Regulator of
Social Housing

Quarterly survey for Q4

January to March 2019

Contents

Introduction

This quarterly survey report is based on regulatory returns from 221 private registered providers (PRPs) and PRP groups who own or manage more than 1,000 homes.

The survey provides a regular source of information regarding the financial health of PRPs, in particular with regard to their liquidity position. The quarterly survey returns summarised in this report cover the period from 1 January 2019 to 31 March 2019.

The Regulator reviews each PRP's quarterly survey. It considers a range of indicators and follows up with PRP staff in all cases where a risk to the 12 month liquidity position is identified. We have assurance that all respondents are taking appropriate action to secure sufficient funding well in advance of need.

Summary

The quarterly survey findings are:

- New finance of £4.5 billion was agreed in the quarter, including £2.3 billion from capital markets and £2.1 billion from banks. This is the highest amount of new finance arranged in a single quarter on record.

- Loan repayments of £1.3 billion were made in the quarter.

- In the year to March 2019 total new facilities, including refinancing, amounted to £13.5 billion, also the highest amount on record.

- The sector remains financially strong with access to sufficient finance: £20.8 billion of undrawn facilities are in place. Debt facilities now total over £97 billion.

- £4.2 billion (5.4%) of drawn debt is repayable within the next two years (2018: £3.4 billion, 4.8%).

- 76% of drawn debt is at interest rates fixed for over 12 months (2018: 73%).

- Cash balances total £6.1 billion; this is forecast to reduce in the next 12 months to £4.1 billion as cash is used to fund planned capital expenditure.

- Cash interest cover, excluding current asset sales, was 151% in the 12 months to March 2019. For the 12 months ending March 2020, cash interest cover is forecast to be 128%.

- Including both current and fixed asset sales, total sale receipts were £1.5 billion in the quarter. This was slightly below the forecast of £1.6 billion made in December.

- In the 12 months to March 2020 the sector is forecasting £6.2 billion of sales receipts. By comparison, in the 12 months to March 2019 total sales were £5.3 billion.

- Investment in housing supply was £3.1 billion in the quarter to 31 March 2019, slightly lower than the December forecast contractually committed spend for the quarter of £3.3 billion.

- Over the 12 month forecast period, expected investment in new housing supply is £14.9 billion, of which £10.5 billion is contractually committed. In the 12 months to March 2019 total investment in new supply was £11.8 billion.

- During the quarter, 4,817 Affordable Home Ownership (AHO) units were developed, 118 units were converted to AHO from other tenures and 3,448 units were sold. There was a 27% increase in the number of unsold units, amounting to 6,924 at the end of March; the highest level in almost ten years. Half of the unsold AHO units were held by 17 providers.

- The number of AHO units unsold for more than six months increased by 2% over the quarter to reach 1,371 at the end of March.

- During the quarter, 1,550 market sale units were developed, 1,263 were sold and 109 units were converted from market sale to other tenures. The number of unsold properties increased by 10% to 1,933; the highest level recorded since the data was first collected in June 2014. The number of properties unsold for more than six months reduced by 9% to 637. Over half of the total unsold market sale units are held by six providers.

- The increase in the number of unsold units, both low-cost home ownership and market sale, reflects an increase in the number of units being developed. The 6,367 completions in the quarter are the highest since the Regulator began to collect this data in June 2014.

- Development of for-sale properties (both AHO and market sale) is forecast to continue to increase. In the next 18 months, including committed and uncommitted development, plans include the completion of 31,901 AHO units and 13,783 market sale properties. This compares to 21,490 AHO units and 7,344 market sale properties developed in the last 18 months.

- Providers making use of free-standing derivatives reported mark-to-market (MTM) exposure of £2.2 billion, a 7% increase on the previous quarter reflecting a decrease in swap rates at the quarter end. In aggregate, providers continue to have headroom on available collateral on MTM exposures.

- Investment in, or lending to, non-registered subsidiaries, special purpose vehicles or joint venture entities amounts to £8.0 billion, almost half of which is held by three providers.

- Total impairment charges expected in 2019 accounts amount to £73 million, one-third of which is attributable to three providers.

- Income collection data continues to show a stable performance, consistent with seasonal trends.

Operating environment

The activity reported in this quarterly survey took place in what was expected to be the last quarter before the UK's exit from the European Union. At a headline level, the economic operating environment for PRPs generally remained stable. Key metrics for the period covered include the following:

- The average house price in England[1] increased by 1.1% in the year to March 2019. London experienced the lowest annual growth, with prices falling by 1.9% over the year. There were also reductions in annual prices in the North East of 0.8%, and in the South East of 0.4%. All other areas experienced an increase in prices over the 12 month period.

- The Consumer Prices Index (CPI)[2] rose by 1.9% in the year to March 2019 (year to December 2018: 2.1%). The annual increase in CPI has been below 2% since January, lower than any annual increase experienced during 2018.

- Construction Output Price Index (OPI) figures[3] for all construction showed that costs increased by 2.8% in the year to March 2019.

The survey results suggest that the sector is in a robust position to respond to any uncertainty and changes in the wider economic environment. The key risks faced by the sector are considered in the Sector Risk Profile[4] published annually by the Regulator. The Regulator will continue to monitor key market trends and to seek assurance that boards of PRPs are actively engaged in responding to emerging risks.

