Homes & Communities Agency

QUARTERLY SURVEY Q2 (JULY TO SEPTEMBER) 2015 TO 2016

November 2015

Quarterly survey of private registered providers - September 2015

The quarterly survey report is based on responses from 242 private registered providers (PRPs) and PRP groups who own or manage more than 1,000 homes.

The quarterly survey is a key regulatory return, providing a regular source of information regarding the financial health of PRPs, in particular with regard to their liquidity position. Where any information received through the quarterly survey indicates a potential concern, this is followed up with providers.

Summary

The quarterly survey findings are that:

- the sector remains financially strong with access to sufficient finance, £13.8 billion of undrawn facilities are in place
- new finance of £1.8 billion was raised in the quarter through both bank loans and capital markets
- the sector has cash balances of £5.3 billion - this is expected to reduce in the next 12 months to £4.1 billion
- the September quarter results of £596 million current asset sales and £403 million fixed asset sales both exceeded the June forecasts for the September quarter of £531 million and £299 million respectively
- actual investment in housing supply of £1.4 billion in the September quarter was below the June forecast of £2.3 billion
- investment in new housing supply for the financial year up to 31 March 2016 is forecast to be £7.5 billion, a £1 billion decrease relative to the £8.5 billion forecast in the June return over the same time period
- the sector continues to forecast strong operating cashflows for the next 12 months, expected net operating cashflow is £4.9 billion, including £2.5 billion of current asset sales
- non-operating cashflows include £1.2 billion of fixed asset sales over the next 12 months
- providers making use of free standing derivatives reported an 8% increase in mark-to-market (MTM) exposure in the quarter to £2.6 billion
- providers continue to have further headroom on available collateral should there be a further increase in MTM exposure
- affordable home ownership (AHO) stock available for sale reduced by 14% in the quarter as sales exceeded completions
- the stock of property available for market sale remains stable and concentrated in a small number of providers
- income collection data continues to show a consistent performance in comparison to the corresponding quarter end the previous year

Operating environment

The quarterly survey returns summarised in this report cover the period from 1 July 2015 to 30 September 2015. In July, the budget announcement introduced a number of policy changes which will materially affect business planning assumptions and rent setting from April 2016. The regulator required all PRPs to submit revised business plans by 30 October demonstrating how they plan to meet the impact of the announced changes.

Post quarter-end, the Office for National Statistics took the decision to re-classify PRPs as public corporations. This decision should not have an impact on the forecasts made in the quarterly survey returns.

The key risks faced by the sector are considered in the Sector Risk Profile published annually by the regulator; which was revised in September 2015. Analysis of the economic operating environment can be found in the HCA monthly housing market bulletin.

Private finance

- the sector's borrowing facilities total £78.5 billion, 72% of which is bank loans
- £64.7 billion is currently drawn, leaving undrawn facilities of £13.8 billion
- cash available to the sector is £5.3 billion (June £4.9 billion)
- new facilities arranged in the quarter totalled £1.8 billion. Bank lending accounted for 65% of the new funding in the quarter; capital market funding, including private placements, contributed 30%; the remaining 5% was primarily local authority lending
- 98% (June 97%) of providers forecast that current debt facilities are sufficient for more than 12 months
- of the £78.5 billion total loan facilities, £74.1 billion has been secured, a further £1.8 billion of facilities do not require security. There are agreed facilities of £2.6 billion where security is not yet in place

Cash flows

In June 2015, the quarterly survey collected cash flow data for the first time. It is essential that providers have access to sufficient liquidity at all times. The regulator will engage with PRPs with low liquidity indicators or forecasting drawdowns from facilities not yet agreed or secured.

