



Homes &
Communities
Agency

QUARTERLY SURVEY OF PRIVATE REGISTERED PROVIDERS

2013/14 Quarter 3

Quarterly Survey of Private Registered Providers

December 2013

Introduction

The December 2013 quarterly survey report is based on responses from the 266 private registered providers (PRPs) of social housing who own or manage more than 1,000 homes.

The survey results continue to indicate that the sector as a whole remains financially strong. The sector continues to access sufficient finance and to manage its risk exposure in respect of affordable home ownership (AHO) sales and its mark- to- market collateral position. A further increase in forecast AHO completions over the next 18 months indicates a potential increase in sales activity in this time period. Providers must manage the associated risks effectively.

The introduction of welfare reforms has meant that providers have been implementing plans to manage the impact of welfare reform on their cash flows. These reforms included the launch of housing benefit size criteria restrictions for working age claimants in the social rented sector (under occupancy) in April 2013. The Regulator will continue to monitor income collection to ensure that providers manage their financial position.

Summary of findings

- The sector's total reported borrowing facilities total £70.6billion.
- £59.3billion is currently drawn, leaving undrawn facilities of £11.3billion.
- Cash available to the sector is reported to be £4.2billion (September £3.5billion).
- New facilities arranged in the quarter are reported by providers to total £2.1billion (September £1.1billion), this brings the total for the year to date to £3.7billion.
- Capital market funding, including private placements, contributed 74% of the new funding in the current quarter and 58% for the year to date.
- Over the next 12 months the sector forecasts drawdowns of £5.2billion (September £5.9billion).
- 92% of respondents continue to anticipate that current debt facilities are sufficient for more than 12 months.
- 49 PRPs continue to make use of free standing derivatives. The notional value of standalone derivatives is reported at £9.2billion (September £9.3billion).
- The current reported mark-to-market (MTM) exposure net of unsecured thresholds is £1.0billion; collateral of £1.5billion has been given, in the form of property or cash.
- On AHO, 2,121 first tranche sales were achieved in the quarter (September 1,969); 2,751 homes remained unsold (September 2,976), of which 1,039 had been unsold for over six months (September 1,221).
- There were 1,936 AHO completions and acquisitions in the quarter (September 1,589).
- Pipeline AHO completions expected in the next 18 months were 18,886 (September 17,773).
- Total asset sales of £704million (September £643million) were achieved in the quarter generating a profit of £225million (September £206million).
- There is no indication of adverse performance in arrears, voids and rent collection, compared with business plan projections, for the majority (91%) of providers.

Operating context

UK economic indicators showed continued economic growth in the final quarter of 2013. Preliminary estimates issued by the Office for National Statistics (ONS) showed annual GDP growth of 1.9%; the estimate for the final quarter was 0.7% growth. Inflation figures for the year to December were CPI 2.0%, CPIH 1.9% and RPI 2.7%.

Average weekly earnings (excluding bonuses) were reported by ONS to have risen by 0.9%. This real term reduction in incomes combined with reduced benefits contributes to the continued need for providers to actively manage income collection.

The Bank of England base rate has remained at 0.5% since March 2009. Three month sterling LIBOR also remained low at 0.53% in December. Providers have therefore continued to benefit from low interest rates on their variable rate debt. However, providers will need to continue to monitor and review exposure to future fluctuations in interest rates in setting treasury management strategies.

UK unemployment figures fell to 7.1% (a reduction of 167,000 to 2.32million) in the three months to November 2013.

The Nationwide House Price index reported increases in property prices across all regions over the year to December. The annual percentage increase in average house price was reported to be 7.1%. There was continued regional variation within this headline figure. The largest regional increase was reported to be 14.9% in London; with an increase of 1.9% reported for the North of England.

