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The Invisible Hand that Keeps on Taking

Value extraction from large housebuilders and its impact on the UK housing system

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Summary

This report builds on analysis we have been undertaking over the past ten years examining trends in the operation and financial performance of major UK housebuilders. It focuses on changes in output, profits and dividend payments of the largest eight housebuilders from 2017 to 2022. In the face of shocks to the system such as Brexit, the Covid-19 pandemic and the Ukraine war, we wanted to explore whether value extraction from the industry by shareholders had continued at the same pace as in the period from 2010 to 2016.

The 'invisible hand' in our title is not based on the process of market exchange as originally conceived by Adam Smith, but rather the hand of the shareholder seeking maximum returns from their shares. This has had a damaging impact on investment, on the supply of new homes and on housing affordability. The dividends of the largest eight housebuilders from 2016-2021 exceeded the total funding allocated by the UK Government to its major affordable homes programme (2016-2021). Such differentials in resources rarely feature in discussions about our housing crisis and how we solve them. It is time, we argue, this changed.

Whilst the number of homes completed by the largest housebuilders rose to 82,000 in 2019, this fell sharply to 58,000 in 2020, as Covid-19 emerged. By 2022, completions had bounced back close to 2019 levels. Profits before tax also began to move back to pre-pandemic levels in 2022, but housebuilders have had to make provision for remediation costs associated with building safety, in line with an agreement reached with the government. After these costs, profits fell to £3.9 billion in 2022, down from £5.1 billion in 2019.

This has not, however, affected the continued payment of historically unprecedented dividends, dented initially by Covid-19 but now returning to pre-pandemic levels. Accounting for inflation the total dividend payments by the largest housebuilders in 2005 would be worth £510 million in 2022 prices. But the total dividends actually paid out in 2022 were over three times that figure, at £1.8 billion, as shareholders received inflation-busting returns. In 2022 dividend payments constituted 47 percent of profits before tax, in stark contrast to 16 per cent in 2005. And this figure may grossly underestimate shareholder returns, as it does not account for share buybacks and B share offers, now common methods for distributing 'surplus capital'.

So, if it is clear who has gained most from this transformation in the financial performance and business priorities of large housebuilders – the shareholders - who has lost? In short, it is the rest of us with a stake in the housing system. A dividend paid is an opportunity cost on doing something more socially useful. Averaged out, the total amount of dividend paid by large housebuilders in 2022 for each new home built was over £22,000. This is the cost of dividends, and it raises vital questions about why reinvestment has not been given a higher priority.

These patterns are replicated in other sectors of the economy – water, energy, banking to name a few – and this is attracting increased public awareness and anger. Some measures have been introduced to scale back the level of profit and dividends, such as the levy on energy companies. And the recent agreement on building safety with major housebuilders shows there is appetite for recapturing value where necessary. But we argue such measures need to go much further and be supplemented by a range of imaginative fiscal and taxation measures. This would require abandoning the damaging single-minded obsession with shareholder value and thinking instead more broadly in terms of stakeholder value, where we can all benefit. And we happen to think that Adam Smith would agree.

Introduction

1

For the past few years, we have been examining trends in the operation and financial performance of the largest eight UK housebuilders (Archer and Cole, 2014; Archer and Cole, 2016; Archer and Cole, 2021). We have been tracking how the increased financialisation of this sector has been reflected in terms of output, profit levels and dividend payments, and the implications of these trends for housing supply and housing affordability. Our examination of these trends has shown a long-run shift towards an increase in profit levels, and a more significant increase in the proportion of profits dispensed in payments to shareholders rather than reinvested in these businesses. We have suggested that the marked increase in the scale of value extraction by shareholders has often been underplayed, or even overlooked altogether, in accounts of the UK 'housing crisis' (HoCL, 2023) and what can be done to mitigate it.

This increase in value extraction from housing production is reflective of a broader shift in capital flows from business investment to investment in property. As Ryan-Collins (2019) and others have argued, a variety of factors associated with banking reforms, tax incentives and looser credit have interacted to create a 'wall of money' looking for a secure home. As scarce resources, land and housing have been particularly vulnerable to financial inflows, creating additional inflationary pressure on prices. As the wider housing market has 'boomed', sub-sectors such as housebuilders have reaped the rewards.

In this report, we have developed our argument and updated our analysis, to track trends in output, profits and dividend payments among major housebuilders from 2017 up to 2022. We wanted to know how far the underlying trends in housebuilders' financial performance had been affected by major ruptures to the housing system, caused *inter alia* by the ongoing economic impacts of Brexit, the effects of the Covid pandemic, myriad cost pressures, the return of higher inflation and interest rates, and the consequences for household incomes, affordability and the cost of living.

Where does the 'invisible hand' of the title come in? This is a well-known metaphor originally used by Adam Smith in *The Theory of Moral Sentiments (1759)* and then in *The Wealth of Nations (1776)*. Smith took a nuanced view about the contribution of this process to overall economic well-being. However, many free market acolytes following in his path have been less equivocal, arguing that the 'invisible hand' of the market will produce order out of chaos: the self-interest of individuals operating through a system of mutual interdependence will achieve an equilibrium of demand and supply for the benefit of all. By contrast, the 'invisible hand' in this report belongs to the shareholders (largely institutional investors) of major housebuilders and their role, in our view, is far from benign. In the ceaseless search for maximum returns from their shares, the hand grasps value out of the process of building new homes, at the expense of the interests of consumers wishing to buy them. This process cannot achieve equilibrium, and we explore this dynamic here through an analysis of several financial and operational measures affecting the housebuilding sector.

