Taylor Wimpey plc

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Interim Management Statement

Pete Redfern - Group Chief Executive

Good morning everybody and thanks for joining us. I will kick off with a quick run through of the key issues and then hand over to Ryan who will cover cash debt position, returns, and the pension renegotiation, and then I'll just round off with the outlook before we open to questions.

Obviously key news from this statement is further margin upgrade, a bit of a market update, and the pensions and cash guidance which Ryan will talk about.

Coming on to the market first of all, we are still seeing market growth in pricing, but growing more slowly than it has been. We see that, as I think you can take from the statement, as a predominantly positive thing. It's a much more sustainable level of price growth and one that allows us to continue to develop our strategy and our plans. So we felt the degree of price growth we were seeing in the previous 18 months was okay over a limited period, but if it continued into two or three years then the risk that that created could have been potentially significant, so we're actually quite pleased to see the level of price growth taper off.

What we're seeing is reasonably consistent in all markets, and that's true on pricing, sales rates, and also on the build side as well. The pace of change is different. In London we're still seeing some price appreciation, albeit slower, particularly appreciation on apartments, housing is definitely slower, particularly at the upper end, but actually continuing to sell at decent rates on pretty much every London development that we've got, and actually on most of them you see some slower but still positive price appreciation.

As you can see from the statement, sales rates in the second half are down around 5% compared to the half year last year. I'm not going to make the obvious statement about how strong last year was. We're pretty comfortable with where they are, I think that's the more important point, the relative comparisons can sometimes be overplayed. Last week, to give you a stat, they were down 2% on the year before. I think the key thing is, selling at the rates we are the moment, particularly with any normal seasonal adjustments, we can hit the sort of level of underlying stable volume growth that we expected to hit for next year. So it doesn't really change anything in our forward forecasting of financial performance into 2015.

Pricing, as you can see from the statement, still continues to be up. Pricing on the private order book is up around 19% year-on-year. If you remember, it was about 20%, 21% at the beginning of the year, so we're still seeing a strong appreciation and still seeing that grow in pricing coming through into the orders.

On the cost side, the sort of level that we flagged at the half year of around 5% we still feel is good guidance for this year. There's been really no major further change. There are still pressures in some markets, but we are seeing the early signs in some of the markets of those pressure abating. It's patchy, but it's at the very earliest stages, so we'd expect, as we go through the next six months, that as pricing and sales rates have just started to stabilise, that cost growth, as it lagged it on the way up, will also lag it as things start to slow the pressure of growth. So we think next year will probably be a more benign cost environment than this year, but we're still seeing price growth even in today's market that's offsetting the impacts of that cost growth.

On the land market, not a huge amount of new information to add, to be fair, because the land market hasn't really changed, the strategic conversions are good. They're slow to convert into the sites and outlets, surprise, surprise. We stand by the principle that giving you outlet guidance isn't particularly helpful. We still have a good number of outlets coming through and we're pretty happy with the way they are at the moment. And a bit like sales rates, we have the outlets and the outlet pipeline, even allowing for that slow conversion from planning into an open outlet, we still have the landbank and the number of outlets to deliver the sort of scale of business that we want to deliver.

We've made some very good South East purchases, particularly over the last few months, and so you'll see those in the landbank numbers, but broadly, the sort of 75,000-ish level of short-term landbank you saw at the half year, is stable today. There is an increasing proportion of that from strategic land, and hence the comment in the statement that the proportion of short-term landbank is now stable and we are currently maintaining, rather than growing.. And that's talking about the short-term source land and the short-term, landbank, not the strategic element.

If I now hand over to Ryan to cover pensions and cash, and anything else, Ryan, that you feel I've missed.

Ryan Mangold - Group Finance Director

Great, thanks Pete, and good morning ladies and gentlemen.

We've completed the initial valuation of the newly merged pension scheme, which you recall completed in the course of 2013, using our show homes as a way to facilitate the merger of the scheme. The deficit, as expected, has reduced quite significantly since the last time we did this back in 2010, when we agreed the deficit repair at a pretty distressful time in the sector and a pretty distressful time for the business.

