Regulator of Social Housing

Quarterly survey for Q3

October to December 2020

March 2021

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Introduction

1. This quarterly survey report is based on regulatory returns from 214 private registered providers (PRPs) and PRP groups who own or manage more than 1,000 homes. One provider submitted a return for the first time this quarter, and additional narrative has been included in the report to highlight where quarter on quarter comparisons have been skewed due to an intra-group transaction relating to this provider.

2. 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 2020 to 31 December 2020.

3. The regulator continues to review each PRP’s quarterly survey. It considers a range of indicators and follows up with PRP staff in cases where a risk to the 12-month liquidity position is identified. We have assurance that all respondents are taking appropriate action to secure sufficient funding well in advance of need.

4. Since the staged easing of lockdown measures which occurred between May and July 2020, the Prime Minister announced in October a new three-tier lockdown system for England with different parts of the country split into three coronavirus alert categories. A second national lockdown came into force for four weeks starting 5 November, followed by a third national lockdown on 4 January 2021 until further notice.

Summary

5. The position reported at the end of the quarter showed that the sector remains financially strong with access to sufficient finance:

    - Debt facilities of £113.1 billion were in place at the end of December, of which £28.7 billion was undrawn. Undrawn facilities have increased by £6.8 billion since the start of the financial year.

    - Available cash balances increased by £0.1 billion during the quarter to reach £6.9 billion at the end of December.

    - New finance of £3.0 billion was agreed in the quarter, including £1.9 billion from capital markets and £0.8 billion from banks.

- Mark-to-market (MTM) exposure has decreased slightly since September, reflecting an increase in swap rates. In aggregate, providers with free-standing derivatives continue to have headroom available.

6. Performance in the quarter continues to reflect some of the challenges arising from the coronavirus pandemic. However, this has not destabilised the sector's overall strong financial position:

   - Cash interest cover, excluding current asset sales, stood at 145% in the quarter to December 2020 compared to a forecast of 104%.

   - The improvement in interest cover was a result of net cashflows from operating activities being £204 million (14%) higher than forecast, and capitalised repairs and maintenance expenditure being £140 million (24%) lower than forecast.

   - Expenditure on capitalised repairs and maintenance in the quarter amounted to £455 million (September: £299 million); 24% lower than the £595 million forecast in September. Providers have reported ongoing delays as a result of lockdown restrictions; however, outturn spend was more in line with levels seen before the start of the coronavirus pandemic.

   - Investment in housing supply was £3.4 billion in the quarter to December 2020, an increase of 42% from the previous quarter. Expenditure on development was higher than the £3.1 billion forecast for contractually committed schemes, however lower than the total forecast for the quarter.

   - Including both current and fixed asset sales, total sale receipts were £1.7 billion in the quarter, generating surpluses of £0.4 billion. In aggregate, asset sale receipts were 17% above the forecast made in September, reflecting the uncertainty and caution exercised by providers when producing sales forecasts.

   - During the quarter 4,667 affordable home ownership (AHO) units were developed, and 4,665 were sold. This compares to the 3,652 units developed and 3,823 sales in the previous quarter. The total number of unsold units remained in line with previous quarter with only a slight decrease of 0.6% and stood at 7,634 at the end of December.

   - AHO units unsold for more than six months reduced by 25% during the quarter, reaching 2,994 at the end of December, following the highest number recorded last quarter since data was first collected in 2009, although still higher than pre-coronavirus figures.

- Margins on AHO sales averaged 18.6% in the quarter, slightly lower than the margin of 19.3% achieved in the quarter to September, and below the three-year average of 23.5%.

- During the quarter 1,495 market sale units were developed, and 1,663 were sold. This was the highest number of market sales achieved since the data was first collected in 2014. The number of units completed was almost a 50% increase on the previous quarter, however still below the levels seen immediately before the coronavirus pandemic.

- The high volume of market sales achieved during the quarter has resulted in the number of unsold units decreasing by 6% to 2,194, and the number of units unsold for over six months decreasing by 13% to 1,273.

- Mean arrears, void rent loss and rent collection rates initially deteriorated at the start of the coronavirus pandemic; however, performance has remained stable since then and improved very slightly in the last quarter.

7. Forecasts for the next 12 months indicate that performance and plans are continuing to return towards levels seen before the coronavirus pandemic; however, this could be impacted by the uncertainty of the length of the current lockdown.

   - For the 12 months to December 2021 the sector has forecast capitalised repairs and maintenance expenditure of £2.6 billion; an increase on the £2.5 billion 12-month forecast made in September and on the £2.4 billion forecast from December 2019.

   - Over the 12-month forecast period, expected investment in new housing supply is forecast to be £17.1 billion, of which £11.2 billion is contractually committed. This is a 2% increase on the previous quarter and projected spend is now greater than the last pre-coronavirus 12-month forecast of £16.9 billion from December 2019.

   - For the 12 months to December 2021, the sector has forecast £4.5 billion worth of current asset sales and £1.8 billion worth of fixed asset sales. Forecast current asset sales remain below the levels expected before the start of the coronavirus pandemic (December 2019 12-month forecast: £5.4 billion).

   - In the next 18 months, including committed and uncommitted development, providers are forecasting the completion of 35,998 AHO units (September: 35,221) and 11,323 market sale properties (September: 11,406).

- Pipeline AHO units are at their highest level ever reported, having now exceeded the numbers being forecast before the coronavirus pandemic.

Operating environment

8. In response to the coronavirus pandemic, the UK was put into lockdown on 23 March 2020. A second national lockdown came into force on 5 November lasting for four weeks, followed by the introduction of the third national lockdown on 4 January 2021 until further notice[1]. The latest announcement was made prior to providers submitting returns towards the end of January, therefore there may be some implications reflected in the forecast.

9. Gross domestic product (GDP) rose by 1.2% during December 2020 but was still 6.3% below February 2020 levels[2]. This follows a drop in GDP of 2.6% in November, the first monthly fall since April 2020 as business restrictions impacted economic activity[3]. The International Monetary Fund estimated that global economic growth contracted by 3.5% in 2020, however a more optimistic forecast is projected for 2021 with a 5.5% growth[4].

10. In light of the expected economic impact of coronavirus, the Bank of England reduced interest rates to 0.25% on 11 March 2020. In a further emergency response this was reduced for a second time on 19 March to 0.10%, where it currently remains.

11. Construction output fell by 2.9% in December, due to falls in both new work (3.8%) and repair and maintenance (1.5%); this is the first decline in monthly growth since April 2020[5]. The continued restrictions and social distancing measures has meant the capacity and level of work of construction sites were 3.5% below pre-coronavirus levels.

