

Update Vistry Group: The need for affordable housing has never been higher

Company:	Vistry Group (VTY LN)	Market Cap:	£1.95bn (-10%)
Industry:	Housebuilder (66% partnership)	Net Debt:	£500mio (average)
Country:	UK	Revenue:	£3.45bn*
Date:	30 th December 2024	Net Income:	£170mio (8.9%)*
Dividend:	5%	Free cash flow:	£170mio (8.9%)*
Entry:	£2.15bn	Target:	£3bn (54%)

*estimated 2024 figures

Why Vistry?

- Well aligned with Labour's plan to build 1.5mio homes over the next 5 years and a particular urgent need for affordable housing
- Number of affordable homes is less than double the number of illegal migrants arriving by boats
- UK net migration over last 4 years is approaching 3mio with most migrants coming from emerging countries, such as India and Nigeria – not high-income earners
- Valuation is close to a 12-year low

Risks

- Higher interest rates could dampen house building demand in the open market (1/3 of Vistry's revenue)
- Impact of higher stamp duties is uncertain, but should affect the affordable homes market less so
- Labour government's 1.5mio housebuilding target is unlikely to be achieved in a 5-year period
- In South England and London, more funding needs to be provided due to higher costs. Affordable housing starts are at a 8-year low

Three profit warnings in three months

To see a company issuing three profit warnings in three months is quite exceptional, and I do not know a case where that happened in the past. The only answer ChatGPT gives me to this question is Vistry Group. The last profit warning came especially surprising on Christmas Eve and the company stopped purchasing its shares without even mentioning it (due to lower profitability)¹. This was a nasty gift from Santa Claus. In summary, I entered Vistry after their COO, Earl Sibley, left the company in November. At this point, the company published a total profit impact of £165mio over three years with the bulk of this occurring in the current FY 24 due to higher costs in the South division. The latest profit warning reduced profits for the year by another £50mio due to delays in completions and unattractive pricing, which led Vistry to bid on fewer contracts.

What could a delay to housing completions mean?

In the case of Vistry, which largely provides affordable housing in partnership with local authorities and asset managers. The delay in housing completions is likely the result of squeezed budgets of local authorities. There are estimates out there that 1 in 4 councils at risk of bankruptcy over the next two years². Whilst UK local government debt has climbed by 71% over 10 years, the local authorities that did go bankrupt recently all had their very own specific reasons – mostly mismanagement, bad investments and a local Labour government. In most cases, a 114 notice was issued (i.e. bankruptcy and help from central government), which results in no new spending to be allowed unless the finance officer permits it to do so³. This process can take up to 3 weeks and the result is generally an agreement on higher council taxes, spending cuts and a reallocation of budgets. Given that more local authorities might need to issue section 114 notices, this is the biggest risk Vistry currently faces, as it could delay completions and payments as well as new starts of affordable housing.

¹ https://otp.tools.investis.com/clients/uk/bovis_homes2/rns/regulatory-story.aspx?cid=1525&newsid=1896277