The deficit has improved quite markedly, and that's through both asset outperformance and contributions that we've made over the last three years. But also through liability management exercises that we've completed, and, as such, the total contributions to the pension scheme for 2015 onwards were reduced by £30m to £23m, which is made up of a small cost component; the actual underlying deficit repair itself; as well as the contribution relating to the share home structure. So quite a good result and we expect the scheme to be self-funding within approximately five to seven years, and the next triennial evaluation would be in three years, hence in 2016, 31st December.

Our cash guide for the year-end remains unchanged. We expect to end the year at roughly about £100m of net cash. That is subject to the timing of some unconditional, also conditional, land deals in terms of obtaining planning consent, and some of those land deals could be quite significant, but broadly speaking, we'll end at roughly about £100m net cash.

That strength on the balance sheet efficiency is from a scale perspective, as Pete mentioned earlier, of the landbank being roughly about 75,000 plus today, which is in line with our optimal scale of the balance sheet, and will drive return on net operating assets in excess of 20%.

Just as a reminder, our three-year target for 2015 through ’17 was 20% return on capital employed over that period and we expect to beat that for 2014, which is a very pleasing result.

Now I’ll hand back to Pete for the outlook.

Pete Redfern

Thanks Ryan. As I said at the beginning, the key thing in the short-term is the upgraded margin guidance to 400bps up on the 13.6% last year and increased from 300bps, which was our guidance at the half-year. I don’t think you’d be shocked that we can do that, but I would hope you would be pleased that even in not quite such a strong environment we still see that progressing and see margins progressing into 2015.

If we look at 2015 pricing, we would expect at today’s prices for it to be up in the high single digits, 8%-9% sort of level, which is split between continued mix shifts in terms of site locations and the impact of London. More the regional site variations than London, but a bit of both. The underlying price inflation that we’ve already seen coming through into a full year impact, and the fact that we have been reviewing our specifications in line with the improved quality of the sites we’ve got, and increasing the specifications a bit into 2015, which is lifting pricing as well. So, up in the order of 8%-9% in a stable set of market conditions. That’s a private number rather than total private and affordable.

Volumes, sitting here today again we would expect to be up next year sort of in the region of 6%-8%. It always depends on exact market conditions, but with such a strong order book still, going into next year, it sort of gives us a pretty strong basis from which to plan, so we’re not subject to short-term variations in selling prices. And we really look at next year as the first stage of our three-year financial performance measurement. As Ryan said, the return on capital targets, which we see as probably being the easiest of the measures that we set out, we expect to exceed this year.

Next year, we’re not expecting to hit all three of those measures in the first year, they were average measures over the period, but we expect to continue to show strong progress towards them and to get pretty close in year one, and certainly still very much to get to those levels over three years.

If we open up for questions please, Tyler.

<u>Question and Answer session</u>

<u>Question 1</u>

Aynsley Lammin – Citigroup

Morning, just two from me. Just firstly on the site visibility into 2015, obviously you just said volume is up 6%-8%, and I just wondered if you could go through a bit more about what you’re assuming for site increases and sales rates into next year on that number?

And maybe just on the recent trends in sales rates, 0.66 in the second half, if you could just maybe give what the current run rate is and how that's varied over the months, September, October, etc.? Thanks.

Pete Redfern

On the outlet numbers, as I said, we've a strong order book selling five to six months ahead. We're less dependent than you would think, putting it into a spreadsheet, on the short-term movements in outlet numbers and sales rates. So as we have said in previous years, we have a good number of outlets that we can potentially open, if we get the right planning permission and we get them through the pre-planning conditions quickly, and we could again see outlet growth during the course of next year getting into a 320/325 sort of level.

But we wouldn't forecast that because, as you've seen others come under pressure from that, there are too many things that are outside your control. With our current level of outlets, and sales rates running up to seasonal level at the moment, that sort of 6%-8% volume growth is still a reasonable number. If you look at where the order book fits today, look at the balance of affordable completions, you're into that sort of territory. If that were the outcome, if we didn't have any outlet growth and sales rates were at this level, you wouldn't see continued order book growth, but actually we'd still be able to deliver what we think is the right kind of result for us next year.

In terms of run rates, if you look at last week, as I say, which is really all the data we've got for November, they were about 2% down on last year. I don't think, I don't know if you've got it to hand, Ryan, I don't think I've got the actual number in front of me for last week, but it was in the range of the 0.66-ish level that we've running at during the second half.