There are always twists and turns in the macro-economic cycle. But as we will show, the *underlying* trend since 2005 toward increased revenues and profits - and dividend payments in particular - is very clear. Alongside that, the levels of the output of new homes have fluctuated over this period, and any increases have been modest and not sustained. We suggest that the hand is 'invisible' to the extent that it is difficult to trace the leakage of money out of the housing system through dividends, which pass into the funds of institutional investors where information is not readily available, where the presentation of the financial information is not standard, and where the underlying commentary in the annual reports is nuanced and company-specific[1].

Housebuilders are private companies. They exist to make returns on their investments, to make profits and to satisfy their shareholders. They are not *designed* to offer a public service. But the nature of housing as a basic human need, means that whoever builds housing should be subject to careful scrutiny, particularly if government is supporting their activity with financial mechanisms and policy reforms. The role of government in attempts to boost housing supply has shifted in recent years, to the extent that it has tried to derisk the process of housebuilding, through programmes such as Help to Buy(HtB). As a result, taxpayers have effectively under-written a sizeable proportion of the profits made by housebuilders in recent years. The HtB programme did indeed result in more marginal buyers purchasing homes and housing production increasing, as intended. But the main beneficiaries of the programme were not aspirant owner-occupiers. As a study of the initial impact of the HtB programme by Manlangit et al (2022) concluded:

> *'Higher output, lower risk, and rising house prices were very good news for the housebuilders' shareholders…the notional cash generated by additional HtB-supported sales in England amounted to 40 per cent of housebuilders' dividends between 2013 and 2017, further boosting shareholder returns. This support for dividends is an indirect income transfer from the taxpayer to shareholders, and increased share prices are an indirect wealth transfer'. (p19)*

So, 'where has the money gone', if this process has facilitated massive increases in profitmaking? We argue that the transformative scale of the changes in housebuilding over time, and the magnitude of the sums involved, merit far more discussion and scrutiny than has been witnessed to date. As we show later in the report, the dividends from just eight housebuilders between 2016 and 2021 represented a larger capital sum than that offered by the UK government to build affordable homes. This disparity is real, and hugely damaging.

Recently, the government has attempted to capture a very small proportion of the enormous profits acquired by major housebuilders for a specific purpose; to help fund recladding works post-Grenfell (HM Government, 2022). But so much more could be done. So much more needs to be done. And the first step in that is understanding the nature and the scale of the value extracted from these companies in recent years – not by government, but by the invisible hand of institutional investors.

[1] This 'invisibility' is well captured in the quote by the CEO of a huge Canadian financial company, Brookfield Asset Management, with which Brett Christophers prefaces his account in *Our Lives in Their Portfolios* (2023). The CEO, Bruce Flatt, said: '*What we do is behind the scenes. Nobody knows we're there'…*'

2

The Growing Importance of Large Housebuilders

The UK housebuilding industry has, like many others, been subject to a process of consolidation and rationalisation in recent years. Historically, the distinctive nature of the house building process has been characterised by a relatively decentralised structure. In 1960, the top ten housebuilders accounted for just nine per cent of all new housing production. This has changed steadily since then. By 2004, the biggest ten firms increased their share to 46 per cent of new housing (Wellings, 2006). There has been a continuing trend of mergers among some of the larger housebuilders as well. Griffiths (2011) examined the impact of eight big housebuilder mergers and showed that, in each case, completions dropped following merger – a case of rationalisation rather than maximisation of output.

This trend has been accompanied by a dramatic fall in the number of SME builders in the sector. In 1980 they were over 10,000 SME housebuilders, building 57 per cent of all housing. By 2014 this had dropped to 2,800 firms delivering just 27 per cent of total housing output (Lyons, 2014). Working from figures from the Housebuilders Federation (HBF), Savills (2021) estimated that output from SME housebuilders had dropped to just ten per cent of the total by 2020.

Up-to-date information on the nature of the industry is difficult to acquire. The decision (February 2023) by the Competition and Markets Authority (CMA) to undertake an industry-wide review of housebuilding, following a request to the CMA by the Secretary of State for Levelling Up, will help to remedy this. However, the publication of the CMA's review will be some way into the future. It is certain that the structure of the industry will have been significantly affected by the economic downturn and the Covid pandemic. One straw in the wind here is the analysis of insolvencies in the industry undertaken by accountants Price Bailey (Inside Housing, 2022). According to data obtained from the Insolvency Service, a record 360 housebuilders went bust in 2021/22, compared to 206 in 2020/22 – an increase of 75 per cent. In the press release which revealed these figures, Matt Howard from Price Bailey was quoted as follows: '*Many listed housebuilders saw profits surge during the pandemic as buyers took advantage of low interest rates and a stamp duty holiday. Their success has masked growing financial distress among smaller housebuilders.'*

Our analysis for this report suggests that, in 2022, the largest eight UK housebuilders developed 40 per cent of all newly completed homes in the UK (ONS, 2023). What is more, as shown by McAllister et al (2022), these firms account for nearly 60 per cent of planning consents granted to housebuilders for residential homes. This consolidation and power in the market creates the opportunity to exert pressure on government to maintain financial support and desist from reforms that hinder access to permissioned land (Building, 2022; HBF, 2023).

