Homes & Communities Agency

QUARTERLY SURVEY OF PRIVATE REGISTERED PROVIDERS

2013/14 Quarter 1

Quarterly Survey of Private Registered Providers

June 2013

Introduction

The June 2013 quarterly survey report is based on responses from the 269 Private Registered Providers of social housing who own or manage more than a 1,000 homes.

The survey shows that the sector continues to access sufficient finance and to manage its exposure to the housing market. Providers continue to be able to access funding through capital markets and traditional bank sources. The level of new facilities arranged this quarter is low at £0.6billion compared to £1.2billion arranged in the last quarter of 2012/13. However, this is most likely because a large number of registered providers now have sufficient funding in place for their development programme until March 2015, rather than a tightening of availability of finance.

The sector continues to generate significant income from a range of sales activities which are both reducing their overall debt requirements and helping to deliver much needed social housing.

Overall, the survey results indicate that in aggregate the sector remains financially strong; however the operating environment remains challenging. In particular, income collection is likely to require more active management as the impact of welfare reforms begins to affect the sector. Providers must continue to focus on risk management and robust financial planning to meet their strategic objectives.

Summary of Findings

- The sector's total reported borrowing facilities are £68.9billion (March £68.4billion).
- £57.3billion is currently drawn (March £56.5billion), leaving undrawn facilities of £11.6billion (March £11.9billion).
- Cash available to the sector was reported to be £3.5billion (March £3.6billion).
- New facilities arranged in the quarter were reported by providers to total £556million (March 1.2billion).
- Capital market funding, including private placements, contributed 34% of the new funding in the quarter. Over the previous year, capital market funding contributed 70% of the new funding.
- Over the next 12 months, the sector forecasts drawdowns of £5.8billion (March £5.9billion).
- 95% 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 was reported at £9.5billion (March £9.3billion).
- The current reported mark-to-market (MTM) exposure net of unsecured thresholds is £1.2billion; collateral of £1.5billion has been given, in the form of property or cash.
- On Affordable Home Ownership (AHO), 1,948 first tranche sales were achieved in the quarter (March 2,257); 3,304 remained unsold (March 3,734), of which 1,292 had been unsold for over six months (March 1,304).

- There were 1,533 AHO completions and acquisitions in the quarter (March 2,474).
- Pipeline AHO completions expected in the next 18 months were 14,406 (March 13,821).
- Total asset sales of £472million (March £808million) were achieved in the quarter generating a profit of £148million (March £233million).
- In previous years, property transactions have peaked in the March year end quarter. This quarter's figures are therefore considered to be a return to normal levels of activity rather than a downward trend in sales.

Operating Context

UK economic indicators show GDP to have grown by 0.6% in the second quarter of 2013. However, economic output remains below the pre-recession peak. Inflation figures for June remained above target, with CPI at 2.9% and RPI at 3.3%; the new measure of CPIH (which includes home ownership costs) was reported at 2.7%.

Average weekly earnings (excluding bonuses) were reported by ONS to have risen by 1.1% over the year to June 2013. Reductions in benefits through welfare reforms came into effect during the quarter, notably the Social Sector Size Criteria (reduced housing benefit for working age households under-occupying social rented homes) introduced on 1 April. These will impact on household incomes in the current year. Against this background, providers will need to manage the risks associated with income collection.

The Bank of England base rate has remained at 0.5% since March 2009. Three month sterling LIBOR also remained low (June 2013 0.51%) and allowed providers to continue to benefit from low interest costs on variable rate debt. The impact of the recent forward guidance from the Bank of England on interest rates will also need to be considered by providers when thinking about the right treasury management strategy.

The mix of sources of new funding has reversed in this quarter, with one third being raised by way of capital markets and around two thirds from banks. This is against the general trend in 2012/13 when the majority of the sector's new debt arose from bond issuances and private placements. This is despite bank loans to the social housing sector being offered on shorter terms (5-10 years) whilst capital markets offer both long term finance and, at this time, historically low interest rates. The reversal is driven by the sector having its Affordable Housing programme 2011 – 15 financing in place, rather than by increased demand for bank facilities since the levels of both new bank facilities and new capital market funding have fallen compared to the quarterly averages in 2012/13. As more detail is given of the programme announced in the Spending Review, it is likely that providers will return to the capital markets to raise additional finance.

Housing market data showed prices to have remained relatively stable over the year. The Nationwide quarter 2 2013 house price index figures showed an annual percentage increase of 1.9% over the year to June. Increases in prices continue to be higher in London and the South East than in the remainder of the UK, with low supply continuing to be a driver for the increases.

