Homes &
Communities
Agency

Quarterly Survey for Q3 (October to December) 2016 to 2017

February 2017
Homes and Communities Agency

© Crown copyright, 2017

Copyright in the typographical arrangement rests with the Crown.

You may re-use this information (not including logos) free of charge in any format or medium, under the terms of the Open Government Licence.

To view this licence, http://www.nationalarchives.gov.uk/doc/open-government-licence/version/3/ or write to the Information Policy Team, The National Archives, Kew, London TW9 4DU, or email: psi@nationalarchives.gsi.gov.uk.

This document/publication is also available on our website at www.gov.uk/hca. If you have any enquiries regarding this document/publication, email us at mail@homesandcommunities.co.uk or write to us at:

Homes and Communities Agency – The Social Housing Regulator
Fry Building
2 Marsham Street
London SW1P 4DF
Telephone: 0300 1234 500

For all our latest news and updates follow us on Twitter: https://twitter.com/HCA_UK

February 2017

ISBN: 978-1-4098-5013-7

Contents

Introduction 4
Summary..4
Operating environment 5
Private finance 6
Cashflows..6
Development 8
Housing market 8
Derivatives 10
Income collection...12

Introduction

The quarterly survey report is based on regulatory returns from 236 private registered providers (PRPs) and PRP groups who own or manage more than 1,000 homes.

During the quarter, a £2.6 billion re-financing deal was completed by one large provider which has a substantial one-off effect on debt raising and financing costs. These impacts are commented upon throughout this report.

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 October 2016 to 31 December 2016. Where any information received through the quarterly survey indicates a potential concern, this is followed up with providers.

Summary

The quarterly survey findings are:

- New finance of £4.3 billion was agreed in the quarter from banks and capital markets. This included re-financing activity in a small number of providers which contributed to loan repayments of £1.8 billion in the quarter.
- The sector remains financially strong with access to sufficient finance: £15.0 billion of undrawn facilities are in place.
- The sector has cash balances of £5.9 billion – this is forecast to reduce in the next 12 months to £4.1 billion as cash is used to fund planned capital expenditure.
- The sector forecasts strong operating cashflows, with cash interest cover of 186% over the next 12 months.
- Investment in housing supply was £2.0 billion in the December quarter, in line with the committed forecast.
- Over the 12 month forecast period expected investment in new housing supply is £10.4 billion of which £6.8 billion is contractually committed; actual investment in new housing supply for the 12 month period ending December 2016 was £7.2 billion.
- Affordable Home Ownership activity increased in the quarter with a 12% quarter on quarter increase in homes developed to 2,825 and a 3% decrease in first tranche unit sales to 2,671. This led to an 11% increase in the stock of unsold units.
- Market sale activity increased in the quarter. There was an 11% quarter on quarter increase in homes developed to 1,354 and a 10% increase in units sold (1,094). The stock of unsold properties increased by 16% to 1,443.

- The pipeline of expected completions in the next 18 months indicates that this increase in development activity is likely to continue with AHO completions expected to average 3,812 per quarter and market sales completions expected to average 1,574 per quarter.

- Providers making use of free standing derivatives reported a 26% decrease in mark-to-market (MTM) exposure to £2.7 billion as the 15-year swap rate increased from 0.80% in September to 1.36% at the end of December. The sector decrease was 19% when the impact of one large refinancing deal is excluded.

- In aggregate providers continue to have headroom on available collateral. At sector level, headroom has increased.

- Income collection data continues to show a stable performance, showing a slight improvement in comparison to the corresponding quarter end last year.

Operating environment

At a headline level the economic operating environment for PRPs remained largely benign in the quarter. Key metrics for the period covered include:

- Average house prices continued to grow, with headline increases in England of 7.7% in the year to December 2016 and 1.6% in the month of December[1].

- In the quarter ending December 2016, output in the construction industry was estimated to have increased by 0.2% compared with the previous quarter ending September 2016[2].

