Homes & Communities Agency

QUARTERLY SURVEY Q3 (OCTOBER TO DECEMBER) 2015

March 2016

Quarterly survey of private registered providers - December 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 in assessing PRPs' compliance with economic regulatory standards.

The survey provides 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, £14.0 billion of undrawn facilities are in place
- new finance of £1.2 billion was raised in the quarter from banks and capital markets
- the sector has cash balances of £5.6 billion – this is forecast to reduce in the next 12 months to £4.1 billion
- fixed asset sale receipts of £482 million significantly exceeded the September forecast of £314 million for the December quarter.
- current asset sale receipts of £556 million in the December quarter fell slightly below the £595 million forecast at September
- investment in housing supply of £1.8 billion in the December quarter, whilst up 27% on the previous quarter, was below the September forecast of £2.3 billion
- investment in new housing supply for the financial year up to 31 March 2016 is forecast to be £7.2 billion; over the next three quarters up to 31 December 2016 a further £6.8bn investment is planned
- the sector continues to forecast strong operating cashflows for the next 12 months, expected net operating cashflow is £5.7 billion; this includes £3.0 billion current asset sales, an increase of £545m on the 12 month forecast from September
- non-operating cashflows include £1.4 billion of fixed asset sales over the next 12 months
- providers making use of free standing derivatives reported a decrease of 6% in mark-to-market (MTM) exposure in the quarter to £2.4 billion, as the 15 year swap rate increased from 1.95% in September to 2.07% at the end of December
- in aggregate providers continue to have headroom on available collateral; individual providers must ensure they have sufficient available security as the fall in swap rates in January and February 2016 has the potential to increase MTM exposure
- affordable home ownership (AHO) stock available for sale reduced by 11% in the quarter as sales exceeded completions
- the stock of property available for market sale increased by 41% in the quarter to 1,125 units; this remains 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

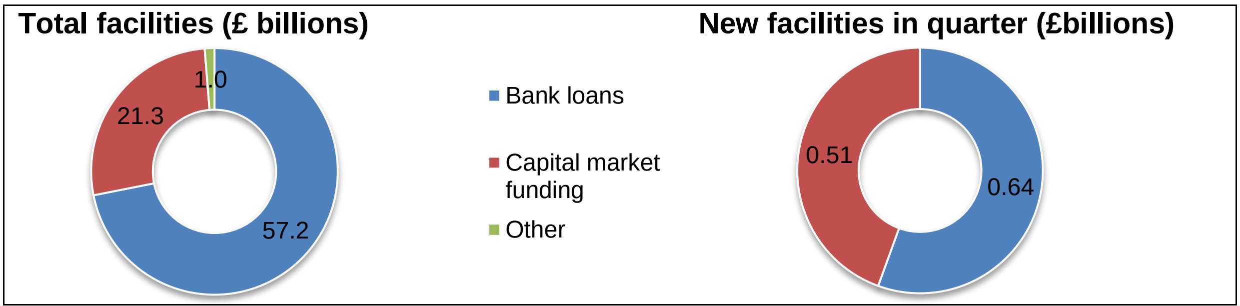
Operating environment

The quarterly survey returns summarised in this report cover the period from 1 October 2015 to 31 December 2015. In July 2015, the budget announcement introduced a number of policy changes which will materially affect business planning assumptions and rent setting from April 2016.

The Office for National Statistics' reclassification of PRPs as public corporations should not have an impact on the forecasts made in quarterly survey returns. The key risks faced by the sector are considered in the Sector Risk Profile published annually by the regulator; this 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 £79.5 billion
- new facilities in the quarter totalled £1.15 billion



- £65.5 billion is currently drawn, leaving undrawn facilities of £14.0 billion
- £73.8 billion has been secured; £3.2 billion of facilities do not require security. There are agreed facilities of £2.5 billion where security is not yet in place
- 97% (September 98%) of providers forecast that current debt facilities are sufficient for more than 12 months

Cash flows

Since June 2015, the quarterly survey has collected cash flow data. 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.

