Regulator of Social Housing

Quarterly survey for Q4

January to March 2021

May 2021

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Introduction

1. This quarterly survey report is based on regulatory returns from 215 private registered providers (PRPs) and PRP groups who own or manage more than 1,000 homes.

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 January 2021 to 31 March 2021.

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. The quarter to March 2021 saw the implementation of a third countrywide lockdown in England in response to the coronavirus pandemic. The lockdown came into effect on 6 January 2021, and the first restrictions began to be eased on 8 March.

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 billion were in place at the end of March, of which £27.8 billion was undrawn.

   - Undrawn facilities have increased by £5.9 billion since the start of the financial year but decreased by 3% in the quarter. This was due to £1.0 billion of undrawn Covid Corporate Financing Facility (CCFF) expiring in March, from a total of £2.9 billion arranged through the scheme by providers.

   - Available cash balances increased by £0.4 billion during the quarter to reach £7.4 billion at the end of March.

   - New finance of £3.1 billion was agreed in the quarter, including £1.2 billion from capital markets and £1.9 billion from banks. Total new finance agreed in the year amounted to £15.1 billion, the highest ever recorded. This compares to the £10.4 billion recorded in 2019/20.

- Mark-to-market (MTM) exposure decreased by 21% over the quarter, reflecting a large 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, was 126% in the quarter to March 2021, higher than the forecast of 90% made in December.

   - The improvement in interest cover was a result of net cashflows from operating activities being £295 million (21%) higher than forecast, and capitalised repairs and maintenance expenditure being £55 million lower than forecast.

   - Expenditure on capitalised repairs and maintenance in the quarter amounted to £580 million (December: £455 million). Providers have reported ongoing delays as a result of lockdown restrictions; despite this, outturn spend was more in line with levels seen before the start of the coronavirus pandemic.

   - Investment in housing supply was £2.8 billion in the quarter to March 2021; an 18% reduction compared to the previous quarter. Expenditure was below both the total forecast for the quarter of £4.2 billion, and the £3.3 billion forecast for contractually committed schemes. Providers have reported general scheme delays, and a slowdown in works attributable to the latest lockdown and ongoing enhanced safety measures on sites.

   - Including both current and fixed asset sales, total sale receipts were £1.9 billion in the quarter; the highest total recorded since the data was first collected in 2009. At £5.9 billion, total sales for the year are also the highest ever recorded, although the overall margin stood at 24% compared to 30% in both 2019/20 and 2018/19.

   - During the quarter 4,453 affordable home ownership (AHO) units were developed and 4,555 were sold.

   - The total number of unsold AHO units reduced from 7,634 in December to 7,369 at the end of March. Units unsold for more than six months reduced by 21% during the quarter, reaching 2,351 at the end of March.

   - During the quarter 1,560 market sale units were developed and 1,684 were sold; the highest number of sales recorded since the data was first collected in 2014.

- The number of unsold market sale units decreased by 13% over the quarter, from 2,194 in December to 1,901 in March. The number of units unsold for over six months decreased by 30% to 886.

- The reduction in the number of unsold AHO units and market sale units is due to both a high volume of sales, and a large number of transfers to rental tenures. The 148 units converted from AHO and 164 units converted from market sale are the highest numbers recorded since the data was first collected in 2014.

- Total sales of both AHO and market sale units in the year to March 2021 are the highest ever recorded. Following an initial large reduction during the spring 2020 lockdown, sales have recovered over the year to reach a total of 15,006 AHO units and 5,316 market sale units.

- A total of 14,435 AHO units and 4,407 market sale units have been acquired or developed in the year to March 2021, compared to a total of 15,871 AHO units and 6,252 market sale units in 2019/20.

- Mean arrears, void rent loss and rent collection rates initially deteriorated at the start of the coronavirus pandemic, although performances in income collection and tenant arrears have improved in the quarter. Void losses improved only slightly, remaining at higher levels than previous years.

7. Forecasts for the next 12 months indicate that performance and plans are continuing to return towards levels seen before the coronavirus pandemic.

   - For the 12 months to March 2022 the sector has forecast capitalised repairs and maintenance expenditure of £2.7 billion; an increase on the £2.6 billion 12-month forecast made in the previous quarter, and on the £2.4 billion forecast from December 2019.

   - Over the 12-month forecast period, expected investment in new housing supply is projected to be £16.9 billion, of which £10.9 billion is contractually committed. Projected spend is now in line with the last pre-coronavirus 12-month forecast of £16.9 billion from December 2019.

   - For the 12 months to March 2022, the sector has forecast £4.4 billion worth of current asset sales and £2.4 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).

Operating environment

8. The quarter to March 2021 saw the implementation of a third countrywide lockdown in England in response to the coronavirus pandemic. Unlike during the lockdown of spring 2020, construction works, non-essential repairs and house moves were all permitted to continue, provided these were carried out in accordance with government safety guidance. The lockdown came into effect on 6 January 2021, and the first restrictions began to be eased on 8 March.

9. Gross domestic product (GDP) grew by an estimated 2.1% in March 2021[1], leaving it 5.9% below the pre-pandemic level recorded in February 2020. The Bank of England expects GDP to recover to pre-coronavirus levels by the end of the year[2], although growth is forecast to slow after 2021.

10. Construction output grew by 5.8% in March 2021[3], the largest monthly growth since July 2020. This includes growth in new work of 6.7%, and in repairs and maintenance of 4.4%. Total construction output in March 2021 was 2.4% higher than the pre-pandemic amount recorded in February 2020 and comprised of an increase in repairs and maintenance work of 7.7%, offset by a 0.5% reduction in new works.