- The Consumer Prices Index (CPI) rose by 1.6% in the year to December 2016, compared with a 1.0% rise in the year to September[3]. This was the highest reported rate since July 2014; rates are set to further increase with forecasters predicting that inflation will rise to 2.8% by 2017 quarter 4[4].

- The Bank of England base rate remained at 0.25%.

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 published annually by the regulator.

The 2016 update was published in September. The regulator will continue to monitor key market trends and to seek assurance that boards are actively engaged in responding to emerging risks.

---

[1] UK House Price Index
[2] ONS Statistical Bulletin: Construction output in Great Britain: Dec 2016
[3] ONS Statistical Bulletin; UK consumer price inflation: Dec 2016
[4] HM Treasury; Forecasts for the UK economy: a comparison of independent forecasts; December 2016 (mean CPI inflation rate from 25 forecasting organisations)

Private finance

- The sector's total agreed borrowing facilities are £83.1 billion, £58.2 billion (70%) of which is bank loans.
- £68.1 billion is currently drawn, leaving undrawn facilities of £15.0 billion.
- 96% (September, 96%) of providers forecast that current debt facilities are sufficient for more than 12 months.
- New facilities agreed in the quarter totalled £4.3 billion, including £2.6 billion of mainly bank financing associated with one refinancing.
- Excluding this re-financing, bank lending accounted for 60% of the new funding in the quarter; capital markets, including private placements and aggregated bond finance, contributed the remaining 40%.
- Of the £83.1 billion agreed facilities £77.0 billion has been secured, and £3.4 billion of facilities do not require security. There are further agreed facilities of £2.7 billion where security is not yet in place.

Cashflows

It is essential that providers have access to sufficient liquidity at all times and so the regulator engages with PRPs that have low liquidity indicators or are forecasting drawdowns from facilities not yet agreed or secured.

Summary cashflow forecast

Figures in £ billions	**3 months to 31 Dec 2016 (forecast)**	**3 months to 31 Dec 2016 (actual)**	**12 months to 31 Dec 2017 (forecast)**
Operating cashflows	1.5	1.6	5.7
Interest cashflows	(0.7)	(1.3)	(3.1)
Payments to acquire and develop housing	(2.7)	(2.0)	(10.4)
Disposals of housing fixed assets	0.4	0.5	1.7
Other cashflows	(0.0)	(0.5)	(0.1)
Cashflows before resources and funding[5]	**(1.6)**	**(1.6)**	**(6.2)**
Financed by:			
Net grants received	0.1	0.1	0.6
Net increase in debt	0.4	1.1	3.7
Use of cash reserves	1.0	0.4	2.0
Total funding cashflows[5]	**1.6**	**1.6**	**6.2**

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

- This is the third quarter to include the 1% rent cut implemented on 1st April 2016.

- Operating cashflow of £1.6 billion in the quarter ending December 2016 exceeded the forecast of £1.5 billion.

- Interest cashflows of £1.3 billion exceeded the forecast of £726 million. The interest cashflow variance includes £540m costs incurred on refinancing.

- The sector forecast £2.7 billion expenditure on new properties to be spent in the quarter; the £2.0 billion actually spent was in line with forecast spending on contractually committed schemes.

- Cash interest cover for the three-month period was 126% (September, 231%). This ratio has been adversely affected by the refinancing costs incurred by one provider in the current quarter. Excluding this provider, the ratio was 226%.