Income collection

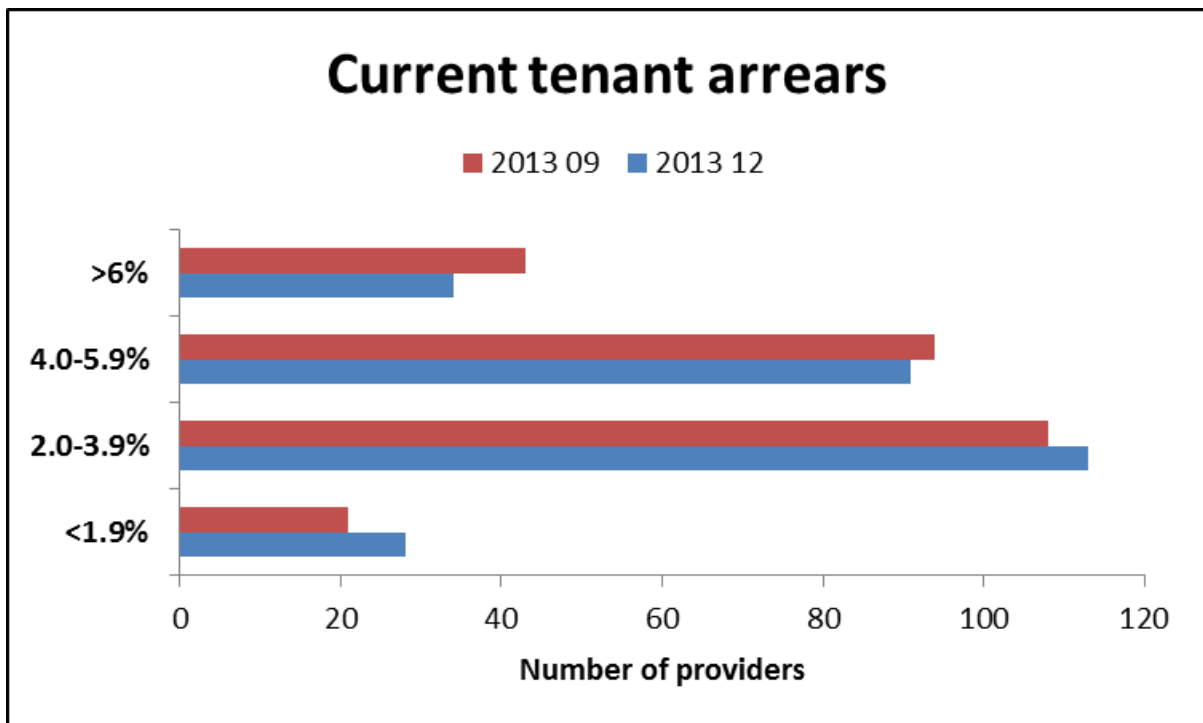
The [Sector Risk Profile \(September 2013\)](#) identifies welfare reform as a strategic risk to be managed by providers. The risk profile of Affordable Rent and market rented products is also highlighted as a risk to be managed, along with changes to rent policy from 2015. The potential impact of these factors on the operating environment reinforces the need for well managed income collection to maintain cash flows.

In Quarters 2 and 3 additional questions were included in the survey; these are intended to assess the impact of the operating environment on income collection and cash flow. The survey asked for percentages for current tenant arrears, rent collection and voids¹. The graphs below suggest that there was some improvement in income collection rates in the current quarter. With data for just two quarters, it is not possible to draw firm conclusions or demonstrate trends in the results. Whilst the cycle of housing benefit payments and rent debits does affect these percentages, responses for each quarter are sufficiently stable to suggest that providers are continuing to manage the risks and to maintain cash flows within business plan parameters.

¹ We asked for current tenants' rent arrears as a percentage of annualised rent receivable; the percentage of rent receivable collected in the year to date and the percentage of rent receivable lost through voids in the year to date.