[1] https://www.gov.uk/government/news/prime-minister-announces-national-lockdown

[2] https://www.ons.gov.uk/economy/grossdomesticproductgdp/articles/coronavirusandtheimpactonoutputintheukeconomy/december2020

[3] https://www.ons.gov.uk/economy/grossdomesticproductgdp/articles/coronavirusandtheimpactonoutputintheukeconomy/november2020

[4] https://www.imf.org/en/Publications/WEO/Issues/2021/01/26/2021-world-economic-outlook-update

[5] https://www.ons.gov.uk/businessindustryandtrade/constructionindustry/bulletins/constructionoutputingreatbritain/december2020

12. In a bid to boost the housing market the Chancellor announced a temporary rise in the Stamp Duty threshold, effective from 8 July 2020. This contributed to an increase in UK average house prices by 8.5% over the year to December 2020, up from 7.1% in November[6]. This is the highest annual growth rate the UK has seen since October 2014.

13. Overall inflation, as measured by the Consumer Prices Index (CPI), stood at 0.6% in the 12 months to December 2020, a slight increase from the 0.5% recorded in September last quarter. CPI rose by 0.3% between November and December 2020 compared with a rise of 0% in the same period of 2019[7].

14. Estimates from the Office for National Statistics suggest that the number of pay rolled employees in the UK reduced by around 828,000 in the period between March and December 2020, with the universal credit claimant count increasing by nearly 113%, or 1.4 million, in the same period. From September to November, around 1.72 million people were unemployed, 418,000 more than a year earlier[8]. Redundancies remained high in November 2020 with peak levels of around 437,000; however, this was a drop from the peak in September of 508,000[9].

15. The Coronavirus Job Retention Scheme, which allows employers to claim grant to cover the salary costs of furloughed workers, was expected to end on 31 October 2020, however this has been extended until 30 September 2021, with claimants receiving 80% of their usual salary for hours not worked[10]. The latest Economic and Fiscal Outlook from the Office for Budget Responsibility suggests that unemployment will peak at around 6.5% in quarter four of 2021[11].

16. There continues to be material uncertainty over the future course of the coronavirus pandemic and the economic conditions that will follow. The second wave of the virus is currently evolving, with the enforcement of the third national lockdown currently in place. Providers will need to constantly monitor performance and forecasts and be ready to react as necessary to the rapidly changing environment.

[6] https://www.ons.gov.uk/economy/inflationandpriceindices/bulletins/housepriceindex/december2020

[7] https://www.ons.gov.uk/economy/inflationandpriceindices/bulletins/consumerpriceinflation/december2020

[8] The majority of this data come from surveys of households and businesses. It is not possible to survey every household and business each month, therefore these statistics are estimates based on samples.

[9]https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/uklabourmarket/january2021

[10] https://www.gov.uk/guidance/claim-for-wage-costs-through-the-coronavirus-job-retention-scheme

[11] https://obr.uk/efo/economic-and-fiscal-outlook-march-2021/

Private finance

17. The sector's total agreed borrowing facilities increased to £113.1 billion at the end of the quarter, £61.3 billion (54%) of which were bank loans.

18. £84.4 billion was reported as being drawn, leaving undrawn facilities of £28.7 billion. Undrawn bank loans accounted for 81% (£23.3 billion) of available facilities.

19. Of the £113.1 billion agreed facilities, £100 billion had been secured and £8.7 billion of facilities did not require security. There were further agreed facilities of £4.4 billion where security was not yet in place.

20. 93% (September: 94%) of providers were forecasting that debt facilities available at the end of December would be sufficient for more than 12 months.

21. Total cash and undrawn facilities available within the sector totalled £35.5 billion (September: £34.7 billion). This included £4.6 billion from capital markets, which typically takes longer to access than traditional bank finance. Available facilities would be sufficient to cover the forecast expenditure on interest costs (£3.5 billion), loan repayments (£3.1 billion) and net development for the next year (£15.4 billion), even if no new debt facilities were arranged and no sales income was received.

22. For the 12 months to December 2021 the sector has forecast loan drawdowns of £9.5 billion (September 12-month forecast: £8.8 billion), of which £2.0 billion is from facilities not yet agreed (September: £1.8 billion). The drawdowns from facilities not yet agreed were reported by 35 providers that are either undertaking voluntary refinancing or are extending existing facilities, typically to fund uncommitted development programmes.

23. A total of 36 providers arranged new finance during the quarter. New facilities agreed, including refinancing, totalled £3.0 billion, with 11 providers each arranging facilities worth £100 million or more. Across all providers, a total of £0.9 billion worth of loans were repaid during the quarter, with £0.5 billion of this being repaid by providers that were also raising new finance.

24. Capital market funding, including private placements and aggregated bond finance, accounted for 62% (£1.9 billion) of new funding in the quarter. Bank lending contributed 26% (£0.8 billion), and other sources, including local authority lending and parent company loans, accounted for 13% (£0.4 billion). Typically, bank lending offers a shorter-term source of finance than that available on the capital markets.

25. Over the last three quarters, total undrawn facilities have increased by £6.8 billion (31%). During this period, almost three times more new funding has been secured from capital markets than from traditional bank finance, including a total of £2.9 billion arranged through the Covid Corporate Financing Facility (CCFF).

26. The CCFF was closed to new applicants on 31 December 2020, with a deadline of 22 March in place for further issuances to be made by existing participants. There were no new CCFF arrangements reported by PRPs in the quarter.

Figure 1: Total facilities (£ billions)

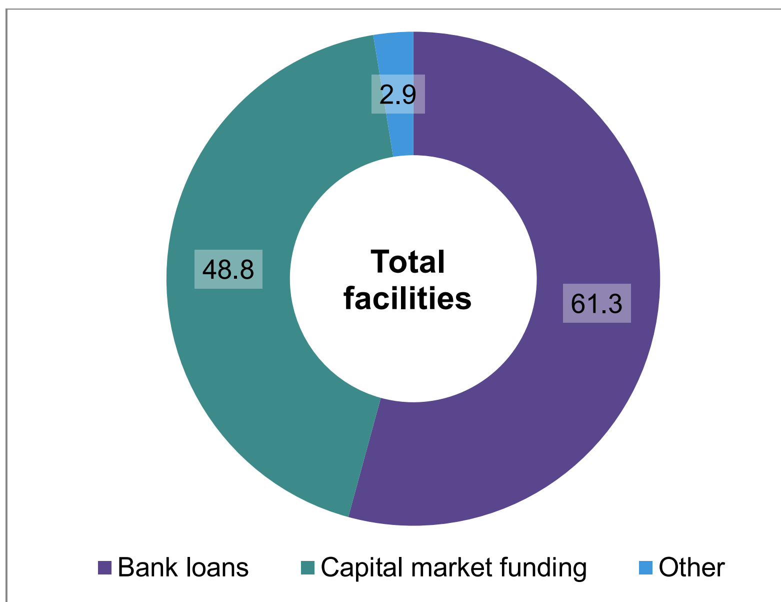
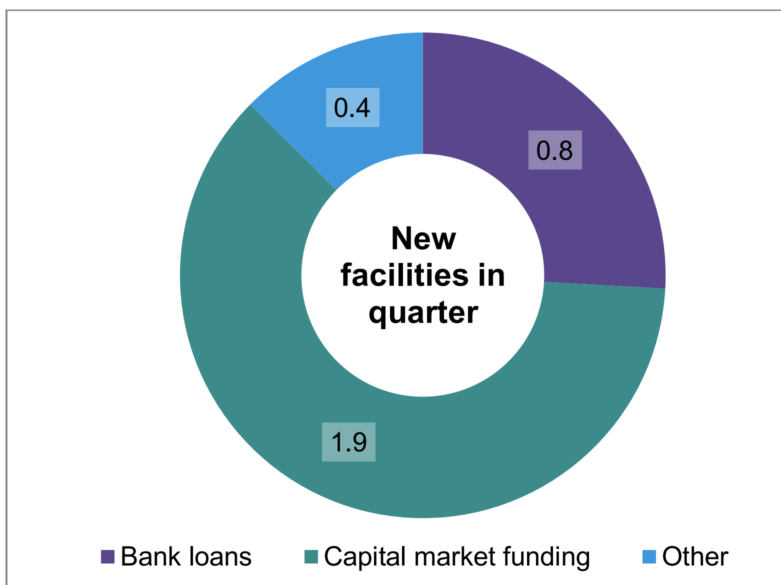