11. Overall inflation, as measured by the Consumer Prices Index (CPI), increased by 0.7% in the 12 months to March 2021[4]. A monthly increase in CPI of 0.3% between February and March 2021 was also recorded, compared to the negligible change recorded between the same two months of 2020.

12. A temporary increase in the Stamp Duty threshold has been in place since July 2020 and was due to end on 31 March 2021. This deadline has now been extended until 30 June 2021, and a further transitional relief will remain in place until the end of September[5].

13. UK house prices have increased by 10.2% in the year to March 2021[6]. The biggest annual increases have been seen in Yorkshire and the Humber (14.0%) and the North East (13.7%), and the smallest increases were in London (3.7%) and the South East (7.9%).

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[1] GDP monthly estimate, UK - Office for National Statistics (ons.gov.uk)

[2] Bank of England Monetary Policy Report May 2021

[3] Construction output in Great Britain: March 2021, new orders and Construction Output Price Indices, January to March 2021 - Office for National Statistics

[4] Consumer price inflation, UK - Office for National Statistics

[5] Stamp Duty Land Tax - GOV.UK (www.gov.uk)

[6] UK House Price Index summary: March 2021 - GOV.UK (www.gov.uk)

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14. Estimates from the Office for National Statistics indicate that the UK unemployment rate stood at 4.8% in the quarter to March 2021; a reduction of 0.3 percentage points compared to the quarter to December 2020, although still 0.8 percentage points higher than the pre-pandemic levels recorded between December 2019 and February 2020[7]. The Bank of England forecasts unemployment to increase slightly in the quarter from April to June[8]. Between March 2020 and January 2021 the number of Universal Credit claimants increased by 98%, up to 6.0 million[9], and between March and November 2020 the number of social rented sector households claiming the housing element of Universal Credit increased from around 745,000 to around 1,039,000[10].

15. The Coronavirus Job Retention Scheme, which allows employers to claim grant to cover the salary costs of furloughed workers, will continue until 30 September 2021[11]. Employees will continue to receive 80% of their usual wages throughout the remainder of the scheme, although employers will be required to contribute towards this from July.

16. As the country begins to emerge out of lockdown, providers will need to remain alert and ready to respond to further changes in the operating and economic environment. Forecasts will need to be closely monitored and updated as the economy re-opens, and flexibility will need to be included to allow any increasing risks to be effectively managed.

Private finance

17. The sector's total agreed borrowing facilities increased to £113 billion at the end of the quarter, £61.6 billion (55%) of which were bank loans.

18. £85.2 billion was reported as being drawn, leaving undrawn facilities of £27.8 billion. Undrawn bank loans accounted for 85% (£23.7 billion) of available facilities.

19. Of the £113 billion agreed facilities, £101.3 billion had been secured and £7.7 billion of facilities did not require security. There were further agreed facilities of £3.9 billion where security was not yet in place.

[7] Employment in the UK - Office for National Statistics (ons.gov.uk)
[8] Bank of England Monetary Policy Report May 2021
[9] Universal Credit statistics, 29 April 2013 to 14 January 2021 - GOV.UK (www.gov.uk)
[10] Universal Credit statistics, 29 April 2013 to 14 January 2021 - GOV.UK (www.gov.uk)
[11] Changes to the Coronavirus Job Retention Scheme from July 2021 - GOV.UK (www.gov.uk)

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

21. Total cash and undrawn facilities available within the sector totalled £35.1 billion (December: £35.5 billion). This included £3.2 billion from capital markets; a 31% decrease from the previous quarter. The reduction in capital market funding was due to undrawn funds from the CCFF expiring in March 2021, after closing to new purchases on 23 March[12]. A total of £1.0 billion undrawn CCFF expired this quarter, from a total of £2.9 billion arranged through the scheme by providers. The expired CCFFs were held by six providers, from a total of 15 who participated in the scheme.

22. Total available facilities would be sufficient to cover the forecast expenditure on interest costs (£3.5 billion), loan repayments (£4.3 billion) and net development for the next year (£15.3 billion), even if no new debt facilities were arranged and no sales income was received.

23. For the 12 months to March 2022 the sector has forecast loan drawdowns of £9.9 billion (December 12-month forecast: £9.5 billion), of which £3.4 billion is from facilities not yet agreed (December: £2.0 billion). The drawdowns from facilities not yet agreed were reported by 38 providers that are either undertaking voluntary refinancing or are extending existing facilities, typically to fund uncommitted development programmes.

24. A total of 45 (December: 36) providers arranged new finance during the quarter. New facilities agreed, including refinancing, totalled £3.1 billion, with eight providers each arranging facilities worth £100 million or more. Across all providers, a total of £1.5 billion worth of loans were repaid during the quarter. This was an increase of £646 million from the previous quarter, partially due to the repayment of CCFF and refinancing.

25. Capital market funding, including private placements and aggregated bond finance, accounted for 37% (£1.2 billion) of new funding in the quarter. New bank lending more than doubled in the quarter and contributed to 60% (£1.9 billion) of new funding, with five providers arranging £100m or more new bank loans.

26. One provider was attributed to 35% of the overall new bank loans agreed in the quarter, and around half of this was a bridging loan which is planned to be replaced with bond finance next year.

[12] https://www.bankofengland.co.uk/markets/covid-corporate-financing-facility

27. Other sources, including local authority lending and parent company loans, accounted for 3% (£0.1 billion). Typically, bank lending offers a shorter-term source of finance than that available on the capital markets.