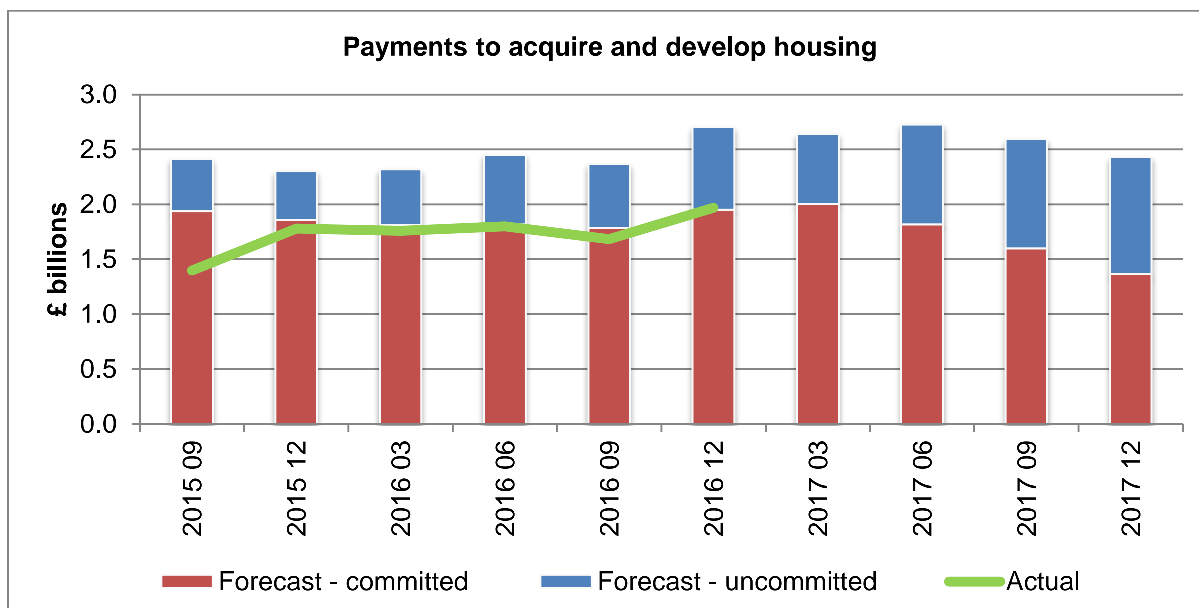
- The sector continues to forecast strong operating cashflows with cash interest cover over the 12 months to 31 December 2017 projected to be 186% (12 months from September, 189%).

- Cash available to the sector at the December quarter end was unchanged at £5.9 billion; this is forecast to reduce to £4.1 billion over the next 12 months as cash reserves are used to fund capital investment.

- Cash held in secured accounts at December 2016 was £753 million (September, £1.1 billion), this reduction reflects changes in cash collateralisation of MTM positions.