Figure 2: New facilities in quarter (£ billions)



Cashflows

27. It is essential that providers always have access to sufficient liquidity. The regulator engages with PRPs that have low liquidity indicators.

28. Table 1 below includes the cashflow forecasts for the 12 months to December 2021, and actual performance for the quarter compared to the previous forecast.

Table 1: Summary cashflow forecast[12]

Figures in £ billions	3 months to 31 December 2020 (forecast)	3 months to 31 December 2020 (actual)	12 months to 31 December 2021 (forecast)
Operating cashflows excluding sales	0.9	1.2	4.0
Interest cashflows	(0.9)	(0.9)	(3.5)
Payments to acquire and develop housing	(4.1)	(3.4)	(17.1)
Current assets sales receipts	1.1	1.1	4.5
Disposals of housing fixed assets[13]	0.4	0.6	1.8
Other cashflows	0.1	(0.0)	(0.3)
Cashflows before resources and funding	**(2.5)**	**(1.3)**	**(10.6)**
Financed by:			
Net grants received	0.5	0.4	1.7
Net increase in debt	1.2	1.0	6.4
Use of cash reserves	0.8	(0.1)	2.4
Total funding cashflows[14]	**2.5**	**1.3**	**10.6**

29. Interest cover, based on operating cashflows excluding sales, stood at 145% in the quarter to December 2020 (September: 183%). This compares to a forecast of 104% made in September. The improvement in interest cover results from net cashflows from operating activities being £204 million (14%) higher than forecast, and capitalised repairs and maintenance expenditure being £140 million (24%) lower than forecast. Net interest payable was consistent with forecasts.

[12] Operating cashflow excludes current asset sales receipts and costs of sales. 'Payments to acquire and develop housing' include payments in respect of both current and fixed assets.

[13] Disposals of housing fixed assets in the actual quarter includes £0.2 billion worth of intra-group sales.

[14] There are rounding differences in the calculated totals; figures are reported by providers in £000.

30. Providers have reported net cashflows from operating activities being higher than anticipated due to prudent assumptions around rent collection rates, and also ongoing delays to revenue repairs and maintenance due to coronavirus restrictions.

31. The figures submitted by providers show interest cover reducing to 116% by the end of the 12-month forecast period. The anticipated reduction in interest cover is mainly due to forecast capitalised repairs and maintenance costs being, on average, £184 million higher per quarter than the actual expenditure recorded in the quarter to December 2020. Net cashflows from operating activities are forecast to total £6.6 billion over the 12 months to December 2021; an increase on the amounts being forecast in the previous two quarters, but still nearly £200 million less than was being forecast in the same quarter of the previous year.

32. Actual capitalised repair and maintenance expenditure in the quarter amounted to £455 million (September: £299 million). This is the highest amount reported since the start of the coronavirus pandemic, and more in line with the levels of expenditure that were incurred during 2019/20. Expenditure was 10% lower than in the same quarter of 2019/20, but only 1% below the amount spent in the quarter to September 2019.

33. Although higher than in the previous two quarters, actual expenditure on capitalised repairs and maintenance was £140 million (24%) less than the £595 million forecast in September, with 73% of providers reporting an underspend against previous forecasts. It is usual for capitalised repairs and maintenance expenditure to be lower than forecast, and in both previous two quarters expenditure has been 39% below forecast. Delays in programmes due to the ongoing pandemic continue to be reported, with the latest lockdown measures causing further access issues and leading to costs being reprofiled into next financial year.

34. In the 12 months to December 2020 capitalised expenditure on repairs and maintenance was £1.6 billion, compared to the £2.4 billion forecast at the start of the period. For the 12 months to December 2021 the sector has forecast capitalised repairs and maintenance expenditure of £2.6 billion (September 12-month forecast: £2.5 billion).

35. In the 12 months to December 2020 current asset sales of £3.6 billion were achieved. For the 12 months to December 2021, the sector has forecast a further £4.5 billion worth of current asset sales, of which £4.2 billion relates to properties for which development is contractually committed. Forecast current asset sales remain below the levels expected before the start of the coronavirus pandemic; in December 2019 12-month forecasts reached £5.4 billion. Actual current asset sales receipts in the quarter totalled £1.1 billion, 3% higher than the forecast made in September.

36. In the 12 months to December 2020 fixed asset sales were £1.9 billion. For the 12 months to December 2021 the sector has forecast a further £1.8 billion worth of fixed asset sales.

37. Available cash balances, excluding amounts held in secured accounts, increased by £0.1 billion during the quarter. This compares to a forecast reduction in cash of £0.8 billion expected at the end of the previous quarter.

