Homes &
Communities
Agency

QUARTERLY SURVEY Q4 (JANUARY TO MARCH) 2016

June 2016

Quarterly survey of private registered providers – March 2016

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 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. The quarterly survey returns summarised in this report cover the period from 1 January 2016 to 31 March 2016. The March survey includes additional annual data, particularly relating to private finance. Where any information received through the quarterly survey indicates a potential concern, this is followed up with providers.

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

Summary

Overall the sector continues to benefit from favourable macro-economic conditions, including low interest rates and a housing market that has remained active during the quarter. These factors are helping the sector deliver a strong aggregate financial performance.

Private finance

- the sector remains financially strong with access to sufficient finance: £14.2 billion of undrawn facilities are in place.
- total drawn debt is £65.8 billion (2015: £63.4 billion)
- new finance of £5.2 billion was raised in the year to March 2016 (2015: £6.8 billion) from banks and capital markets. New facilities arranged in the quarter totalled £1.0 billion
- bank lending contributed 52% of total new facilities in the quarter and 62% for the year (2015: 37%)
- capital market funding, including private placements, contributed 35% of total new facilities in the quarter and 34% in the year (2015: 60%)
- £3.3 billion (5.0%) of debt is repayable within 2 years (2015: £2.9 billion, 4.6%)
- 69% (2015: 69%) of drawn debt is at interest rates fixed for over 12 months
- mark-to-market (MTM) exposure on free standing derivatives increased in the quarter to £2.9 billion as the 15 year swap rate fell to 1.55% (December 2.07%)
- in aggregate providers continue to have headroom on available collateral

Cashflows

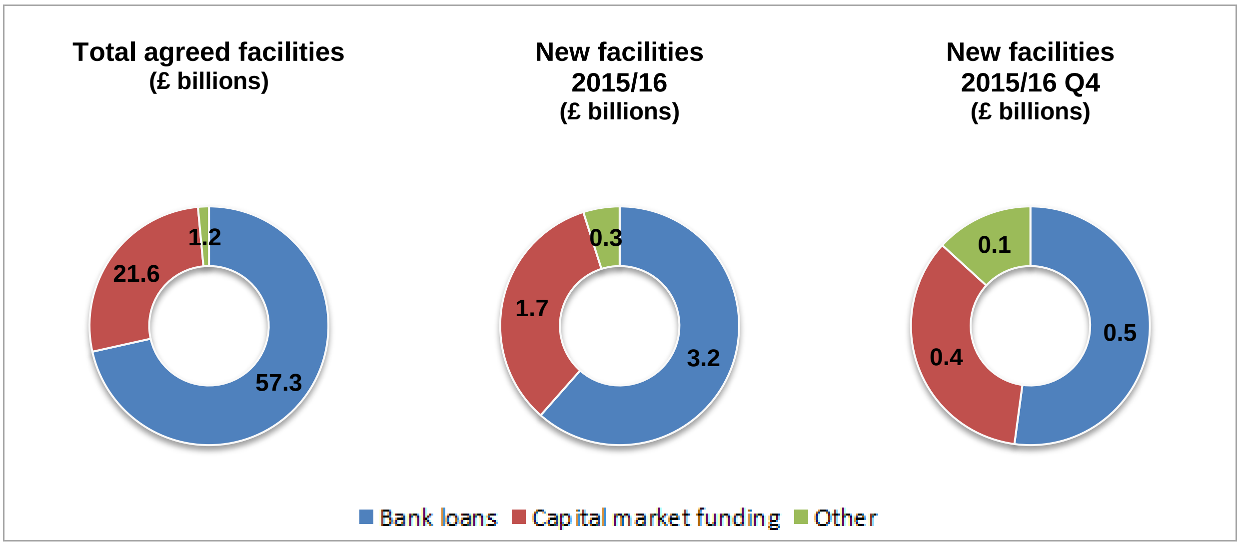
- in the March quarter:
    - fixed asset sale receipts of £587 million exceeded the forecast of £392 million
    - current asset sale receipts of £835 million were below the £863 million forecast
    - investment in housing supply of £1.8 billion was below the £2.3 billion forecast
- in the 12 months to March 2016:
    - fixed asset sales receipts were £1.9 billion
    - current asset sales receipts were £2.4 billion
    - investment in housing supply was £6.6 billion
- forecasts for the 12 months to March 2017 include:
    - fixed asset sales of £1.4 billion
    - current asset sales of £2.8 billion
    - investment in housing supply of £9.3 billion
- the sector has available cash balances of £5.6 billion; this is forecast to reduce in the next 12 months to £4.0 billion
- operating cashflows, including market sales and first tranche shared ownership sales and before payment of interest, exceeded forecasts throughout 2015/16

Housing market

- affordable home ownership (AHO) stock available for sale reduced by 2% in the quarter to 3,551 units as sales continued to exceed completions
- the stock of property available for market sale decreased by 11% in the quarter to 1,001 units; this stock is concentrated in a small number of providers
- property sales of £1.5 billion in the quarter generated a surplus of £520 million (December £1.0 billion, £362 million)
- property sales of £4.6 billion in 2015/16 generated a surplus of £1.5 billion (2014/15: £3.3 billion, £1.1 billion)

Private finance

- the sector's total agreed borrowing facilities are £80.1 billion
- new facilities agreed in the year totalled £5.2 billion
- new facilities agreed in the quarter totalled £1.0 billion



- £65.8 billion is currently drawn, leaving undrawn facilities of £14.2 billion
- 97% (December 97%) of providers forecast that current debt facilities are sufficient for more than 12 months
- capital market funding in the year included two own name bonds, Affordable Housing Finance aggregated bond finance and private placements
- 'other' funding included local authority lending, GLA and HCA recoverable investment.
- £75.7 billion has been secured; £1.9 billion of facilities do not require security. There are agreed facilities of £2.5 billion where security is not yet in place
- providers estimate that, aggregated across the sector, additional security is available to support a further £30.2 billion of new borrowing. This suggests that overall security is not currently a constraint to additional borrowing. However, there is a wide range in the level of available security reported by individual providers; balance sheet capacity and the ability to generate cashflow to service additional debt also need to be factored in to determine the borrowing capacity of individual providers.