Ryan Mangold

It was 0.64 for last week.

Pete Redfern

0.64, yeah, so in the same sort of range, but week-on-week you get variations on both years, but about 2% down, so, like-for-like, a slightly better comparative than the whole of the second half.

The whole of the second half is around 0.6, and in total last year was around 0.63, which is the 5% difference. September and October, both broadly stable at the 0.62% sort of level, in that sort of order of magnitude.

So yeah, you see a pretty consistent sales rate running through there at the moment with low 0.6s, and probably the slight surprise is that late October and November slightly outperforming September and early October.

I wouldn't read too much into all of that, the market is a little bit slower, but it's still pretty solid and so I think the overall stats give you a better picture and there's not a fundamentally different trend, it's not getting progressively worse, and I'd say, if anything, it's getting marginally better.

And the interesting thing is going to be how it performs in the spring. I think we are less concerned overall about the impact of the election than we were a few months ago, largely because of the scale of political differences around the housing sector in a general sense, around a combination of Help-to-Buy, around planning, and just the general direction in which housing supply goes, have actually, I think, reduced, particularly with the publication of the Lyons Report.

So some of the larger risks, some of the things around the Mansion Tax, for instance, and its impact on the upper end of the market, actually the gap has narrowed a bit between the different potential outcomes, so we think political risk is a bit lower than it was.

Question 2

Will Jones – Redburn

Morning guys, I've got three if I could please.

Just firstly around pricing of the 19% in the order book, can you just give us the latest split of what you think is underlying inflation versus mix?

And maybe within that, if you could, perhaps how London fares against the rest of the country.

And I guess just following on from that, the average selling price in the landbank at the half-year was guided at £211,000, I think, and obviously it looks like you'll be in line, just slightly ahead of that, this year, up into next year. Is that number just a conservative base, do you think, or at some point in the future are we due a negative mix and to effectively rollback to the average in the landbank?

The second was around the order book, if you could split out perhaps of the 7,800 volume, how much is for next year and what the change is year-over-year please.

And then lastly it's around land, and obviously there's a comment in the statement referring to holding rather than growing the landbank from here. Can you just confirm that is a company strategy at this stage and consistent with what you said before, rather than anything you've seen that's new in the market? And is that still consistent with the strategic land focus and potential pull-throughs you talked about back in May? Thanks.

Pete Redfern

I reckon there were about six questions. I've only got about half of each of them so I'm going to have to come back to you to go through.

Pete Redfern

Ryan, could you look at the split of the order book while I go through the some of the earlier ones because I don't have that to hand?

First of all you asked about the pricing the 19% and whether that was mix or market. It's about half and half. I say that on the basis that we saw 12 months with around about 10% selling price inflation. And most of that is in the order book; most of the order book is at that higher price point because we've seen prices stabilising over the course of the last four months or so. So, most of the order book is now at those higher price points. So, order of magnitude that 19% is half on half.

I didn't quite understand where the 211 came from, because you talked about 211 on pricing.

Will Jones

That was the average selling price of the landbank when you last reported. It looks like the P&L would be slightly above it this year and higher next year. Is that just a conservative number you gave us back at last year or is there a negative mix effect at some point in the future?

Pete Redfern

I don't think there is a negative mix effect to come through. But there are two or three different impacts there that sort of reconcile the difference.

The first thing is that does tend to be a relatively conservative number. We work quite hard to get all of our business units to re-price every site. But you can imagine where you are talking about some very large sites that go off into the future it's quite hard, particularly when they haven't got the detailed planning on every plot, to price every plot, which is effectively how you would do it. So, it does tend to be at the conservative end, so that is a little bit of it.

Secondly, the London weighting: our landbank in London is and will always be, in plot terms, slightly shorter than the rest of the business. So, that will always impact more on short-term completions than it will do on the landbank numbers.

Lastly there is just a timing impact that the quality of the sites that we're bringing through the strategic landbank at the moment are offsetting some of that, and so actually there is a positive mix effect on what's coming through strategic land because of the quality of locations is that switch from Black Country to Stratford or Leamington. So, you don't see that in the completions in scale today; you're starting to, but that will offset slightly that difference because the strategic sites that we are bringing through today are higher quality than the weighting of the strategic sites that are in the landbank, just because of the strategic land strategy that we've had over the last five or six years has enabled us to pick better quality locations.