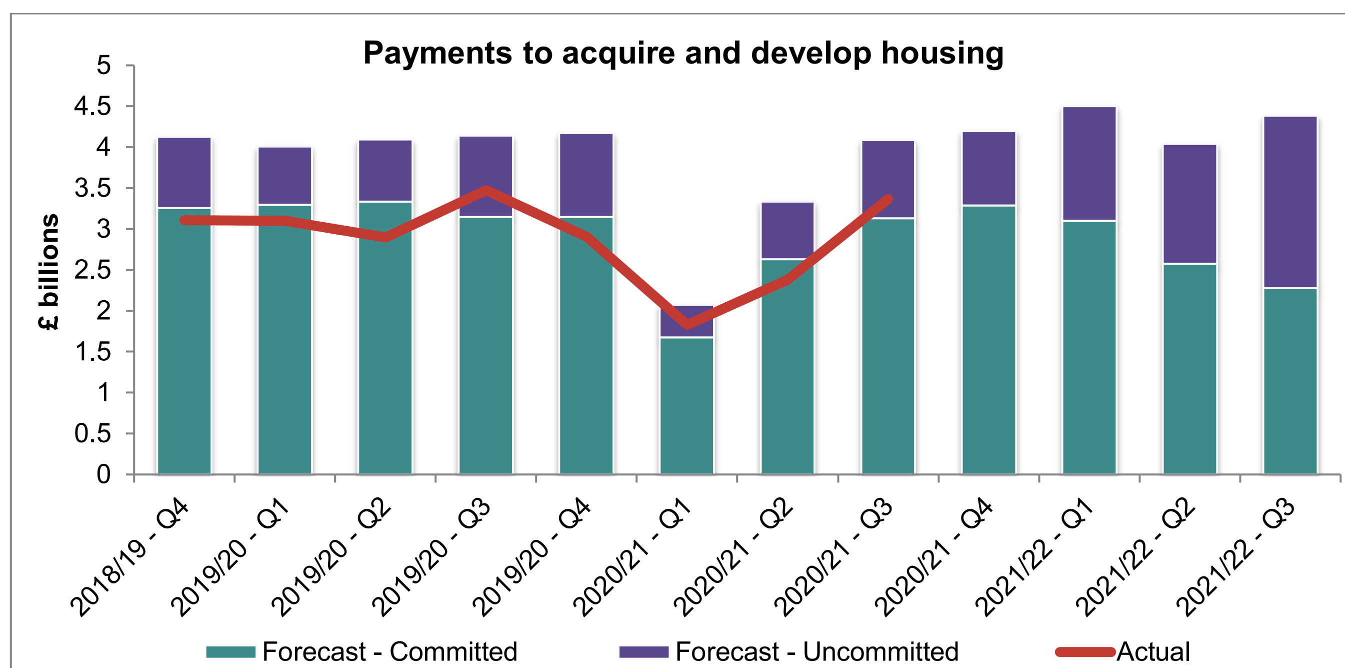
38. Cash available at December 2020 totalled £6.9 billion. Forecasts show this reducing to £4.7 billion over the next 12 months as cash reserves are used to fund capital investment. In addition to the £6.9 billion available, cash held in secured accounts (and therefore not accessible to providers) totalled £1.2 billion at December (September: £1.2 billion). Typically, these accounts are used to hold leaseholder sinking funds, amounts in escrow and MTM cash collateral.

Development

39. In the 12 months to December 2020, £10.5 billion was invested in the acquisition and development of housing properties. For the next 12 months, a further £17.1 billion of investment has been forecast, of which £11.2 billion is contractually committed; a 2% increase on the previous quarter. Forecast 12-month investment is now back to a similar level as was expected before the coronavirus pandemic, with expenditure slightly more than the £16.9 billion forecast that was made in December 2019, after having fallen by 22% in March 2020.

40. The forecasts submitted at the end of quarter three were made after the announcement of a third lockdown in England. Although the government has stated that construction and manufacturing work should continue throughout the period, it has been reported by providers that development spend will be impacted due to ongoing delays caused by implementation of safety measures affecting labour supply, and delays to land purchases. While forecasts for development will not be as significantly affected by the third lockdown restrictions as they were in first lockdown in the spring of 2020, some providers still reported reprofiled expenditure into the following quarter and next financial year.

Figure 3: Payments to acquire and develop housing



41. Actual expenditure in the quarter ending December 2020 was £3.4 billion, an increase of 42% from the previous quarter, and only 3% lower than in the same quarter of the previous year. However, £196m of this spend relates to an intra-group transfer, therefore actual expenditure increased by 33%. The £3.4 billion expenditure on development was below the total forecast for the quarter of £4.1 billion; however, an increase on the £3.1 billion forecast for contractually committed schemes. Although most construction sites remained opened during the quarter, providers reported slower activity than anticipated due to the ongoing coronavirus restrictions.

42. The new Affordable Homes Programme (AHP) for 2021-2026 was launched by Homes England[15] on 10 September. This will provide funding of £7.39 billion to deliver up to 130,000 affordable homes outside of London by March 2026.

Housing market

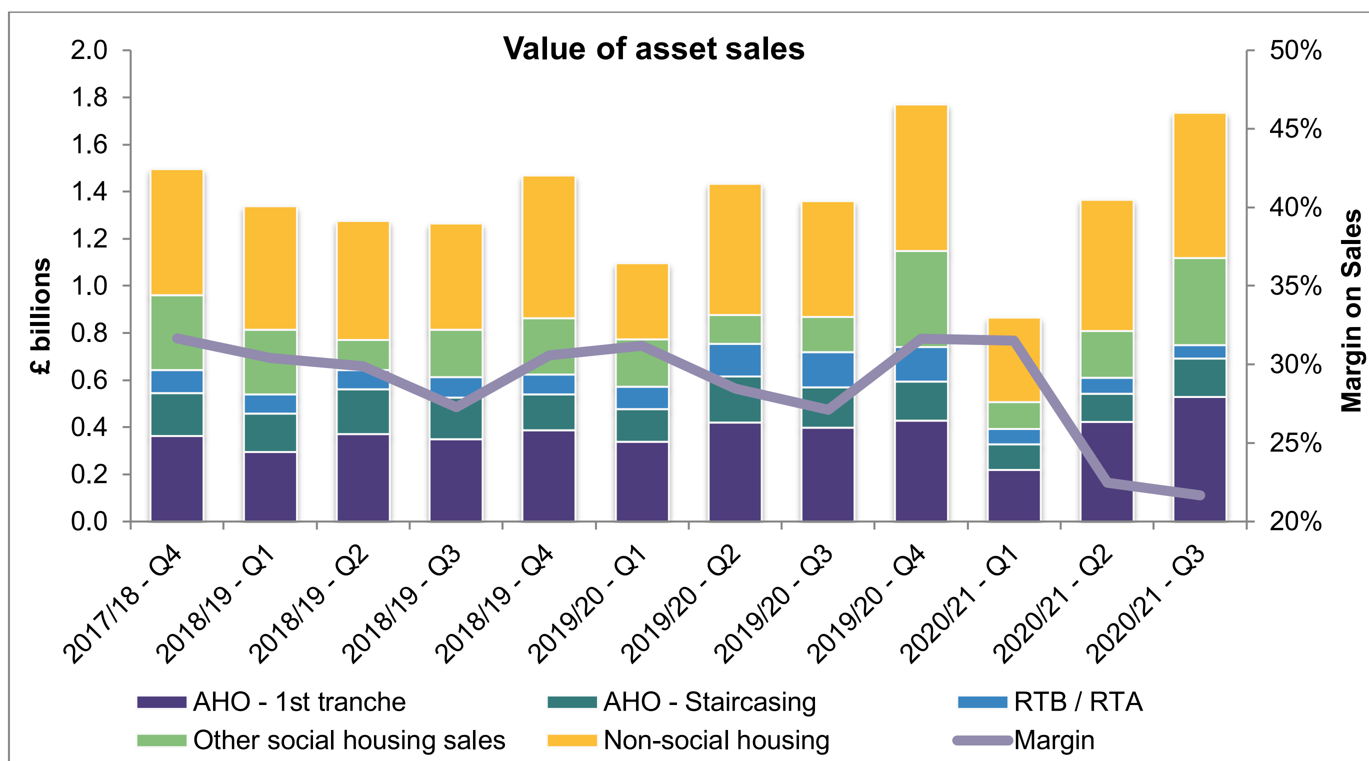
43. Total asset sales amounted to £1.7 billion in the quarter to December 2020, compared to £1.3 billion in the quarter to September. After the housing market was effectively put on hold during quarter one, sales have steadily returned to levels more consistent with those reported before the coronavirus pandemic, with sales this quarter increasing by 28% compared with the same period in 2019/20.