28. Total new finance agreed in the year amounted to £15.1 billion, the highest ever recorded. This compares to the £10.4 billion recorded in 2019/20, and an average of £11.3 billion over the last three years. Total undrawn facilities have increased by £5.9 billion since the start of the financial year.

Figure 1: Total facilities (£ billions)

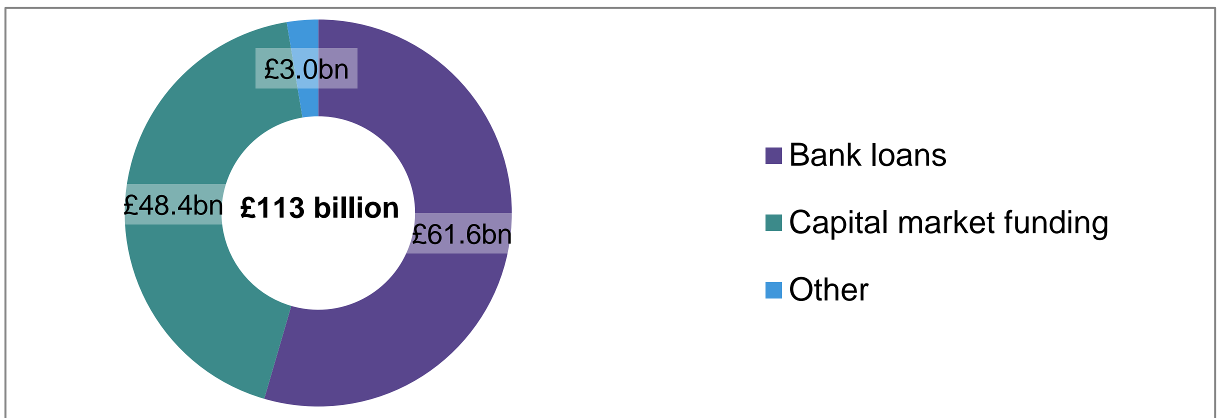


Figure 2: New facilities in quarter (£ billions)

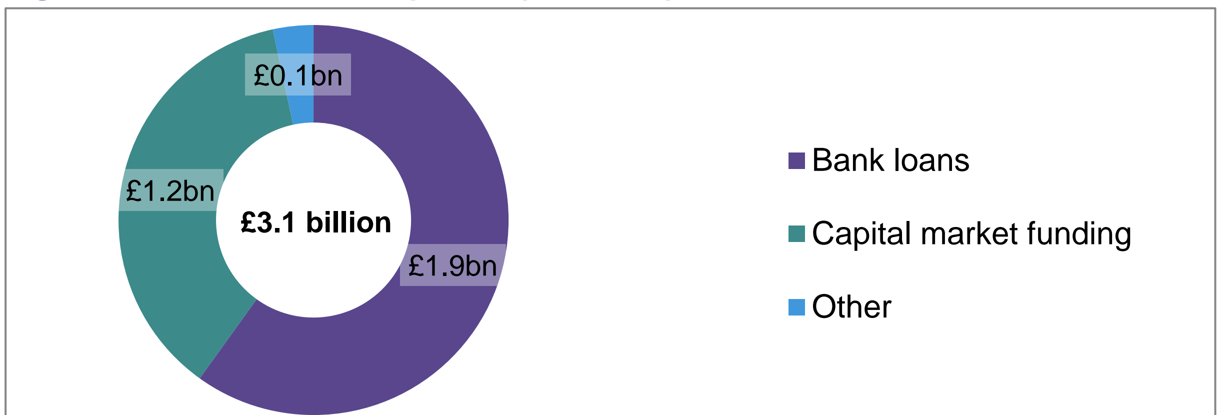
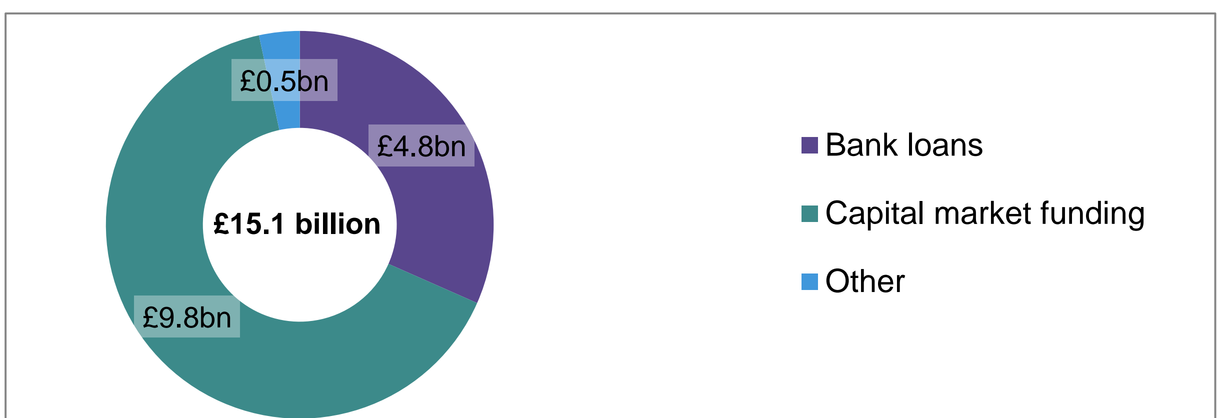


Figure 3: New facilities in 2020/21 (£ billions)