In our initial study (Archer and Cole, 2014) we examined the financial performance of the biggest five housebuilders (in terms of revenue), but we extended that to the top nine housebuilders in our subsequent study in 2016 (Archer and Cole, 2016). We aimed to cover the top ten companies but the tenth in the list, Bloor Holdings, was at the time a private company, and it was very difficult to secure comparable data. The nine companies in our 2016 report were: Barratt Development PLC, Taylor Wimpey PLC, Persimmon PLC, Berkeley Group Holdings PLC, Bellway PLC, Redrow Group PLC, Galliford Try PLC, Bovis Homes PLC and Crest Nicholson PLC. We then extended the analysis of this same group to cover trends up to 2017 (Archer and Cole, 2021).

The new analysis in this paper covers eight companies, following the disposal of Galliford Try's housebuilding business to Bovis Homes in June 2020, in a deal valued at around £1.1 billion. The creation of this new entity, Vistry Homes, has further consolidated the sector.

3

The Context: a period of surging returns (2005-2017)

The housebuilding sector was particularly vulnerable to the impact of the global financial crisis (GFC) of 2008/9, as many companies were highly geared and exposed when the housing market began to decline. Output by the nine largest housebuilders fell from 70,000 in 2007 to just 45,000 in 2010. In order to restore their position after the GFC, housebuilders initially concentrated on generating cash to reinvest into their businesses rather than making returns to shareholders. Many housebuilders took refuge in conventional strategies to navigate their way through the recovery, investing in land and deploying capital in more stable and familiar housing markets, to help improve margins. This was further assisted by the introduction of the Help to Buy (HtB) programme. As a result, the output of the largest housebuilders was eventually restored to pre-GFC levels by 2017. The output of new homes increased from 45,000 in 2010 to 76,000 by 2017.

However, it is notable that this trend did not simply represent a return to the status quo. The impact of the GFC was very significant in bringing private equity firms to the forefront, stepping in as banks, especially investment banks, bore the brunt of criticism for causing the crash, and were more closely scrutinised as a result. Private equity firms were seen as less ‘risk-averse’ than banks, at least in the immediate aftermath of the GFC. Banks were to join in later, by developing asset management arms of their own. Asset managers became inundated with cash from investors seeking higher returns, in the midst of extremely low interest rates. And this involved companies such as Norges, Black Rock and Vanguard buying shares in major UK housebuilding companies. The shareholder profile of these companies changed, and as a result the demands for greater capital returns from these firms were dramatically intensified.

The higher level of output of new homes in 2017 represented a **70 per cent** increase from the 2010 post-crash position. However, the total housebuilding revenues for the top nine companies had increased at a much faster rate - by **148 per cent** in real terms, adjusting for inflation. As companies like Taylor Wimpey began *‘prioritising margin over the volume*’ (Taylor Wimpey, 2011, p1), profits increased even more sharply than revenue. Allowing for inflation, profit before tax (PBT) among the nine major housebuilders increased by **617 per cent** in real terms between 2010 and 2017 – from £672m to £4.8 billion in 2017 prices.

Comparisons with performance *prior* to the GFC suggest this was far from a return to the status quo. By 2017, the biggest housebuilders were generating over **64 per cent** more profit than they were in 2006 before the GFC, even after adjusting for inflation. And yet their output of new homes was just **two per cent** higher in 2017 than it had been in 2006. We indicated that the period after 2010 witnessed a growing influence of corporate financial interests in UK housing production, as an asset class that was capable of generating very favourable returns. The dominant strategy sought to maximise shareholder value and large housebuilding companies proved to be a lucrative arena for this purpose. Dividend payments among the nine biggest housebuilders represented just **16 per cent** of their profit before tax in 2006, increasing to **30 per cent** in 2015. By 2017, dividends amounted to fully **38 per cent** of profit before tax, totalling a staggering £1.8bn.

Who were the beneficiaries of this major capital flow, out of a public realm that was repeatedly held to be in crisis? They were mainly international asset and investment managers. Our analysis in 2017 of the investors with the largest shareholdings in the top nine housebuilders showed that many of them held shares in multiple firms in the sector. Three investment managers (Legal and General Investment Management, Norges Investment Management and Vanguard Group) were among the biggest shareholders in eight of the nine largest housebuilding companies[2]. These changes from 2010 to 2017 show the impact of the triumph of private equity firms, pension funds, insurance companies and asset management companies in securing a dominant stake in the UK's housebuilding sector.

It is extremely difficult to establish what proportion of these capital outflows are then recycled back into the UK housing sector to boost supply, or even into the UK at all. Many of these institutional investors had considerable trans-national financial interests. In 2017 we estimated that just over 70 per cent of shares in Taylor Wimpey, for example, were held by investment managers based overseas. The key point is that these decisions on directing capital funds are taken by the executives of these companies according to where they think the best returns can be secured, not on whether and how it might alleviate the UK housing crisis. Meanwhile UK tax payers and home buyers look on seemingly powerless, along with the UK government itself.

