on the ladder. It is why we like to build our incentives around the customer and the customer needs.

Second time buyer, it tends to be that chain anxiety. Second time buyer might be in a really good place to transact, but somewhere further down the chain, there is probably a first time buyer. And if they are in the second hand market, that can be difficult for us to manage.

But I was quite pleased with the improvement in consumer confidence and the feedback that we were getting from our sales teams through the summer. And clearly you have seen that in the way that we have traded, 38% up on sales rates in the second half to date, which is really strong.

On multiple build teams, we do have sites with multiple build teams. We have sites that are in really strong market locations and where we have apartments and standard build. So there is a range of reasons, so multiple build teams remains a function and a factor of our businesses and how that develops, as we go forward, we will update you in the prelims.

And then supply chain. I mean, whilst there are times of the year, Ami, that are busier. I expect my businesses to be in touch with the supply chain constantly and in constant dialogue with them. We do have national agreements, as you know, through TWL. They are working really well. It is not a surprise that some suppliers come in for price increases. But we have been pushing those away pretty strongly.

So I think that we are in a good place looking forward. But as I said in opening, we are not unaware of the potential impact that might come from National Insurance and National Living Wage, but we will address that actively with our supply chain.

Ami Galla: Thank you.

Charlie Campbell (Stifel): Morning, a couple of questions from me. First of all, just on planning. You have said in the statement that you are optimistic that things will change in the medium term, just wondered if anything is changing right now, or if you have seen any signs of planning authorities changing their approaches and perhaps becoming more generous and more amenable?

And then secondly, a question just on mortgage availability and just wondering how mortgage lenders are positioning themselves? And it is not so much a question on mortgage rates, but more on acceptance and whether people are getting the mortgages you expect them to get or otherwise. Thanks very much.

Jennie Daly: No problem, Charlie. On planning, yeah I mean look, we are seeing some improvements, but it is really sporadic. And at this point, it is probably in the local authorities that you would expect to see it. I was speaking to one of our Divisional Chairs yesterday, we got a planning approval for a scheme in 13 weeks for reserved matters, which should not be a big shock or surprise, that is what it used to be, but we were really pleased.

And that authority were motivated to get that approval and to get the site open because that will help them in their five year housing land supply and defend themselves from potential unwanted schemes.

And so we have been having similar types of conversations around – I mean, until the NPPF is black and white and the full weight of it can be applied I did not expect much. But we are seeing chinks of movement. But we have also seen a number of authorities try to race through local plans with much reduced housing numbers and that is a worry as well. And certainly, it was one of the issues that we flagged in the consultation response to the NPPF. Overall, as you know, I think it is a really good document. There was two issues that I was concerned about. The first was the way that they were generalising affordable housing for all of Green Belt because I think it is much more sensitive than that. And the second was on the transition arrangements, I think the Government, if they have this aspiration for 1.5 million homes, they need to be more focused on the importance of getting transition right, and I think it is too open.

And then mortgage lenders. It is a really good question, Charlie, because there has been some news from the lenders over the last month or so, and I was speaking to one of the main banks myself on Friday. They are tweaking and changing their affordability criteria. They are definitely working their way through the benefit on an affordability basis of better energy efficient homes. And they are looking at the benefit of new homes to a first time buyer in terms of fixed or more predictable costs of maintaining a home.

So you can see that the banks are looking at their acceptance criteria and they are tweaking their SVR levels and making it easier to hit that affordability. And we can see that there is some benefit in that. But I come back, there is still affordability challenge, and we do still see, even with IFA support, customers being rejected on affordability grounds by the banks. But it is reducing, but it does still factor.

Charlie Campbell: Thanks very much, thank you.

Sam Cullen (Peel Hunt): Hi. Morning everyone. I have just got one more thematic question, I guess, and I am following on a bit from Charlie's question a bit and a bit on from Chris' at the start. If I think about price versus cost and leaving aside the direct and indirect impacts of NI, and I take your comments on board about what you are seeing on new tenders. But if

I think more medium term, and the relative tightness or capacity on the demand and supply side of your market, and where affordability is for your customers, and where that is likely to go given mortgage rates seem like they are probably not going to come down as fast as we thought and wage growth might slow.

Do you think the industry has capacity to move price forward, which is to offset that latent build cost inflation that seems to be lurking around the corner. And are you still confident that that those two sides of the equation can reach equilibrium and push out the impact of flagged build cost inflation that you have called out for the last 12 months or so?

Jennie Daly: Yes, I mean look, I think that is where it is at, isn't it. From a build cost inflation perspective, as said before in the call, we have worked really well with supply chain, componentisation, things like our Taylor Wimpey Logistics. There is a lot of self-help that we can do. And I don't think that we are done yet in terms of working with parts of the supply chain to help them and us become more efficient.

And if there is a cost challenge, then it will just drive us to innovate more and more, and I am confident that is how our business is set up and that we just keep pushing along.

I mean, from a price perspective, we have said that we are broadly stable, I think, with every rate reduction, albeit, maybe slower than expected. That does bring more people potentially into the market. We are seeing reports from the wider indices of some house price growth in the broader market. And we will just have to keep watching how that develops. But affordability remains a challenge and we will just have to keep working away at it.

Sam Cullen: Ok, thank you.

Zaim Beekawa (JP Morgan): Morning Jennie, morning Chris. Just one quick clarification question on my side. I think you said build cost inflation was flat on new tenders. Is it still running slightly deflationary with the self-help? Thank you.

Jennie Daly: More or less, yes.

Zaim Beekawa: Great thanks.

Jennie Daly: Okay, guys, I know it is a busy day, so thanks for joining us and for your questions today. Chris and I look forward to speaking to you in the New Year.

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