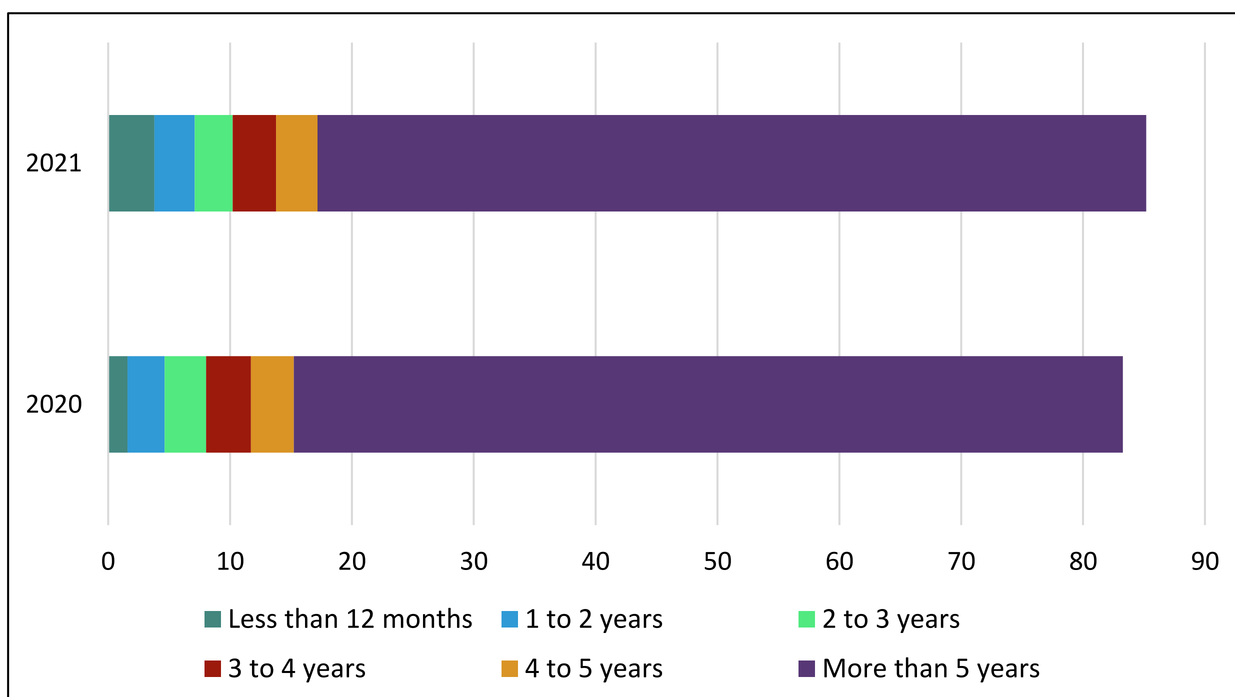
Debt repayment profile

29. The following two sections, debt repayment profile and interest rate profile, relate to the annual questions included in the Quarterly survey in quarter four.

30. The value of debt repayable over the next two years is £7.1 billion, representing 8.3% of the sector debt (2020: £4.6 billion, 5.6%, 2019: £4.2 billion, 5.4%). The sector's immediate refinancing risk has increased, with 4.5% of loans due for repayment within 12 months (2020: 1.9%[13], 2019: 2.4%). The large increase in repayments over the next 12 months is due to the maturity of the CCFF loans. Of the £2.9 billion of facilities arranged in the sector through this scheme, almost £1.0 billion has already been repaid within the quarter, with the remaining amount due within the next 12 months. The sector is forecasting liquidity of £22.3 billion in the next 12 months, and the regulator continues to closely monitor this.

31. Long-term debt continues to account for the majority of the sector's borrowing with 80% of debt being due for repayment in over five years' time (2020, 2019: 82%). £17.2 billion (2020: £15.2 billion, 2019: £14.0 billion) will become repayable over the next five years as profiled in the chart below.

Figure 4: Debt repayment profile (£ billions)



[13] This figure only includes 6 months from October 2020 to March 2021 due to the 2019/20 annual questions being included in the Q2 2020/21 quarterly survey.

32. The exposure of individual providers to refinancing risk is covered by routine regulatory engagement. For 87% of providers, more than half of total debt is due for repayment in more than five years (2020: 89%, 2019: 95%). 23 providers have 10% or more of total debt due for repayment within 12 months (2020: 10[14], 2019: 7), with three providers requiring new finance within this period. It is the responsibility of providers' Boards to ensure that arrangements are in place for the effective management of refinancing risk.

Interest rate profile

33. The charts below provide an analysis of the sector's £85.2 billion drawn debt by interest rate type and the period over which rates have been fixed.

Figure 5: Interest rate analysis (£ billions)