Ryan Mangold

In terms of the order book progressing into 2015 from a units perspective, we are slightly ahead now than at this equivalent point last year, clearly in terms of the actual overall pricing being up more significantly to the top line growth.

Pete Redfern

Then on the land yes, that is a company strategy rather than a reaction to what we're seeing in the market. The margins that we're still seeing on short-term land are where we've talked about over the course of the last couple of years at the very high end. We have a lot of strategic land coming through the business which is at higher margin still. And we are taking choice on those decisions means we are buying less short-term land.

As I said at the beginning of the land section there wasn't really a lot new to say. We're not really seeing meaningful new competition or a new dynamic. I don't think there's a lot of scope to increase the margins at the high teens operating margins that we've been buying at; but we're not seeing those sales are hugely under pressure.

That's probably easier to sustain, you would expect it to, and it's one of the reasons for that strategy if you're proportionately not chasing a higher proportion of short-term land.

I think we answered most of the questions there.

Will Jones

The only other one was just whether the 10% inflation in the order book was on the non-London basis, where would you say that is?

Pete Redfern

We can try and answer that. It has continued to grow but it's not a major part of that. It wouldn't drop dramatically if you changed that. We are seeing above 10% in London and the southeast and we're seeing high single digits in most of the rest of the country in the 12-month period to June.

<u>Question 3</u>

Andy Murphy – Bank of America Merrill Lynch

I just wanted to follow up on Will's land market question. Just in general terms can you just describe what you're seeing in terms of land price inflation on a like-for-like basis to give us a flavour of what you think is happening in the market?

Secondly on the tax: can you just confirm whether this year or next year you start paying a full tax charge?

Then on the pensions charges you've got a reduced charge coming through; is it correct that we should just reduce our pension contributions in the cash flow statement and the P&L charges would remain unchanged?

Ryan Mangold

On the cash tax we expect that the third tax balance to be exploited by the end of 2015, which means based on the tax cycle it would be ever so slightly cash tax paying in the last quarter of 2015 and then flowing into 2016. So by the time you get to 2017 our P&L charge pretty much will flow directly through to the cash flow statement.

On the pensions all of the liability management initiatives that we've undertaken reduce the overall membership holding, which resulted in a slight reduction in the overhead costs. I don't know if you recall, one of the reasons for completing the merger was to drive down some cost efficiencies through the pension structure, having one set of advisors and one set of trustees etc. So, there should be a marginal saving to the P&L for 2015 onwards on the overhead side, but it is order of magnitude of around £700,000 or so.

Pete Redfern

On land price inflation, we said earlier in the year we saw land prices moving with house prices, and margins on land purchase were staying more or less the same. Like anything else there is a lag effect: so deals that are done six months before in that sort of environment are always going to be better when you actually sign them up because it takes that long to sign up a deal. So, land price inflation has always tended to lag.

That's still true today. It's not quite the same dynamic as build cost because people don't come in and say I want to be paid 5% more for this; it tends to work the other way. So, we still see a net benefit from that, even in a house price environment which is slightly slower level of inflation. But land prices have moved over the course of the last year; as I say margins are broadly in the same place on new deals.

<u>Question 4</u>

Jeff Davis – HSBC

Just a follow on from Will's question. I wonder if you could split the forward order book out by private and social plots please.

And then following on from that, if you could give any colour on what sort of margin growth you're seeing in that order book, particularly for the 2015 component, that would be very helpful.

Then on strategic land conversion obviously a lot coming through are the sites that you're converting still hitting that 6% to 8% margin uplift that you talked about at the Investor Day?

Then a final one on build costs. You mentioned that you're starting to see very early signs of supply chain improvements. Is it possible to quantify what you expect in terms of build cost inflation for 2015?

Pete Redfern

Private affordable order book split – I'm trying to make sure if we've got the right number – I may have to come back to on it because I'm going to give you the wrong number if I'm not careful.

Ryan Mangold

I've got the number if you want it? So private order book is 5,210 and the affordable order book is 2,604. So, both of those up ever so slightly on the prior year by about the same level in percentage terms.

Pete Redfern

And you asked about the margins in those order books. Again, they are up year on year, so compared to the comparative period.