[15] https://www.gov.uk/guidance/apply-for-affordable-housing-funding

44. Overall, surpluses from asset sales were £0.4 billion, an increase of 23% from prior quarter, which includes staircasing, RTB/RTA and voluntary sales, as well as AHO first tranche sales and market sales.

45. The overall margin on fixed asset sales slightly reduced to 21.7% during the quarter, the lowest achieved since 2012, and over 30% less than margins achieved in December 2019. The margin is affected by the volume of RTB/RTA, staircasing and voluntary sales that occur during a quarter, as these types of transactions typically result in much higher margins than either AHO first tranche sales or market sales. RTB/RTA sales for the quarter were at their lowest level since 2013, whereas the proportion of lower-margin AHO first tranche sales and market sales were at their highest ever level, contributing to 66% of total asset sales.

Figure 4: Value of asset sales



46. Fixed asset sales for the quarter (including staircasing, RTB/RTA and voluntary sales) amounted to £0.6 billion (September: £0.3 billion); 57% higher than the amount forecast in September. However, almost one third of the sales related to one provider who did not forecast any fixed asset sales in the previous quarter. This transaction was a transfer of units to a sister company and if it was excluded, fixed asset sales for the quarter would only be 6% higher than forecast, at £0.4 billion. Providers generally make prudent assumptions around fixed asset sales, though some have reported unit sales ahead of schedule or not previously forecasted, which has contributed to the increase.

47. Current asset sales in the quarter (market sales and first tranche AHO sales) totalled £1.1 billion; in line with September's forecast with a slight 3% increase. This is only the second consecutive quarter over the last three years when current asset sales have exceeded forecasts.

48. AHO sales totalled 4,665 units (September: 3,823) compared to the 4,667 completions reported in the quarter (September: 3,652). Completions increased by 28%, with almost half of the units held by 14 providers. The total number of unsold AHO units remained in line with previous quarter with 7,634 at the end of December (September: 7,676). Following the substantial reduction in the number of units completed and sold in quarter one, numbers of both were outperforming pre-coronavirus levels this quarter, with AHO sales the highest they have ever been since data collection began in 2014.

49. The number of AHO units unsold for more than six months decreased by 25% to 2,994 (September: 3,973), following the highest number recorded last quarter since data was first collected in 2009, although still higher than pre-coronavirus figures. Of the unsold units, 39% had been unsold for over six months at the end of December, a decrease from 52% in September. The decrease in units unsold for over six months also follows the record number of units sold in the quarter.

50. Providers have also reported experiencing ongoing delays in sale completions because of longer legal and lending processes due to the pandemic, and a small number of providers have reported delays in mortgage applications being approved as building safety certificates are obtained.

51. Around half of the unsold AHO stock at the end of the quarter was held by 12 providers. These 12 providers all reported access to sufficient finance, with each holding between £0.4 billion and £1.7 billion worth of cash and undrawn facilities at the end of the quarter. Between them this amounted to £10.7 billion, or 30% of the total facilities available within the sector.

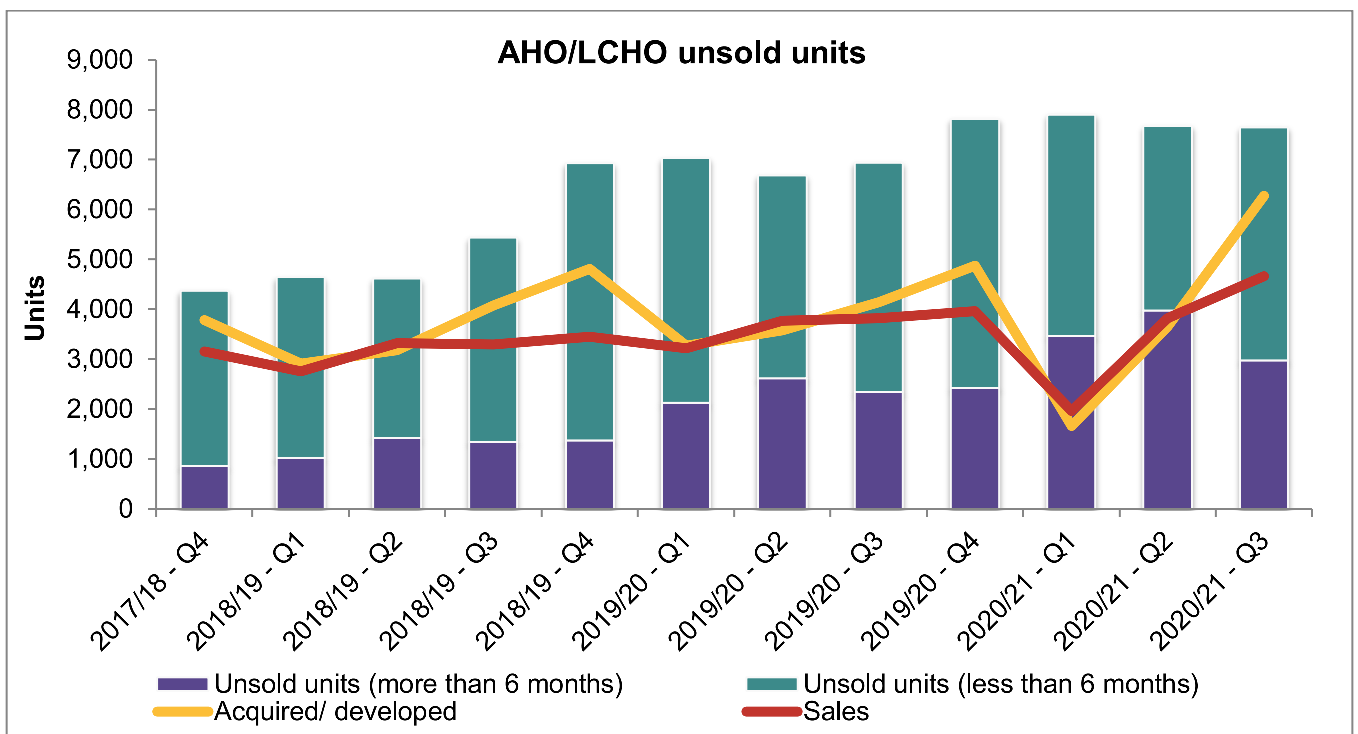
52. Of the units unsold for over six months, 29% were held by providers operating mainly in London and the South East[16]. This is consistent with the higher levels of development undertaken in these areas; 30% of the AHO units completed over the last 12 months were reported by providers operating mainly in these areas.