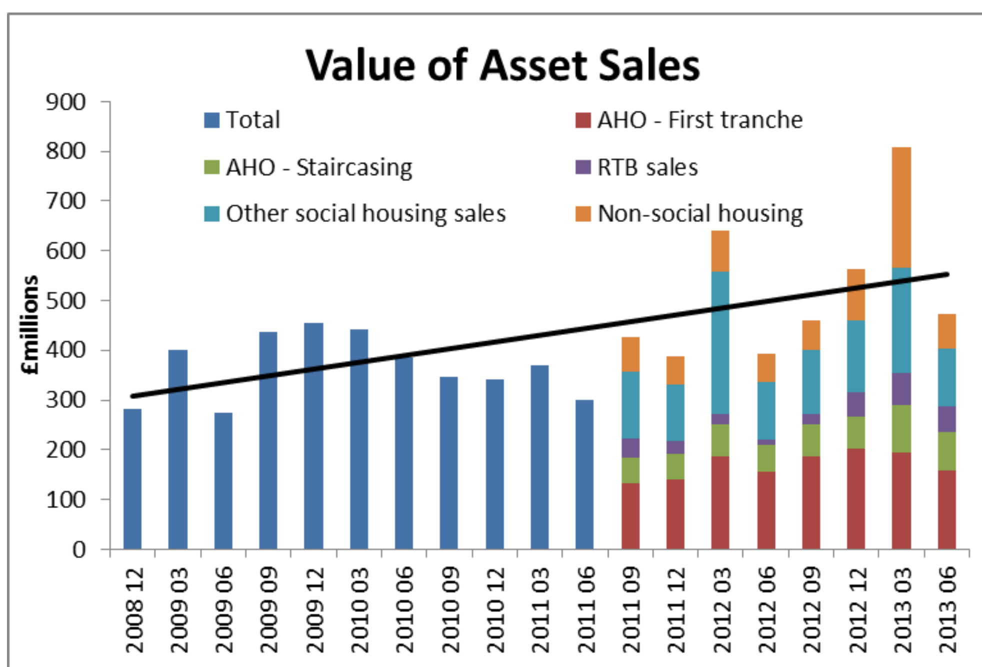
Housing Market

Providers continue to develop properties for sale on the open market; this includes AHO properties and properties for outright sale. In carrying out these activities, the sector remains exposed to fluctuations and regional variations in the housing market.

The sale of AHO properties continues to be a significant activity within the sector; exposure to risk appears to be well managed as evidenced by a steady fall in the number of unsold properties (21% lower than at June 2012).

The quarter 1 figures show[1]:

- 1,533 AHO homes were acquired or developed (March 2,474)
- 1,948 were sold (March 2,257)
- 3,304 remained unsold (March 3,734)
- The number unsold for over six months decreased to 1,292 (March 1,304).



Total revenue from asset sales (including AHO first tranche and staircasing, Right to Buy (RTB), other social and non-social housing) was £472million in the quarter (March £808million). Surpluses on sales were reported at £148million (March £233million).

Sales proceeds peaked in the year end quarter resulting in a reduction in proceeds in each category in the current quarter. In particular, non-social housing sales were significantly higher than normal levels in the previous quarter as the result of one provider's transfer of a portfolio of private rented properties to be managed by the provider under an operating lease. As illustrated in the chart above, the current quarter is considered to be a return to normal levels rather than a downward trend.

Income from first tranche sales of properties was reported at £158million. Surpluses on first tranche sales were £29million.

Income from RTB sales was reported to be £51million. RTB sales continue to provide cash to the sector. However, as stated in previous quarters, the longer term risks for providers' business plans associated with the loss or replacement of stock do need to be managed.

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

Financing Market

New facilities arranged in the quarter totalled £556million. This was below the levels reported in each quarter of 2012/13. New funding raised through bank loans totalled £336million and accounted for 61% of the new facilities in the quarter. Capital market funding totalled £190million and accounted for 34% of the new facilities. This was significantly lower in 2013/14 quarter 1 than in 2012/13 quarter 1, when there were five bond issues totalling £1.3billion. The remaining 5% of new facilities is a £30million loan that one provider agreed with one of the local authorities in which it operates.