As I said before I'm not going to give an exact number on it because it's too easy for people to take it as an absolute margin guidance for next year, which we wouldn't do at this stage. We don't expect the same boost in '15 over '14 from selling price inflation, so we expect to see margin growth next year but not the same scale of 400bps. You know we're guiding towards an average of 20% operating margins or above for the three-year period. We would expect 2015, because we will still see benefit as we go through the period from strategic land split the low end of that range. But I think that gives you enough of a sense.

We are seeing on strategic land sites the kind of margin uplifts that we talked about in the past and at the Strategy Day.

On the build costs, it's very hard for us to quantify going into next year a number. As I say, we've seen pressure; that pressure has been weighted towards the labour side. It's starting to ameliorate, but that is very early stage of it starting to ameliorate. We definitely expect a slightly more benign environment going into next year. But it will depend on the housing market environment to some degree and the volume growth plans of competitors. It's just too early to call exactly what that is.

We certainly don't expect next year to see a negative impact from the net of house price growth and cost price inflation based on what we see today. But to what extent that balance is neutral and to what extent we get our margin improvement from it is hard for us to call right now.

<u>Question 5</u>

Gavin Jago – Peel Hunt

Just a couple from me I just want to maybe get your views on what you're seeing in the mortgage market at the moment in terms of maybe LTVs and rates and availability and competition coming in, particularly for new build and maybe link that into what you're seeing on your Help-to-Buy usage as well because we've seen some of your peers maybe seeing a lower percentage of sales going through Help-to-Buy.

And also linked to your comments earlier, Pete, about expectations on any impact of the election; what are you seeing on the planning system as we move towards May next year?

Pete Redfern

I'll pick up the planning one first. You do get your odd aberrant decision of things delayed because people are starting to be very concerned about the planning system, but you always do and it would be slightly strange not to build that into your plans when you know it's going to be an election year. As I say, we've got a lot of potential outlets; we don't expect them all to arrive on the dates that we would like them to arrive. But we have that built into the plan so it's not something that overall particularly worries us. It can be frustrating occasionally.

I would say relative to the previous two elections that I've seen in this industry the impacts at the moment are certainly no greater, and I think probably less than they were at the equivalent point in the cycle; largely I think because there is a much greater commonality to the political will behind the need to build new homes.

So, although you still get the situation at a local level where politicians are nervous about that decision, there is a principle drive and there is an understanding, not just with politicians but with the general public, that we do need to build more homes; and that's slightly different to where that same balance was in both previous elections. So, it's not as bad as I might have expected at this point.

As I said before, I think political risk has actually reduced in a more general sense around planning policy and some of the potentially significant shifts that could have come out of the Lyons Review. There are some things in there that are potential positives; some things in there that might be things we have to manage – but nothing that you look at and think is going to dramatically disrupt the market.

I'm sorry there was a first question and I didn't make a note of it.

Gavin Jago

Just on the mortgage market, just what you're seeing in terms of any competition and LTVs moving at all, because I notice certainly some of your peers have had less contribution from Help-to-Buy sales when they've reported over the last couple of weeks. I'm just wondering what you're seeing just in the wider market and also on Help-to-Buy.

Pete Redfern

I think it's fair to say that over the course of the last six months and maybe a little bit longer the mortgage market has continued to free up but there have been more new products and slightly more new entrants or actually some of the businesses that were lending but had to constrain themselves quite tightly through the early stages of the recovery have been prepared to expand their lending levels. So, generally I think we have seen a more widespread level of mortgage availability, not quite so dependent on one or two very large lenders, so slightly lower risk. Because of that you also get a broader spread of deals, so for any one customer there is more likely to be a deal that works for them, whether it be because of lower upfront costs or a lower monthly cost or whatever.

We've seen the mortgage market review principles in operation, and I have to say people have stopped talking about it. It's just that is the process now.

And actually anecdotally, having been through a mortgage process myself recently, found it much more straightforward in an odd way, there was slightly more information but it was kind of logical information. So actually it's become a better system I think as part of the review which is kind of a pleasant surprise if I'm honest.