Cash flows

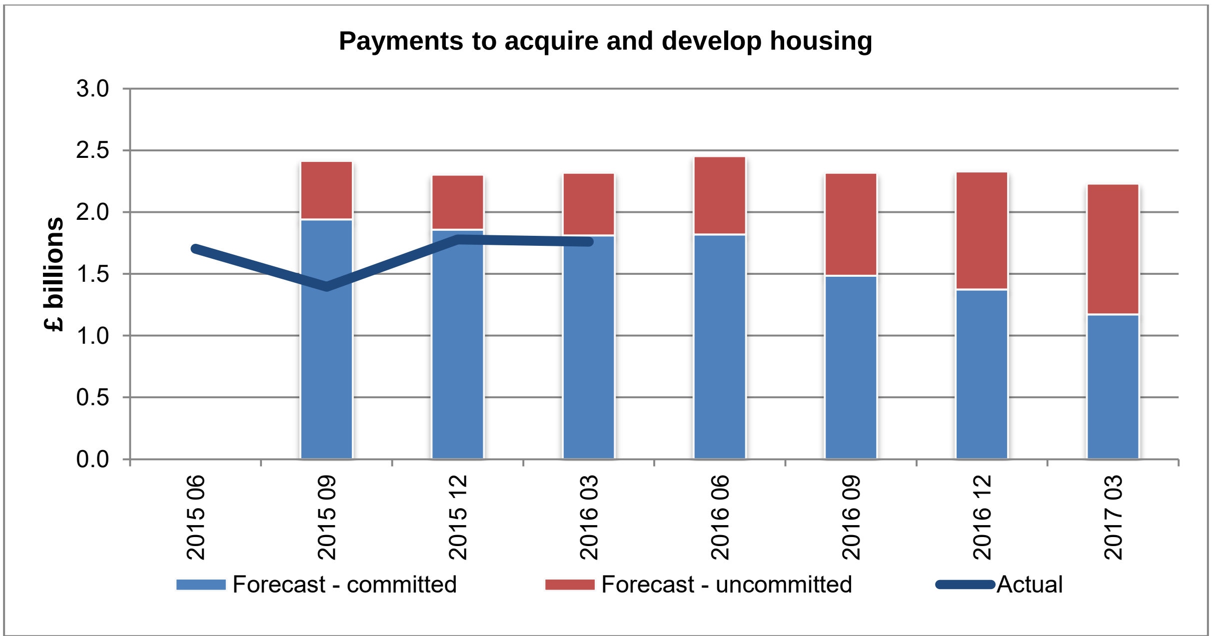
Since June 2015, the quarterly survey has collected cash flow data. It is essential that providers have access to sufficient liquidity at all time and so the regulator engages with PRPs that have low liquidity indicators or are forecasting drawdowns from facilities not yet agreed or secured.

Summary cash flow forecast

Figures in £ billions	**12 months to 31 March 2016 (forecast[1])**	**12 months to 31 March 2016 (actual)**	**12 months to 31 March 2017 (forecast)**
Operating cashflows	5.0	6.1	5.7
Interest cashflows	(3.0)	(3.0)	(3.1)
Payments to acquire and develop housing	(8.5)	(6.6)	(9.3)
Disposals of housing fixed assets	1.3	1.9	1.4
Other cashflows	(0.4)	(0.3)	(0.0)
Cashflows before resources and funding[2]	**(5.6)**	**(1.9)**	**(5.4)**
Financed by:			
Net grants received	0.7	0.5	0.6
Net increase in debt	3.5	2.1	3.1
Use of cash reserves	1.4	(0.6)	1.7
Total funding cashflows[2]	**5.6**	**1.9**	**5.4**

- cash interest cover over the 12 months up to 31 March 2017 is projected to be 185% (December 184% for the 12 months up to 31 December 2016). Actual cash interest cover for the 12 months to March 2016 was 206%.
- forecast development spending for the 12 months to March 2017 continues to be predominantly funded by debt, cash reserves, operating cashflows and fixed asset sales, with grant funding forecast to contribute 6% of development spending (December 7%)
- cash available to the sector at the March 2016 quarter end was £5.6 billion (December, £5.6 billion); this is forecast to reduce to £4.0 billion over the next 12 months

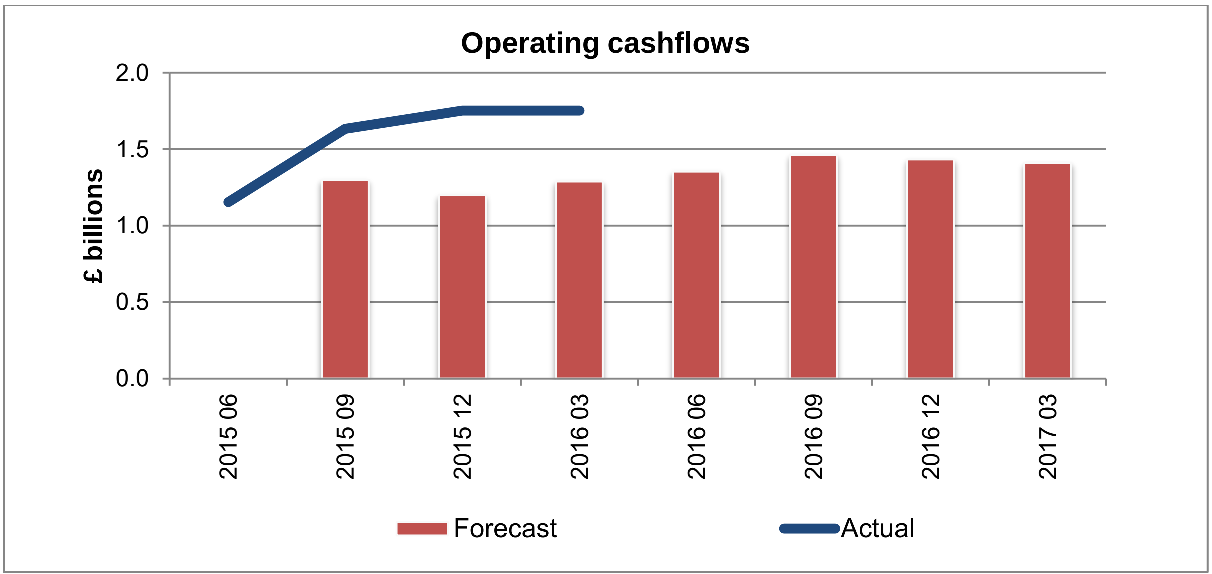
The charts below and overleaf compare the actual cash flow results with forecasts[3].