[1] UK House Price Index England – Office for National Statistics
[2] Consumer price inflation, UK - Office for National Statistics
[3] Construction output prices indices – Office for National Statistics
[4] https://www.gov.uk/government/collections/sector-risk-profiles

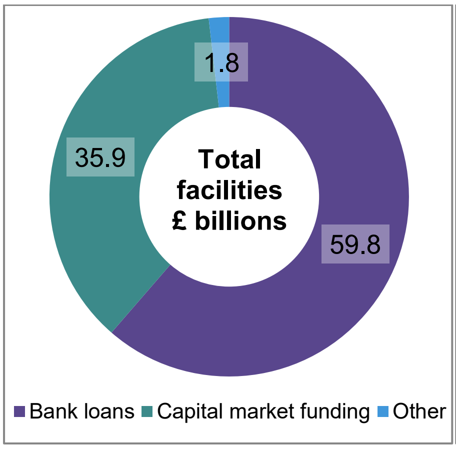
Private finance

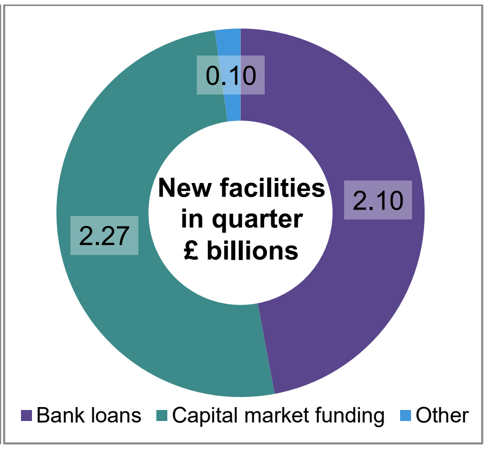
- The sector's total agreed borrowing facilities are £97.4 billion, £59.8 billion (61%) of which are bank loans.

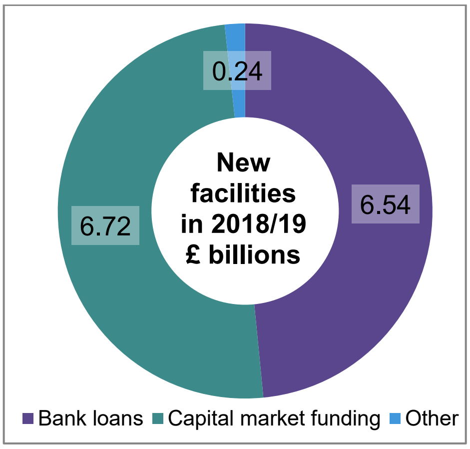
- During the quarter, 56 providers arranged new funding. New facilities agreed, including refinancing, totalled £4.5 billion. This is the highest amount of new finance arranged in a single quarter since the data was first collected in 2008. £1.3 billion worth of loans were repaid during the quarter.

- Capital market funding, including private placements and aggregated bond finance, accounted for 51% (£2.3 billion) of new funding in the quarter. Bank lending contributed 47% (£2.1 billion), and other sources, including local authority lending, contributed 2% (£0.1 billion).

- New facilities agreed in the year, including refinancing, totalled £13.5 billion. This is also the highest amount of new finance arranged in a single year, and compares to £10.1 billion in the year to March 2018 and £7.6 billion in the year to March 2017.







- Of the £97.4 billion agreed facilities, £89 billion has been secured and £4.2 billion of facilities do not require security. There are further agreed facilities of £4.2 billion, where security is not yet in place.

- £76.6 billion is currently drawn, leaving undrawn facilities of £20.8 billion.

- 97% (December: 96%) of providers forecast that current debt facilities are sufficient for more than 12 months.

- In the 12 months to March 2020 the sector is forecasting loan drawdowns of £6.6 billion (December 12 month forecast: £7.1 billion), of which £0.8 billion is from facilities not yet agreed (December: £1.2 billion).

- Over the next three years, a total of £7.9 billion is forecast to be drawn from facilities yet to be agreed. Across the sector, providers estimate that security is available to support an additional £49.4 billion of new borrowing, equal to 51% of current agreed facilities. However, there is a wide range in the level of available security reported by providers and other factors, such as the ability to generate cash flows to service additional debt, need to be considered in determining the borrowing capacity of an individual provider.

Debt repayment profile

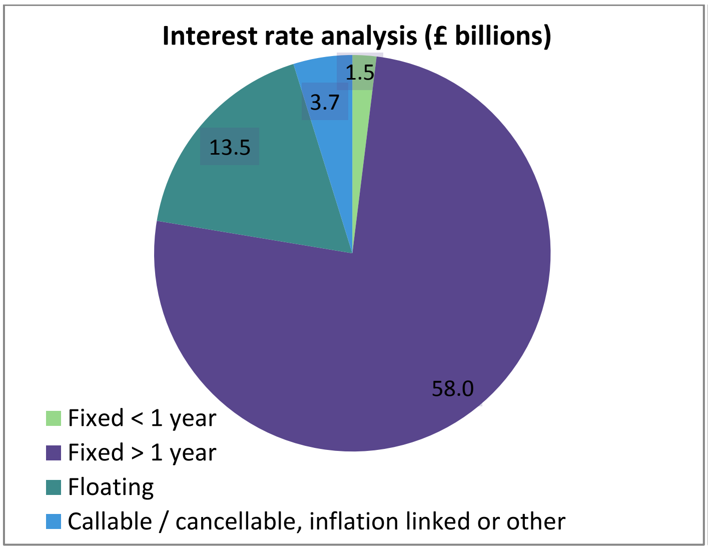
The value of debt repayable over the next two years is £4.2 billion, representing 5.4% of the sector debt (2018: £3.4 billion, 4.8%). The sector's immediate refinancing risk is low, with 2.4% of loans reported to be due for repayment within 12 months (2018: 2.5%).