And with Help-to-Buy, still using it significantly, the area where it obviously has dropped off in the short-term is Scotland where there isn't the availability, and that sort of just causes a bit of a timing difference in Scotland. What we're finding is the issue there is that people know that it is going to be available again in April, so inevitably people who might otherwise have completed in February and March don't want to complete until April. So we'll have slightly more stock in our Scottish businesses through January, February, March and we'll have more completions in April. It's not big enough to be an issue for us Group-wide, but you can see that slightly in the regional numbers, if you see what I mean, but more generally so there is slightly less dependence on Help-to-Buy, but I think that Scottish perspective is the biggest single statistical difference.

Ryan Mangold

And, Gavin, we didn't see a slowdown at all in terms of the change in Halifax'slending capacity from Help-to-Buy, so we're still running around about 40% to 43% of our sales with Help-to-Buy and completions are pretty much following reservation rates but the change in Halifax of lending down to £150,000, as Pete noted before, were a relatively significant lender to our customers andwe haven't seen any change or any slowdown in our ability to sell under that product.

And overall we looked at the mortgage rates quite recently, we think that the pricing's probably got tightened by about or improved for the customer by 30 to 50bps since we did the cut in July.

Question 6

Gregor Kuglitsch – UBS

Good morning. A couple of questions I think, one you sort of answered, I just wanted to double-check. You're obviously seeing 20% average margins for the next three years and then you said the lower end of that, I presume you mean therefore you're going to be a touch below 20% next year and I just wanted to make sure that we're on the same page.

The second question is what do you think the size of the London business is, say this year, if we take FY '14, the forecast revenues of say something around £2.7bn, I think that's what you're implying in terms of revenues, how much of that is London at this stage and how much of your capital employed is London? Obviously there's been some growth in that business, I just wanted to get an update on that. Thank you.

Pete Redfern

No, we're on the same page on margins, and they're very much as we said when we set out, those targets, we wouldn't give year on year absolute margin guidance, but if we're sort of saying 20% and above for the three year period, and we said at the time we weren't depending on price growth, just the price and cost growth netted each other off in achieving that, that position is still the same. And so, yes we still see ourselves on a growing sort of platform so it's up to you whether you think that's 19, 20, 21, 19.5, 20, 20.5, you know, we will see margin growth in 2015 over 2014. We're not guaranteeing that 2015 will be 20%, it could be if the next price and cost growth is favourable but our internal kind of view is slightly below that but not massively.

And on London, I haven't got the detailed splits to date and I don't want to give them offhand, it might be something that we're best to give you a sense of offline, unless Ryan, you've got some numbers to hand that you think will help?

Ryan Mangold

Yes, I mean I think the key message, Gregor, is that the commitment to the London marketplace in terms of growing that central London business remains absolutely on track. They've got the land bank to deliver, it's going to have a command on our capital which is priced into our operating property cash conversion for 2015 through '17 and expected to end up broadly around 15% to 20% of the Group overall from a capital employed perspective.

Gregor Kuglitsch

Thank you. Can I have a follow up question on the margin? It's maybe a bit early, but the 400bps that you're guiding to, obviously you've sort of given us a reasonably helpful bridge, how much of that is market, how much of that is mix, how much of that is NRV, deltas and things like that? Do you have a rough sense on where we are? Maybe not precise because we're not there yet.

Pete Redfern

Yes, to be honest it is a bit early and I think probably it's best to go back to where we set that out in the half year slide and if you add half a percent to market and half a percent to the land mix for that slide, because I think that slide came to about 300 bps then you get as good a sense as I can give you at this point. We will come back and reconcile it for you, but it does always depend on the exact final mix of plots and everything else, so that will give you as good a feel as I can give you on the phone of the key components.

Question 7

Kevin Cammack – Cenkos Securities

Morning gentlemen.

Pete Redfern

Hello, Kevin, have you changed your surname?

Kevin Cammack

I'm using my alias today. I've just actually got one question really please. If you look across the statements that there have been in the last couple of weeks I guess the one element which has changed has obviously been, generally I'm talking here, has been sales rate, less for you than others in fairness, but nonetheless there's been a change there. In terms of your business when you look at the margin progression and the target average over the three years that you've talked about where would sales rate, would it figure high in that ranking of getting there and sustaining that? I mean obviously we can play around with the sums on volume and all that sort of thing, but I just wonder how important sales rate movement is in capturing that margin gain?