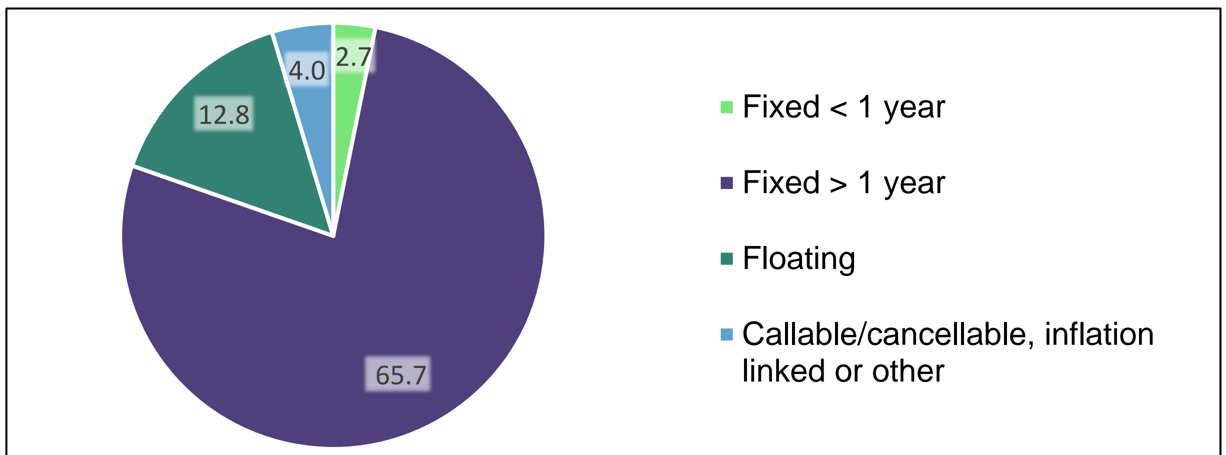
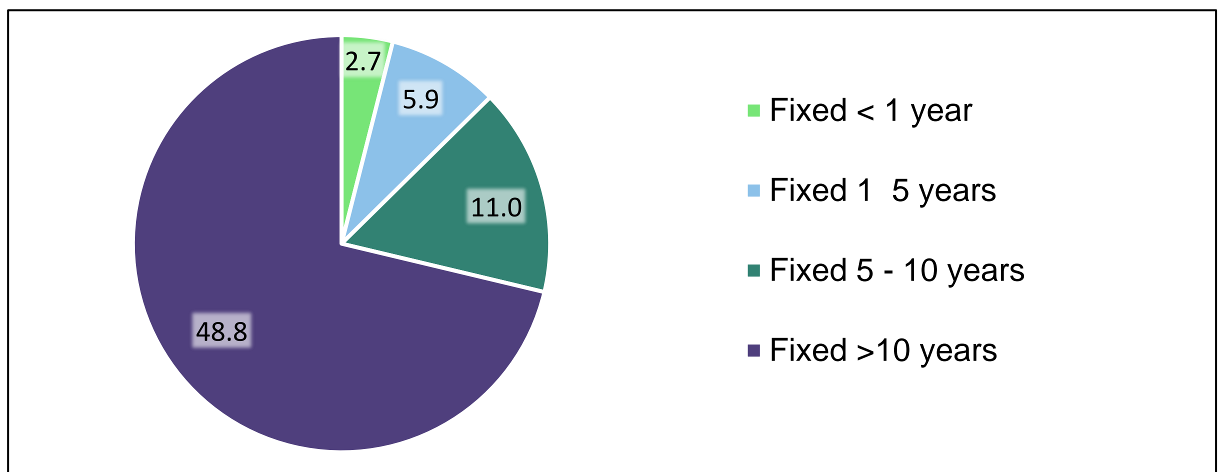


Figure 6: Fixed rate analysis (£ billions)



[14] This figure only includes 6 months from October 2020 to March 2021 due to the 2019/20 annual questions being included in the Q2 2020/21 quarterly survey.

34. Fixed rate debt (greater than one year) comprises 77% of the sector's drawn borrowings (2020: 78%, 2019: 76%). 57% of total drawn debt is at rates fixed for over 10 years, providing the sector with a degree of certainty in forecasting the costs of borrowing.

35. 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 £19.4 billion. This represents 23% of drawn debt (2020: £18.6 billion, 22%, 2019: £18.6 billion, 24%).

- £1.1 billion, 1% (2020: £1.2 billion, 1%, 2019: £1.4 billion, 2%) of drawn debt is callable or cancellable.

- 39 providers (2020: 43, 2019: 48) report that they hold callable or cancellable debt. Of these providers, 33 (2020: 36, 2019: 40) report that this comprises less than 10% of drawn debt.

- £1.2 billion, 1% (2020,2019: £1.3 billion, 2%) of drawn debt is inflation linked.

- 37 providers (2020: 41, 2019: 52) report that they hold inflation linked debt or hedging. Of these providers, 28 (2020: 32, 2019: 44) report that this comprises less than 10% of drawn debt.

36. 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.

Cashflows

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

38. Table 1 below includes the cashflow forecasts for the 12 months to March 2022, and actual performance for the quarter compared to the previous forecast.

Table 1: Summary cashflow forecast[15]

Figures in £ billions	3 months to 31 March 2021 (forecast)	3 months to 31 March 2021 (actual)	12 months to 31 March 2022 (forecast)
Operating cashflows excluding sales	0.8	1.1	3.9
Interest cashflows	(0.9)	(0.9)	(3.5)
Payments to acquire and develop housing	(4.2)	(2.8)	(16.9)
Current assets sales receipts	1.2	1.3	4.4
Disposals of housing fixed assets	0.5	0.6	2.4
Other cashflows	(0.2)	(0.2)	(0.4)
Cashflows before resources and funding	**(2.8)**	**(0.8)**	**(10.1)**
Financed by:			
Net grants received	0.5	0.4	1.6
Net increase in debt	1.2	0.8	5.5
Use of cash reserves	1.1	(0.4)	3.0
Total funding cashflows[16]	**2.8**	**0.8**	**10.1**

39. Interest cover, based on operating cashflows excluding sales, reduced to 126% in the quarter to March 2021 (December: 145%). However, this is still higher than the forecast of 90% made in December. The interest cover is better than forecast, but worse than previous quarter, which results partially from net cashflows from operating activities being £295 million (21%) higher than forecast.

[15] 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.

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

40. Providers have reported net cashflows from operating activities being higher than anticipated due to favourable movements in working capital, prudent assumptions around rent collection rates, and reprofiling of revenue repairs and maintenance due to ongoing coronavirus restrictions.