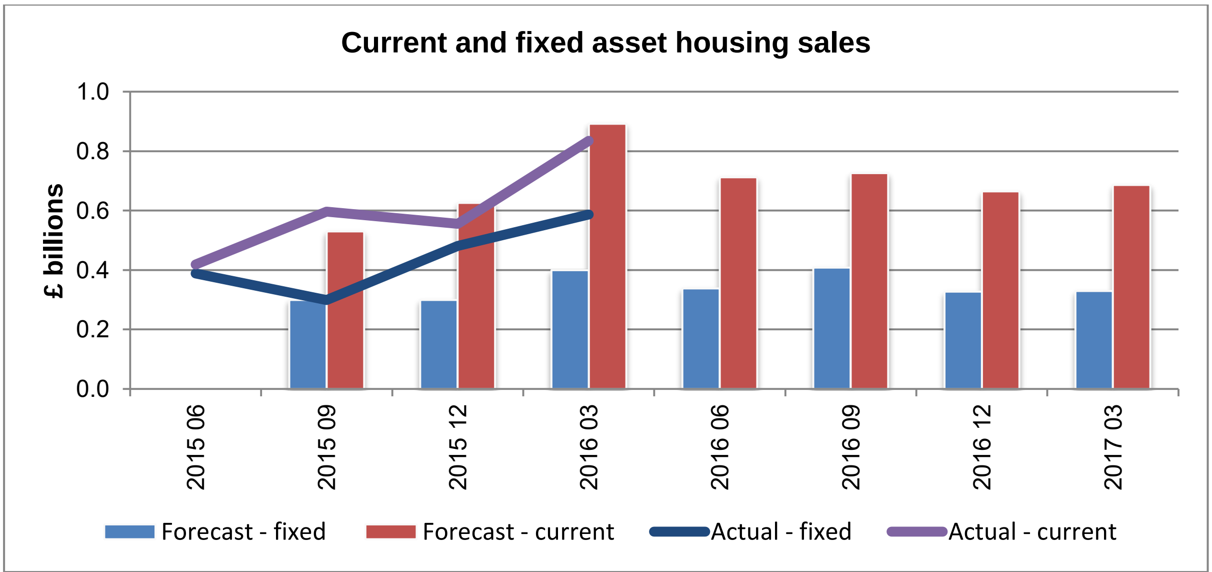
[1] Forecast data is available for the 9 months from July 2015 to March 2016; actual data for the 3 months to June 2015 has been aggregated with this to allow for comparison over a 12 month period.
[2] There are rounding differences of £0.1bn in the calculated totals; figures are reported in £000 in individual returns.
[3] Forecasts are based on the latest available forecast data for each quarter.

Actual payments of £1.8 billion to acquire and develop housing were in line with the previous quarter. £6.6 billion was invested in the acquisition and development of housing in the 12 months to March 2016. Payments of £5.8 billion to acquire and develop housing properties are committed in the next 12 months. A further £3.5 billion, not contractually committed, is included in the forecasts.

Operating cashflows continue to outperform forecasts. Operating cashflows (including £2.0 billion capitalised repair and maintenance expenditure) are forecast to generate £5.7 billion (before interest costs) over 12 months.