[16] Defined as providers holding 50% or more of their existing stock within the region

53. Seven providers were holding over 100 units of stock that had been unsold for more than six months, accounting for 42% of the total figure. Where sales income has been delayed, RSH will monitor the provider's liquidity exposure and test business plans to ensure they are robust enough to cope with a range of adverse scenarios.

54. The overall surplus on AHO sales was £96.5 million in the quarter to December 2020, giving a margin on sales of 18.9%, one of the lowest levels reported. This is slightly lower than the margin of 19.3% achieved in the quarter to September, and below the three-year average of 24%. The last time margins were below 20% was back in 2013, gradually rising to a peak of 34.2% in 2016, before slowly declining back to levels below 20% in the last three quarters.

Figure 5: AHO/LCHO unsold units



55. There were 1,663 market sales in the quarter (September: 1,461) compared to the 1,495 units developed (September: 1,005). This was the highest number of market sales achieved since the data was first collected in 2014. The number of units completed was almost a 50% increase on the previous quarter; however, still below the levels seen immediately before the coronavirus pandemic; during 2019/20, an average of 1,563 units were completed each quarter.

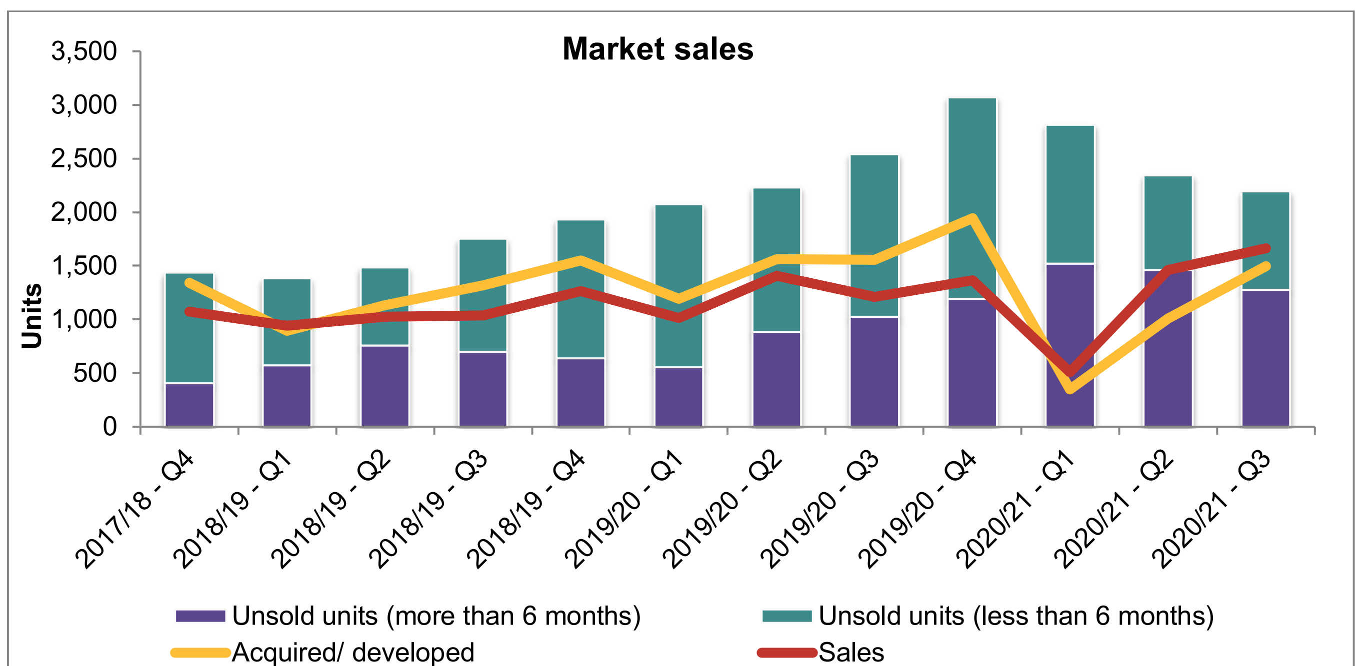
56. The high number of market sales in comparison to units being developed has resulted in a reduction in both the overall number of units unsold, and the number unsold for over six months. The overall number of unsold units decreased by 6% over the quarter to 2,194 (September: 2,344), and the number of units unsold for over six months decreased by 13% to 1,273 (September: 1,460).

57. Of the unsold units, 58% (September: 62%) had been unsold for over six months; following the highest level recorded since the data was first collected in 2014 last quarter. As with AHO sales, providers have reported ongoing delays in sale completions because of the coronavirus pandemic.

58. Development for outright market sale continues to be concentrated in relatively few providers, with around half of the unsold market sale units reported at the end of the quarter being held by six providers. These providers each had access to between £0.5 billion and £1.2 billion worth of cash and undrawn facilities. Between them, this amounted to £5.5 billion, or 16% of the total facilities available within the sector.

59. Of the market sale units unsold for over six months, 28% were held by providers operating mainly in London where development is concentrated; 31% of market sale units developed over the last 12 months were reported by providers operating mainly in this area.

Figure 6: Market sales



60. The overall surplus on market sales was £93 million in the quarter to December 2020, giving a margin on sales of 14.6% (September: 14.5%). The average margin over the last three years has been 17.1%.

61. The pipeline of AHO completions expected in the next 18 months stood at 35,998 units (September pipeline: 35,221) of which 29,978 units were contractually committed. Pipeline AHO units are now at their highest level ever reported (data first collected in 2009), having exceeded the levels being forecast before the coronavirus pandemic. The pipeline figures represent a 59% increase in AHO development compared to actual performance in the 18 months to December 2020, when there were 22,578 completions.

62. For market sale, completions expected over the next 18 months stood at 11,323 units (September pipeline: 11,406), of which 10,458 were contractually committed. This is a slight decrease on pipeline numbers from the previous quarter, and 6% below the pipeline figures reported in the same quarter of the previous year. The pipeline figures represent a 43% increase in market sale development in comparison to the actual completions achieved over the previous 18 months, which stood at 7,906 units.