Summary cash flow forecast

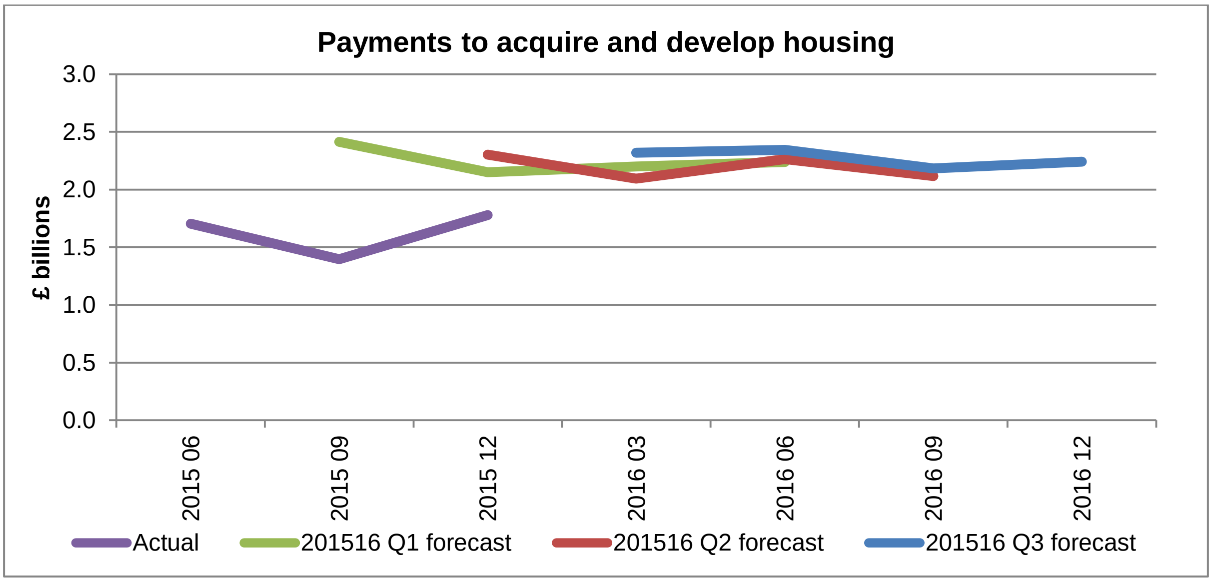
Figures in £ billions	**9 months to 31 December 2015 (actual)**	**12 months to 31 December 2016 (forecast)**
Operating cashflows	4.4	5.7
Interest cashflows	(2.2)	(3.1)
Payments to acquire and develop housing	(4.9)	(9.1)
Disposals of housing fixed assets	1.3	1.4
Other cashflows	(0.3)	(0.1)
Cashflows before resources and funding[1]	**(1.7)**	**(5.3)**
Financed by:		
Net grants received	0.4	0.7
Net increase in debt	1.8	3.1
Use of cash reserves	(0.5)	1.5
Total funding cashflows	**1.7**	**5.3**

- cash interest cover over the 12 months up to 31 December 2016 is projected to be 184% (September returns, 160% for the 12 months up to 30 September 2016). Actual cash interest cover for the 9 months to December 2015 was 202%
- forecast development spending to December 2016 continues to be predominantly funded by debt, cash reserves, operating cashflows and fixed asset sales, with grant funding forecast to contribute 7% of development spending (September 7%)
- cash available to the sector at the December 2015 quarter end was £5.6 billion (September, £5.3 billion); this is forecast to reduce to £4.1 billion over the next 12 months