Summary cash flow forecast

	12 months to 30 September 2016 **£bn**	12 months to 30 June 2016 **£bn**
Operating cashflows	4.9	5.2
Interest cashflows	(3.1)	(3.1)
Payments to acquire and develop housing	(8.8)	(9.0)
Disposals of housing fixed assets	1.2	1.2
Other cashflows	(0.2)	(0.4)
Cashflows before resources and funding	**(5.9)**	**(6.1)**
Financed by:		
Net grants received	0.6	0.7
Net increase in debt	3.8	4.1
Use of cash reserves	1.4	1.2
Total funding cashflows[1]	**5.9**	**6.1**

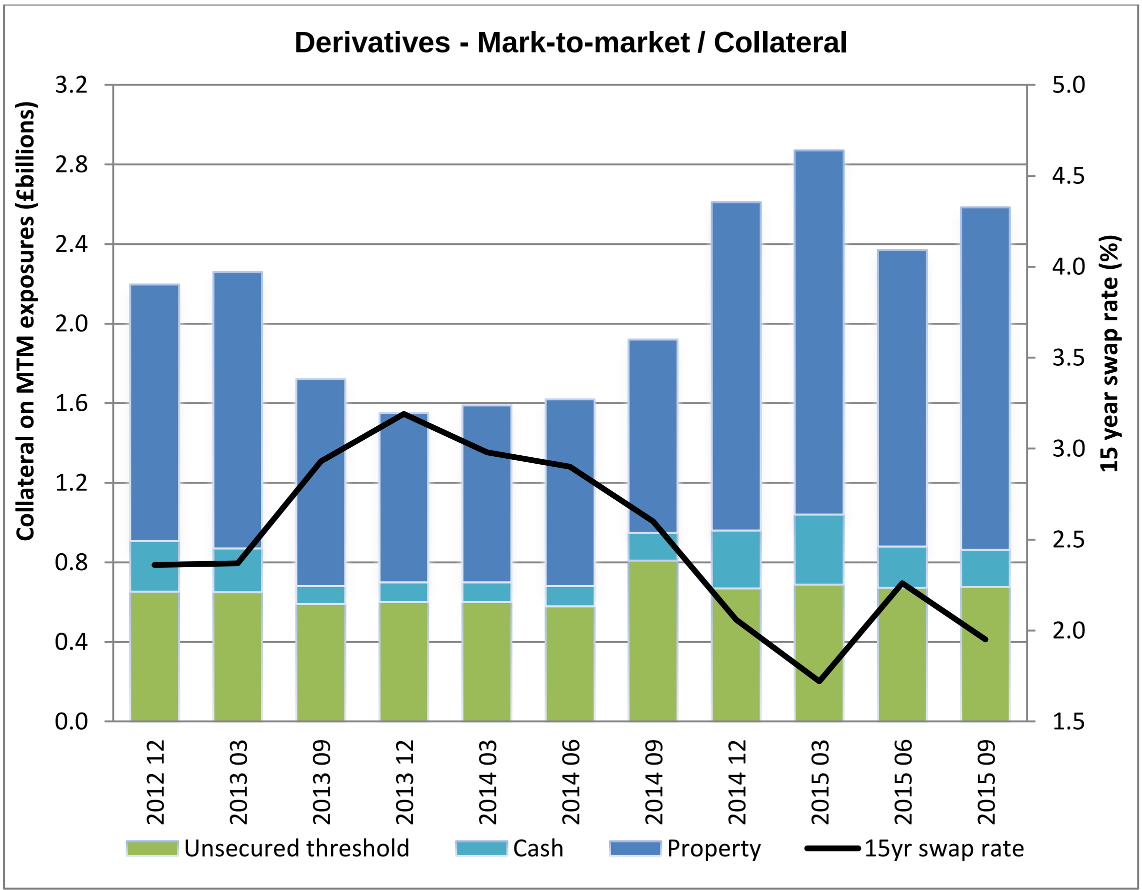
- cash available to the sector at the September 2015 quarter end was £5.3 billion; this is forecast to reduce to £4.1 billion over the next 12 months (£1.4 billion is forecast to finance providers' activities; £0.2 billion is forecast to be released from security covering derivative positions)
- cash interest cover over the 12 months up to 30 September 2016 is projected to be 160% (June returns 168% for the 12 months up to 30 June 2016)
- within operating cashflows, £2.5 billion current asset sales are forecast, of which £2.3 billion relates to committed development (June £2.1 billion sales, £1.7 billion committed). This continues to make a significant contribution to cash interest cover
- payments of £5.7 billion to acquire and develop housing properties are committed in the next 12 months, with a further £3.1 billion not contractually committed (June £6.2 billion committed, £2.8 billion not committed)

[1] There are rounding differences of £0.1bn in the calculated totals as figures are reported in £000s in individual returns.