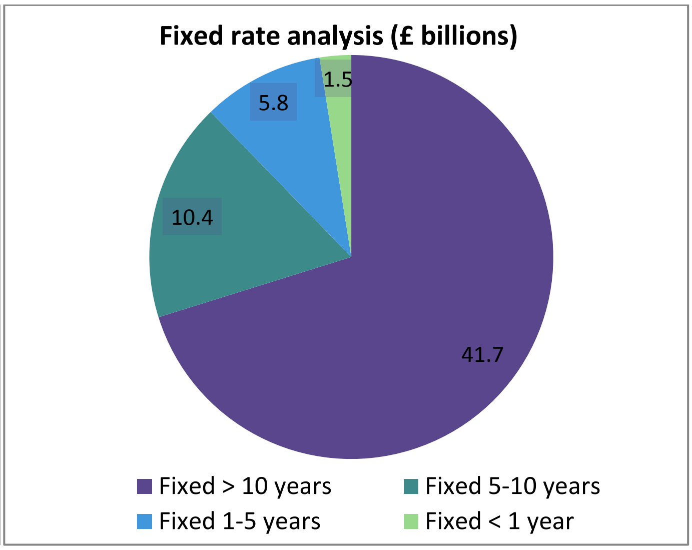
Long-term debt continues to account for the majority of the sector's borrowing, with 82% of debt being due for repayment in over five years' time (2018: 83%). £14.0 billion (2018: £12.0 billion) will become repayable over the next five years, as profiled in the chart below.

The exposure of individual providers to refinancing risk is covered by routine regulatory engagement. For 95% of providers, more than half of total debt is due for repayment in more than five years. Seven providers have 10% or more of total debt due for repayment within 12 months, each of which is reporting that new finance is not required for at least 18 months. It is the responsibility of providers' boards to ensure that arrangements are in place for the effective management of refinancing risk.

Interest rate profile

The charts below provide an analysis of the sector's drawn debt by interest rate type and the period over which rates have been fixed.





- Fixed rate debt (greater than one year) comprises 76% of the sector's drawn borrowings (2018: 73%).

- 54% of total drawn debt is at rates fixed for over 10 years, providing the sector with a degree of certainty in forecasting the costs of borrowing.

- The total amount of debt reported as floating, fixed for less than a year or otherwise exposed to fluctuation through inflation linking or callable/cancellable options, amounts to £18.6 billion. This represents 24% of drawn debt (2018: £18.5 billion, 26%).

- £1.4 billion, 2% (2018: £2.0 billion, 3%) of drawn debt is callable or cancellable.

- 48 providers (2018: 62) report that they hold callable or cancellable debt. Of these providers, 40 (2018: 43) report that this comprises less than 10% of drawn debt.

- 44% (2018: 35%) of callable/cancellable debt may be called or cancelled within one year; for 20% (2018: 23%) the earliest date is over 10 years in the future.

- £1.3 billion, 2% (2018: £1.5 billion, 2%) of drawn debt is inflation linked.

- 52 providers (2018: 47) report that they hold inflation linked debt or hedging. Of these providers, 44 (2018: 37) report that this comprises less than 10% of drawn debt.

The Regulator continues to engage with providers to monitor treasury management arrangements and risk exposure to fluctuating interest rates, as part of the assessment of compliance with the Governance and Financial Viability Standard.

Cashflows

It is essential that providers have access to sufficient liquidity at all times. The Regulator engages with PRPs that have low liquidity indicators or are forecasting drawdowns from facilities not yet agreed or secured. The liquidity position has improved since the previous quarter, and we have assurance that all providers have access to sufficient funds.

Summary cashflow forecast[5]

Figures in £ billions	3 months to 31 Mar 2019 (forecast)	3 months to 31 Mar 2019 (actual)	12 months to 31 Mar 2020 (forecast)
Operating cashflows excluding sales	0.9	1.2	4.3
Interest cashflows	(0.8)	(0.8)	(3.3)
Payments to acquire and develop housing	(4.1)	(3.1)	(14.9)
Current assets sales receipts	1.2	1.0	4.5
Disposals of housing fixed assets	0.4	0.5	1.7
Other cashflows	(0.1)	(0.2)	(0.5)
Cashflows before resources and funding	**(2.5)**	**(1.4)**	**(8.2)**
Financed by:			
Net grants received	0.3	0.3	1.4
Net increase in debt	0.3	0.6	4.4
Use of cash reserves	1.9	0.5	2.4
Total funding cashflows[6]	**2.5**	**1.4**	**8.2**

- Interest cover, based on operating cash flows excluding sales, was 151% for the 12 months to 31 March 2019. The sector continues to forecast strong operating cashflows, with interest cover over the 12 months to 31 March 2020 expected to be 128%. The reduction in forecast interest cover between the two years is mainly due to an increase in interest payments of £0.1 billion, plus increased investment in major repairs and maintenance of £0.4 billion.

- In the 12 months to March 2020 the sector is forecasting £4.5 billion worth of current asset sales, of which £4.2 billion relates to properties for which development is contractually committed. In the 12 months to March 2019 current asset sales of £3.2 billion were achieved.