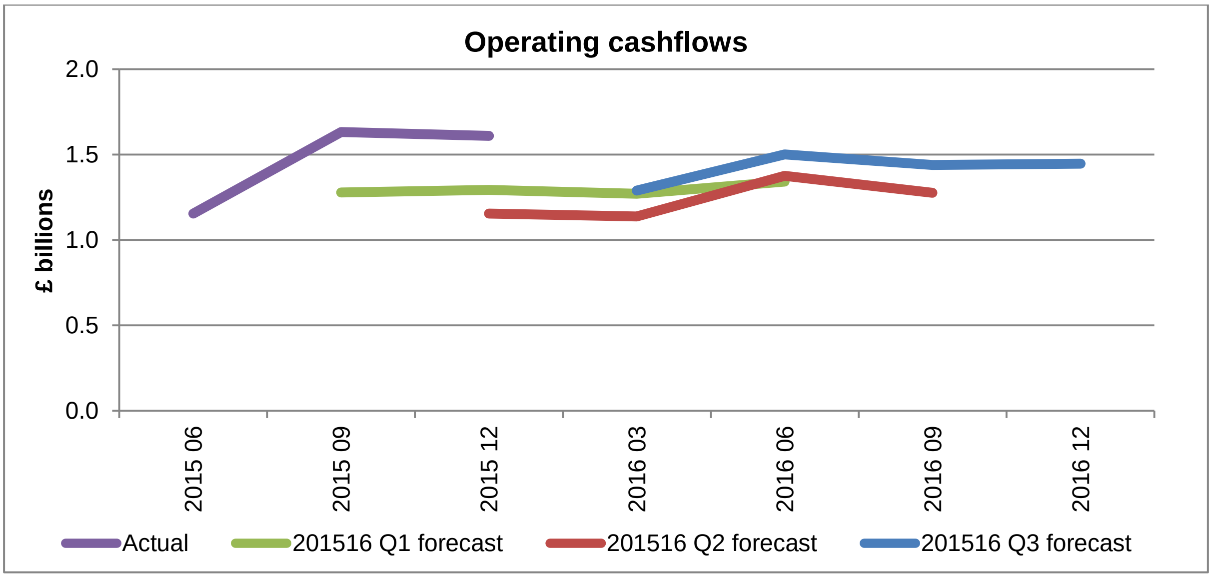
[1] There is a rounding of £0.1bn in the calculated totals; figures are reported in £000 in individual returns

The charts below and overleaf compare the actual cash flow results with the forecasts for the three quarters from June 2015.

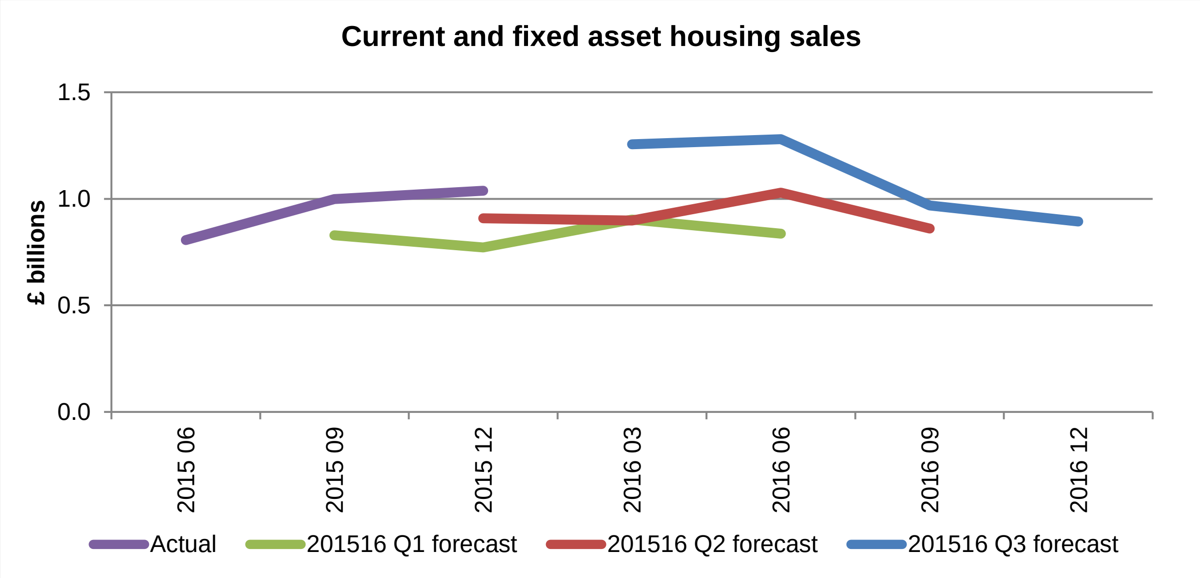
Actual payments to acquire and develop housing increased in the current quarter, but remain below forecast amounts. Payments of £5.9 billion to acquire and develop housing properties are committed in the next 12 months. A further £3.2 billion, not contractually committed, is included in the forecasts.