41. The figures submitted by providers show interest cover reducing to 114% 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, £91 million higher per quarter than the actual expenditure recorded in the quarter to March 2021. Net cashflows from operating activities are forecast to total £6.6 billion over the 12 months to March 2022; a 1% increase on the amount being forecast last quarter, and around £500 million above what was being forecast in the same quarter of the previous year.

42. In the 12 months to March 2021 capitalised expenditure on repairs and maintenance was £1.6 billion.

- This was lower than the £2.0 billion spent in 2019/20, and below the £2.2 billion forecast at the start of the period.

- Actual capitalised repair and maintenance expenditure increased by 28% in the quarter and amounted to £580 million (December: £455 million). Although this was lower than the £635 million forecast in December, this is the highest outturn spend reported since the start of the coronavirus pandemic. By way of context, spend in the quarter was only 2% less than the level of expenditure reported for the same period in 2019/20 and was almost double that reported in quarter two of this year, in the middle of the pandemic.

- For the 12 months to March 2022 the sector has forecast capitalised repairs and maintenance expenditure of £2.7 billion (December 12-month forecast: £2.6 billion), which includes catch up spend reprofiled from previous quarters.

43. In the 12 months to March 2021 payments to acquire and develop properties were £10.3 billion, compared to the £13.1 billion forecast at the start of the period, of which £9.5 billion was contractually committed. For the 12 months to March 2022, the sector has forecast a further £16.9 billion worth of development (December 12-month forecast: £17.1 billion), of which £10.9 billion is contractually committed.

44. In the 12 months to March 2021 current asset sales of £3.9 billion were achieved, compared to the £3.6 billion forecast at the start of the period. For the 12 months to March 2022, the sector has forecast a further £4.4 billion worth of current asset sales, of which £4.1 billion relates to properties for which development is contractually committed.

45. In the 12 months to March 2021 fixed asset sales were £1.8 billion. For the 12 months to March 2022 the sector has forecast a further £2.4 billion worth of fixed asset sales. This is a 30% increase on the £1.8 billion 12-month forecast made in December.

46. Available cash balances, excluding amounts held in secured accounts, increased by £0.4 billion during the quarter. This compares to a forecast reduction in cash of £1.2 billion expected at the end of the previous quarter.

47. Cash available at March 2021 totalled £7.4 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 £7.4 billion available, cash held in secured accounts (and therefore not accessible to providers) totalled £1.1 billion at March (December: £1.2 billion). Typically, these accounts are used to hold leaseholder sinking funds, amounts in escrow and MTM cash collateral.

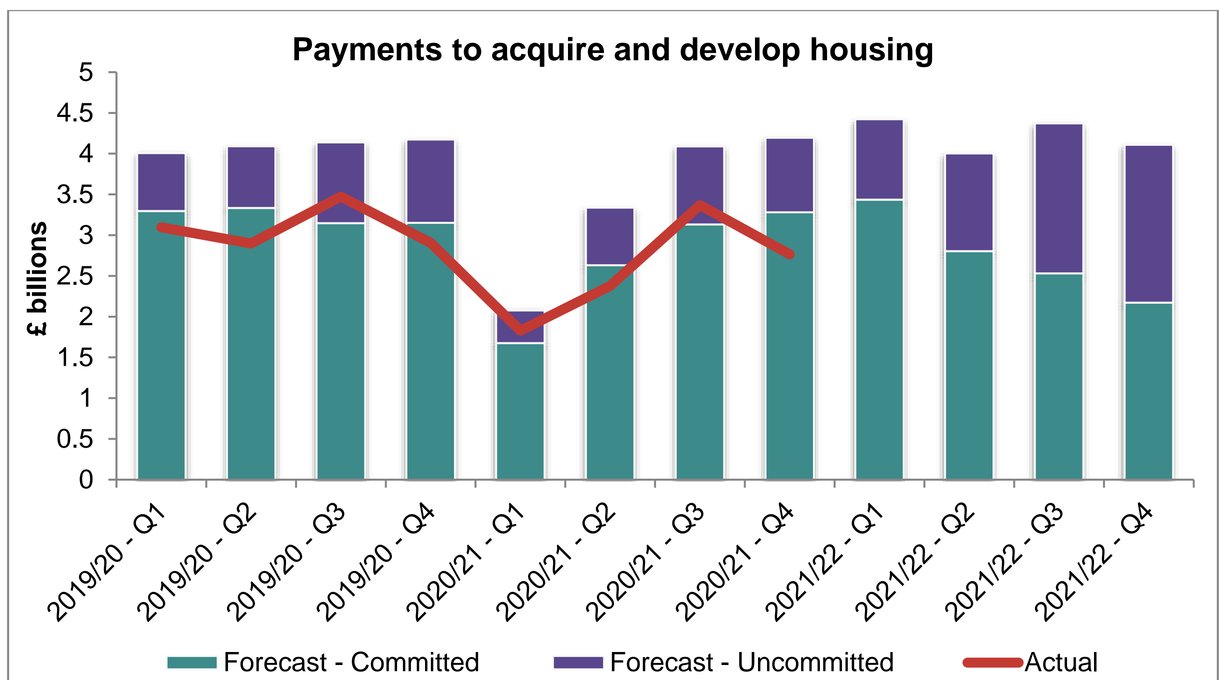
Development

48. In the 12 months to March 2021, £10.3 billion was invested in the acquisition and development of housing properties. This compares to a total of £12.4 billion investment in the year to March 2020, and £11.8 billion in the year to March 2019. Although construction works have been permitted to continue throughout the latest national lockdown, the closure of sites during the spring of 2020 has had an impact on the overall development spend recorded in the year.