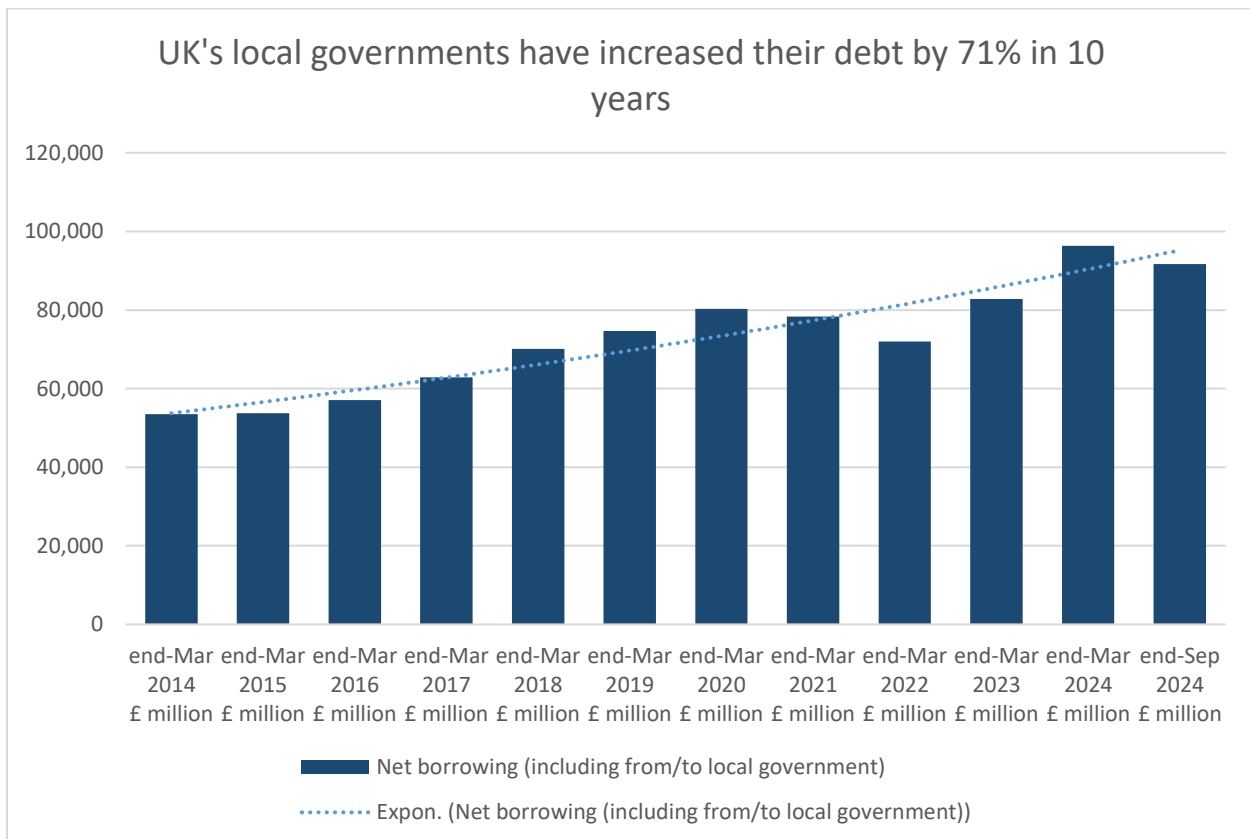
² <https://www.theguardian.com/society/2024/oct/22/councils-england-bankruptcy-bailouts-local-government-association-survey>

³ <https://www.instituteforgovernment.org.uk/explainer/local-authority-section-114-notices>

Recent UK councils filing 114 notices

Council serving section 114	Date	Political party	Since	Prior	Reason
Nottingham City Council	29-Nov-23	Labour	1991		Collapse of Robin Hood Energy
Birmingham City Council	05-Sep-23	Labour	2012		Equal Pay claim
Woking Borough Council	07-Jun-23	Liberal Democrats	2022	Conservatives until 2018 (no control in between)	Bad commercial real estate investments
Thurrock Borough Council	18-Dec-22	Labour	2024	Conservatives until 2024 (from 2014 no control/from 2021)	Bad commercial real estate investments
Croydon Borough Council	22-Nov-22	Labour	2014	No overall control from 2022	Bad commercial real estate investments
Slough Borough Council	11-Nov-20	Conservative	2023	Labour	Bad commercial real estate investments
Northamptonshire County Council	24-Jul-18	Conservative	2005		Freezing council tax and rising social care costs

Source: <https://commonslibrary.parliament.uk/why-are-local-authorities-going-bankrupt/>