- In the 12 months to March 2020, the sector is forecasting £1.7 billion worth of fixed asset sales. In the 12 months to March 2019, fixed asset sales were £2.1 billion.

- Expenditure on new supply in the 12 months to March 2019 totalled £11.8 billion. This was below the total amount forecast in March 2018 of £14.3 billion, but greater than the £9.5 billion committed at that point.

- Capitalised repair and maintenance expenditure for the year ending March 2019 amounted to £1.9 billion, a 7% increase on the year ending March 2018. In the 12 months to March 2020 the sector is forecasting capitalised repairs and maintenance expenditure of £2.3 billion.

[5] Operating cash flow excludes current asset sales receipts and costs of sales. 'Payments to acquire and develop housing properties' include payments in respect of both current and fixed assets.

[6] There are rounding differences in the calculated totals; figures are reported in £000.

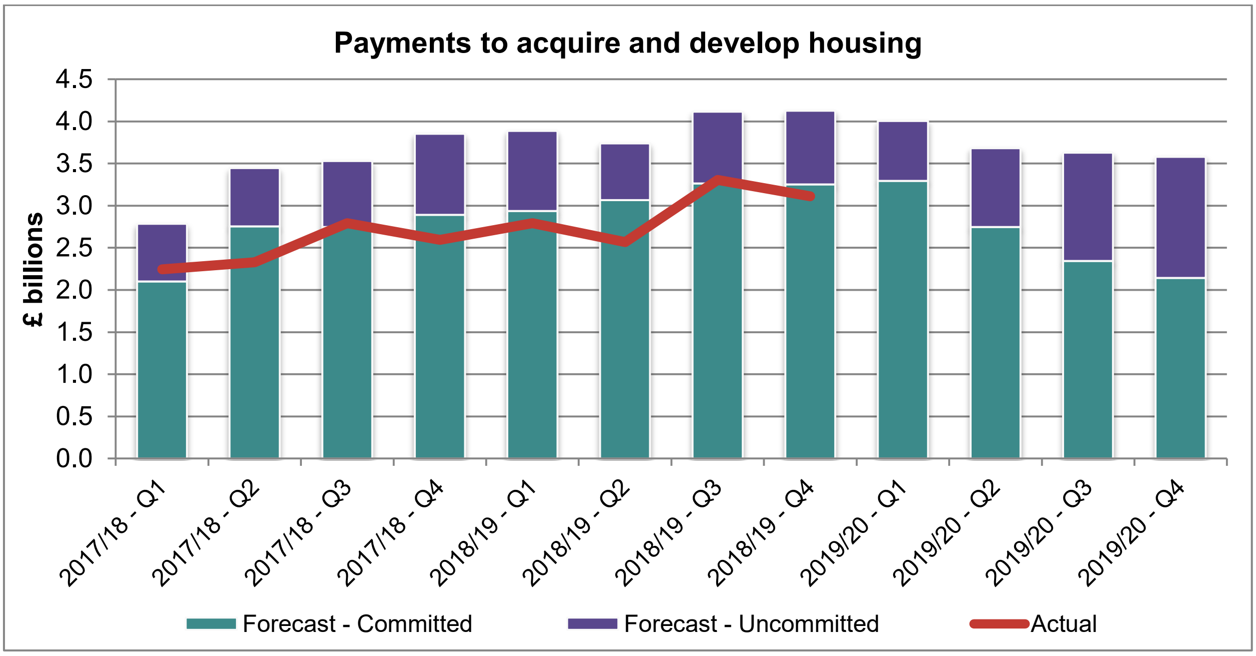
- Available cash balances reduced by £0.5 billion during the quarter, compared to a decrease of £1.9 billion forecast in December. Overall in the 12 months to March 2019, cash balances increased by £0.2 billion.

- Cash available at March 2019 was £6.1 billion; this is forecast to reduce to £4.1 billion over the next 12 months, as cash reserves are used to fund capital investment.

- In addition to the £6.1 billion available, cash held in secured accounts (and therefore not accessible to providers) totalled £1 billion at March 2019 (December 2018: £1 billion).

Development

In the 12 months to March 2019, £11.8 billion was invested in the acquisition and development of housing properties. In the next 12 months £10.5 billion expenditure is committed to acquire and develop housing properties, and a further £4.4 billion of uncommitted expenditure has been forecast.