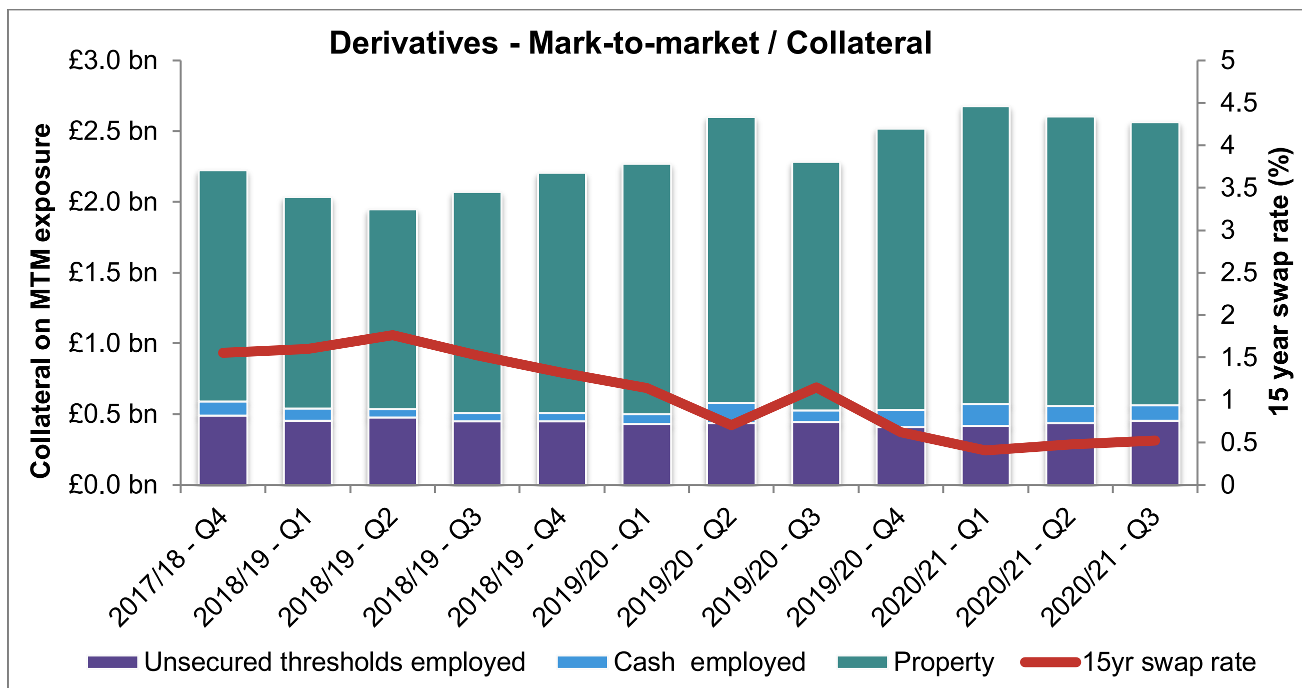
Derivatives

63. 43 providers (September: 42) reported making use of free-standing derivatives. At the end of December, the notional value of standalone derivatives remained consistent with last quarter at £9.0 billion (September: £9.0 billion).

64. Gross MTM exposure reduced by 2% over the quarter, from £2.60 billion in September to £2.56 billion at December end. This follows a slight increase in swap rates, with the 15-year swap rate rising from 0.48% at the end of September to 0.52% at the end of December.

65. Unsecured thresholds and available security pledged to swap counterparties was £3.6 billion. Of this total collateral, £2.1 billion (September: £2.2 billion) had been employed in the form of property or cash, together with unsecured thresholds of £0.5 billion. The excess collateral available consisted primarily of property pledged but not employed.

Figure 7: Derivatives – Mark-to-market / Collateral



66. The above graph shows MTM exposure excluding excess collateral. Generally, for PRPs, MTM exposure increases as swap rates fall.

67. Collateral given in terms of security and cash continued to exceed the sector's exposure levels; this provides some mitigation against the risk of further adverse movements in the swap rate. At sector level, the headroom of collateral available over current exposure was £1.1 billion.

68. Of the 43 providers that were making use of free-standing derivatives, 34 had collateral pledged that exceeded or equalled their level of exposure. Two of the nine providers that were under-collateralised at the end of the quarter posted additional collateral at the beginning of January, and seven are not required to provide additional security to cover exposure.

69. Interest rate volatility means that collateral requirements will remain a long-term exposure. Due to the ongoing effects of coronavirus, MTM exposure will need to be closely monitored as swap rates are expected to be more volatile than usual. Individual providers must ensure that they have sufficient available security, as a fall in swap rates has the potential to increase MTM exposure further.

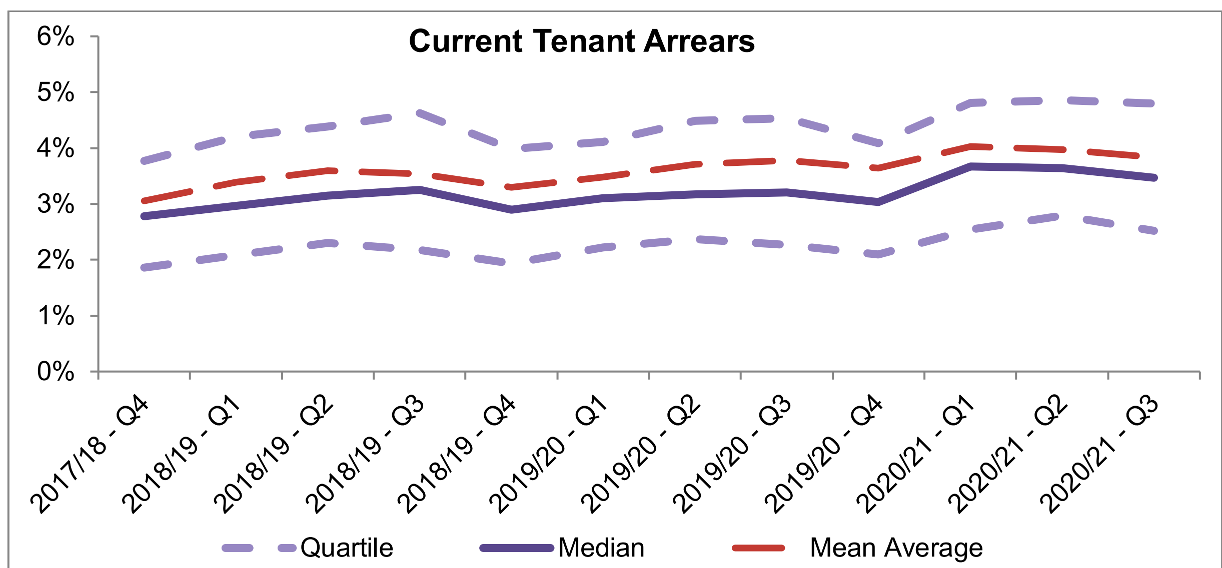
Income collection

70. Overall rent collection rates improved during the quarter, however there was a slight decrease in the number of providers reporting income collection figures as being within their business plan assumptions. 70% of providers reported that their levels of arrears, rent collection and voids were all within, or outperforming their business plan assumptions, compared to 74% at the end of September.

71. Income collection is influenced by the timing of Housing Benefit payments, and for some providers, rent-free weeks also affect collection rates. A number of providers have reported delays in receiving or allocating Housing Benefit payments over the Christmas period, whereas for others that apply rent-free weeks before Christmas, an increase in overall rent collection rates has been recorded.

72. Despite a record number of redundancies being recorded between September and November 2020[17], since the initial impact of coronavirus restrictions was experienced in quarter one, all three income collection measures have remained stable and are now following seasonal trends; albeit at a weaker level than in previous years. The latest nationwide lockdown may lead to a further deterioration in income collection, and providers will need to continue to closely monitor performance in these areas.