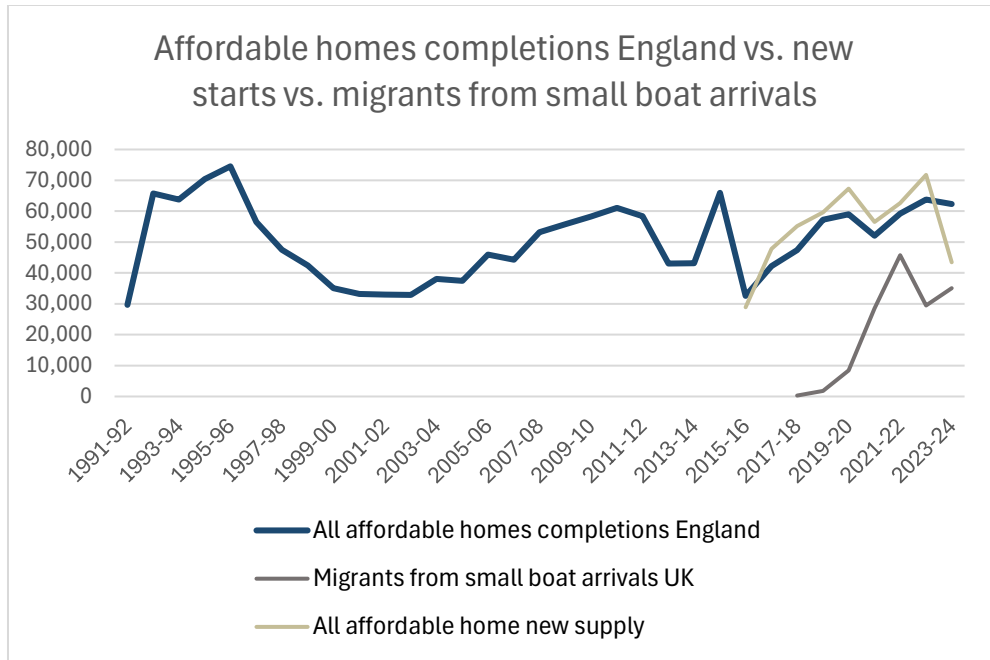
Source: <https://www.gov.uk/government/statistical-data-sets/live-tables-on-local-government-finance>

The macro is supportive, but there is a big if...

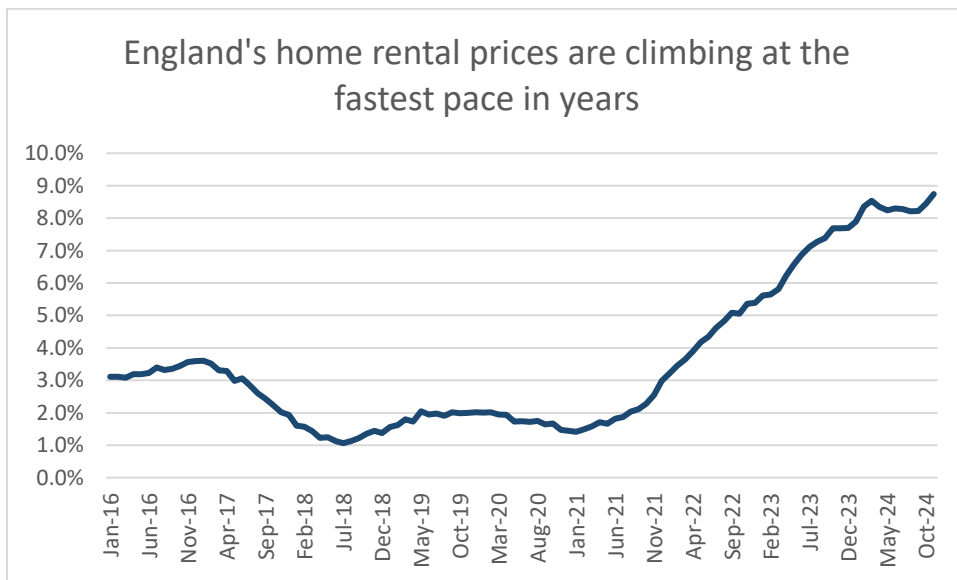
Clearly, these developments are very problematic. There is a mismatch between what councils can spend on affordable housing and recent cost inflation in the sector, especially when it comes to building costs in and around London and South England (mostly from higher staff costs). However, I have seldom seen such a large mismatch in supply and demand, which should be extremely favourable for Vistry and affordable housing in general. The following charts really demonstrate the urgency of getting Britain building again & immediately, here are the key points:

