

M&A update

Housebuilders



AUTUMN 2021

Deal flow in UK housebuilders still running hot

The housing market has performed strongly though the pandemic and we expect this to continue in the coming months and years, especially at the affordable end of the value chain. Positive H1 trading updates published in recent weeks have confirmed that demand is robust, with some developers raising profit forecasts for full year 2021. A range of factors underpin our confidence in the sector.

Key Observations

Long-term imbalance in housing supply

Many years of underdevelopment mean a fall in demand would need to be very significant to impact negatively on developers. The government is targeting 300,000 average completions by the mid-2020s compared to c.200,000 completions currently.

Interest rates lower for longer

Interest rates are likely to remain low for the foreseeable future, supporting affordability.

Major government support

The government recognises the importance of both the wider construction industry and the need to support the housing market with various forms of stimuli. Construction has a significant positive impact on wider economic wellbeing. We can see this stretching all the way back to the post-depression US investment in infrastructure. It is why HS2 is still being supported and why residential housing will receive more than its fair share of public backing.

Ongoing government support schemes

Public backing is likely to take the form of further extensions to Help to Buy, possibly direct intervention to build key worker accommodation and even Stamp Duty reform (short or medium-term).

Weaker pound makes UK property attractive to overseas buyers

Despite a recent rally, sterling remains low thereby increasing the affordability of UK housing to international investors and offsetting higher tax charges.

Stronger banking sector

Bank balance sheets are considerably healthier compared to the global financial crisis; tier 1 capital ratios are now 14% versus 4% in 2007/8.

Opportunities for housebuilders increase as new buyers enter the sector

The favourable conditions for house buyers combined with multiple demand drivers are attracting new players to the sector and changing the potential acquirer universe. The rise of new buyer types alongside traditional acquirers is providing more opportunities for those housebuilding businesses looking to target new markets, de-risk their position through forward fundings or build longer-term strategic partnerships and increasing competition for high quality assets. As such, we are forecasting increasing levels of M&A activity and hence, valuations.



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The next two years will present housebuilders with a “Goldilocks” environment that will fuel development and hence valuations. The structural demand in the housing market combined with favourable conditions for house buyers are attracting new players to the sector. This is providing business owners with a number of attractive options when they consider the future.

HOONG WEY WOON,
PARTNER

Acquirers have different M&A objectives

There are now multiple buyer pools looking to enter the sector or pursue consolidation opportunities:

- Private equity groups are attracted to the long-term demand dynamics and have a successful record of growing housebuilders. Deals include Elliot Advisors financing Berkeley DeVeer to acquire Avant Homes; Carlyle's acquisition of senior housing developer Beechcroft from Alchemy Partners; Terra Firm's £110m acquisition of Kier Living; and Lone Star's £647m acquisition of retirement housebuilder McCarthy & Stone.
- Trade buyers are likely to continue consolidating the sector as they look to diversify and expand their land banks in strategically important locations.
- Insurance companies are looking for both investment and lending opportunities. Legal & General acquired CALA Homes in 2018 and is active in the UK social housing sector, providing long-term financing to Believe Housing (£85m) and Bernicia (£75m).
- Large charities with significant investment portfolios used to support their charitable activities are looking for attractive new growth opportunities. In November 2020, Welcome Trust, which manages a £29bn investment portfolio, acquired regeneration-focused property developer Urban & Civic for £506m.
- International buyers are keen to access fast-growing sectors such as modular housing where they can use their construction expertise and technology to accelerate build times and increase market share in new markets. Examples include EcoWorld (Malaysia) and Sekisui House (Japan).

- Housing associations are using acquisitions and joint ventures to gain efficiencies, scale and regional expansion. Examples include L&Q and Places for People.
- Public equity markets are positive on the sector (see figure 1) with some sell-side analysts optimistic on a variety of names.

Affordable housing offers social and financial opportunities

The market for affordable housing continues to expand rapidly. Several large investment and asset managers have set up affordable and keyworker housing strategies including Man Group, Cheyne Capital, LaSalle and M&G. M&G recently formed a joint venture with Hyde Housing which will see Hyde Housing fund a £500m pipeline of around 2,000 shared ownership homes. Man Group's Community Housing Fund has raised £400m to invest in building 3,500 new homes in a deal supported by the government's housing accelerator, Homes England. Affordable housing provides insurance companies with a stable income stream, which is in great demand in the current low interest rate environment.

Significant weight of capital targeting Build to Rent

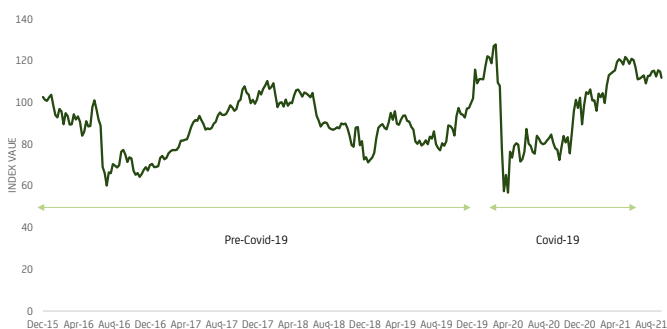
The development of multi and single-family housing for rent in the UK is rapidly expanding. In 2019 the operational UK BTR market was valued at c£60bn, attracting record investment last year and more than £1.2bn in the first quarter of 2021. As an investment market, it is forecast to grow to in excess of £200bn. Insurance companies such as L&G and specialist investors like M&G, as well as private equity companies such as Harrison Street and Lonestar, are deploying billions into the sector.