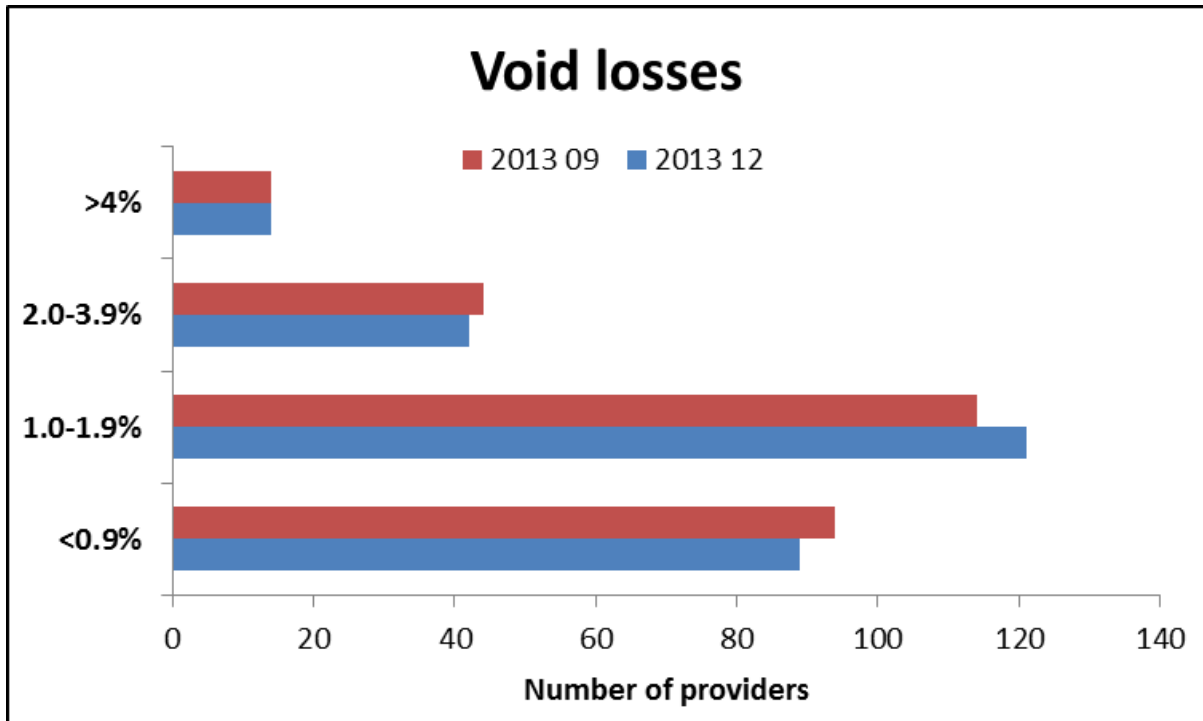
Most providers (91%) continue to report that the current levels of arrears, rent collection and voids are within or outperforming their business plans. However, as noted in the previous quarter, these plans are typically based on assumptions that there would be a degree of adverse impact from welfare reform measures. Providers were also asked to provide narrative comments on their performance in these areas. Where performance is reported to be worse than the current business plan, losses from void properties continue to attract the most comments. A small number of providers again made specific mention of higher volumes of voids in larger properties and suggested that this may be attributable to under occupation. This will continue to be monitored through regulatory engagement with those providers.

Reported current tenant rent arrears percentages are illustrated in the chart below. Of the survey respondents, 84% report that current tenant rent arrears are below 6%. The sector aggregate current tenant arrears level, based on the latest published annual accounts data, was 4.8%.



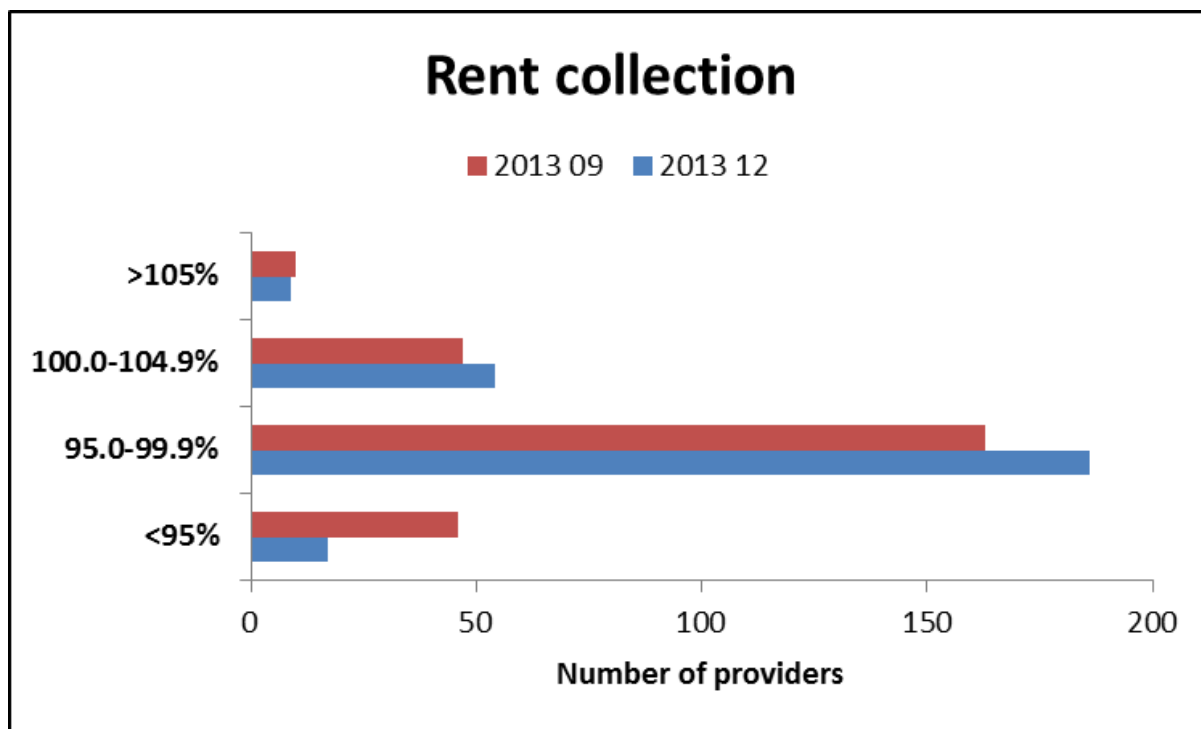
The current tenant arrears reported this quarter represented an improvement in comparison to the previous quarter. The average figure was 4.1%. The median level of rent arrears was 3.9%, down from 4.1% last quarter. The improvement was broad based, with arrears figures lower across all deciles of performance.