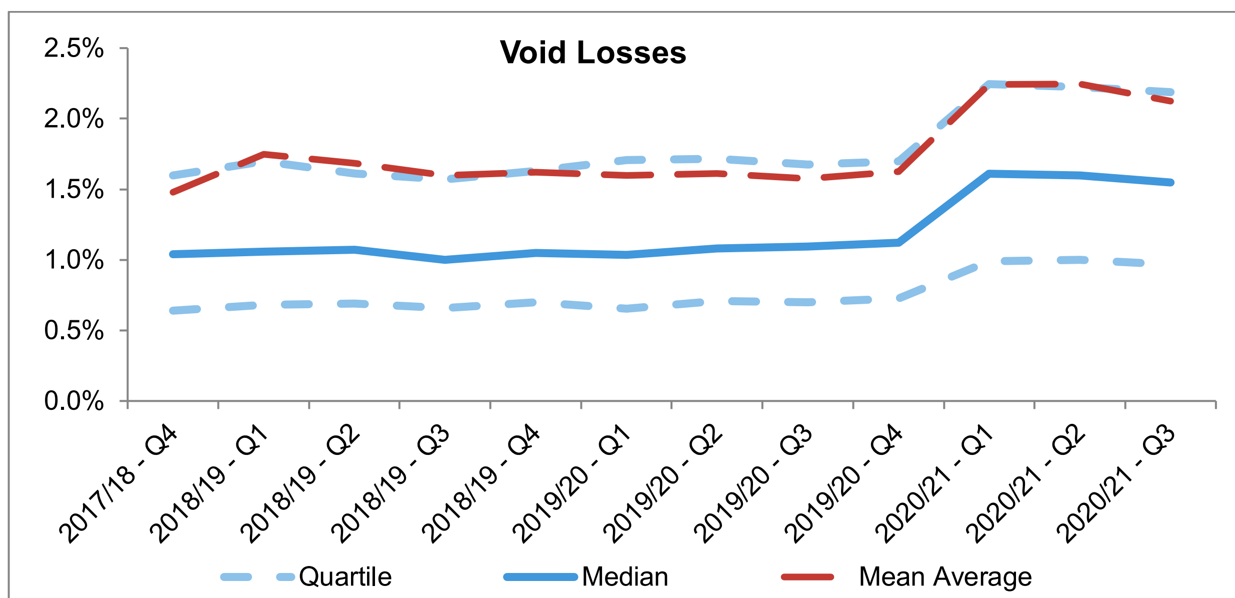
Figure 8: Current tenant arrears



[17] Employment in the UK - Office for National Statistics (ons.gov.uk)

73. Mean current tenant arrears reduced to 3.84% at the end of December (September: 3.98%). This compares to a mean average of 3.78% in the same quarter of 2019/20. Median arrears reduced to 3.47% (September: 3.65%), compared to 3.21% in December 2019. The highest levels of arrears were reported by providers operating mainly in London[18], where the mean average was 5.6%, and the lowest figures were reported by providers in the south-west, where mean arrears stood at 2.4%.

Figure 9: Void losses



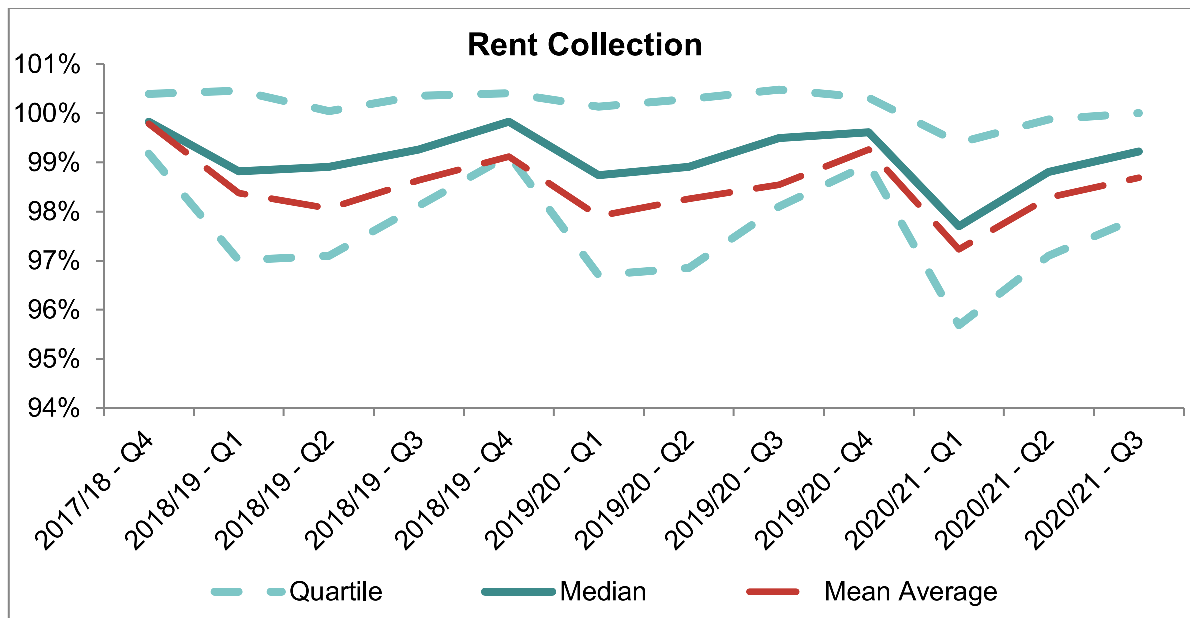
74. Void levels remain significantly higher than those reported before the coronavirus pandemic; prior to the 2020/21 financial year the highest mean void level reported was 1.75% in June 2018. After a large increase in void rent loss was reported in quarter one, performance has remained around the same level. Median void losses stood at 1.55% in the nine months to December 2020 (September: 1.60%), while mean void losses reduced to 2.13% (September: 2.25%). The reduction in mean void loss since September is mainly the result of a change to the providers included within the dataset, without which the figure would have remained consistent with the results reported in the previous quarter.

75. During the quarter, 13 providers reported void losses of 5% or more (September: 15). Providers have reported a knock-on effect on voids from the first lockdown of spring 2020, compounded by the impact of further restrictions and lockdown measures during the latest quarter.

[18] Defined as providers holding 50% or more of their existing stock within the region.

76. The highest levels of void rent losses are typically reported by providers with a large proportion of Supported housing units, care home units or Housing for Older People. Providers with over 50% of their stock within these categories reported mean void losses of 6.10%, compared to the 1.67% reported by providers with less than 50% of stock in these categories.

Figure 10: Rent collection



77. After the initial impact of coronavirus restrictions was experienced in the quarter to June 2020, mean average rent collection rates have now increased to 98.69% at the end of December (September: 98.28%), with the median at 99.22%. These levels are consistent with the rates recorded in quarter three of 2019/20, when the mean average stood at 98.54% and the median was 99.50%. The number of providers reporting rent collection rates of less than 95% reduced to 13 (September: 17).

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