1. Affordable housing starts are at the lowest level in 8 years
2. House prices and rent have risen dramatically over the last two to three years, up by 22-23%
3. Housing affordability ratio is at nearly double of what is considered affordable
4. Net migration resulted in nearly 3mio additional people over the last 4 years
5. Many of these migrants are from developing or emerging countries – not high earners
6. Migrants from small boat arrivals could outpace new affordable housing starts this year (all of these people have no income and would immediately require social care and housing support)

Making a (mark-to-market) loss on an investment that is so strongly positioned for these variables is really quite painful. In the ideal case, Starmer should immediately fire maniac Ed Milliband and scrap the whole no growth net zero energy transition that benefits only special interests and instead use the funds for housebuilding, which should increase GDP rapidly. It's really quite remarkable to have zero GDP growth when you have record population growth. Generally, I take the blame for any losses incurred from investments due to mistakes made. This time my mistake would be underestimating the incompetence of this current government, which is a very arrogant statement and may all sound like a page of the Donald Trump playbook, but I can't help it as there is no other conclusion I can come to. I have viewed this investment similar to investing in oil & gas in the second half of 2021, i.e. the anti-ESG trade. Initially, these investments were under water, but the eventual returns were very attractive and still achieved within 7 months of initiation... private equity seems to agree, which could come to the rescue of the government ([here](#)).



