

Persimmon shares knocked as toxic cocktail of pressures hit housebuilders | Ian King

On a daily basis, it seems, evidence is emerging of the weakening UK housing market.

Monday brought news from the Halifax, the UK's biggest mortgage lender, that [house prices](#) are falling at their fastest rate for 18 months.

Halifax's house price index has now shown prices falling in three of the past four months.

Tuesday, meanwhile, brought a stark warning from one of the UK's biggest housebuilders that not all is well.

Persimmon warned it expects to sell fewer new homes in 2023 than it has this year and at a lower average selling price.

The company, the UK's biggest housebuilder by stock market value and second biggest by homes completed, said it was well positioned to complete between 14,500 and 15,000 homes this year.

But it said that, having entered a period of "heightened market uncertainty", it was too soon to provide specific guidance for investors on how it expects trading in 2023 to go – other than to observe that "our current expectation is for fewer legal completions than in 2022 and... a deterioration in average selling prices".

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Shares of Persimmon, which at the close of business on Monday evening had fallen by almost 54% since the beginning of the year, fell by a further 9% at one point before recovering slightly.

The York-based group's FTSE 100 peers – Berkeley Group, Barratt Developments and Taylor Wimpey – also suffered share price declines.

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Persimmon said there had been a recent and rapid change in

market conditions and that the past six weeks had seen a rise in cancellation rates from 21% – which it had seen from the beginning of July to mid-September – previously to 28%. It means that the company is seeing roughly 50 new home sales falling through each week.

Help To Buy and cladding

Dean Finch, its chief executive, said: “Rising interest rates and broader economic uncertainty are clearly impacting mortgage lending and customer behaviour.”

A further prop for the business has also been kicked away now that the government’s Help To Buy scheme, which has been used to part-finance purchases of one in five new homes sold by Persimmon so far this year, has closed for new applications.

Adding to the downbeat tone of the statement was news that the company has increased the sum it is having to set aside to cover the cost of repairing dangerous cladding on housing blocks it has built in the past from £75m to £350m.

It said this reflected the fact that construction costs had risen this year and that the government has broadened the scope of the work it expects the building industry to complete. This has increased the number of buildings eligible for repair as well as the amount of work required and was the cause of a major falling-out between Michael Gove, the housing secretary, and the wider industry.

Mr Gove, who was reinstated in the post by Rishi Sunak last month after previously being fired by Boris Johnson, infuriated the housebuilders by ordering them to contribute to a £4bn fund set up by the government to oversee repairs in after the 2017 Grenfell Tower disaster or risk being shut out of the planning system.



Image:

A memorial to the 72 victims of the Grenfell Tower fire outside Westminster Abbey

The housebuilders, which have compared Mr Gove's threat to mafia-style tactics, remain deeply unhappy that they are having to pay for the repair of buildings that they did not construct and are also resentful that the housing secretary has not put a similar squeeze on building materials suppliers.

There may be worse for them to come on this front. Mr Gove has yet to back down on previous accusations he has levelled at the industry that it operates as a cartel – even though successive competition reviews have exonerated it of hoarding land.

The bigger picture, though, is that the industry is – as Persimmon notes – facing a very uncertain period.

Consumer confidence has been rattled by a rapid succession of [interest rate rises](#) from the Bank of England and by the broader [cost of living crisis](#) that has gnawed away at disposable incomes.

More to the point, after turmoil in the gilt market in the

wake of Kwasi Kwarteng's mini-budget, mortgages are becoming more scarce and, where they are available, more expensive.

It was no coincidence that the deterioration in trading conditions flagged by Persimmon has occurred during the past six weeks – a period that began with the [shocking lurch higher in UK gilt yields](#) after Mr Kwarteng's statement and which includes the resignation of Liz Truss as prime minister.

The whole episode has clearly destabilised consumer confidence and has already knocked the selling price of new homes. Persimmon pointed out its average selling price during the past six weeks was down 2% on the previous 12-week period running from the beginning of July.

In short, the company is facing higher building costs and higher legacy cladding costs just at a time when mortgage availability is becoming more scarce, Help To Buy is coming to an end and consumers are increasingly fretting about the cost of living – and all this before an expected uptick in unemployment.

It adds up to an unappealing cocktail of factors not only for Persimmon but the broader housebuilding sector.