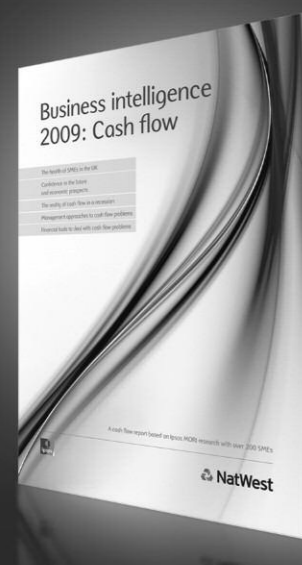


Builders to shore up foundations with share blitz

Listed housebuilding giants have taken a battering and must work extra hard to boost balance sheets. By **Mark Leftly**

Cash flow is now the No.1 issue in at least 61% of businesses



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Source: 'Business intelligence 2009: Cash flow'.

A house off Hyde Park, London, revamped by interior designer Kelly Hoppen, has just been sold for a cool £4m. Once owned by the late Lord Mishcon, solicitor to Diana, Princess of Wales, the residence was the subject of a three-way bidding war. The successful party paid what works out to be £1,750 per square foot, a record even for Hyde Park Gardens.

The same developer, Regal Homes, is also building a house overlooking Sir Paul McCartney's garden that will be marketed this summer at more than £13.5m. And a stone's throw from Kate Moss's residence in north London, the private company is redeveloping a five-floor property, complete with a £250,000, handmade, floating staircase.

The housing crisis might not be over, but there's plenty of evidence that the problems are abating. On Thursday, Bovis Homes even reported that trading for the first 17 weeks of the year was 71 per cent up on the same period in 2008.

"If you'd have asked me three months ago where I saw the end of the housing recession, I just wouldn't have known," says Paul Eden, Regal's joint managing director. "But now I can see light at the end of the tunnel – the housing market should improve in the first quarter of next year."

But that light is a bit dimmer for housebuilders in the quoted sector. Regal was advised to list three years ago and could have raised £120m to £130m in doing so. But the directors decided against it, noting that property companies are typically undervalued on the London Stock Exchange. Regal made the right decision: Mr Eden admits that the firm could even have "sunk" had it been listed during the credit crunch.

Listed housebuilders have, in the main, been on the receiving end of a battering. Share prices have collapsed, putting many firms in breach of the covenants, or terms, of their debt. Under business plans agreed when loans were issued by banks, the housebuilders had to be worth a certain value during the repayment period. As shareholders frantically sold out, so housebuilders' worth diminished, breaching their covenants.

Britain's biggest housebuilders, including Barratt Developments and Taylor Wimpey, have been forced to expensively renegotiate their debt burdens as sales and share prices tumbled. As the housing market picks up, they are going to need fresh cash both to pay off that debt and to buy the land on which to build future homes.

What this will mean is a series of rights issues over the next two-to-three years. That is, they will offer new shares to existing investors, raising fresh capital.

Taylor Wimpey was first out of the blocks on Friday, looking to start hacking at more than £1.5bn of debt by selling £510m of additional shares. Although not strictly a rights issue, as half the shares will be available to any potential investors rather than just existing ones, a chunk of the money is likely to be raised in an arrangement resembling such a scheme.

Peter Redfern, the chief executive at loss-making Taylor Wimpey, said in a statement accompanying Friday's announcement: "While we remain focused on managing cash tightly, following this equity raise, we are now in a strong position to focus on a return to profitability and to place Tay-



Light at the end of the tunnel: Developments at Hyde Park Gardens, right, and Hackney, East London, left, have left Regal Homes executives optimistic



« Taylor Wimpey »
Debt
£1.53bn

Cash to be raised
£510m

« Barratt Developments »
£1.42bn

£400m

« Persimmon »
£680m

£200m

lor Wimpey at the forefront of any housing market recovery."

A senior investment banker who has advised several major housebuilders adds: "The big three [Taylor Wimpey, Barratt and Persimmon] will probably raise about £1.5bn between them, and maybe there will be about £2bn of rights issues across the listed housebuilding sector. As we get to the bottom of the market, cheaper mortgages will become available, meaning that housebuilders will need ammunition to buy land."

Chris Millington, a housebuilding analyst at Numis Securities, says that Barratt could look to raise £300m to £400m possibly as early as this week, though more likely later this year. This would be used for debt reduction.

The other member of the big three, Persimmon, would not be looking for cash to cut debt, as forecasts suggest that plans to tackle its burden are working well. Debt was about £680m in March, but should have been slashed to £445m by the end of this year.

"Outside of Taylor Wimpey and Barratt, most rights issues will be used to fund growth," says Mr Millington. "Persimmon could probably do with a couple of hundred million, and there could be £1bn to £2bn raised outside of the big three for investment opportunities. Shareholders should now be willing to support these companies, whereas they may not have been around August last year."

The one other housebuilder that would be raising cash to improve its debt situation is Redrow. As at 31 December, its net debt was £269m – the value of the firm is only just north of £300m.

Steve Morgan, Redrow's founder who still owns a 23 per cent stake, returned to the business at the end of March as deputy chairman and executive chairman designate. He will assume the full title at the end of next month.

A source close to the Redrow board admitted that the company is looking

at a rights issue, but said Mr Morgan was still examining the books: "It is a work in progress. It is only about six weeks since Steve got back in the job."

Mr Morgan would almost certainly be supported in whatever strategy he chooses, having been brought

back on a tide of shareholder approval.

A prominent commercial and residential property banker says that all this means that major housebuilders will have balance sheets far different from those the market has been used to seeing in recent years. As the housing market boomed in

the decade leading up to the credit crunch, profit margins would comfortably exceed 15 per cent.

Banks were more than happy to join the ride and lend, lend, lend to these blossoming companies. Housebuilders had rebuilt their reputations since their previous

battering in the last recession to such an extent that the big three all entered the FTSE 100.

However, the extent of their subsequent woes means that banks will be far less willing to lend in the future. Balance sheets filled with debt will no longer be the norm. "The sector,

having been decimated, will need to recapitalise at some point soon," says one source. "Banks are far less likely to lend to them."

And only when those balance sheets look strong and healthy again, will listed housebuilders be somewhere near the end of that tunnel.

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