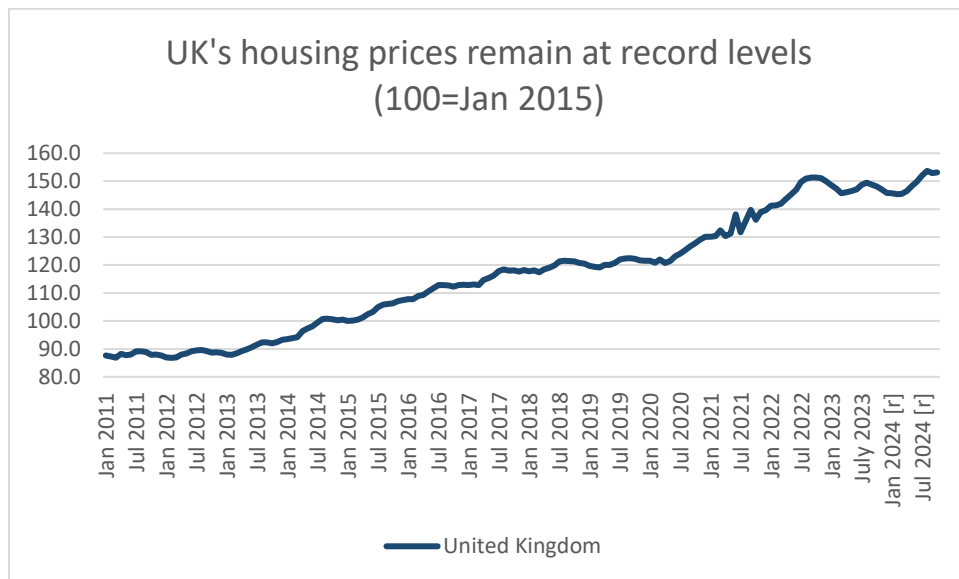
Source: Office for National Statistics



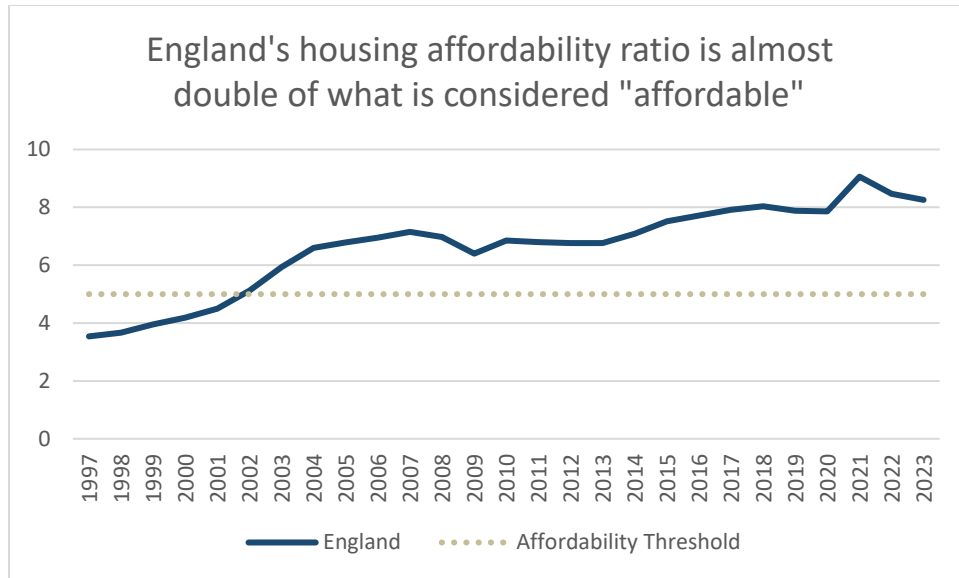
Source: <https://www.ons.gov.uk/economy/inflationandpriceindices/bulletins/private-rent-and-house-prices-uk/dece-2024>



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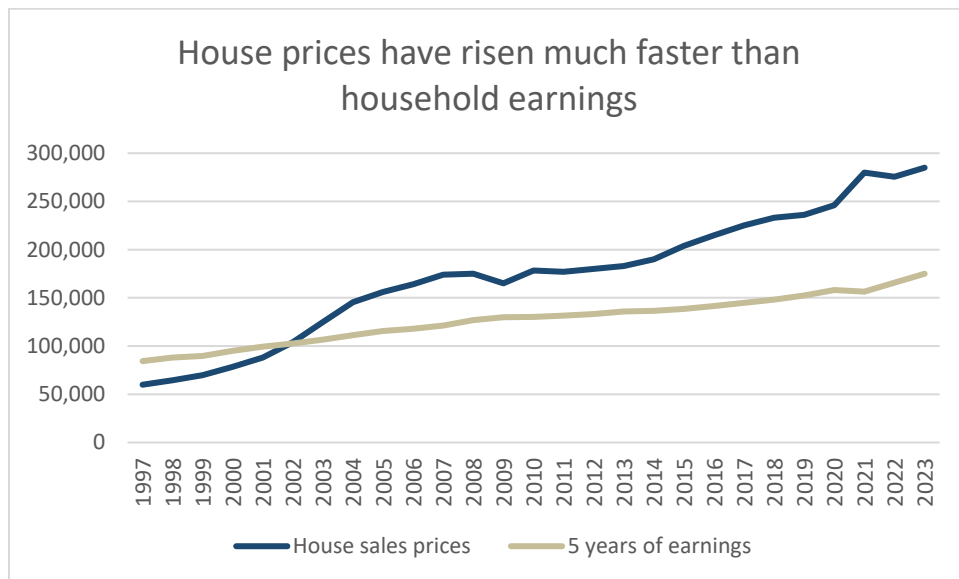


Source: <https://www.ons.gov.uk/economy/inflationandpriceindices/datasets/uk-house-price-index-monthly-price-statistics>