Operating cashflows are outperforming forecasts. Operating cashflows (including £2.1 billion capitalised repair and maintenance expenditure) are forecast to generate £5.7 billion over 12 months.

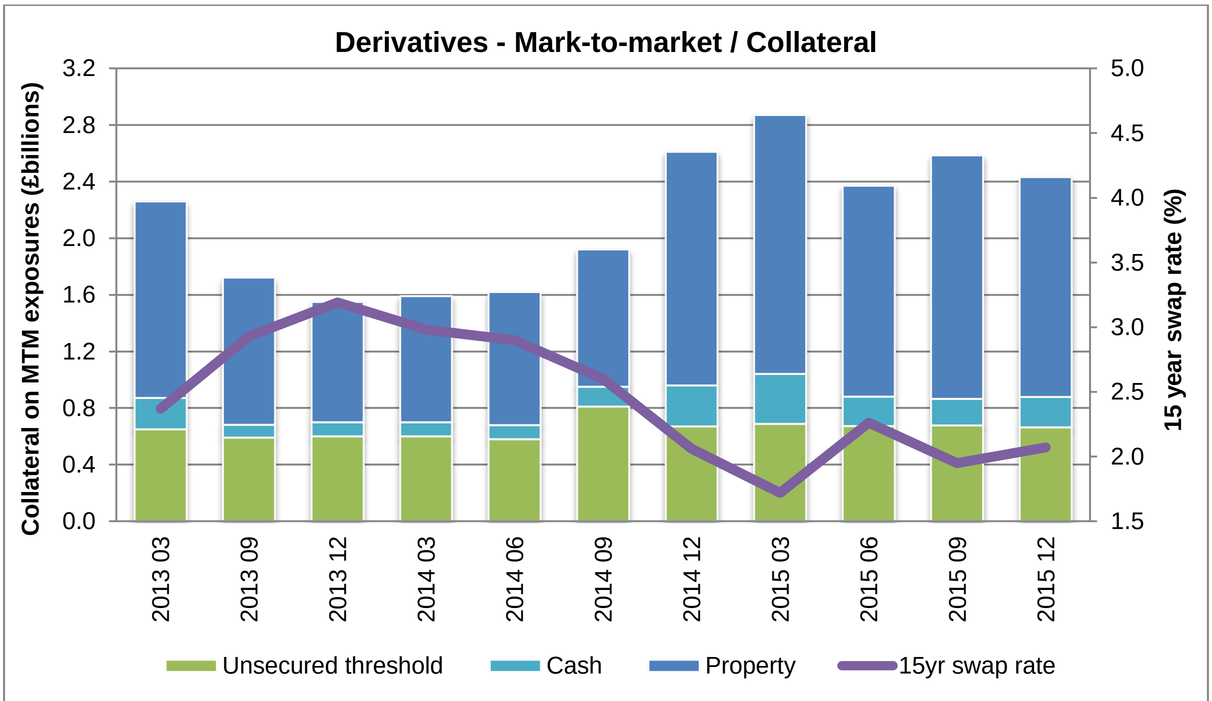


Operating cashflows include £3.0bn from current asset sale receipts. Actual revenue from housing sales exceeded forecast in September and December. In general, at a sector level, the outturn achieved suggests that forecasting has been prudent. However, forecast sales receipts have increased significantly in the latest survey. December forecasts for current asset sales in the first six months of 2016 increased by 36% over the previous forecast. Forecast sale receipts for the quarter ending 31 March 2015 are £1.25bn, an increase of more than £200m on actual sale receipts in the December quarter.