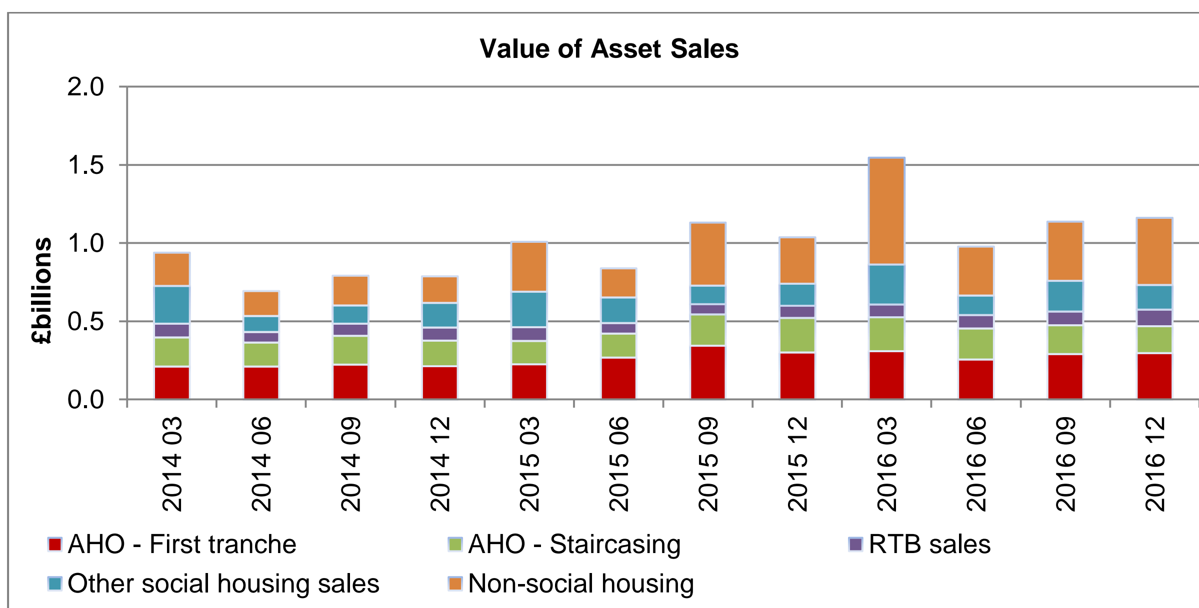
Development

In total, £7.2 billion was invested in the acquisition and development of housing in the 12 months to December 2016. Payments of £6.8 billion to acquire and develop housing properties are committed in the next 12 months; a further £3.6 billion, not contractually committed, is included in the forecasts.



Housing market

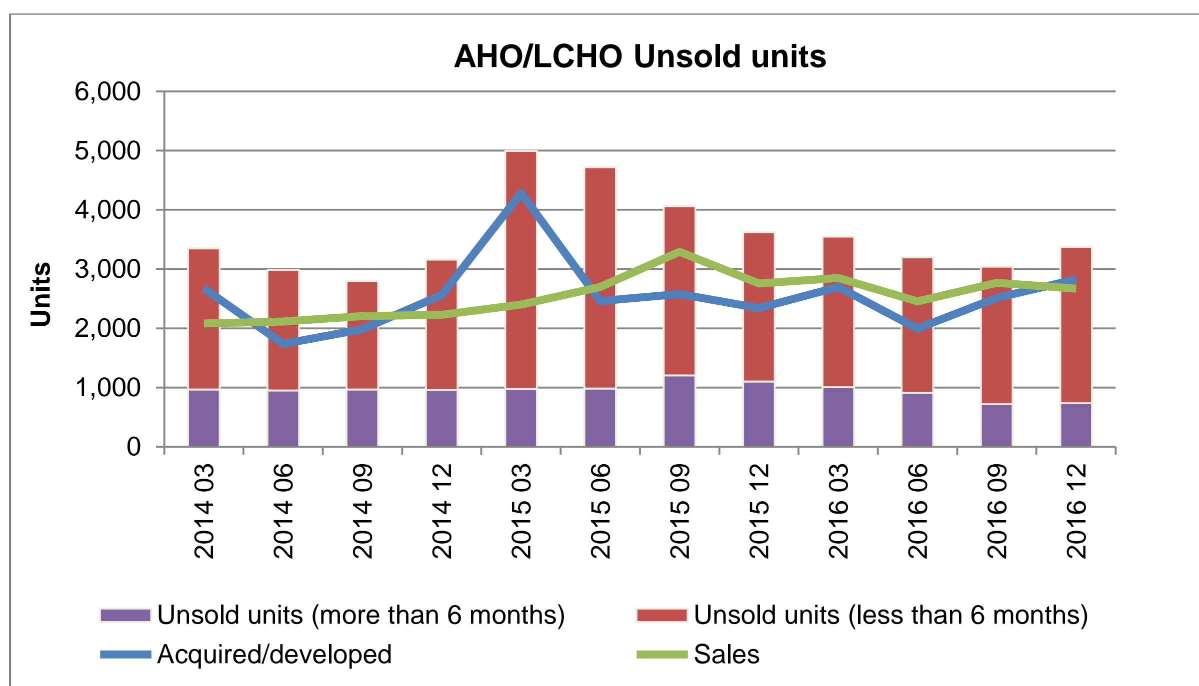
Asset sales revenue was higher than in September, whilst surplus was marginally lower. The asset sales of £1.2 billion generated a surplus of £374 million (September, total asset sales £1.1 billion, surplus £396 million). Revenue and surplus were both higher than the same quarter a year ago (December 2015, total asset sales, £1.0 billion, surplus £362 million).