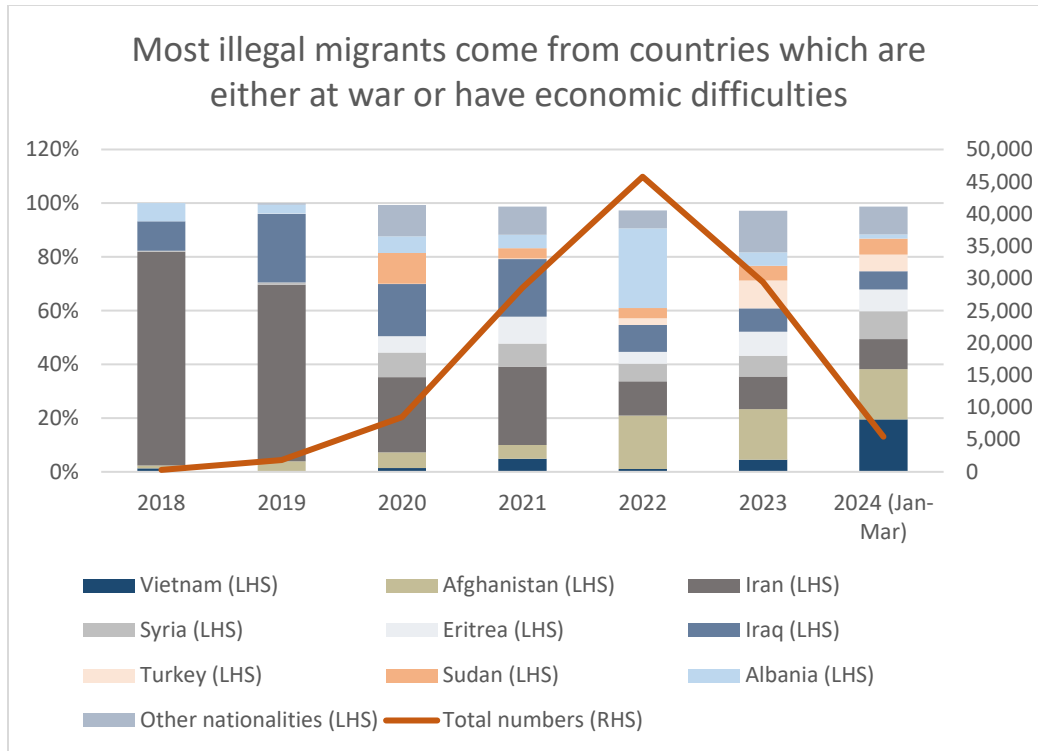
Source:

<https://www.ons.gov.uk/peoplepopulationandcommunity/housing/bulletins/housingaffordabilityinenglandandwales/2023>