Derivatives

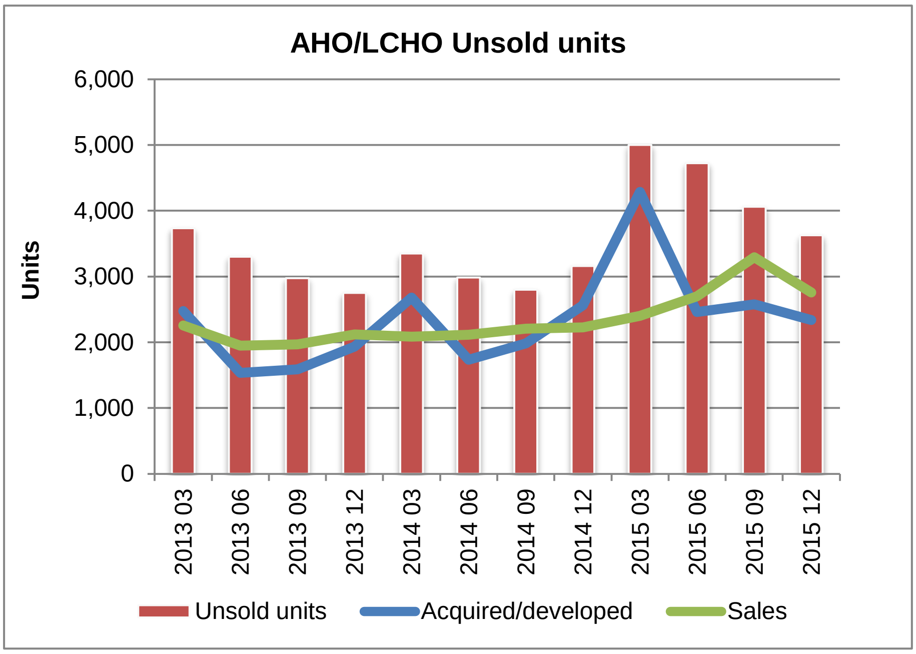
- 47 providers make use of free standing derivatives. The notional value of standalone derivatives was £9.7 billion (September £9.6 billion)
- the current gross MTM exposure decreased to £2.4 billion at the end of December (September £2.6 billion)
- unsecured thresholds and available security pledged to swap counterparties was £3.8 billion; of this total collateral, £2.3 billion (September £2.2 billion) has been employed in the form of property or cash, together with unsecured thresholds of £0.7 billion.