The chart below shows reported void losses. Over three quarters of providers, an additional two providers in comparison to the previous quarter, reported void losses of lower than 2%. The aggregate sector void loss percentage, as reported in the latest published sector annual accounts, is 1.75%.



Both average and median void loss percentages reported are unchanged from those reported last quarter at 1.59% and 1.20% respectively. There was some improvement from providers with high levels of voids which was offset by a slight deterioration in performance by providers with low levels of void loss.

Rent collection figures, presented in the graph below, show that 92% of providers report rent collection for the year to date to be in excess of 95%².



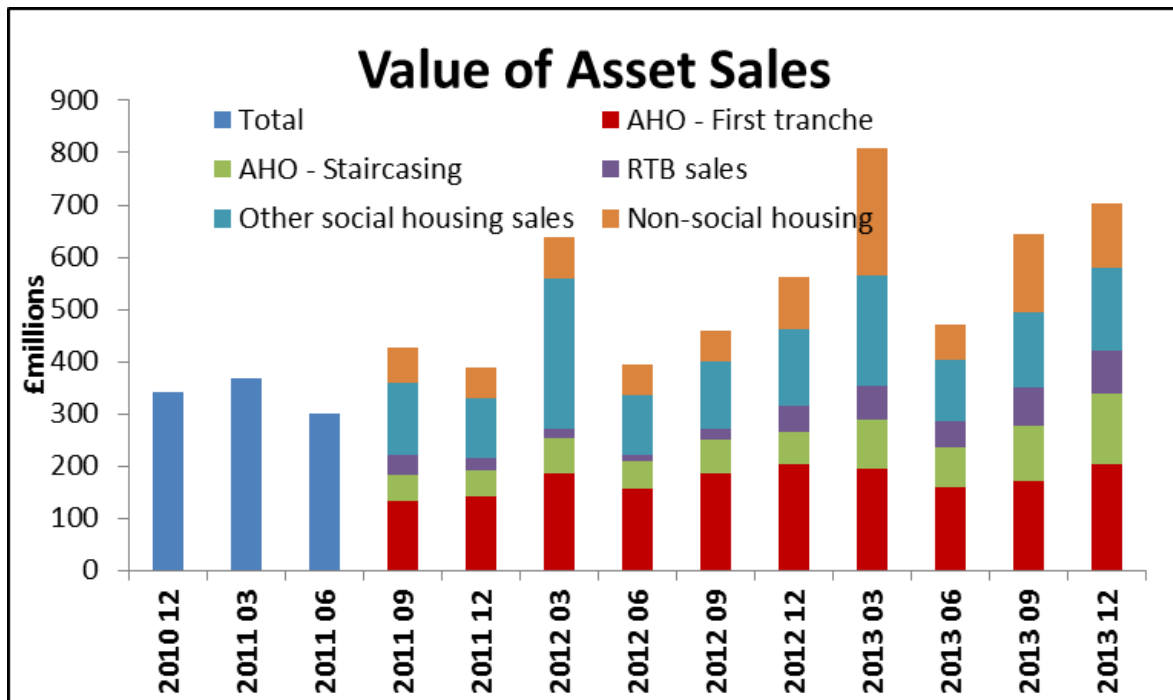
Average and median rent collection percentages are 99%, compared to 98% last quarter. There are 29 fewer providers reporting rent collection rates of less than 95%, suggesting that housing benefit payment cycles have had a material impact on the changes to the reported figures between the two quarters. The overall picture on income collection is one of stability between this quarter and the last and, as providers continue to report on this in future quarters, trends across time periods will become more discernible.