49. Actual expenditure in the quarter ending March 2021 was £2.8 billion; 18% less than in the previous quarter and 5% less than in the same quarter of 2020. Expenditure was below the total forecast for the quarter of £4.2 billion, and also below the £3.3 billion forecast for contractually committed schemes. Providers have reported general scheme delays and slippage, and also a slowdown in works attributable to the latest lockdown and ongoing enhanced safety measures on sites.

50. For the next 12 months a further £16.9 billion of investment has been forecast, of which £10.9 billion is contractually committed. 12-month development forecasts fell to £13.2 billion in March 2020 when the predicted effects of coronavirus restrictions were initially incorporated but have since increased back to pre-pandemic levels. March forecasts are slightly below the 12-month investment forecast from December, which stood at £17.1 billion. Providers with March year-ends will have either finalised, or be awaiting final approval, on revised budgets for the 2021/22 financial year, and it is expected that the majority of providers will have reflected these plans in their latest development forecasts.

Figure 7: Payments to acquire and develop housing

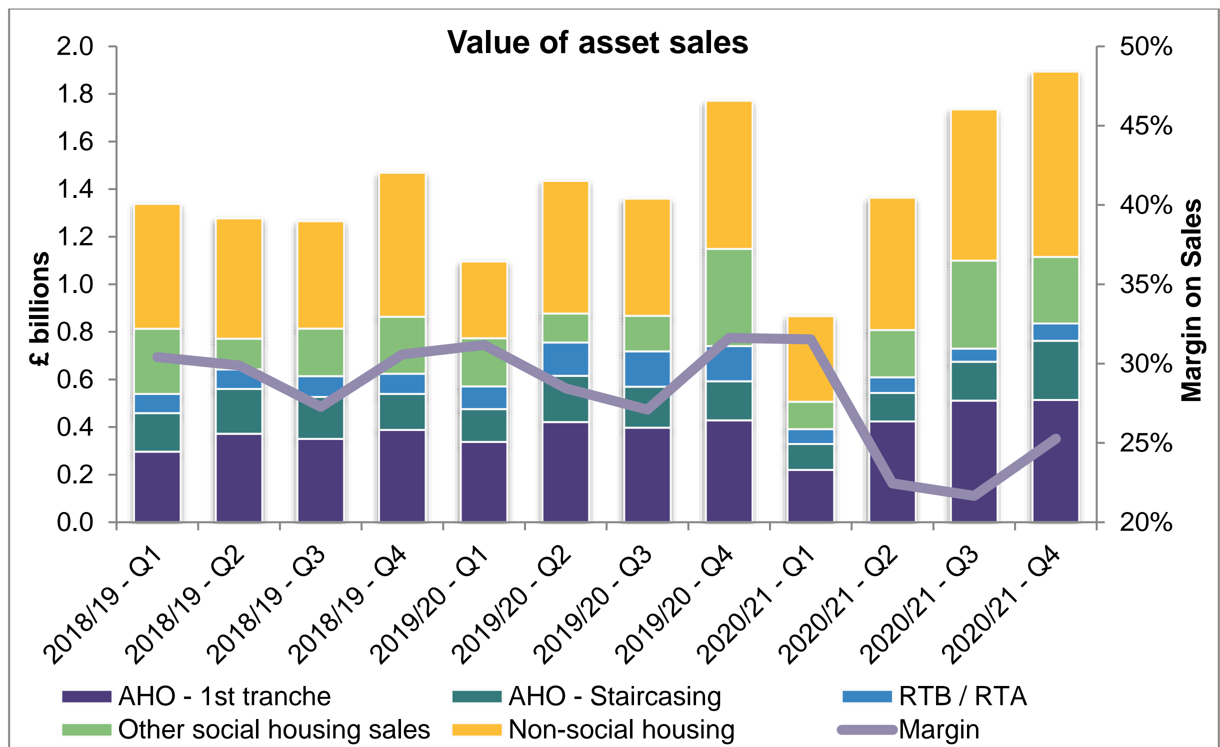


Housing market

51. Total asset sales, including staircasing, RTB/RTA and voluntary sales, as well as AHO first tranche sales and market sales, amounted to £1.9 billion in the quarter to March (December: £1.7 billion); the highest total recorded since the data was first collected in 2009. This increases overall sales receipts for the 2020/21 financial year up to £5.9 billion (2019/20: £5.7 billion), also the highest total ever recorded. Providers have reported that interest from purchasers is currently strong, as demand has not reduced during the latest lockdown and has been further boosted by the extension of the Stamp Duty holiday.

52. Overall, surpluses from asset sales were £0.5 billion, a 27% increase compared to the previous quarter. This gives a total surplus of £1.4 billion in the 2020/21 financial year. This is below the total surplus recorded in 2019/20 of £1.7 billion, as well as the £1.6 billion achieved in 2018/19. This is reflected by the lower margins recorded over the last four quarters; an average margin of 24% has been achieved in 2020/21, compared to 30% in both 2019/20 and 2018/19.

Figure 8: Value of asset sales



53. Fixed asset sales for the quarter (including staircasing, RTB/RTA and voluntary sales) amounted to £0.6 billion (December: £0.6 billion); 28% higher than the amount forecast in December. Current asset sales (market sales and first tranche AHO sales) also exceeded forecast; a total of £1.3 billion worth of sales were achieved (December £1.1 billion), 5% higher than the £1.2 billion forecast in December. Providers generally make prudent sales assumptions, particularly around fixed asset sales, and the start of the third lockdown at the time that forecasts were being made resulted in additional caution being exercised.