Asset sales in the December 2016 quarter were 9% below the forecasts received in the previous quarter. Current asset sales (market sales and first tranche AHO sales) were £648 million, compared to a forecast of £861 million. Fixed asset sales were £503 million, compared to a forecast of £400 million.

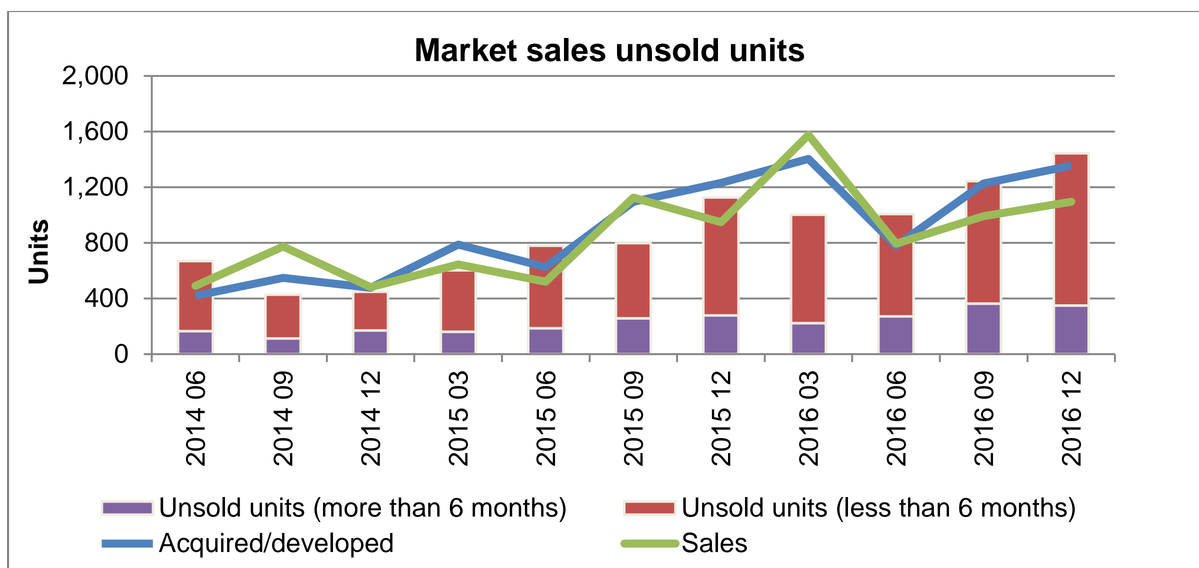
The difference between forecasts and current asset housing sales achieved is concentrated in a small number of providers. Development programmes are subject to change and the variances are largely a result of delays in handovers of properties from developers. Where sales revenues are lower than forecast, the regulator has sought assurance that the individual providers have sufficient access to liquidity and that the delays do not have a material impact on viability. Although the providers currently remain in a strong financial position, the regulator will continue to closely monitor sales exposure.

AHO unit sales fell below completions; there were 2,671 first tranche sales (September, 2,766) compared to 2,825 AHO completions and acquisitions (September, 2,516). This led to an 11% increase in unsold units in the quarter. However, there was an 8% reduction in units unsold for over six months. At the end of December 3,378 homes were unsold (September, 3,041) of which 733 had been unsold for over six months (September, 799). Half of the unsold AHO stock at the end of the quarter was held by 20 providers.



The pipeline of AHO completions expected in the next 18 months is 22,871 (September, 20,391) of which 17,570 are contractually committed. Over the 18 months to December 2016, there were 14,949 AHO completions.