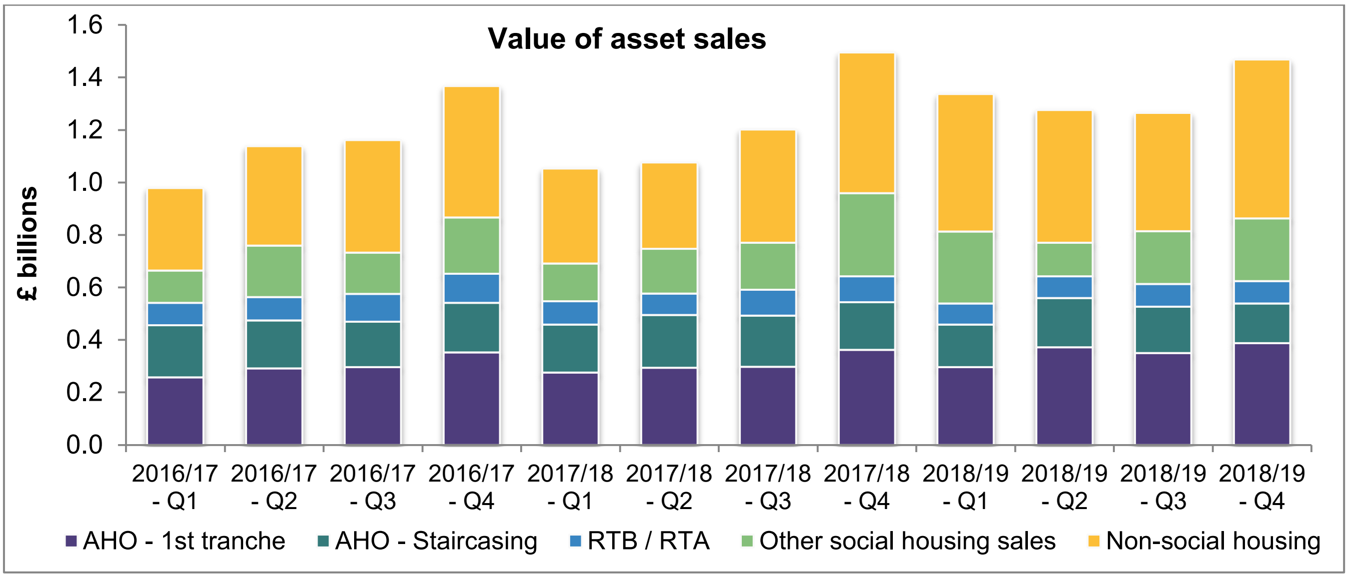


Actual expenditure in the quarter ending March 2019 was £3.1 billion, 6% less than the £3.3 billion reported in the previous quarter. This was below the total forecast expenditure of £4.1 billion, and the £3.3 billion forecast on contractually committed schemes. Development programmes are subject to change and the variances are largely a result of timing differences and slippage.

Providers consistently exercise prudence in the forecasting of development cash flows by over estimating expenditures.

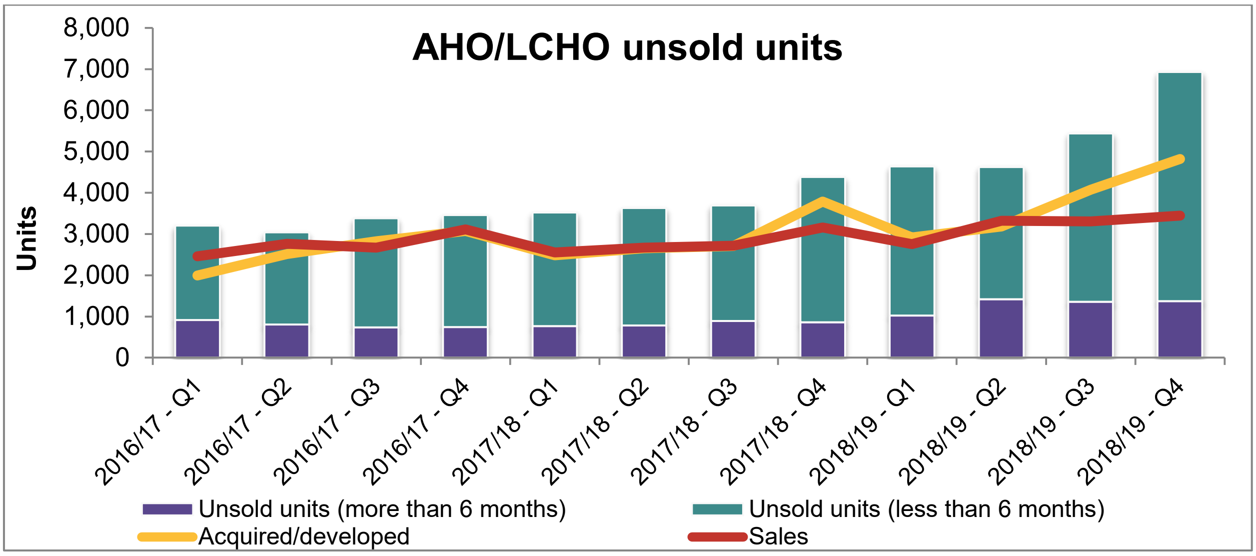
Housing market

Total asset sales amounted to £1.5 billion in the quarter to March 2019. This is the second highest amount achieved in the last three years, being only slightly lower than the figure reported in the quarter to March 2018. It also represents an increase of 16% from the previous quarter, which is consistent with annual trends. Surpluses from asset sales were £0.4 billion, a margin on sales of 31%.