- actual payments to acquire and develop housing properties of £1.4 billion in the September quarter was below the June forecast for the quarter of £2.3 billion
- investment in new housing supply for the financial year up to 31 March 2016 is forecast to be £7.5 billion, a £1 billion decrease relative to the £8.5 billion forecast in the June return over the same time period
- forecast development spending to September 2016 is predominantly funded by debt, cash reserves, operating cashflows and fixed asset sales, with grant funding forecast to contribute 7% of development spending (June 8%)
- loan drawdowns of £6.0 billion are forecast with repayments totalling £2.2 billion (movements on revolving credit facilities are shown gross within these figures)

Derivatives

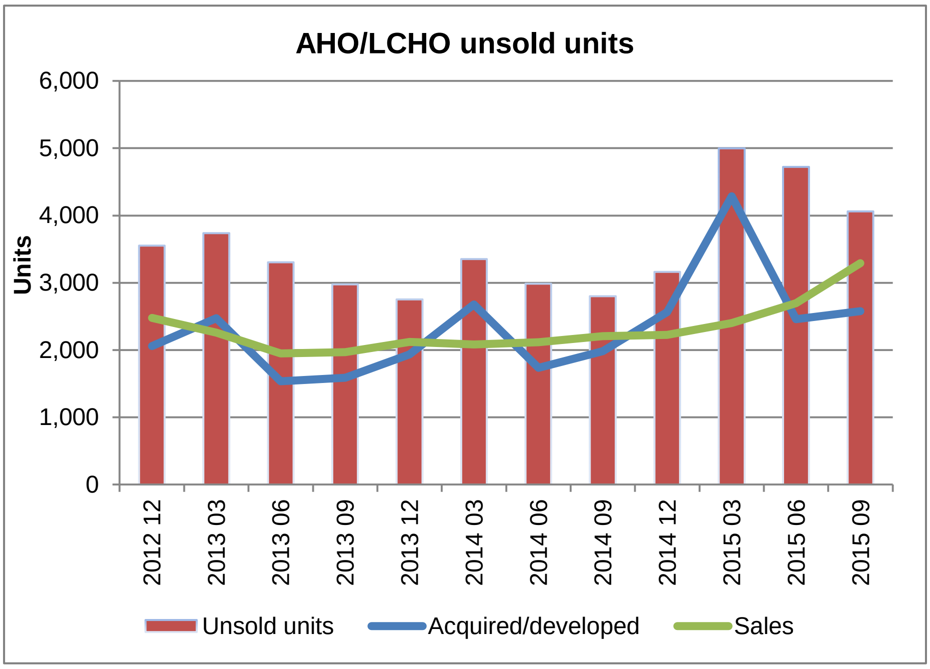
- the number of providers making use of free standing derivatives was 48. The notional value of standalone derivatives was £9.6 billion (June £9.5 billion)
- the current gross MTM exposure increased to £2.6 billion (June £2.4 billion); collateral of £2.2 billion (June £2.1 billion) has been employed against this exposure in the form of property or cash, with unsecured thresholds of £0.7 billion also employed