[2] Vanguard Group has holdings not just in multiple UK housebuilding companies, but, by 2019, in around 13,000 other companies worldwide (Christophers, 2023, p. 39)

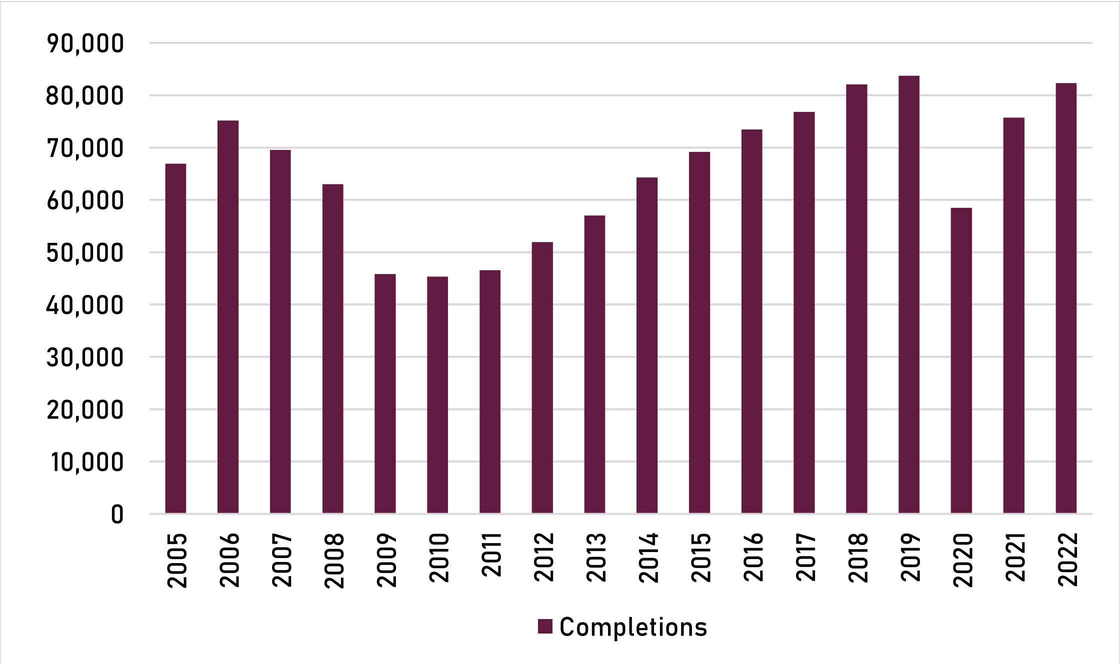
4

Bouncing back from the Covid-19 pandemic (2018-2022)

Around 2017 a number of externalities emerged which threatened to impact on completions, profits and dividends in the housebuilding sector. Following the uncertainties presented by the Brexit vote, the industry was faced with another challenge: the Covid-19 pandemic. This led to major concerns about a fall in housing completions, given restrictions on labour and on-site activity. Then, in early 2022, the war in Ukraine began to impact on global economies and supply chains, increasing the level of inflation in construction material prices and causing associated effects on supply chains and labour costs.

Given this tumult, one might expect that housing completions would drop. However, Brexit had little immediate effect on completions, and indeed large housebuilders increased their total output from 76,820 homes in 2017 to 83,739 in 2019. Covid-19 had a more profound effect on output, reducing completions to 58,000 homes in 2020. This was an even sharper drop in output than during the GFC of 2008-9. However, by 2022 completions had bounced back to near 2019 levels, suggesting these organisations had rapidly weathered the severe headwinds of the pandemic, at least in terms of output.

Figure 1: Large housebuilder completions (2005-2022)



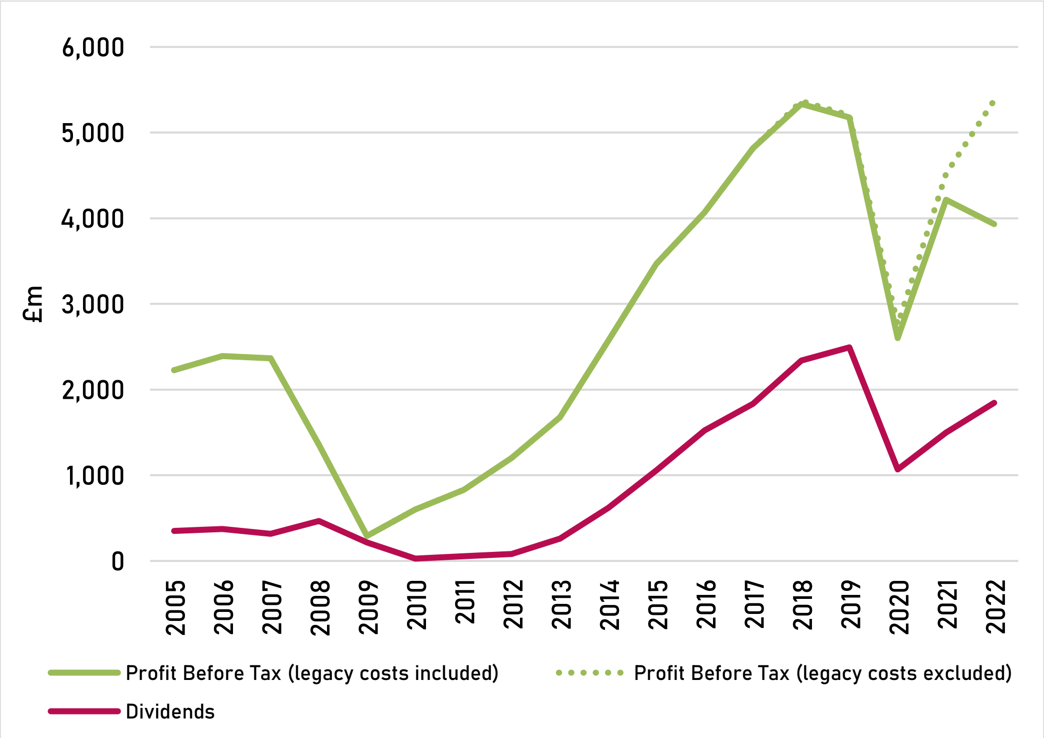
Source: Housebuilder annual reports and accounts

