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Homebuilders Get Cameron Boost With 5% Down Payments: Mortgages 2012-01-23 00:00:00.1 GMT

By Chris Spillane

Jan. 23 (Bloomberg) -- The British government's plan to help reduce down payments for new homes to as low as 5 percent will give a boost to a homebuilding industry that's learned how to survive a slowing economy and four years of stingy credit.

Mortgage lending is less than half the level of 2006, at the end of the housing boom, with buyers now required to pay as much as 25 percent of a home's value up front. The program would lower that by providing a guarantee, shared by the government and builders, to protect lenders from some losses in a default.

U.K. homebuilders have cut costs, changed their products and acquired discounted land over the past two years to improve margins as home sales fell to about half the level of 2006. Profit growth will likely accelerate from the down payment program, said Charlie Campbell, an analyst who follows builders at London-based Liberum Capital.

"If mortgage lending creeps up a bit and new build continues to take share from existing stock, profits will go up quite a lot because the input costs have come down," Campbell said in a telephone interview. The government measure may lift prices by as much as 3 percent above current estimates and boost homebuilder shares, he said in a note to investors.

Housing construction may rise by 15 percent or more after the measure goes into effect in the second quarter, Taylor Wimpey Plc Chief Executive Officer Pete Redfern said on Jan 17. The same day, the company said it would meet a profit-margin target early after home sales increased 2 percent in 2011.

Santander Sells Bonds

Lenders in the U.K. are the most active issuers of residential mortgage-backed securities in Europe, which banks create by pooling home loans and selling them to investors as notes. Public issuance of the securities climbed to 37 billion euros (\$47.8 billion) in 2011, according to JPMorgan Chase & Co. data, representing 74 percent of the overall distributed European market. Sales started to shut down in 2007 as the global financial crisis dried up credit, and began to revive in 2009.

Santander U.K. Plc, a unit of Spain's largest bank, sold \$3.4 billion of prime mortgage-backed bonds in dollars, euros, pounds and yen, last week, according to data compiled by Bloomberg.

The extra yield investors demand to hold the top-rated securities over benchmarks widened 15 basis points or 0.15 percentage point, to 165 basis points last year, JPMorgan data show. Spreads have narrowed from 425 basis points in January 2009.

Government Stimulus

The mortgage plan is also aimed at tackling a shortage of new homes that's helped push prices out of the range of many buyers. Around 240,000 new homes are needed each year to keep up with a growing population, Steve Turner, a spokesman for the Home Builders Federation, said by e-mail. That compares with 127,780 built in England in 2010.

Prime Minister David Cameron's coalition of Conservatives and Liberal Democrats is using homebuilding to stimulate the economy and create jobs as it trims public spending to cut the country's record budget deficit. Gross domestic product rose 0.5 percent in the third quarter from the second, when it expanded 0.1 percent, the Office for National Statistics said Nov. 24.

Ed Balls, treasury spokesman for the opposition Labour Party, criticized the scale of the government initiative, calling it "rather small beer." Investors weren't convinced either. The Bloomberg EMEA Homebuilders Index fell 4.5 percent following the Nov. 21 announcement of the lending plan.

'Got to Deliver'

So far, shares of homebuilders haven't reflected the potential profit boost from the plan, according to Bovis Homes Group Plc CEO David Ritchie.

"You've almost got to deliver before people believe you can do it," Ritchie said in a telephone interview. "I don't yet think people are giving the house builders the credit when they say they are going to grow their business. They say 'let's see what you do.'"

Starting in the second quarter, more people seeking a new home will be able to get a mortgage equal to 95 percent of the property's value as a guarantee shared by the government and the homebuilders protects lenders from some of the losses they would incur in a default. In July 2007, before the Northern Rock bank collapse touched off the U.K.'s financial crisis, there were 22 mortgages available offering 110 percent of a home's value, according to personal finance website moneyfacts.co.uk.

"The mortgage indemnity scheme will be good news for home buyers and developers and we are working with lenders, the government and home builders to meet the March deadline," Jayne Walters, spokeswoman for the Council of Mortgage Lenders, said by e-mail. The program will "enable more buyers to buy and so support the flow of new housing development, with all its positive consequences for jobs and the economy as a whole."

Housing Market Crash

The U.K. housing market crashed between 2006 and 2007, and sales of new and existing homes have dropped by about half since then. In the first quarter of 2011, the most recent available, sales totaled 32,460, down from 52,710 in the first quarter of 2007, according to the Department for Communities and Local Government.

Mortgages dried up after mounting losses and plunging asset values forced several banks to accept U.K. government bailouts following the credit crisis. The state ended up with a 41 percent stake in Lloyds Banking Group Plc after a taxpayer-financed rescue.

Mortgage approvals totaled 144,000 in the three months through September, down from 305,800 during the same period in 2006, according to the CML. Loans to first-time buyers in the third quarter totaled 53,600, about half the level of five years earlier.

Banks Get on Board

Seven lenders, including HSBC Holdings Plc, Barclays Plc and Lloyds, agreed in principle to participate in the proposal, according to the Department for Communities and Local Government. The homebuilders will contribute 3.5 percent of a property's value to an indemnity fund and the government will add 9 percent.

"This will be a very rich channel for us to find potential customers," Barratt Developments Plc Chief Executive Officer Mark Clare told analysts on a Jan. 12 conference call. He said about 6,000

visitors to the company's web site indicated their interest in the program since it was announced two months ago.

Britain's homebuilders moved away from high-volume apartment development and focused on higher-margin single family homes after facing hundreds of millions of pounds of writedowns and falling sales in the aftermath of the housing collapse. The companies took advantage of the slump by acquiring discounted land to boost margins.

Bookings on Rise

Taylor Wimpey said it would reach a goal of raising its profit margin to more than 10 percent in the second half of 2011, earlier than previously forecast.

Though the 6,000 leads on Barratt's website may translate into only about 200 sales, the company starts the year with an order book that's 8.1 percent higher than a year earlier. Forward sales excluding state housing increased 29.8 percent as of Dec. 31 from a year earlier. Barratt sold 11,171 homes in the fiscal year through June.

Persimmon, Britain's second-largest homebuilder by value, rose the most in four months on Jan. 9 after saying margins widened and 2011 profit was at the top end of analyst estimates.

Publicly traded homebuilders, which also include Berkeley Group Holdings Plc, Redrow Plc and Bellway Plc, have also benefited from earlier government programs to aid first-time buyers. Persimmon sold 600 homes, or 12 percent of the total, in the second half through the FirstBuy program. The plan helps buyers get cheaper mortgages with an interest-free loan from the developer and the government.

A proposal to release government-owned land for development may support up to 200,000 jobs, according to the Cabinet's Housing Strategy report.

'Get Britain Building'

"We will unlock the housing market, get Britain building again, and give many more people the satisfaction and security that comes from stepping over their own threshold," Cameron and Deputy Prime Minister Nick Clegg said in a statement announcing the government's housing strategy.

U.K. unemployment rose to a 16-year high in the three months through November, deepening concerns that Britain is heading for recession. Unemployment as measured by International Labor Organization standards rose by 118,000 to 2.69 million, the statistics office said Jan. 18.

"It appears at this stage that these improvements are sustainable," Panmure Gordon & Co. analyst Rachael Waring said by e-mail. "The new government indemnity scheme that's due to be launched in March should mean that the new house builders keep that flow of first time buyers that they need."

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