

Persimmon

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End of Help to Buy could spell disaster for Persimmon and other housebuilders

Persimmon PLC's (LON:PSM) ability to sustain the record profits seen in 2018 has come into question amid reports it could be banned from the Help to Buy scheme.

The government is reportedly considering stripping Persimmon of its right to participate in the scheme following complaints about the quality of homes and leasehold charges attached to new homes.

Of the total 16,449 new homes sold in 2018, Persimmon sold nearly half, or 7,970, to people using the Help to Buy programme, some 288 more compared to 2017.

READ: Persimmon to change pay rewards to focus on quality homes amid reports of possible Help-to-Buy ban

The scheme helps purchasers get on or move up the property ladder by providing interest-free loans on a five-year basis for newly built homes. The government owns a percentage of the property based on how much it loans the buyer.

The government will provide loans for up to 20%, or 40% in London, on the value of homes worth up to £600,000.

Persimmon a key beneficiary of Help to Buy

"Persimmon has been one of the key beneficiaries of the government's, Help to Buy scheme, accounting for roughly 50% of sales, more than any other major housebuilder, and the weekend's news that there may be changes to the scheme will hurt Persimmon more than any other," said Helal Miah, investment research analyst at The Share Centre.

"On top of that housing activity is slowing amid the political uncertainty.

"While the shortage of housing in the UK and attractive mortgage rates are key drivers for demand, we take the view the best days for the housebuilding sector is behind us."

In its full-year results statement on Tuesday, the housebuilder said it would address areas that are understood to be areas of concern for the government including pay rewards, build quality and customer care.

However, measures to ensure new sites are built to a "more advanced stage" before being released to the market have led to a slower pace of sales reservations in recent weeks.

Conditions supporting housing market won't last forever, says analyst

Regardless of whether or not Persimmon is banned from Help to Buy, the scheme is due to come to an end in 2023 and Brexit is fast approaching, with the possibility the UK could leave the European Union without a trade deal.

Sophie Lund-Yates, equity analyst at Hargreaves Lansdown, said conditions currently remain supportive for the housing

Price: 2474

Market Cap: £7.89 billion

1 Year Share Price Graph



Share Information

Code: PSN

Listing: LSE

52 week High Low
3328 1367.5

Sector: Builders and building materials

Website corporate.persimmonhomes.com

Company Synopsis:

*Persimmon is a house building company, which has been trading since 1972, and operates under three main brands, Persimmon Homes, Charles Church and Westbury Partnerships. *

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market with low interest rates, record low unemployment and Help to Buy helping people get on the property ladder but these benefits won't last forever.

In the meantime, though, all seems well with Persimmon, given the higher completions, stronger margins and work that has gone into improving quality, she said.

"It's important to see the core business strengthening, as it should mean Persimmon will be held in good stead if Brexit, or Help to Buy conditions start to get a bit bumpy."

Persimmon is not the only FTSE 100 housebuilder that benefits from Help to Buy.

Other top housebuilders that stand to lose from end of Help to Buy

Earlier this month, Barratt Developments PLC (LON:BDEV) said in its first-half results that the end of government-backed schemes was among the biggest risks facing the company.

The group pointed to government data that showed nearly 184,000 homes had been bought using Help to Buy since the scheme was launched, though it did not provide the number of homes it has sold under the programme in the first half ended 31 December 2018.

Berkeley Group Holdings PLC (LON:BKG) in December said Help to Buy reservations accounted for 135 sales in the six months ended 31 October 2018,

In total, it sold 2,027 new homes across London and the South East of England during the period.

For Taylor Wimpey (LON:TW.) about 39% of total customer sales were made through Help to Buy in the first half of 2018.

Fallout from end of Help to Buy 'could be devastating'

On Tuesday, government data revealed that more than 190,000 people have used Help to Buy since the programme was launched in 2013.

Mark Dyason, managing director of specialist property broker, Thistle Finance, said Help to Buy is much in the same vein as low rates since the financial crisis, in that they have kept the economy going but equally "kicked the can down the road".

"In an increasingly glacial market, Help to Buy has kept the new build sector afloat and enabled many first time buyers to get on the ladder," he said.

"But when it finally comes to an end, the fallout for the biggest developers that have benefited from it the most could be devastating.

"The major property developers have done exceptionally well out of Help to Buy but at some point the supply of the drug will stop and they will have to go cold turkey."

He added that the fallout from "artificial props" like Help to Buy could be long-term.

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