One might expect that these external events would temporarily hit profitability, particularly given the sharp changes in the cost of materials and labour. This was indeed the case, but, as in the aftermath of the GFC, Covid-19 had only a short-term impact on operational and financial performance. Profit and dividends soon began to rise again, and never dropped anywhere close to previous GFC lows.

As housebuilders recovered from Covid-19, another factor began affecting their financial performance: remediation costs related to fire safety and combustible materials. In the wake of the Grenfell tragedy, in April 2022, The Secretary of State for Levelling Up reached a housing industry agreement with many of the UK's biggest homebuilders[3] to pledge to fix all buildings over 11 metres that they have had a role in developing over the last thirty years. The industry will also pay to fix buildings where those responsible cannot be identified or forced to pay in law. These costs are starting to show up more prominently in housebuilders' annual accounts. They are often defined as 'legacy' costs and some of the firms have removed these costs from headline profit measures in order to provide an 'adjusted profit' figure. If we do not deduct such legacy costs, the largest housebuilders have reached new highs in terms of profitability, totalling £5.4bn in 2022 (dotted line in Figure 2).

However, when these legacy costs are taken into account, the overall profits total from the eight major builders is significantly reduced (continuous line in Figure 2). Nevertheless, the reduced 2022 profits figure is still equivalent to its 2016 level. Irrespective of this fluctuating trend in profit levels, dividend payments continue to increase and remain close to historical highs. In 2022 dividends had climbed back towards 2017 levels which, given the heady mix of economic and operational challenges faced by the industry in the last five years, is very striking.

Figure 2: Housebuilder profit before tax and dividends (2005-2022)

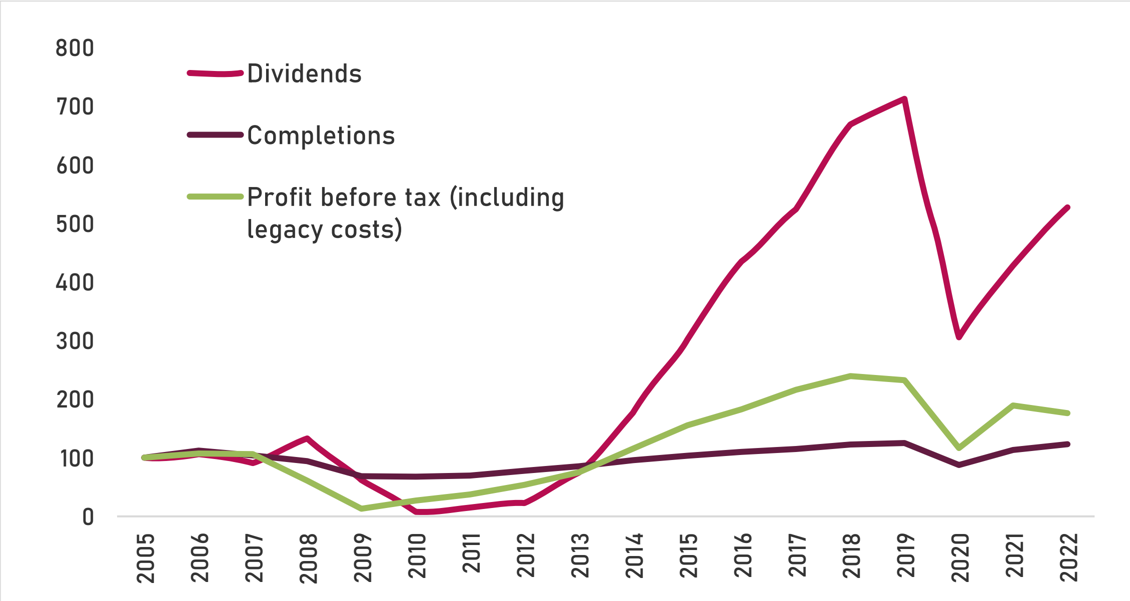


Source: Housebuilder annual reports and accounts

[3] 49 developers had signed up to the pledge by August 2022, including all eight of the large housebuilders included in the analysis in this report.

What these absolute measures of completions, profits and dividends in Figures 1 and 2 fail to show is *relative* change in each measure over time. When this is factored in, we can see very clearly how extraction through dividends has significantly outstripped changes in output and profit making over time. Figure 3 shows change in dividends, profit before tax and completions from 2005 through to 2022. This is indexed, from the starting point of 2005, to render changes comparable. The figure of 100 represents the base point in 2005. Whilst financial performance was dented through Covid-19 and the brief 'Trussonomic' experiment that followed, there has been no return to the relatively static levels of profits and dividends seen prior to 2008. Dividends in particular have witnessed a huge growth since 2005. Covid-19 necessitated a short-term decline in dividend payments, but these have charted steeply upwards again since 2020.