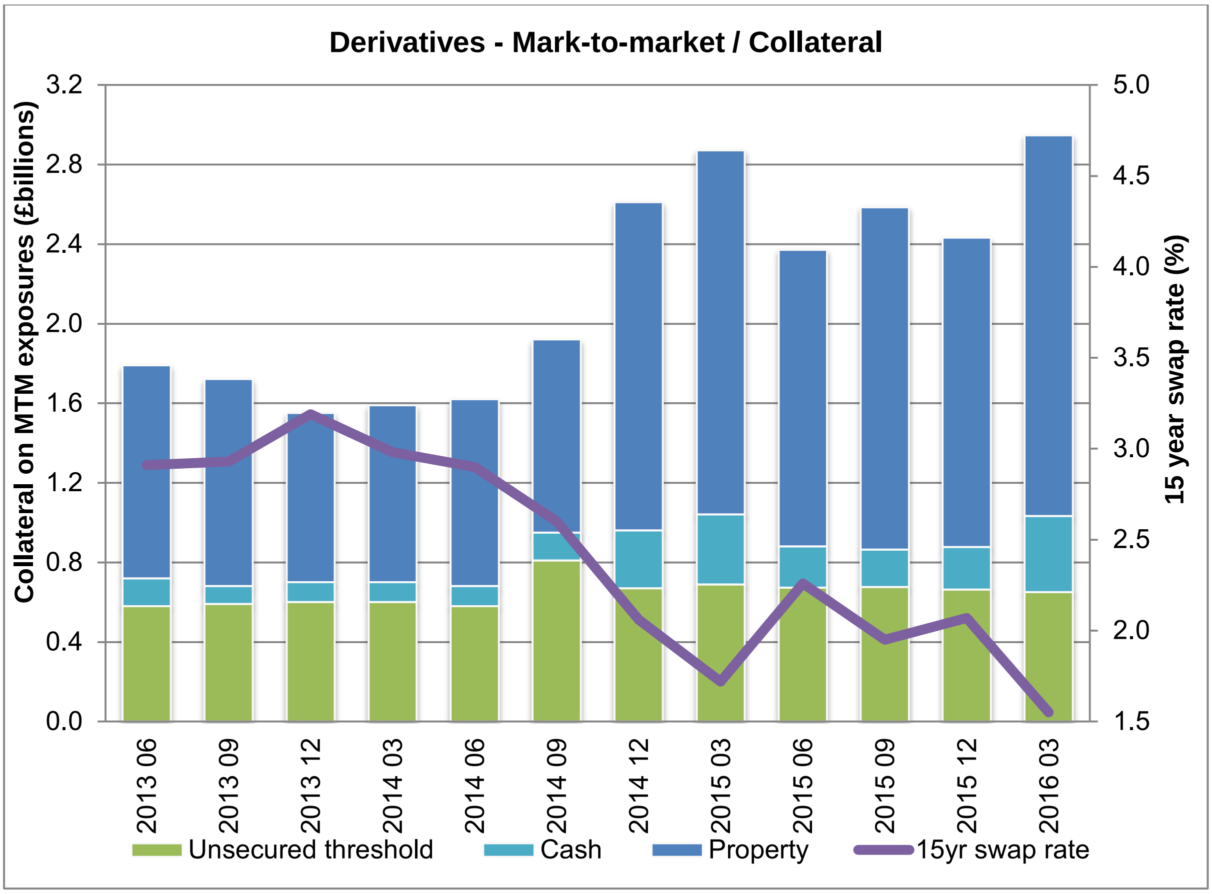


Operating cashflow forecasts include £2.8 billion from current asset sale receipts in the 12 months to March 2017; £2.4 billion current asset sales were achieved in the year to March 2016. Actual revenue from current asset housing sales exceeded forecast in September, and was largely in line with forecast in December and March. As for-sale development activity has increased in scale, the resulting stronger operating cashflows have generated necessary capacity to absorb the additional downside risk. Fixed asset sales of £1.9 billion in the year to March 2016 exceeded forecasts by £522 million.



Derivatives

- 49 (December 47) providers make use of free standing derivatives. The notional value of standalone derivatives was £9.7 billion (December £9.7 billion)
- the current gross MTM exposure increased to £2.9 billion at the end of March (December £2.4 billion)
- unsecured thresholds and available security pledged to swap counterparties was £4.1 billion; of this total collateral, £2.7 billion (December £2.3 billion) has been employed in the form of property or cash, together with unsecured thresholds of £0.6 billion.

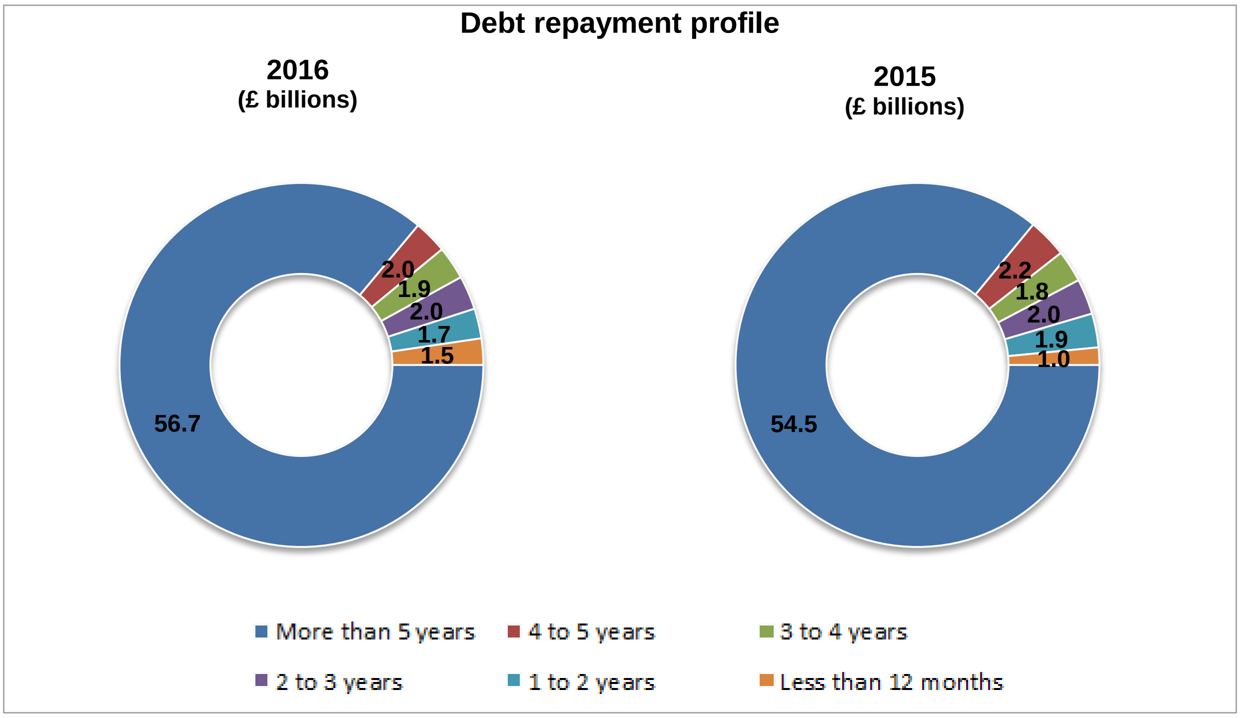


The graph above shows MTM exposures, excluding excess collateral. The decrease in the sterling 15 year swap rate over the quarter was reflected in increased MTM exposure. At sector level, collateral given in terms of security and cash continues to exceed current exposure levels. This provides some mitigation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