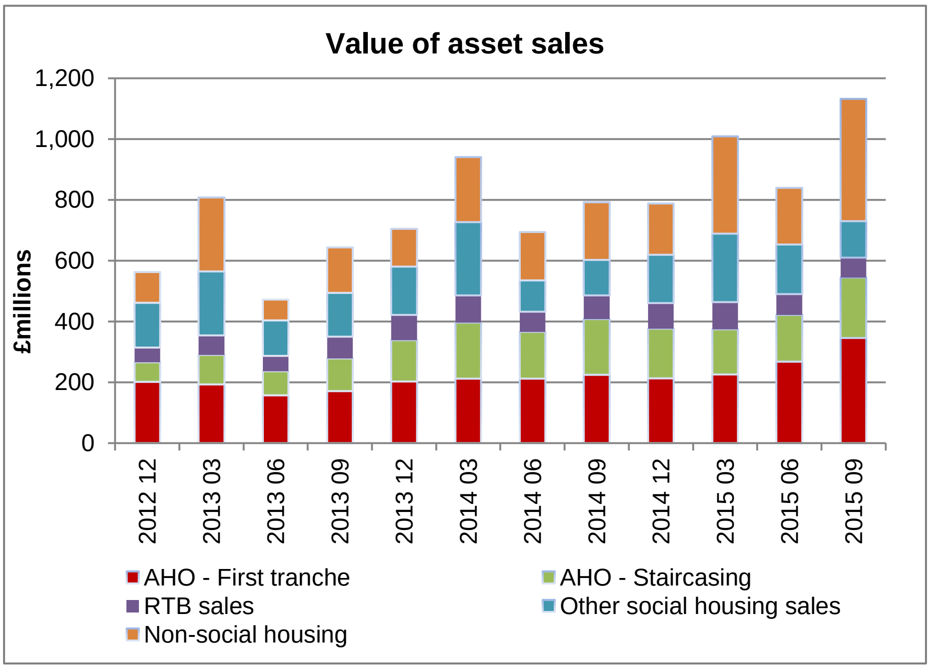


The graph above shows MTM exposures, excluding excess collateral. It illustrates movements in exposure relative to the sterling 15 year swap rate. The decrease in the swap rate over the quarter was reflected in increased MTM exposure. At sector level, collateral given in terms of security and cash continues to exceed current exposure levels. This provides some mitigation against liquidity risk. At sector level, providers report unsecured thresholds and available security pledged to swap counterparties of £3.7 billion; of this total collateral, £2.9 billion was employed at the quarter end. Interest rate volatility means that collateral requirements will remain a long term exposure.

Housing market

- on AHO, 3,292 first tranche sales were achieved in the quarter (June 2,697), 4,061 homes remained unsold (June 4,723) of which 1,206 had been unsold for over 6 months (June 984)
- there were 2,578 AHO completions and acquisitions in the quarter (June 2,458)
- pipeline AHO completions expected in the next 18 months are 17,807 (June 18,906) of which 14,408 are contractually committed
- on market sales, 1,124 sales were achieved (June 521); 798 homes remained unsold (June 779), of which 258 had been unsold for over 6 months (June 186)
- there were 1,094 homes developed for market sale in the quarter (June 625)
- pipeline market sales completions expected in the next 18 months are 8,043 (June 6,719) of which 7,115 are contractually committed
- total asset sales of £1.1 billion (June £839 million) were achieved in the quarter generating a surplus of £363 million (June £294 million)





AHO sales continued to exceed completions leading to a 14% reduction in the stock of unsold units. However, there was an increase of 23% in AHO stock unsold for over 6 months.

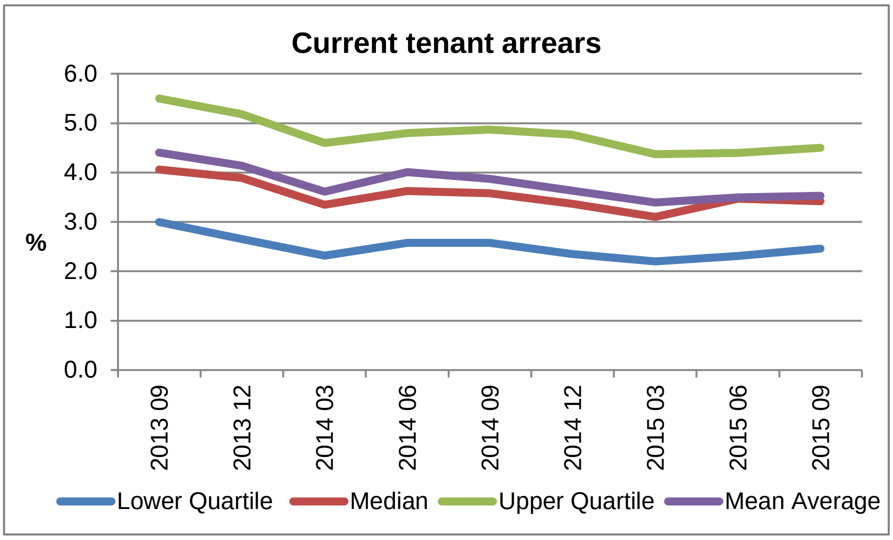
AHO development and sales activity remains concentrated in relatively few providers. Half of all the unsold AHO stock at the end of the quarter is held by 22 providers.

For market sales, over half of the total unsold stock at the end of the quarter is held by 10 providers.