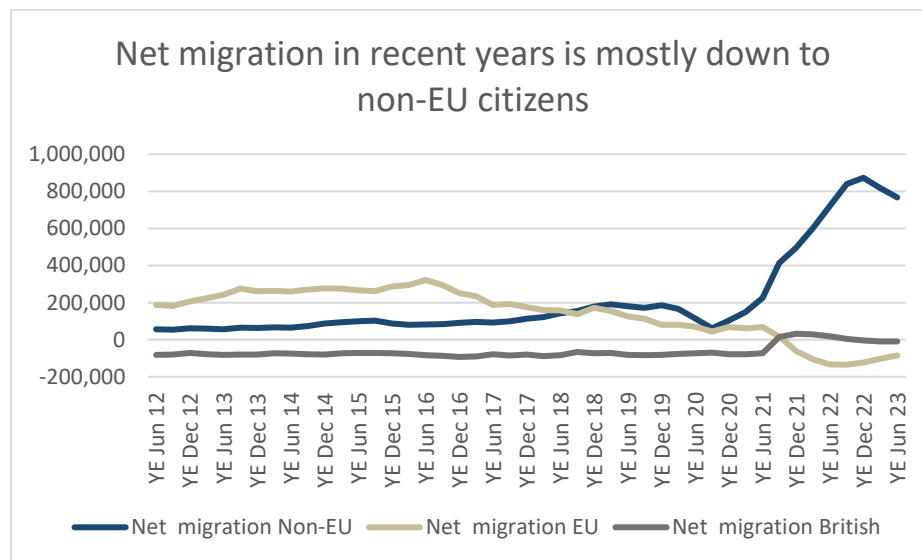


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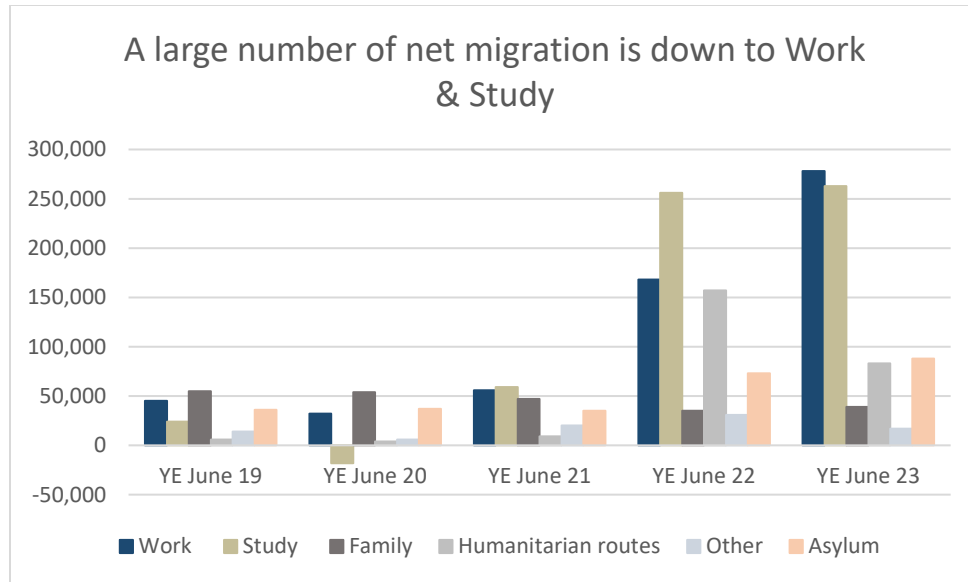
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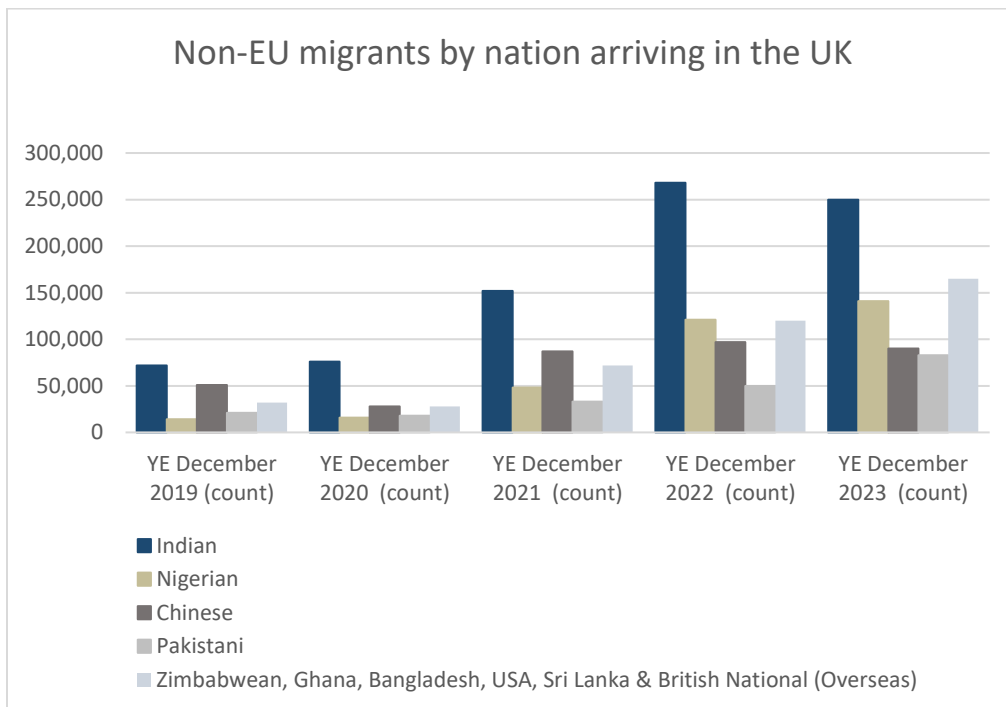
Source: Office for National Statistics – Census 2021



Source: UK Home Office



Source: UK Home Office



Source: UK Home Office



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