Pete Redfern

In the broad range that we're seeing at the moment, if I take the peaks of what we've seen at the best of the last 18 months and what we see as the least strong of the last 18 months it doesn't figure massively highly at all. I mean we came into this sort of phase of the market saying, and we haven't changed that at all, that we will focus on margin and the quality of our returns over volume. And it's why we won't give out the guidance and it's why we've targeted a steadier volume growth year on year and less aggressive at any one point in time.

I think one of the reasons we're more sanguine about it than others is we were not caning it when the market was good because actually it couldn't have been sustained, even if the market was there, actually you sell consistently the highest end of the sales rate that you possibly could and your outlets run out too quickly, you end up with less outlets so you have to sell on the next one even harder and that does then in the end have a very damaging impact on price.

So staying within a band that you think is reasonably sustainable is a much healthier way of doing it and we're still within that band, so if you do the maths on our outlet numbers a sales rate through the second half of 0.60 which equates to an annualised sales rate with a bit of seasonality in it so more like 0.64, a normal mix of private and affordable, you'll see that the volume growth that we expect is already there without having to use any real flex in the scale of the order book which is consciously at a high level.

So we're not in the region at this point where we're having to even take from the order book to a degree, I think the order book might be slightly lower at the end of this year than at the end of last year, but it's off at all-time high and actually as others have said earlier in the year, to a point where it's hard to manage customer's expectations properly. So we certainly wouldn't have wanted to see order book growth, so that gives us a great lever for just trading off those relatively small movements in sales rates at any one point.

So we don't look at it and feel particularly worried, we use it as a good signal for what's happening in the marketplace but we haven't got, and this is a big change from seven or eight years ago, we haven't got our teams out there desperately trying to drive a higher sales rate, they're trying to sell sensibly in the market that's out there to get good pricing and decisions and a sensible rate on site so sites keep moving to get build efficiency. It's a balancing act and we're in a range that we're pretty comfortable with.

Kevin Cammack

And presumably you'd equally not be too concerned if you saw the level of forward sales in terms of months or weeks come back a bit as well?

Pete Redfern

No, and I mean if you look around the election time, it's actually surprising if you look back statistically that the actual reduction in sales rates in the lead up to a general election is much lower than you would naturally expect. We all talk about it but actually you look back at the stats and it's not particularly great. And we tend to more than make it up in the balance of the year after the general election, but if we did have a softer period in March, April in that run into an election then the order book is plenty long enough to manage that without it being sort of an issue.

And as I say there actually are some slight benefits to that because managing customers and being fair to individual customers is tough. If your average order book is five or six months there'll be some customers in that that are seven or eight months and it's harder to predict build times and everything else. So it's fine when it's a high rise development and it's investors but it's not fine when it's an ordinary customer buying a home, if they want to be in sooner than that.

So all I'm saying is the order book's at a balance point where we wouldn't expect it to grow, we don't want to shrink it, but it's there to provide us with a buffer for the market being a bit stronger some periods, a bit weaker others.

Kevin Cammack

Sorry, just one other and it is a very minor thing, but when you were commenting on pricing did you say that in London you were getting better price growth on apartments than houses?

Pete Redfern

Yes.

Kevin Cammack

And is that to do with Mansion Tax do you think?

Pete Redfern

Yes I think it is. That's the single biggest impact because obviously if you're selling houses in the better parts of London you're likely to get close to Mansion Tax territory, but it's not just that, I think there's a broader and deeper market for apartments, and I don't particularly mean an overseas market. It's the equivalent of a two and three-bed house in the rest of the country, that is the staple product of quite a large proportion of the potential buyers, so it's just a much thicker market and so those areas where there's less sales but less buyers just tend to be a little bit softer when things are soft whereas apartments in London are kind of bread and butter.

Kevin Cammack

And you'd still be seeing some level of price gain in those products?

Pete Redfern

Yes we are. Yes, I'd say on houses we're not at the moment in London but on apartments we are so it's probably a fair overall stir, yes.

Concluding Comments – Pete Redfern

That's great, thank you Tyler, well we'll wrap it there, thank you very much for your questions this morning. I think I'll round up not with any one of our stats but with just that overall sense that we're very pleased with where the market is today, we've seen 18 months of strong growth and we would hope we're entering a period now of growth but more sustainable muted growth which I think is a healthy environment for us to invest in and deliver our strategy and I look forward to catching up with you in the new year. Thanks very much.