Housing market

Total revenue from asset sales (including AHO first tranche and staircasing, Right to Buy (RTB) and other social and non-social housing) was £704million (September £643million). Surpluses on sales were reported at £225million (September £206million).

Revenue was higher than Quarter 2 in all categories in Quarter 3, with the exception of non-social housing; surpluses increased across all categories. Sales for the year to date are £1.8billion, compared with £1.4billion for the same three quarters of 2012/13.

² Rent collection may exceed 100% where rents have been paid in advance or previous arrears have been recovered.



Income from first tranche sales was £202million, with surpluses of £35million. Staircasing sales were £136million. Income from RTB sales was £83million. As stated in previous quarters, income from RTB sales does continue to provide cash to the sector. However, the long term risks associated with the loss of rental income and the replacement of this stock do need to be managed. Other social housing sales of £159million included stock rationalisation transfers to other registered providers, which does not represent a loss of stock from the social housing sector.

The Quarter 3 figures show³:

- 1,936 AHO homes were acquired or developed (September 1,589)
- 2,121 were sold (September 1,969)
- 2,751 remained unsold (September 2,976)
- The number unsold for over six months decreased to 1,039 (September 1,221)

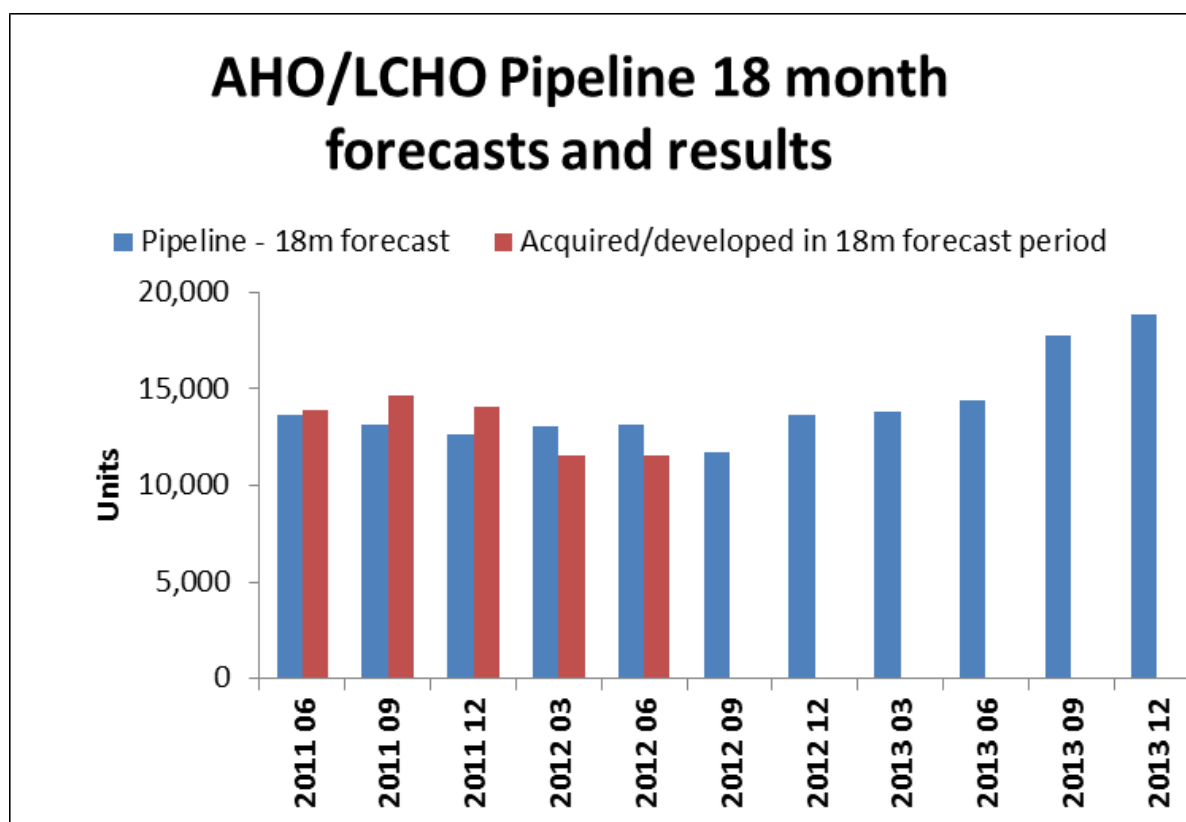
This is the third successive quarter showing a reduction in reported numbers of unsold AHO units. The number of properties that have remained unsold for more than six months has fallen to its lowest level for more than three years. It should be noted, however, that these reductions in the level of unsold properties have been achieved in a period where unit sales have averaged 2,000 per quarter and new units developed or acquired have averaged 1,700 per quarter. The level of development activity is forecast to increase significantly as illustrated below.