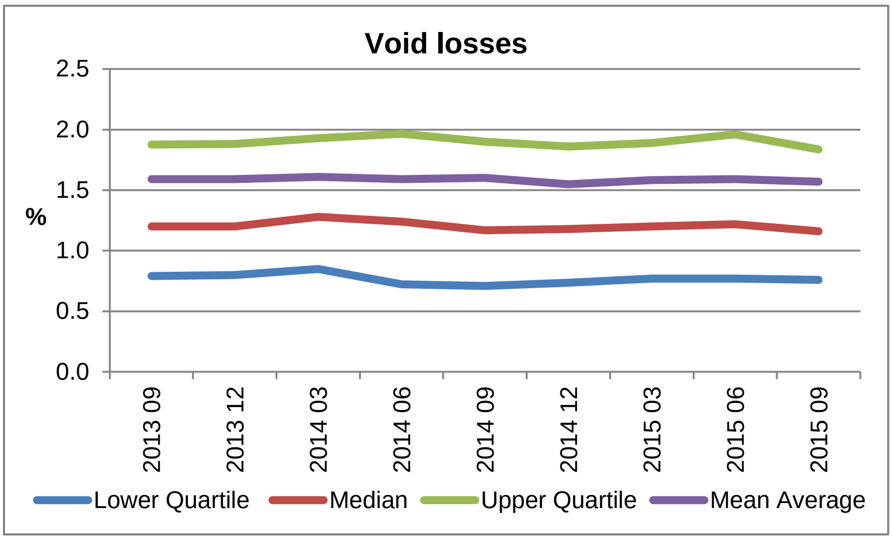
Both revenue and surplus on asset sales increased in the September quarter, this follows the normal seasonal trend.

Income collection

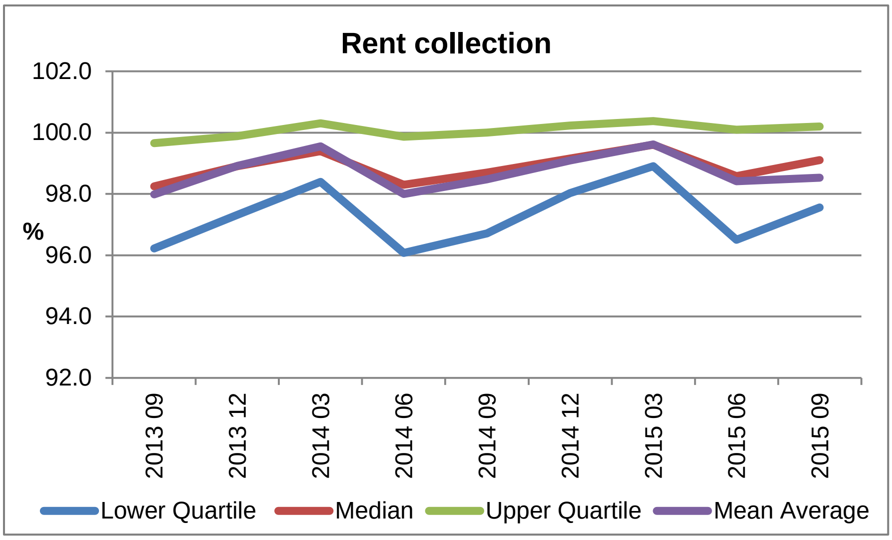
Most providers (92%, June 91%) continue to report that the current levels of arrears, rent collection and voids are within, or outperforming, their business plan assumptions. The responses for each quarter appear to be reasonably stable and suggest that providers are continuing to manage the risks and to maintain cash flows within business plan parameters.



The current tenant arrears in the September quarter were broadly in line with the previous quarter: the mean average remained at 3.5%, the median was 3.4% (June, 3.5%). The upper and lower quartiles were 4.5% and 2.5%; both showed small increases from June (4.4% and 2.3%).



Mean average and median void loss percentages remained unchanged at 1.6% and 1.2% respectively. The upper quartile fell to 1.8% (June 2.0%) whilst the lower quartile remained at 0.8%.



Housing benefit cycles remain likely to have a significant impact on rent collection data; the upturn in rent collection reported in quarter 2 was in line with performance 12 months ago. Mean average and median rent collection percentages were 98.5% and 99.1% respectively (June, 98.4% and 98.6%). The number of providers reporting rent collection rates of less than 95% was 19 (June, 32).

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