Debt repayment profile

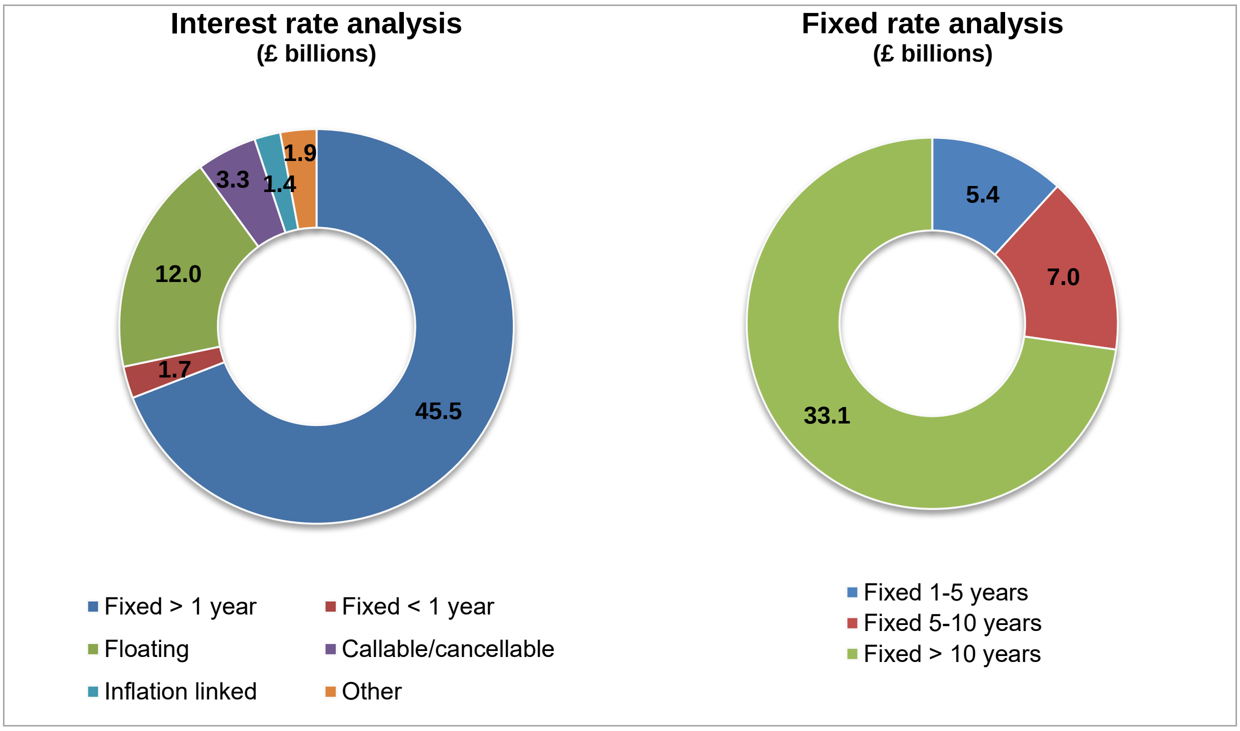
The value of debt repayable over the next 2 years is £3.3 billion, representing 5.0% of the sector debt (2015: £2.9 billion, 4.6%). The sector's immediate refinancing risk increased, but remains low, with 2.3% of loans reported to be due for repayment within 12 months.

Long term debt continues to account for the majority of the sector's borrowing with 86% of debt being due for repayment in over 5 years. £9.2 billion (2015: £8.9 billion) will become repayable over the next 5 years as profiled in the chart overleaf.



The exposure of individual providers to refinancing risk is covered by routine regulatory engagement. 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 show an analysis of the sector's drawn debt by interest rate type and the period over which rates have been fixed:

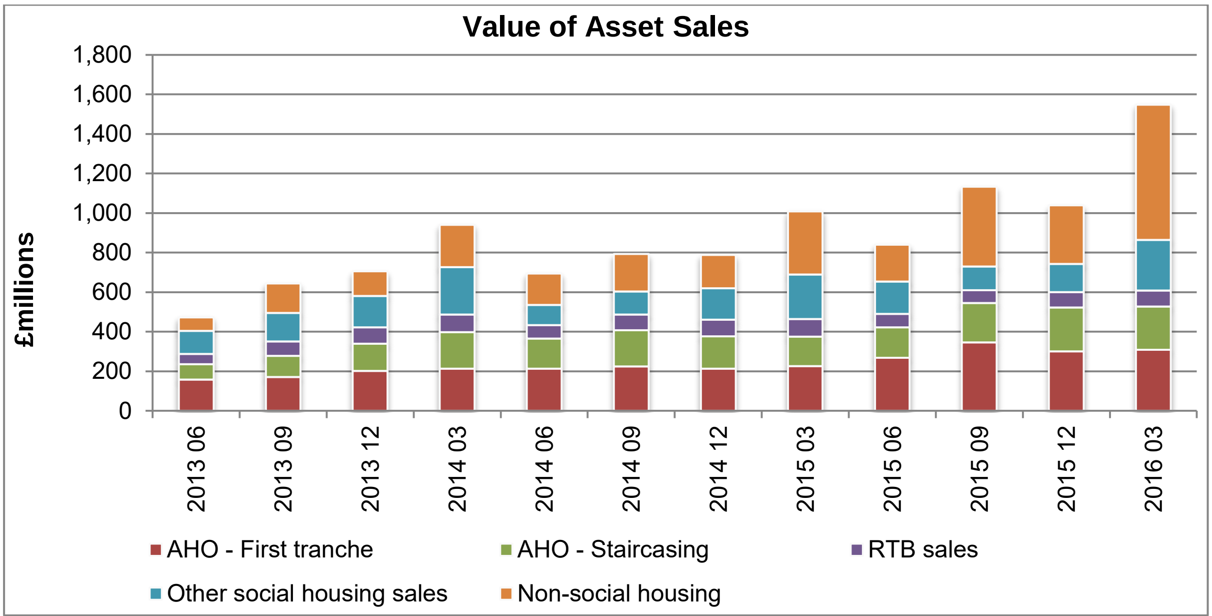


- fixed rate debt (greater than one year) comprises 69% (2015: 69%) of the sector's borrowings.