Figure 3: Changes in aggregate completions, PBT and dividends (2005-2022) (indexed)



Note: The chart uses aggregated annual out-turn figures. PBT is not adjusted for inflation or legacy costs. Dividends are not adjusted for inflation.
Source: Housebuilder annual reports and accounts (2005-2022)

The increases in PBT and dividends are significant and cannot be explained simply by reference to inflation. The value of housebuilders PBT in 2005 would be equivalent to **£3.3bn** in 2022 prices. In fact**, £3.9bn** was generated in PBT if we deduct legacy costs, or **£5.4bn** if adjusted profit measures (with legacy costs removed) are used.

Real term increases in dividends present a much starker picture. The dividends paid in 2005 would be worth **£510m** in 2022 prices. However, **£1.8bn** in dividends was actually paid in 2022 – *over three times as much*. Shareholders have received inflation-busting returns, without a commensurate growth in new housing supply.

The aggregate PBT of the largest UK housebuilders between 2005-2022 was **£49.1bn**. This helped to provide aggregate returns of **£16.4bn** in dividends to shareholders over this period. The scale of this comes more clearly into view when we understand these patterns relative to the number of homes produced, and show the proportion of PBT which is being directed to pay shareholder dividends (Table 1).

Table 1: The ratio of completions to PBT and dividends, and dividends as a proportion of PBT (2005-2022)

Year	PBT per new home completed	Dividends per new home completed	Dividends as a % of PBT
2005	1:£33,312	1:£5,230	16%
2006	1:£31,818	1:£4,945	16%
2007	1:£34,033	1:£4,572	13%
2008	1:£21,545	1:£7,373	34%
2009	1:£6,358	1:£4,720	74%
2010	1:£13,242	1:£594	4%
2011	1:£17,803	1:£1,149	6%
2012	1:£23,138	1:£1,536	7%
2013	1:£29,419	1:£4,561	16%
2014	1:£39,999	1:£9,623	24%
2015	1:£50,091	1:£15,267	30%
2016	1:£55,427	1:£20,736	37%
2017	1:£62,702	1:£23,863	38%
2018	1:£65,018	1:£28,524	44%
2019	1:£61,843	1:£29,770	48%
2020	1:£44,472	1:£18,279	41%
2021	1:£55,698	1:£19,780	36%
2022	1:£47,771	1:£22,428	47%

Note: PBT and dividends are not adjusted to real term prices

Source: Housebuilder annual reports and accounts (2005-2022)

The figures in Table 1 clearly show how both the growth in PBT and dividends per home completed have defied significant shocks to the system. Whilst the Covid-19 pandemic dented the trends temporarily, by 2022 the biggest housebuilders were making nearly £48,000 in PBT for each new home developed. The pattern on dividends shows an even more pronounced upward trend, as these increased from **£5,000** per home completed in 2005 to over **£22,000** per home completed in 2022. For some homebuyers, it is likely that the cost of dividends (as a component of their purchase price) will have been higher than their total deposit. It is also sobering to note that a figure equivalent to **47 per cent** of PBT was paid out in dividends in 2022. This raises crucial questions about *why* this proportion was so high, *how* so much surplus could be created, and *why* reinvestment was not given a higher priority.

It is likely that this analysis of dividend payments does not fully capture the extent of returns to shareholders. It underestimates the trend by some measure. In analysing the annual accounts of the biggest housebuilders we have seen a trend towards increasing use of share buy-backs and B share schemes. The former essentially involves the firm purchasing shares from existing owners to dissolve those shares and concentrate ownership of the remaining shares in the company. The latter is a way of returning capital to shareholders by issuing new shares and then repurchasing them. Whilst different to dividends, these mechanisms are still a means of returning capital to shareholders.

Berkeley, for example, has set out 'a long-term plan for shareholder returns, based upon an ongoing annual return of £282 million through to September 2025 which can be made through either dividends or share buy-backs' (Berkeley, 2022: p8). This is presented as a method for dealing with 'surplus capital', which rather prompts the question - why is surplus capital not being deployed in the activity of building more houses? An analysis of annual shareholder returns by Berkeley between 2014/15 to 2021/22[4] shows that, in this eight year period, £1,766m was paid out in dividends, and the additional return from share buy-backs has been £767m, accounting for 30 per cent of the total shareholder return. Furthermore, the last two financial years in this period have generated surplus capital of £455 million for this company.

Berkeley might be seen as an atypical example, as it is focused on building very high value property in London and the South East. But a similar trend, albeit on a lesser scale, can be seen in more 'mainstream' housebuilding companies. Bellway PLC, for example, increased their shareholder dividend in 2022 by 50 per cent (from £104.7m to 157.2m) but increased the one-off return from share buybacks by 196 per cent (from £2.5m to £7.4m) (Bellway, 2022: p. 146). This means that the total £16bn in dividends that have been paid by the biggest housebuilders between 2005-2022 is only part of the picture, given the marked increase in other forms of shareholder return.

A comparison is useful in illustrating the opportunity cost of 'surplus capital' being transferred to dividends in this manner. Government data suggest that between 2016-2021, through its major programme for developing affordable housing (the Shared Ownership and Affordable Homes Programme), £8.8bn was spent in that period on support to develop a variety of affordable homes (£4.6bn in London and £4.2bn in the rest of England)[5]. Over the same timescale, the largest UK housebuilders made £26bn in profit before tax and distributed £11bn in dividends back to shareholders. Hence, dividend payments by large housebuilders equated to significantly more than what the UK government could muster in its major programme for affordable housing in England.