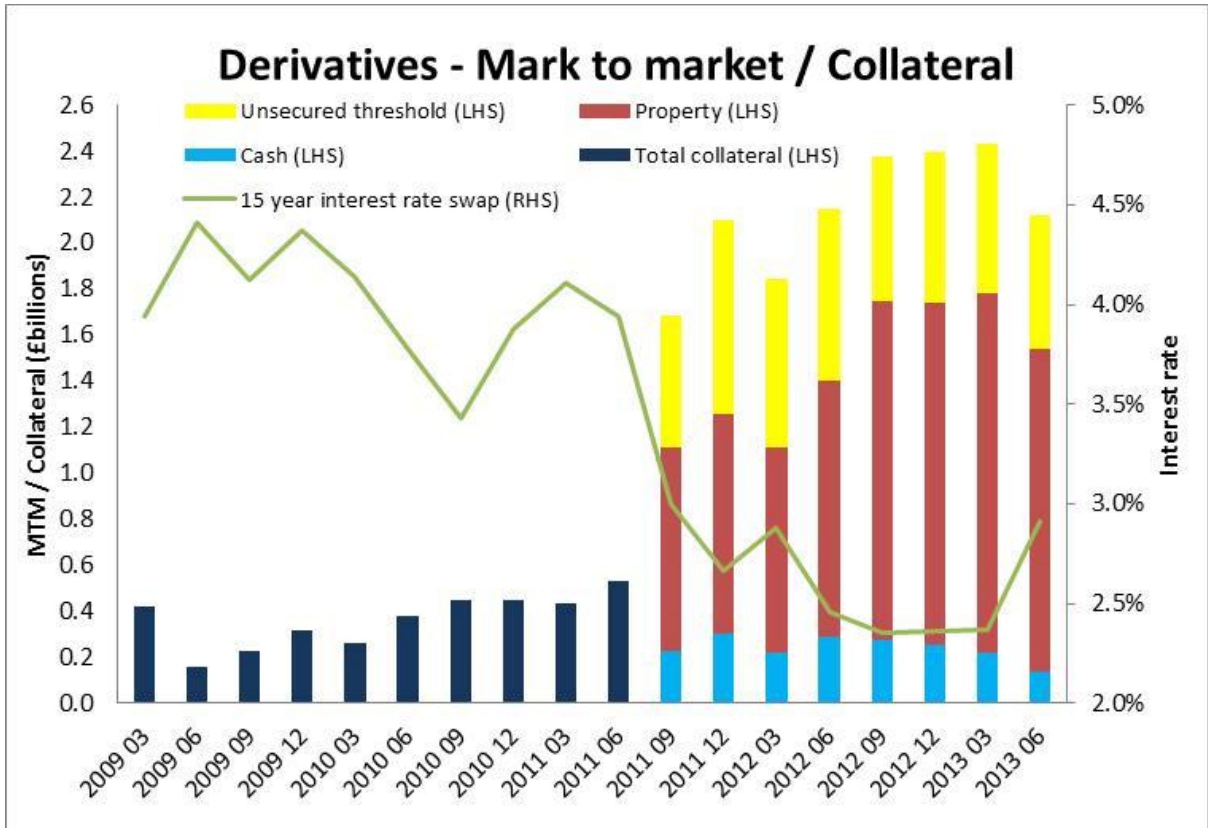
The sector currently reports facilities of £68.9billion (March £68.4billion), of which £57.3billion (March £56.5bilion) is drawn leaving undrawn facilities of £11.6billion (March £11.9billion). Cash available to the sector was reported to be £3.5billion (March £3.6billion).

Security is reported to be in place for £65.5billion of debt, this represents 95% of the agreed facilities. At sector level there is sufficient funding in place to cover the £5.8billion forecast drawdowns over the next twelve months. At provider level, the Regulator will continue to actively engage with providers reporting less than eighteen months available facilities.

Derivatives

The number of providers reporting that they make use of free standing derivative instruments remains at 49. The nominal value of the instruments is £9.5billion (March £9.3billion). The average term of these instruments remains at fifteen 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 ongoing regulatory engagement. 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 has reduced to £1.2billion (March £1.6billion) as a result of the increase in the long term interest rates from 2.37% to 2.91%. Collateral of £1.5billion (March £1.8billion) in the form of property and cash has been given against this exposure. Cash collateral now stands at £137million (March £217million) directly as a result of the reduction in MTM. The Regulator will continue to monitor exposure to cash calls.


Derivatives - Mark to market / Collateral
Unsecured threshold (LHS)
Property (LHS)
Cash (LHS)
Total collateral (LHS)
15 year interest rate swap (RHS)
MTM / Collateral (£billions)
Interest rate
2.6
2.4
2.2
2.0
1.8
1.6
1.4
1.2
1.0
0.8
0.6
0.4
0.2
0.0
5.0%
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homesandcommunities.co.uk
mail@homesandcommunities.co.uk
0300 1234 500

Homes & Communities Agency

Homes and Communities Agency
7th Floor
Maple House
149 Tottenham Court Road
London W1T 7BN

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