³ There is a reconciliation difference between units reported as unsold at quarter ends. This is due to a number of factors, including short term timing differences in providers recording units as completed and available for sale.

Development forecasts and delivery

Providers report that 18,886 units are forecast to be completed over the next 18 months, representing a run rate of around 3,150 per quarter. This is an increase of 6% on the previous quarter's forecast. Most of this increase (1,000 units) is attributable to three providers; both positive and negative smaller variations in forecasts were made by a number of providers. As noted in the previous quarter, more activity is expected towards the end of the Affordable Homes Programme 2011-2015 delivery period.

The chart below demonstrates a step change increase in the number of AHO properties forecast to be completed over the next 18 months. Until September 2013, the pipeline of AHO properties had been stable at around 13,000 units for twelve quarters. There was an increase to 17,773 in September 2013. The current forecast of 18,886 homes over the next 18 months exceeds the track record on delivery over the preceding 18 months by 7,300 (63%).



For five quarters we can assess the number of units developed or acquired against the pipeline projections that were submitted. The track record on delivery against these forecasts has been included in the chart above. The actual reported completions exceeded forecast in the three quarters June 2011 to December 2011. However, for March 2012 and June 2012, reported completions in the following 18 months were below forecast.

The Regulator will continue to engage with providers to gain assurance that the risks associated with development programmes are controlled and monitored by boards. In particular, providers will need to be mindful of local housing market conditions and potential sales risks where large numbers of properties become available for sale.

Financing market

New facilities arranged in the quarter totalled £2.1billion. This was a further increase on the previous quarter and brings the total new facilities arranged in 2013/14 to £3.7billion. New finance was raised from banks and bond markets. Three quarters of the new funding came from capital markets; this included own name bonds, private placements and funding made available by the European Investment Bank through a bond aggregating vehicle.

The sector currently reports facilities of £70.6billion, of which £59.3billion is drawn, leaving undrawn facilities of £11.3billion. Cash available to the sector is reported to be £4.2billion (September £3.5billion); the increase over the quarter was driven by increases in drawn funds from bond issues in the quarter.

Planned drawdowns over the next 12 months are forecast to be £5.2billion (September £5.9billion); the decrease is offset by the increased cash balances reported this quarter. At sector level, there is sufficient funding in place to cover planned drawdowns. Security is reported to be in place for £67.7billion of debt, this represents 96% of agreed debt; at sector level there is sufficient security in place to provide 105% cover for drawn debt plus planned drawdowns. At provider level, the Regulator continues to actively engage with providers reporting less than 18 months available facilities.