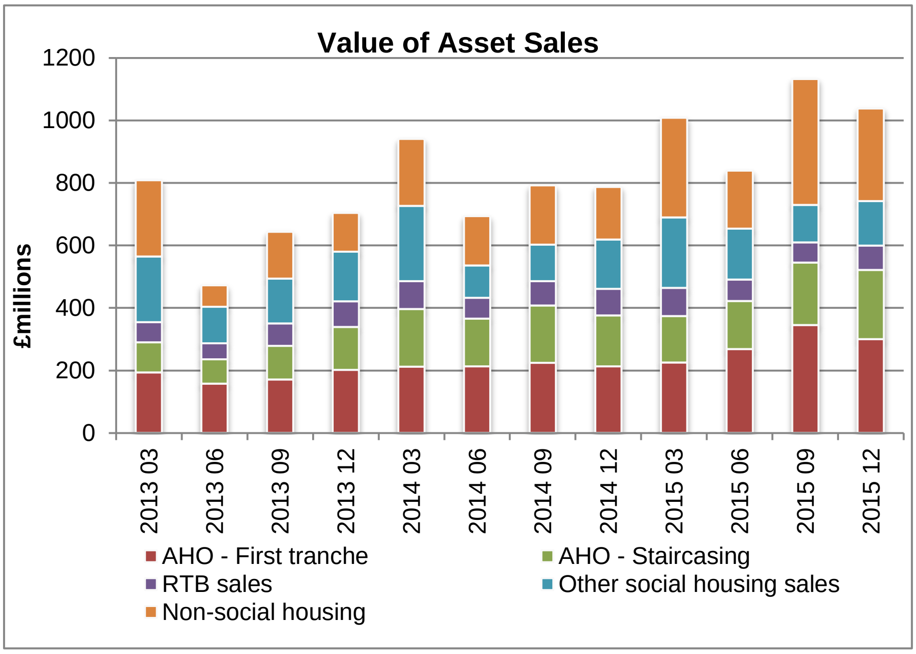


The graph above shows MTM exposures, excluding excess collateral. The increase in the sterling 15 year swap rate over the quarter was reflected in decreased MTM exposure. At sector level, collateral given in terms of security and cash continues to exceed current exposure levels. This provides some mitigation against liquidity risk. Interest rate volatility means that collateral requirements will remain a long term exposure.

Housing market

- on AHO, there were 2,758 first tranche sales in the quarter (September 3,292), 3,626 homes remained unsold (September 4,061) of which 1,100 had been unsold for over 6 months (September 1,206)
- there were 2,339 AHO completions and acquisitions in the quarter (September 2,578)
- pipeline AHO completions expected in the next 18 months are 17,228 (September 17,807) of which 13,397 are contractually committed
- on market sales, there were 947 sales (September 1,124); 1,125 homes were unsold (September 798), of which 278 had been unsold for over 6 months (September 258)
- there were 1,230 homes developed for market sale in the quarter (September 1,094)
- pipeline market sales completions expected in the next 18 months are 8,337 (September 8,043) of which 7,412 are contractually committed
- total asset sales of £1.0 billion (September £1.1 billion) were achieved in the quarter generating a surplus of £362 million (September £363 million)



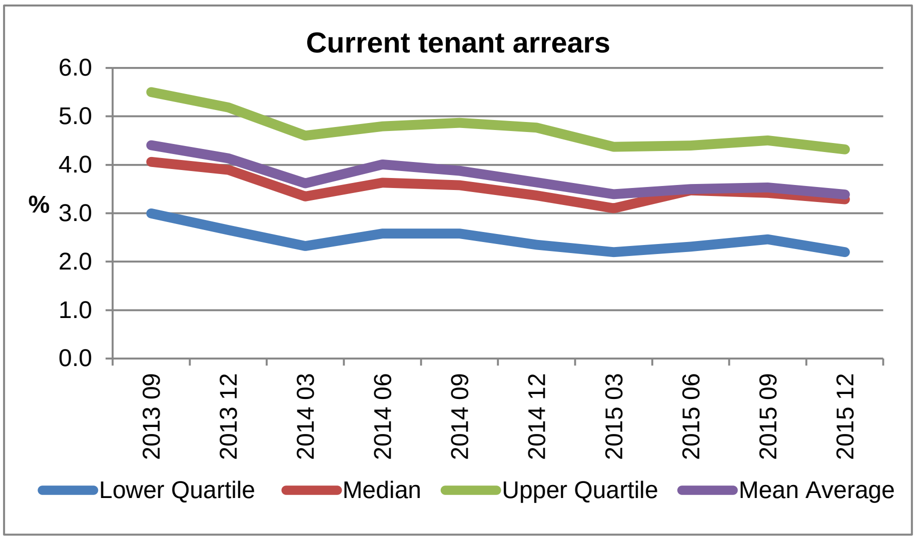


AHO sales exceeded completions, leading to an 11% reduction in unsold units. There was a decrease of 9% in AHO properties remaining unsold for over six months.