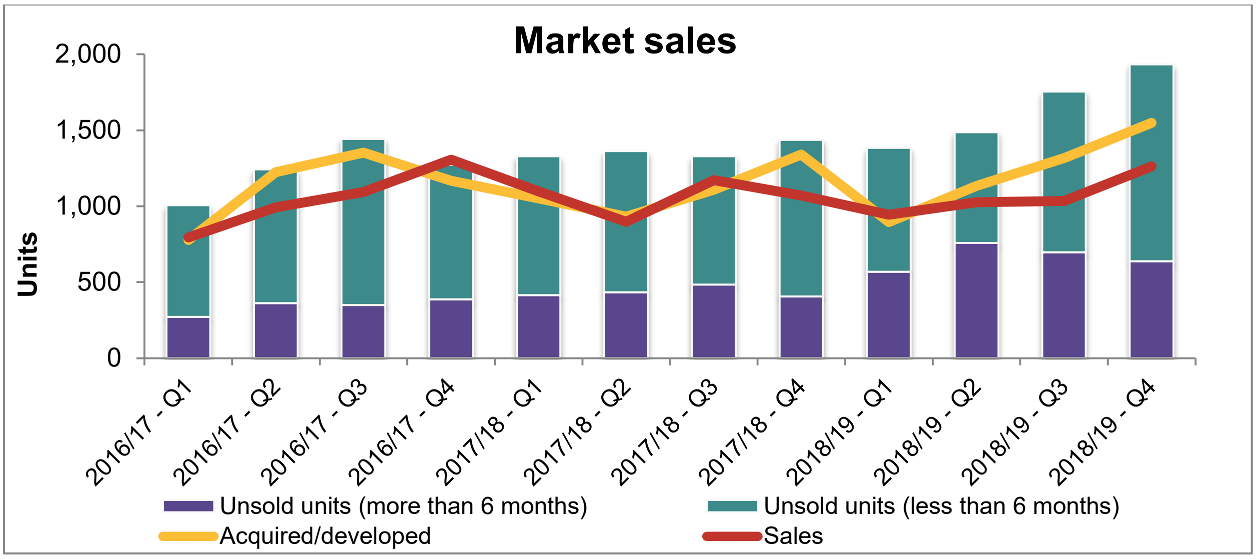


Fixed asset sales for the quarter amounted to £0.5 billion; 7% higher than the amount forecast in December 2018. Current asset sales in the quarter (market sales and first tranche AHO sales) were £1.0 billion; 16% less than the forecast £1.2 billion. Providers typically over-estimate current asset receipts; over the last two years average current asset sales each quarter have been 83% of the amount forecast in the previous quarter.

AHO sales were 3,448 units (December: 3,303) compared to the 4,817 completions reported in the quarter (December: 4,076). The total number of unsold AHO units increased by 27% to reach 6,924 at the end of March (December: 5,438), the highest level in almost ten years. The number of units unsold for more than 6 months increased by 2% to 1,371 (December: 1,350). The total number of unsold units was impacted by net transfers of 118 units that were converted to AHO from other tenures. Half of the unsold AHO stock at the end of the quarter was held by 17 RPs.



Development for outright market sale is concentrated in relatively few providers. There were 1,263 sales in the quarter (December: 1,036) compared to the 1,550 units developed for market sale (December: 1,317). The total number of unsold market sale units increased by 10% to reach 1,933 at the end of March (December: 1,755), the highest level recorded since the data was first collected in June 2014. The number of units unsold for over six months reduced to 637 (December: 697). The number of unsold units was impacted by net transfers of 109 units that were converted from market sale to other tenures. At the end of the quarter, six providers each held over 100 unsold market sale units, accounting for over half of the total unsold units.



The number of both AHO and market sale completions in the quarter, and the number of unsold units at the end of the quarter, reflect an overall strategy of increasing development activity, with completions for both types of tenure being the highest on record. 4,817 AHO units were completed during the quarter, compared to an average of 3,086 per quarter over the last three years. For market sales, 1,550 units were completed compared to the three-year average of 1,154 units per quarter.

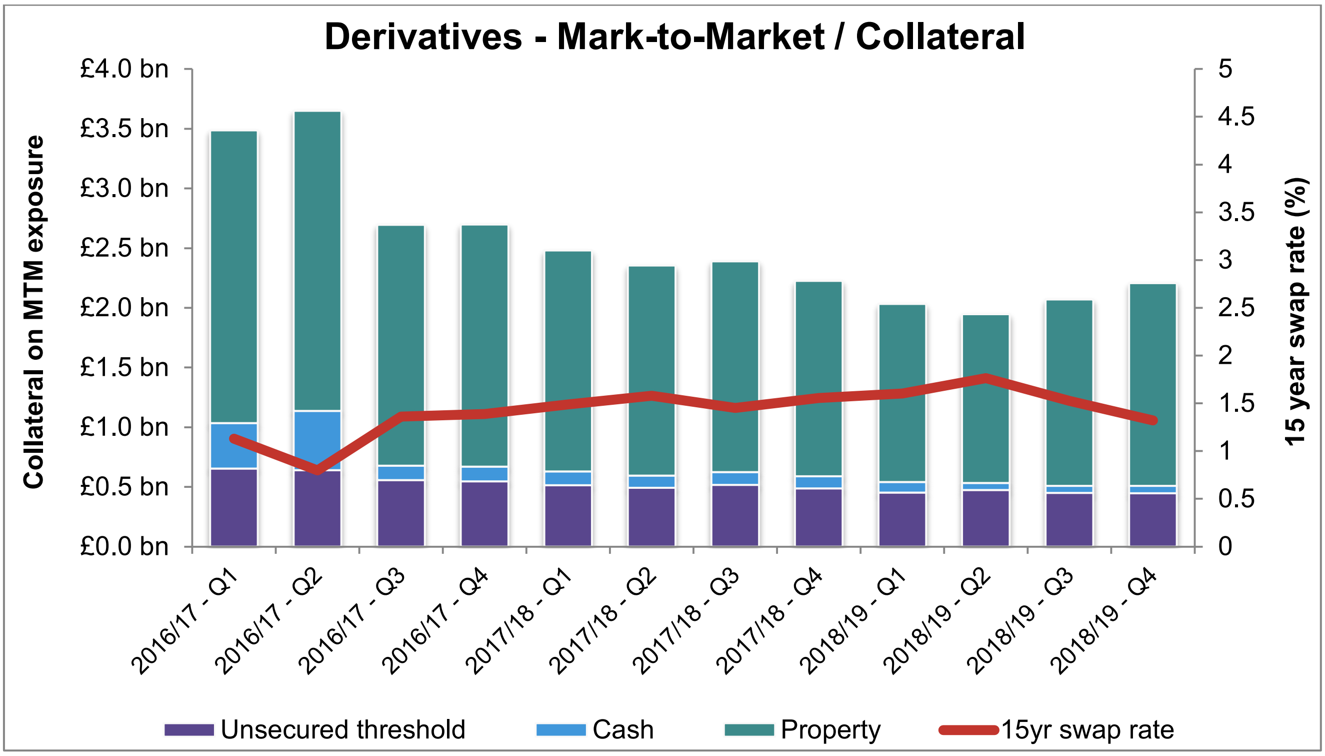
The pipeline of AHO completions expected in the next 18 months is 31,901 (December: 29,991), of which 25,533 are contractually committed. Over the 18 months to March 2019 there were 21,490 AHO completions. For market sale, 13,783 (December: 13,112) completions are expected in the next 18 months, of which 12,756 are contractually committed. Over the 18 months to March 2019 market sale completions totalled 7,344 units.