- 50% (2015: 49%) of total borrowing is at rates fixed for over 10 years providing the sector with a degree of certainty on 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 £20.3 billion. This represents 31% of drawn debt (2015: £19.7 billion, 31%).
- £3.3 billion, 5% (2015: £3.6 billion, 6%) of drawn debt is callable or cancellable.
- 80 providers (2015: 83) report that they hold callable or cancellable debt. Of these providers, 38 (2015: 39) report that this comprises less than 10% of drawn debt.
- 26% (2015: 25%) of callable/cancellable debt may be called or cancelled within 1 year; for 33% (2015: 42%) the earliest date is over 10 years.
- £1.4 billion, 2% (2015: £1.5 billion, 2%) of drawn debt is inflation linked
- 71 providers (2015: 71) report that they hold inflation linked debt or hedging. Of these providers, 53 (2015:49) 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.

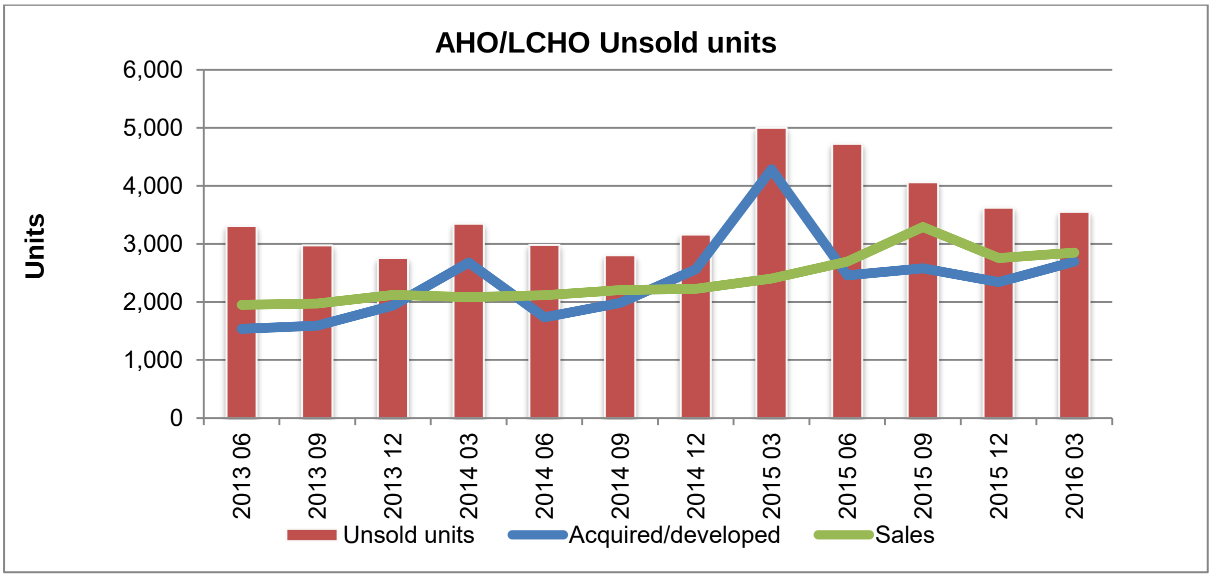
Housing market
Increased sales activity in the quarter was reflected in significant increases in both revenue and surplus on asset sales. Asset sales revenue and surplus were both the highest reported since the survey began in 2009.



- total asset sales of £1.5 billion were achieved in the quarter generating a surplus of £520 million (December £1.0 billion, £362 million)
- total asset sales of £4.6 billion in 2015/16 generated a surplus of £1.5 billion (2014/15: £3.3 billion, £1.1 billion)
- on AHO, there were 2,849 first tranche sales in the quarter (December 2,758), 3,551 homes remained unsold[1] (December 3,626) of which 1,006 had been unsold for over 6 months (December 1,100)
- there were 2,696 AHO completions and acquisitions in the quarter (December 2,339)