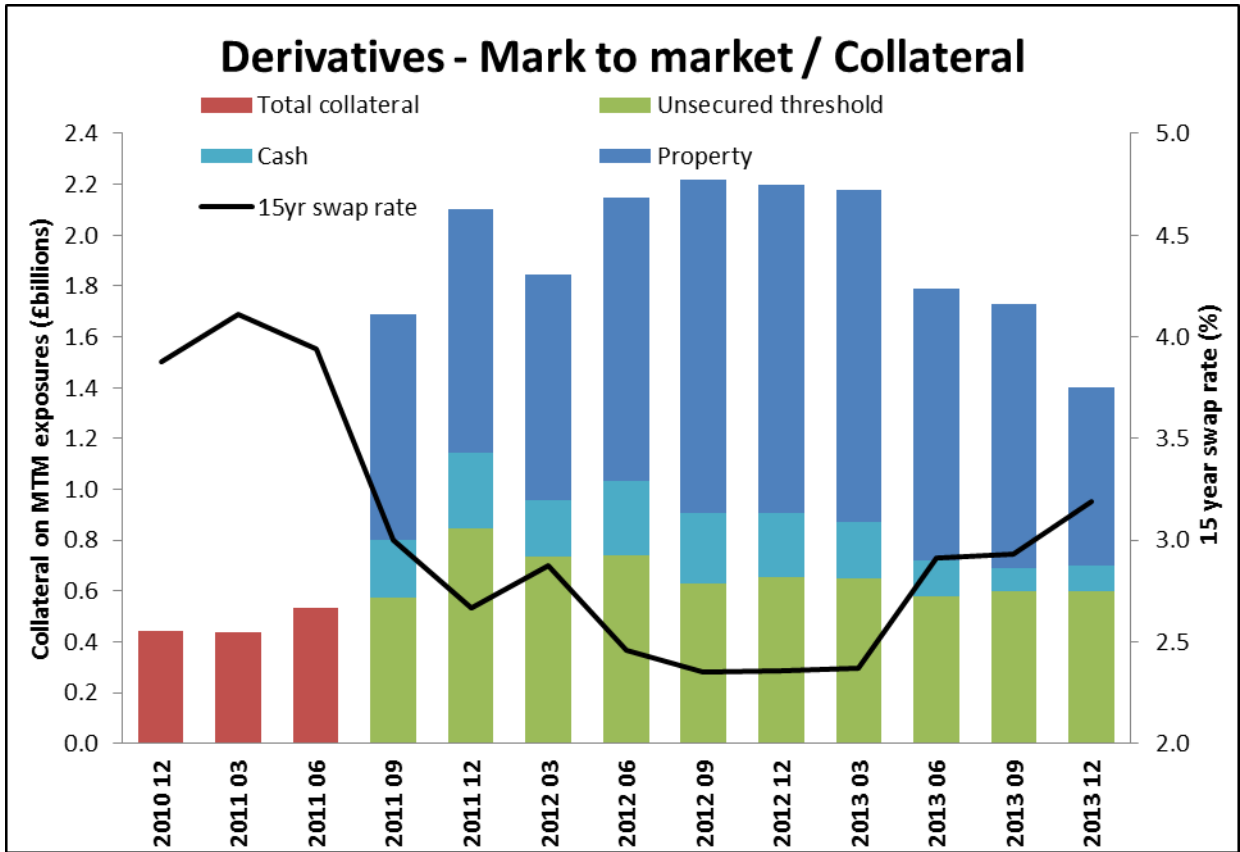
Derivatives

The number of providers reporting that they make use of free standing financial derivatives remains at 49. The notional value of the instruments is £9.2billion (September £9.3billion). The average term of the instruments remains 15 years. Potential interest rate volatility means that collateral requirements will remain a long term exposure. The Regulator will continue to monitor this exposure and assess its management as part of its financial regulation of individual providers.

At sector level, collateral given in terms of security and cash continues to exceed current exposure levels and to provide some mitigation against liquidity risk which remains as interest rates continue to be volatile.

The mark-to-market (MTM) exposure net of unsecured thresholds is currently reported to be £1.0billion (September £1.1billion). Collateral of £1.5billion in the form of property and cash has been given against this exposure. Excess collateral, totalling £565million is reported by 24 providers, providing assurance that these providers are able to withstand future interest rate changes.

Cash collateral now stands at £78million (September £91million). The Regulator will continue to monitor exposure to cash calls.



The chart above shows mark-to-market exposure, excluding excess collateral, and illustrates movements in exposure relative to the 15 year swap rate.

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