Unsold units are concentrated in relatively few providers, operating mainly in London and the South East[7]. The providers are well funded at present and have sufficient operating cashflows to maintain liquidity if sales receipts are not realised. We continue to monitor this risk on an ongoing basis and to test business plans to ensure they are robust enough to cope with a range of adverse scenarios.

[7] Defined as providers holding 50% or more of their existing stock within the region

Derivatives

- 41 providers (December: 43) currently make use of free-standing derivatives.
- At the end of March the notional value of standalone derivatives was £8.3 billion (December: £8.5 billion).
- The current gross MTM exposure increased by 7% from December to £2.2 billion.
- Unsecured thresholds and available security pledged to swap counterparties was £3.3 billion. Of this total collateral, £1.9 billion (December: £1.7 billion) had been employed in the form of property or cash, together with unsecured thresholds of £0.4 billion.
- The additional excess collateral available consists primarily of property pledged but not employed.



The above graph shows MTM exposures, excluding excess collateral. Sterling swap rates at the end of March were at their lowest point since quarter 2 of 2016/17, resulting in an increase in MTM exposure.

Collateral given in terms of security and cash continues to exceed the sector's current exposure levels; this provides some mitigation against the risk of further adverse movements in the swap rate. At sector level, the headroom of collateral available over current exposure was £1.1 billion.

Interest rate volatility means that collateral requirements will remain a long-term exposure. Individual providers must ensure that they have sufficient available security, as a fall in swap rates has the potential to increase MTM exposure. The Regulator will continue to monitor ongoing movements in the swap rate and to engage with providers where there are significant levels of exposure.

Non-registered entities

- 145 providers (2018: 142) have investment in, or are lending to, non-registered subsidiaries, special purpose vehicles or joint venture entities. The total value of the investment or indebtedness is reported to be £8 billion, a 26% increase on the £6.4 billion reported in 2018. The two providers with the highest levels of investments account for over one-third of the total figure, and over one-half of the increase since 2018.

- 30 providers (2018: 35) have given guarantees of £2.3 billion (2018: £3.3 billion) on the obligations or liabilities of other parties. Of these, 8 (2018: 8) have given security.

- 65 providers (2018: 64) report that a joint venture or non-registered subsidiary is forecasting a loss in their 2019 accounts, the total value of which is forecast to be £75 million.

Where providers engage in activities through non-registered entities, the Regulator seeks assurance that boards understand the associated risks and that social housing assets are not exposed to undue risk.

Impairment

- 57 providers (2018: 54) anticipate an impairment charge in their 2019 accounts.

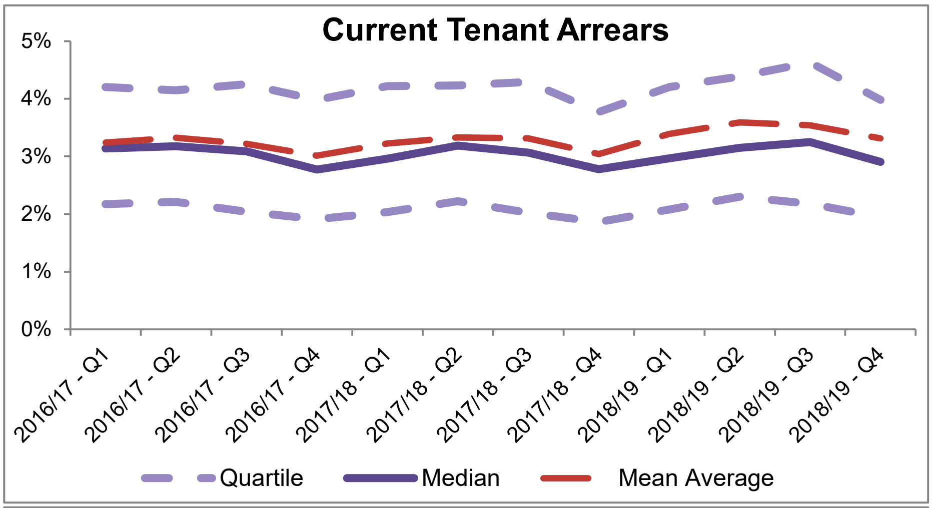
- The total anticipated charge is £73 million, of which £31 million relates to social housing assets (2018: £106 million, £46 million).