Development for sale is concentrated in relatively few providers. There were 1,094 sales in the quarter (September, 992) and 1,354 homes were developed for market sale (September, 1,225). The number of unsold market sale units at December 2016 was 1,443 (September, 1,242), of which 349 (September, 362) have been unsold for over six months. For market sales, half of the total unsold stock at the end of the quarter was held by seven providers.



The pipeline for market sale completions expected in the next 18 months is 9,445 (September, 9,361) of which 8,024 are contractually committed. Over the 18 months to December 2016, there were 7,083 market sales completions.

Whilst there are likely to be quarterly fluctuations in the levels of for-sale development activity and sales achieved, the pipeline numbers demonstrate an overall trend for increased activity. In the 12 months to December 2017 the sector has forecast current asset sales of £3.0billion. This compares to actual sales achieved in the year to December 2016 of £2.7 billion.

Derivatives

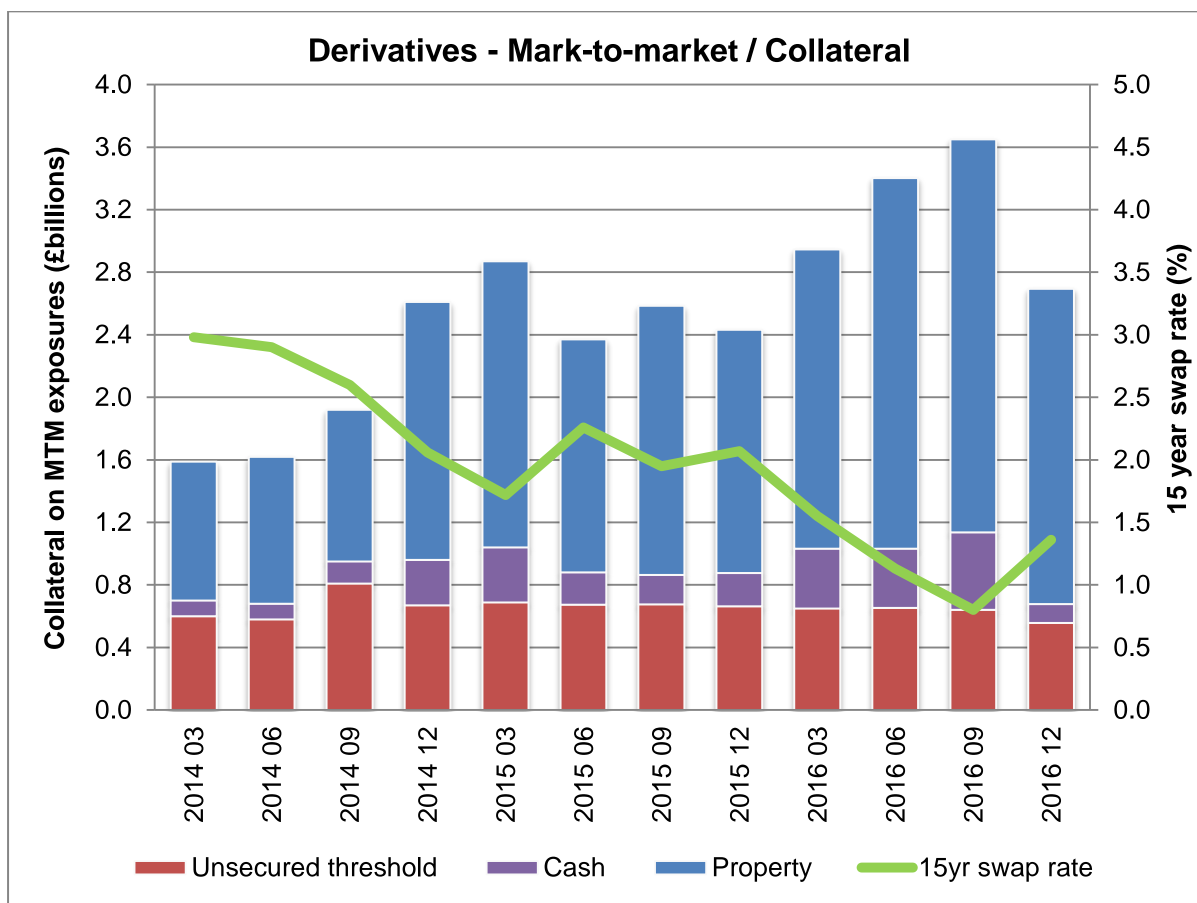
- Forty seven providers (September, 50) currently make use of free standing derivatives. The number of returns received from the sector has reduced through merger activity; following its £2.6 billion refinancing; one provider no longer makes use of these products.