As fast as the government's hand could help to create affordable homes, the invisible hand of shareholders was extracting value out of private developments. And there is little sign that these dividends bought any significant returns for UK housing, as case studies in our previous paper suggested (Archer and Cole, 2021). Using cost breakdowns and data on dividends, we can estimate the extent of 'lost' supply from these practices. In 2019, the combined total of land costs, build costs and gross profit for each Persimmon home was £248,616 on average (Built Place, 2023). In that year, Persimmon paid £750m in dividends to shareholders. Even allowing for profit on these homes, dividend payments alone could have supported the development of nearly 3,000 more homes by Persimmon. If this kind of assessment is applied to all the largest housebuilders, it amounts to tens of thousands more homes that could have been created, if a different set of priorities had been adopted.

In all this institutional analysis of corporate behaviour, it is easy to overlook the impact of these broad trends on individual households purchasing a new home. To dig behind this macro analysis, we should remember that the end product of housebuilding is a home for living in, not simply an investment asset to be plied in the market. To this end, it is helpful to consider the impact of increased sale prices (to support profit making and dividend payments) on housing costs.

Adopting an institutional frame of reference, the underlying trend clearly indicates intensified profit making and value extraction. But if we then translate these figures into the realities facing those trying to afford new housing, we can start to understand the effects of this scale of value extraction on their 'everyday' experiences. Commitments to enhancing shareholder returns in the form of dividends and share buy backs ultimately affect how new homes are priced, how affordable they are, and the quality of how they are built.

[4] Financial year from October to September
[5] https://www.ukhousingreview.org.uk/ukhr22/commentaries-pdf/UKHR-2022-Commentary-Ch4.pdf

5

Conclusion

In her seminal work on value, Mazzucato makes a crucial distinction between value extraction and value creation, and differentiates between shareholder value and stakeholder value:

> *'…most countries continue to have companies run by shareholder value focused on maximizing quarterly returns. Stakeholder value recognizes that corporations are not really the exclusive private property of one group of providers of profit-sharing financial capital. As social entities, companies must take into account the good of employees, customers and suppliers. They benefit from the shared intellectual and cultural heritage of the societies in which they are embedded and from their governments' provision of the rule of law, not to mention the state funded training of educated workers and valuable research; they should in return deliver benefit to all these constituencies' (Mazzucato, 2019, p.245)*

We have suggested that the priority given to maximising shareholder value in major housebuilding companies in the UK is connected to broader processes of financialisation, whereby there is an 'increasing dominance of financial actors, markets, practices, measurements and narratives' on our lives (Aalbers, 2016). Housebuilding is just part of a wider financialised system, where investment companies settle on sectors shaped by scarcity and monopoly/oligopoly ownership.

We are witnessing a growing collective awareness of the damage caused by the relentless maximisation of shareholder value in the UK economy. There has been increased public attention on the profits made by energy companies, water companies and, in the teeth of the cost of living crisis, by major supermarkets and clearing banks. 'Greedflation' has entered the vernacular to articulate the link between inflation and corporate largesse, though there are differing views on the extent to which sector-specific practices shape broader measures of inflation (DePillis, 2022). We feel it is important to shed light on trends in other parts of the economy, like housebuilding, which receive less media attention but where value extraction is affecting everyday lives.

As shown in this report, the increase in dividends from the largest housebuilders since 2010 are in the same league as, for example, the biggest water and sewerage companies.[6] There are differences in the access and control of scarce resources in these two markets, but many of the financial processes at work are the same. For housebuilders, this market is more of an oligopoly than the regional monopolies enjoyed by water and sewerage companies, but the control of scarce resources is in both cases a key driver for their financial performance. In both these sectors, two basic

[6] Hall (2023) states that the dividends paid by the nine regulated water and sewerage companies in England averaged £1.6bn a year between 2010-2021.

provisions for life (water and housing) are made less affordable than they could be by rampant value extraction, especially over the past seven or eight years. The Covid-19 pandemic dented this trend, but only for a short while.

As returns to shareholders through dividends have reached unprecedented levels, money is 'lost', not just from the housing sector, but from the UK as a whole. A few surplus millions may be recycled back into the housing system, through variegated means (Archer and Cole, 2021), but there is little doubt about the overall direction of flow. It is outwards. The invisible hand is a powerful agent that consumes a vast surplus. The biggest investors in major housebuilders are institutional investors that have extensive global interests. These investors might have a vested interest in ensuring the UK housing system does not slow down, that the wheels keep turning, but they are fundamentally concerned with maximising their returns from housebuilding, and extending their role ever further, rather than meeting notional supply targets, addressing issues of housing affordability or meeting local housing needs.