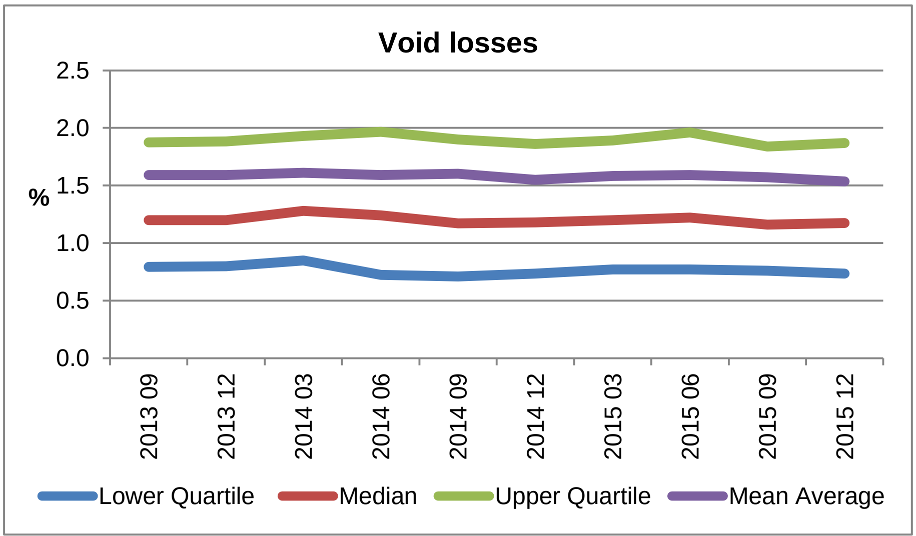
Development for-sale remains concentrated in relatively few providers. Half of the unsold AHO stock at the end of the quarter is held by 20 providers. For market sales, half of the total unsold stock at the end of the quarter is held by 5 providers.

Both revenue and surplus on asset sales decreased in the quarter. However, in comparison to December 2014 the revenue and surplus from asset sales increased by 32% and 42% respectively.

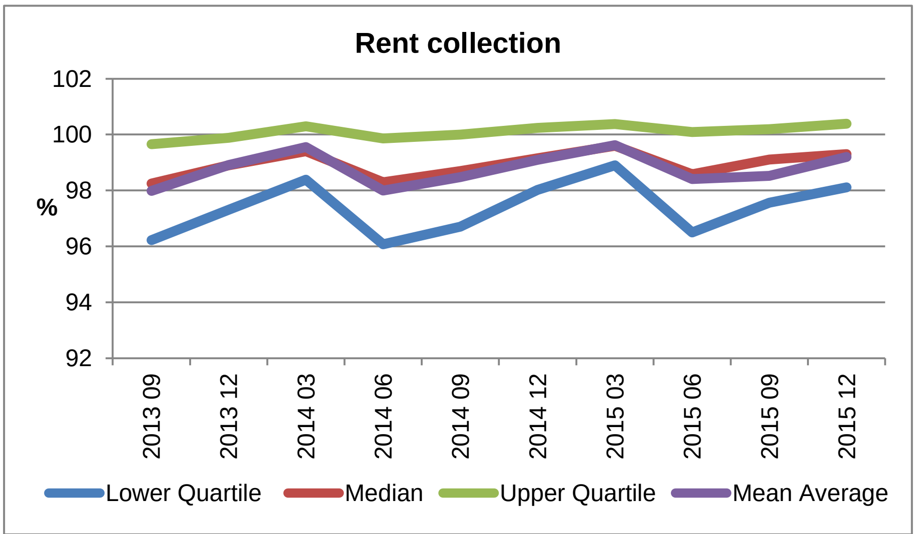
Income collection
Most providers (92%) continue to report that the current levels of arrears, rent collection and voids are within, or outperforming, their business plan assumptions. The responses for each quarter are reasonably stable, suggesting that providers are managing income collection risks and maintaining cash flows within business plan parameters.



Current tenant arrears in the December quarter were broadly in line with the previous quarter: the mean average and median were 3.4% and 3.3% respectively (September, 3.5% and 3.4%).



Mean average and median void losses also remained in line with the previous quarter at 1.5% and 1.2% (September 1.6% and 1.2%).



Housing benefit cycles remain likely to have an impact on rent collection data. Mean average and median rent collection were 99.2% and 99.3% (September, 98.5% and 99.1%).
7 providers reported rent collection rates of less than 95% (September, 19).

homesandcommunities.co.uk
mail@homesandcommunities.co.uk
0300 1234 500

Homes and Communities Agency
Fry Building
2 Marsham Street
London SW1P 4DF

The Homes and Communities Agency is committed to providing accessible information where possible and we will consider providing information in alternative formats such as large print, audio and Braille upon request.

Publication date: March 2016