- The notional value of standalone derivatives was £9.0 billion (September, £9.8 billion) £640 million of the reduction in notional value was due to the refinancing; a further reduction of £125 million resulted from the termination of derivative contracts by another provider.

- The current gross MTM exposure reduced to £2.7 billion at the end of December (September, £3.7 billion). Around one third of the reduction in exposure was attributable to the re-financing, the remainder to market fluctuations

- Unsecured thresholds and available security pledged to swap counterparties was £3.9 billion; of this total collateral, £2.3 billion (September, £3.2 billion) has been employed in the form of property or cash, together with unsecured thresholds of £557 million.

- The additional excess collateral available consists primarily of property pledged but not employed.

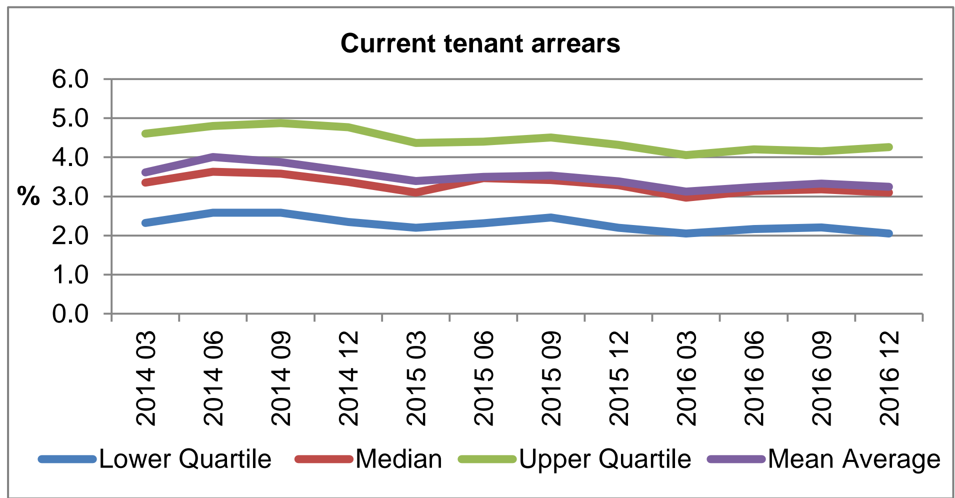


The graph above shows MTM exposures, excluding excess collateral. The increase in the sterling swap rates over the quarter was reflected in a decrease of £955 million in MTM exposure. The reduced collateral requirement led to a return of property and cash collateral in the quarter; the headroom of collateral available over current exposure increased by £203 million.