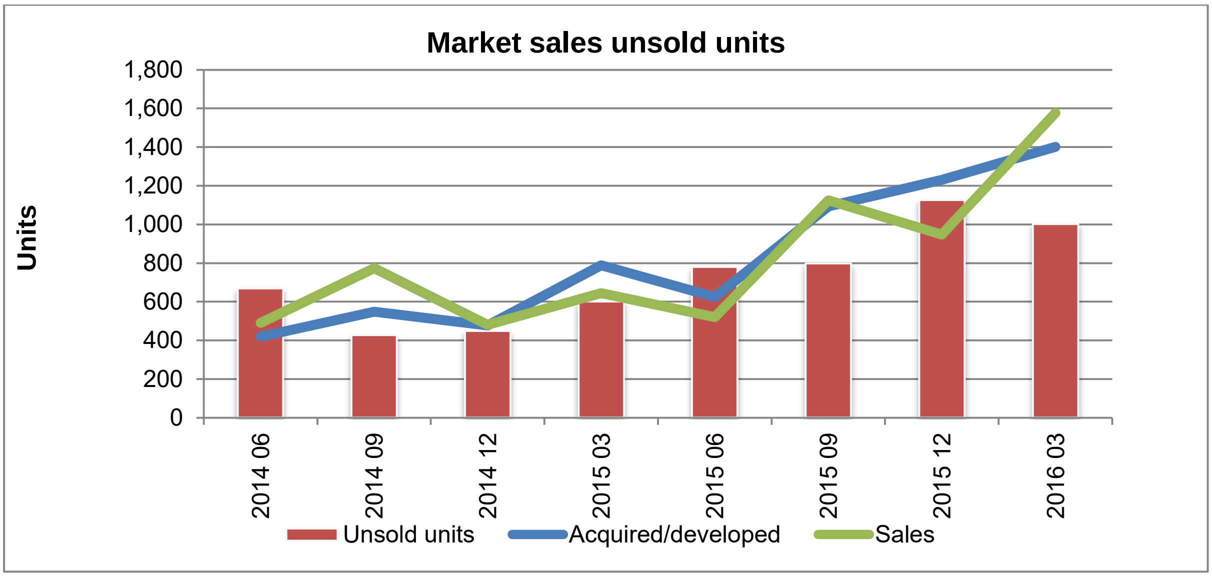
[1] There is a reconciliation difference between units reported unsold at quarter ends. This is due to a number of factors, including transfers between tenures and short term timing differences in providers reporting units as completed and available for sale.

- pipeline AHO completions expected in the next 18 months are 17,902 (December 17,228) of which 13,887 are contractually committed
- on market sales, there were 1,576 sales (December 947); 1,001 homes were unsold (December 1,125), of which 223 had been unsold for over 6 months (December 278)
- there were 1,402 homes developed for market sale in the quarter (December 1,230)
- pipeline market sales completions expected in the next 18 months are 7,965 (December 8,337) of which 7,013 are contractually committed



AHO sales continued to exceed completions, leading to a 2% reduction in unsold units in the quarter. Unsold units at March 2016 showed a 29% reduction over the year as the stock of properties completed in March 2015 has been sold. There was a decrease in the quarter of 9% in AHO properties remaining unsold for over six months.

Development for sale is concentrated in relatively few providers. Half of the unsold AHO stock at the end of the quarter is held by 21 providers. For market sales, half of the total unsold stock at the end of the quarter is held by 6 providers.



Sales of properties built for open market sale exceeded completions in the quarter, leading to an 11% reduction in unsold stock over the quarter. There was a decrease of 20% in market sale properties unsold for over six months. Activity in development and sales of properties for market sale increased significantly in 2015/16; this is reflected in an increase of 400 units in the stock held at year end.

Non-regulated companies

- 135 providers (2015: 130) have investment in, or lending to, non-regulated subsidiaries, special purpose vehicles or joint venture companies. The total value of the investment or indebtedness is reported to be £3.2 billion (2015: £3.2 billion)
- 40 providers (2015: 33) have given guarantees of £2.0 billion (2015: £1.6 billion) on the obligations or liabilities of other parties. Of these, 10 (2015: 10) have given security
- 52 providers (2015: 52) report that a joint venture or unregistered subsidiary is forecasting a loss in their 2016 accounts. Total losses are forecast at £61 million (2015: £46 million)

Where providers engage in activities with unregulated companies, the regulator seeks assurance that boards understand the associated risks and that social housing assets are not exposed to undue risk.

Impairment

- 63 providers (2015: 50) anticipate an impairment charge in their 2016 accounts
- the total anticipated charge is £89 million of which £55million relates to social housing assets (2015: £34 million, £25 million)
- 34 providers (2015: 39) forecast an impairment charge of less than £1 million; no providers anticipate an impairment charge of greater than £10 million

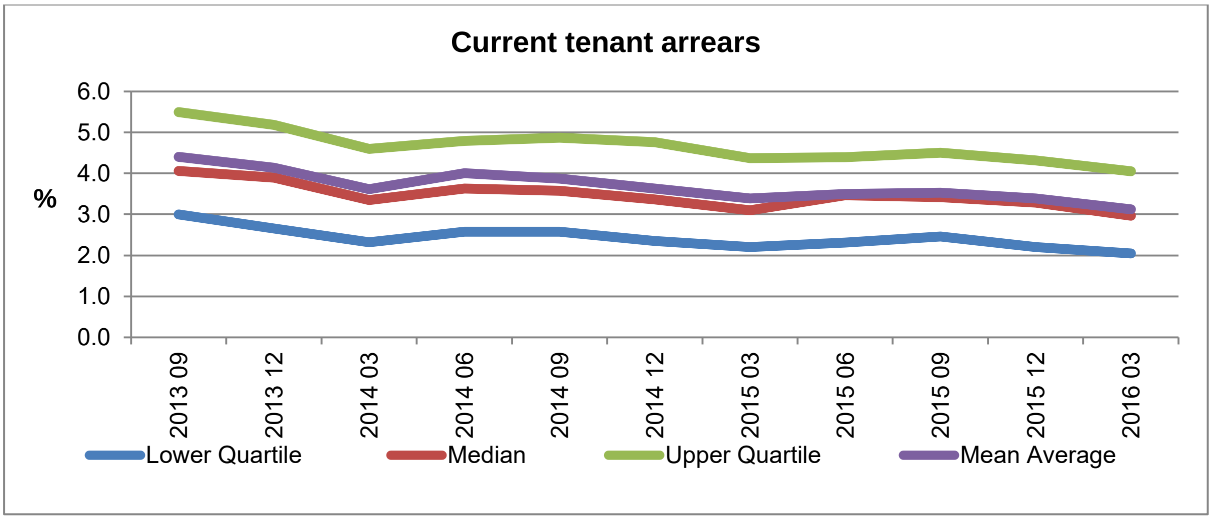
There is no evidence from the quarterly survey data that any forecast impairment charges will have an impact on providers meeting the performance requirements of their loan covenants.