The debt markets continue to evolve and, with the weight of capital, there is plenty of scope for the them to support growth for more development as well as M&A.

BOBBY FLETCHER,
DIRECTOR

Figure 1: UK FTSE 250 listed housebuilders performance over time



Source: Capital IQ, FTSE Housebuilders Index

Figure 2: Construction output: private new housing and public new housing
















Source: ONS

Selected transactions

| DATE | COMPANY | TARGET DESCRIPTION | ACQUIRER | ACQUIRER TYPE | COUNTRY | DEAL VALUE (£M) |
|--------|--|---|---|--|----------|----------------------------|
| Sep-21 | ilke Homes | Sustainable modular homes | Guinness Partnership, Middleton Enterprises, TDR Capital, Sun Capital and Homes England | Private equity/ government agency | UK | 60.0 |
| Jun-21 | Sigma Capital plc | PRS, residential development, and urban regeneration specialist | PineBridge Benson Elliot | Private equity | US | 188.4 |
| May-21 | St Modwen Properties plc | Property developer | Blackstone | Private equity | US | 1,237.0 |
| Apr-21 | Kier Living | House building division of Kier Group | Terra Firma | Private equity | UK | 110.0 |
| Apr-21 | Avant Homes | Housebuilder | Berkeley DeVeer (Jeff Fairburn)/ Elliott Advisors (UK) | Housebuilder/private investor/hedge fund | UK/US | n/d |
| Apr-21 | Believe Housing | Affordable homes provider | Legal & General (LGIM) | Insurer | UK | 85.0 (long-term financing) |
| Mar-21 | Burrington Estates | Property developer | BGF | Private equity | UK | 15.5 |
| Jan-21 | Urban & Civic plc | Housing developer | Wellcome Trust | Charitable foundation | UK | 506.0 |
| Jan-21 | McCarthy & Stone | Retirement housebuilder | Lone Star | Private equity | US | 647.0 |
| Nov-20 | Beechcroft | Senior housing developer | Carlyle Group | Private equity | US | n/d |
| Oct-20 | Bernicia | Affordable homes provider | Legal & General (LGIM) | Insurer | UK | 75.0 (long-term financing) |
| Jan-20 | Berkeley DeVeer | Housebuilder | Jeff Fairburn | Private investor | UK | 18.0 |
| Dec-19 | Linden Homes and Galliford Try Partnerships & Regeneration | Housebuilder | Bovis Homes (now Vistry) | Housebuilder | UK | 1,075.0 |
| Oct-19 | Telford Homes plc | Housebuilder | CBRE | Property group | US | 267.0 |
| Oct-19 | Trafford Housing Trust | Housing association | L&Q | Housing association | UK | n/d |
| Jun-19 | Urban Splash | Regeneration specialist | Sekisui House | Housebuilder | Japan | 90.0 |
| Jun-19 | United Living | Refurbished housing specialist | Fastflow Group | Asset maintenance | UK | 400.0 |
| May-19 | Bargate Homes | Housebuilder | Vivid | Housing association | UK | n/d |
| Feb-19 | Springfield Properties | Housebuilder | Walker Homes | Housebuilder | | 31.0 |
| May-18 | Igloo Regeneration Partnership Fund | Socially responsible UK regeneration fund (Avivia) | Places for People | Regeneration property group | UK | n/d |
| Mar-18 | CALA Homes | Housebuilder | Legal & General | Insurer | UK | 315.0 |
| Mar-18 | Be Living | Developer | Eco World International | Property developer | Malaysia | n/d |
| Aug-17 | Miller Homes | Housebuilder | Bridgepoint | Private equity | UK | 655.0 |
| Feb-17 | Gallagher Estates | Housing developer | L&Q | Housing association | UK | 505.0 |

Selected UK Housebuilding and Residential credentials

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|--|--|---|---|--|
| <p>Project Windermere Live Mandate</p> <p>Sell-side advisory</p>  | <p>Project Lake Live Mandate</p> <p>Capital raise</p>  | <p>OSBORNE</p> <p>Buy-side advisory</p>   | <p>ECOWORLD</p> <p>CREATING TOMORROW & BEYOND</p> <p>Buy-side advisory*</p>   | <p>Richborough Estates</p> <p>Debt financing</p> <p>BEECHBROOK capital</p>  |
| <p>GLADMAN</p> <p>Debt refinancing</p> <p>GUGGENHEIM</p>  | <p>Palatine</p> <p>Buy-side advisory</p>   | <p>Leadbitter Group</p> <p>MBO</p> <p>BOUYGUES</p>  | <p>THOMAS VALE</p> <p>Sell-side advisory</p> <p>BOUYGUES CONSTRUCTION</p>  | <p>SENATOR HOMES</p> <p>Sell-side advisory*</p> <p>PERSIMMON</p>  |

*Transactions completed at previous firms

Alantra UK Housing and Land Team

The team advises business owners, management teams and financial investors on mergers and acquisitions, raising private and public equity capital, and raising and refinancing debt capital.



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