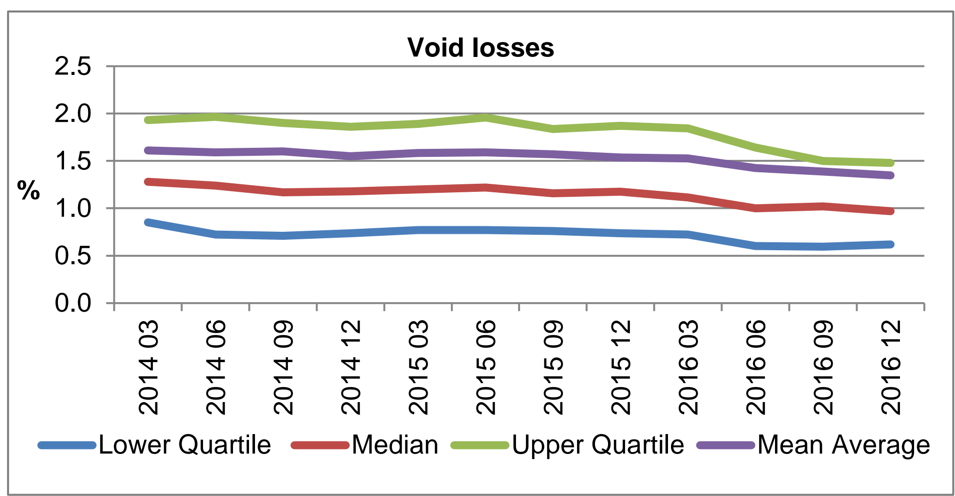
The favourable movement in swap rates has strengthened the quarter end position. Collateral given in terms of security and cash continues to exceed the sector's current exposure levels; this provides some mitigation against liquidity risk. Interest rate volatility means that collateral requirements will remain a long-term exposure. Individual providers must ensure they have sufficient available security as a fall in swap rates has the potential to increase MTM exposure. The regulator will continue to monitor on-going movements in the swap rate and engage with providers where there are significant levels of exposure.

Income collection

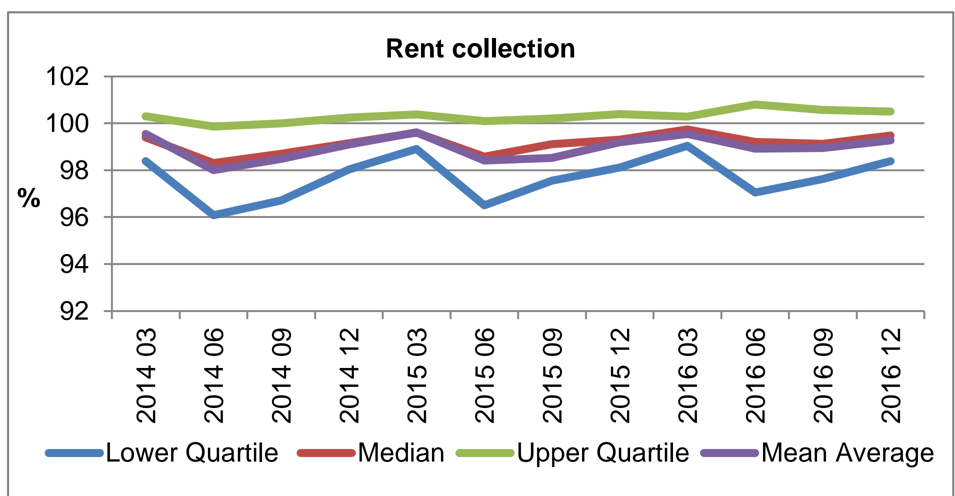
Most providers (94%) continue to report that the current levels of arrears, rent collection and voids are within, or outperforming, their business plan assumptions. The responses for each quarter remain reasonably stable, suggesting that providers are managing income collection risks and maintaining cashflows within business plan parameters. Housing benefit cycles are likely to have an impact on rent collection data.



Current tenant arrears were marginally improved in the December quarter: the mean average and median were 3.2% and 3.1% respectively (September: 3.3% and 3.2% respectively).



Mean average and median void losses also marginally improved from the previous quarter at 1.3% and 1.0% respectively (September: 1.4% and 1.0%).



Mean average and median rent collection were 99.3% and 99.5% (September: 99.0% and 99.1%). 8 providers reported rent collection rates of less than 95% (September: 18 and December 2015: 7).