We should also note that asset management companies are starting to go beyond the ownership of shares and become more directly involved in the house building process and housing provision more generally. Examples would include the investment by Legal and General in a factory in Yorkshire using modern methods of construction (MMC) with a target annual output of 3,500 homes, and the increasing involvement of companies such as Sage[7] in supporting the rapid growth of 'for profit' housing associations in the UK (Savills Research, 2023)[8]. The increasing penetration of the UK housing market by these major financial companies is part of a wider shift in their *modus operandi* in the wider economy.[9]

It is homebuyers who ultimately lose out, as they have paid increasingly more over and above the price of an average home since the GFC. In 2008, the big nine UK housebuilders were selling at prices around one per cent higher than the average UK house price. In 2022 these housebuilders were selling at 29 per cent above average prices. Whilst this may, in part, reflect changes in the composition of their output (i.e. what and where they build) this is unlikely to fully explain why their average prices grew so significantly relative to the wider market. Government attempts to correct market failure and stimulate housing supply may involve pouring money into a rather leaky container, as much of it drains out in extra profits and dividend payments, rather than bolster reinvestment. As Manlangit et al. (2022) have noted, schemes such as Help to Buy have underpinned a significant, indirect transfer of wealth from taxpayers to shareholders. It is essential to investigate empirically who benefits most from these types of intervention, once the rhetoric about how they will help marginal home owners, for instance, is set aside.

One critique of our analysis may be that we are simply reading shadows on the wall, failing to grasp the deeper complexities and mechanisms of what drives these organisations and their financial models. Perhaps in reading the accounts of these businesses we miss how resources flow through organisations, their investors and out into the world to create positive impacts that are hard to attribute. Certainly, the themes of housebuilders' latest (2022) annual reports offer up an array of positive visions. The companies are 'built on resilience' (Taylor Wimpey) by 'building better places' (Crest Nicholson), 'creating a better way to live' (Redrow), 'leading the future of housebuilding

[7] Sage is owned by Blackstone, one of the biggest private equity firms in the world.
[8] Savills estimate that the number of homes owned by 'for profit' providers will increase from just over 28,000 in 2023 to 113,000 by 2028.
[9] Christophers (2023) describes this shift from share ownership to a more direct involvement and investment in housing and infrastructure as moving for moving from 'asset management capitalism' to 'asset management society'.

by putting customers at the heart of everything we do' (Barratts), by 'building for tomorrow, today' (Persimmon) or, even more ambitiously, 'transforming tomorrow' (Berkeley). But the bald numbers in this report tell a rather different story and convey a different vision. The trends in completions, profits and especially dividends suggest that the 'invisible hand' has not distributed new housing resources for the greater good, for the benefit of all stakeholders, but for the immediate interests of a much narrower group – individual and, especially, institutional shareholders.

Our analysis raises serious questions about why dividends have reached such unprecedented levels, about what they 'buy' back for us (as housing consumers), and how more of this added value might be captured by governments in the future. It also raises questions about interactions between shareholders and executive teams in the major companies, about how incentives, rewards and KPIs are structured, and how the focus on the maximisation of returns affects decisions about the quality, location and pricing of new homes.

Meanwhile, the housebuilding lobby continues to press government to provide increased support for the sector, whether through relaxing planning conditions for new developments or supporting homebuyers indirectly through programmes such as Help to Buy. The mantra of 'helping the first time buyer' is a regular refrain in political discourse about housing policy, but the focus is often directed towards supporting the producers of new homes rather than helping (potential) consumers gain a foothold in the market.

We are increasingly seeing governments act when the largesse of private gain in some economic sectors reaches a critical threshold of public anger and despair. The notion of 'excess profits' has now been acknowledged, even if it goes against the grain of a market friendly Conservative government. For example, the current windfall tax or 'levy' on energy companies will create £40bn over six years, charged at 35 per cent of company profits.[10] There have been calls for more action to be taken against supermarkets on pricing and on the accumulation of huge profits by the large clearing banks, benefiting from interest rate rises. Whilst the level of profit by housebuilders do not match the billions in profits of a BP or Shell, the damage to new housing supply is nonetheless profound, and the impact on household budgets is severe.

There surely must be some correction to the continued upward shift in profits and dividends, give or take the occasional blip, while problems of housing affordability intensify. How much longer can this state of affairs be sustained, without some market-based correction or some form of government intervention? Some mechanisms for capturing value already exist in the form of the community infrastructure levy and s.106 agreements, and indirectly through Stamp Duty Land Tax on new buyers, but these measures have so far been successfully incorporated by housebuilding companies while value extraction continues apace. Improving systems for capturing the uplift in land value after it is permissioned would be a start in providing some of the revenues required to fund more affordable housing, but this has yet to garner widespread political support. Limiting the extent of extraction through taxation is another option. We note, for example, that the US government has recently introduced a one per cent tax on share buybacks in their Inflation Reduction Act. Measures like this, alongside increased taxation of dividends, could create significant capital for reinvestment (IPPR, 2022), potentially boosting investment in affordable housing supply.

Ultimately any solution will lie in wider structural reform, causing a shift away from maximising shareholder value toward increasing stakeholder value. This would necessitate a change the patterns in ownership, operation and ethos of companies

[10] https://www.bbc.co.uk/news/business-60295177

that provide essential public goods and services. This requires a bold, new political agenda, and if one is in need of some guidance on how to achieve this, reaching back to the originator of the 'invisible hand' metaphor, Adam Smith himself, may be helpful. He argued that our political economy and the invisible hand must do two things:

> *'…first…provide a plentiful revenue or subsistence for the people, or more properly to enable them to provide such a revenue or subsistence for themselves; and secondly, to supply the state or commonwealth with a revenue sufficient for the public services. It proposes to enrich both the people and the sovereign' (Smith, 1776)*

The drive to financialise in key sectors of our economy, such as housebuilding, has lost sight of maintaining this balance of interests and of serving this dual purpose. If the invisible hand of the shareholder keeps on taking more and more, it will only impoverish the rest of us still further.

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