- 37 providers (2018: 28) forecast an impairment charge of less than £1 million. More than half of the total impairment charge is forecast by six providers; and over one-third is attributable to three providers.

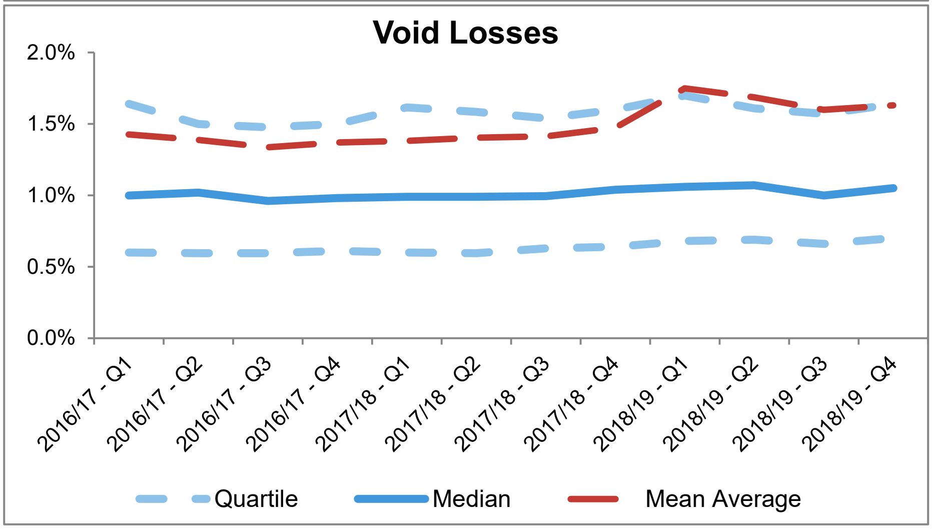
All the providers anticipating impairment in their 2019 accounts have reported that the impairment charge will not affect their meeting of funding covenants in the next three years. We continue to monitor the potential effect of impairment on the finances and loan covenants of individual providers.

Income collection

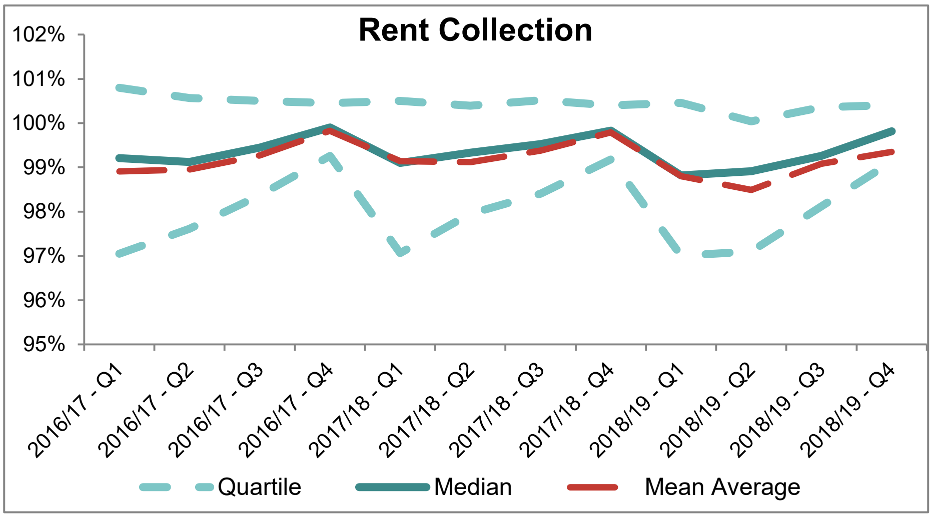
Most providers (86%) continue to report that the current levels of arrears, rent collection and voids are within, or outperforming, their business plan assumptions. The responses for each quarter remain reasonably stable, suggesting that providers are managing income collection risks and maintaining cash flows within business plan parameters. Fluctuations in income collection and arrears are broadly consistent with seasonal trends. Housing benefit cycles remain likely to have an impact on rent collection data.



Median and mean current tenant arrears both reduced during the quarter to 2.9% and 3.3% respectively (December: 3.3% and 3.5%). These are both slightly higher than the results for March 2018, when median arrears were 2.8% and mean arrears 3%.



Median void losses increased slightly during the quarter to 1.1% (December: 1%), while mean void losses remained at 1.6%. The mean average is affected by 12 providers reporting void losses of 5% or more.



Median and mean average rent collection both increased during the quarter to 99.9% and 99.6% respectively (December: 99.3% and 99.1%). This is consistent with the results from March 2018, when the median and mean averages were both 99.8%. Five providers reported rent collection rates of less than 95% (December: nine).

This publication is available at https://www.gov.uk/rsh

Any enquiries regarding this publication should be sent to us via enquiries@rsh.gov.uk

or call 0300 124 5225.

or write to:

Regulator of Social Housing
1st Floor - Lateral
8 City Walk
Leeds LS11 9AT

The Regulator of Social Housing regulates registered providers of social housing to promote a viable, efficient and well-governed social housing sector able to deliver homes that meet a range of needs.