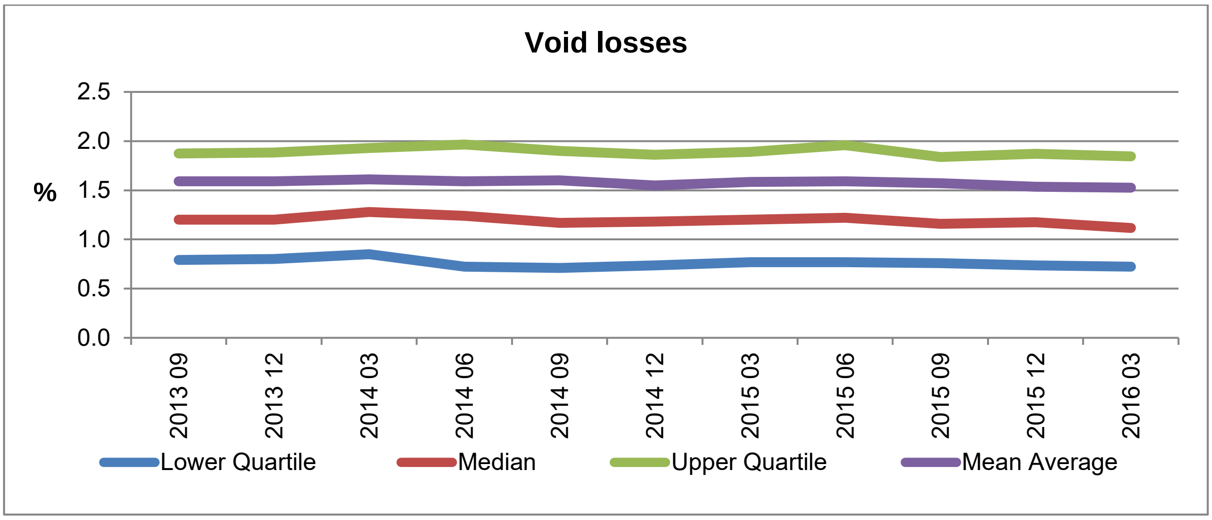
Income collection

Most providers (91%) continue to report that the current levels of arrears, rent collection and voids are within, or outperforming, their business plan assumptions. Housing benefit cycles remain likely to have an impact on rent collection.

- mean average and median current tenant arrears were 3.1% and 3.0% respectively (December, 3.4% and 3.3%).
- the March data shows a downward trend in mean average and median current tenant arrears; March 2015: 3.4% and 3.1%; March 2014: 3.6% and 3.4%
- mean average and median void losses were 1.5% and 1.1% respectively (December 1.5% and 1.2%
- mean average and median rent collection were 99.6% and 99.7% respectively (December 99.2% and 99.3%)
- 5 (December 6) providers reported rent collection rates of below 95%

As the charts overleaf demonstrate, the responses for each quarter continue to suggest that providers are managing income collection risks and maintaining cash flows within business plan parameters.


Current tenant arrears
%
6.0
5.0
4.0
3.0
2.0
1.0
0.0
2013 09
2013 12
2014 03
2014 06
2014 09
2014 12
2015 03
2015 06
2015 09
2015 12
2016 03
Lower Quartile
Median
Upper Quartile
Mean Average


Void losses
%
2.5
2.0
1.5
1.0
0.5
0.0
2013 09
2013 12
2014 03
2014 06
2014 09
2014 12
2015 03
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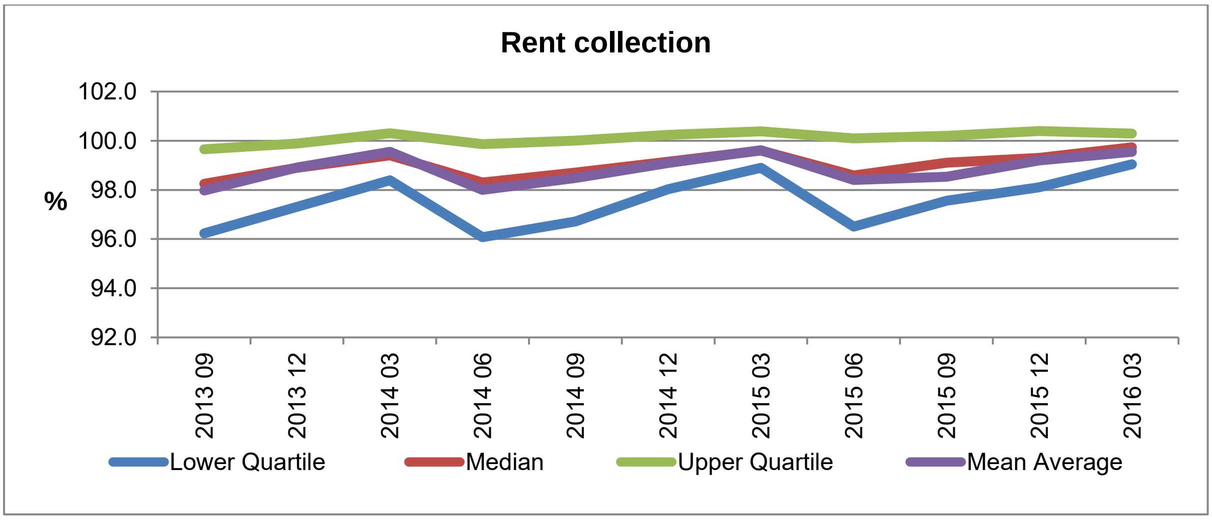
Lower Quartile
Median
Upper Quartile
Mean Average


Rent collection
%
102.0
100.0
98.0
96.0
94.0
92.0
2013 09
2013 12
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homesandcommunities.co.uk
mail@homesandcommunities.co.uk
0300 1234 500

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

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