54. During the quarter a total of 4,453 AHO units were completed (December: 4,667) and 4,555 AHO units were sold (December: 4,665). A further 148 units were converted from AHO to other tenures, including Affordable Rent, Intermediate Market Rent and Rent to Buy. This is the highest number of units converted from AHO since the data was first collected in 2014.

55. The high number of AHO sales compared to unit completions, combined with the large number of conversions to other tenures, has resulted in a 3% reduction in unsold units; reaching 7,369 at the end of March (December: 7,634). The number of AHO units unsold for more than six months decreased by 21% to 2,351 (December: 2,994). This has reduced the proportion of units unsold for over six months, compared to total unsold units, down to 32%; back in line with the three-year average and following a high of 52% in September 2020.

56. Following the significant reduction in sales in quarter one that resulted from the first national lockdown, sales figures have recovered to give a total of 15,006 sales in the 2020/21 financial year (2019/20: 14,776). This is the highest annual figure recorded since the data was first collected in 2011. Providers are generally reporting strong interest in sales, although delays in completions, particularly with legal documentation and mortgage approvals, are still being experienced. The number of AHO completions has also recovered during the year, although not as strongly as sales; a total of 14,435 units were acquired or developed during the year, compared to 15,871 in 2019/20 and 14,991 in 2018/19.

57. 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 £1.4 billion worth of cash and undrawn facilities at the end of the quarter. Between them this amounted to £10.1 billion, or 29% of the total facilities available within the sector.

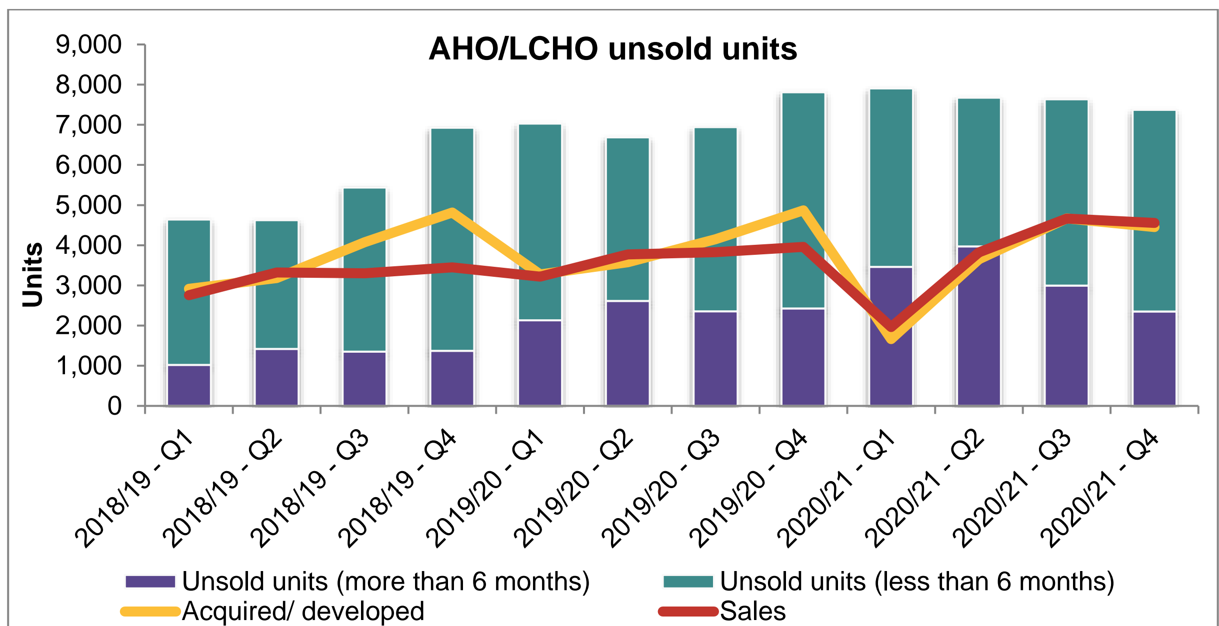
58. Of the units unsold for over six months, 30% were held by providers operating mainly in London and the South East[17]. This is consistent with the higher levels of development undertaken in these areas; 29% of the AHO units completed over the last 12 months were reported by providers operating mainly in these areas. The number of units unsold for over six months has been decreasing over the last two quarters, since peaking in September 2020.

59. Five providers were holding over 100 units of stock that had been unsold for more than six months, accounting for 32% of the total figure. Where sales income has been delayed, the regulator 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.

60. The overall surplus on AHO sales was £101.1 million in the quarter to March (December: £96.5 million), giving a margin on sales of 19.7% (December: 18.9%). This is a slight increase on the previous three quarters, but still below the three-year average of 23%.

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

Figure 9: AHO/LCHO unsold units



61. During the quarter a total of 1,560 market sale units were completed (December: 1,495) and 1,684 units were sold (December: 1,663). A total of 164 units were converted from market sale to other tenures, including market rent and Rent to Buy. This is the highest number of units converted from market sale since the data was first collected in 2014.

62. As with AHO, the high number of market sales compared to unit completions, combined with the large number of conversions to other tenures, has resulted in a reduction in both the overall number of unsold units and the number unsold for over six months. The overall number of unsold units decreased by 13% over the quarter to 1,901 (December: 2,194), and the number of units unsold for over six months decreased by 30% to 886 (December: 1,273).

63. The 1,684 market sales achieved during the quarter is the highest number recorded since the data was first collected in 2014. As is the case with AHO units, sales reduced significantly during the spring 2020 lockdown, but recovered over the year to give the highest annual number of sales ever reported. A total of 5,316 market sales were achieved, compared to 4,995 in 2019/20 and 4,269 in 2018/19.

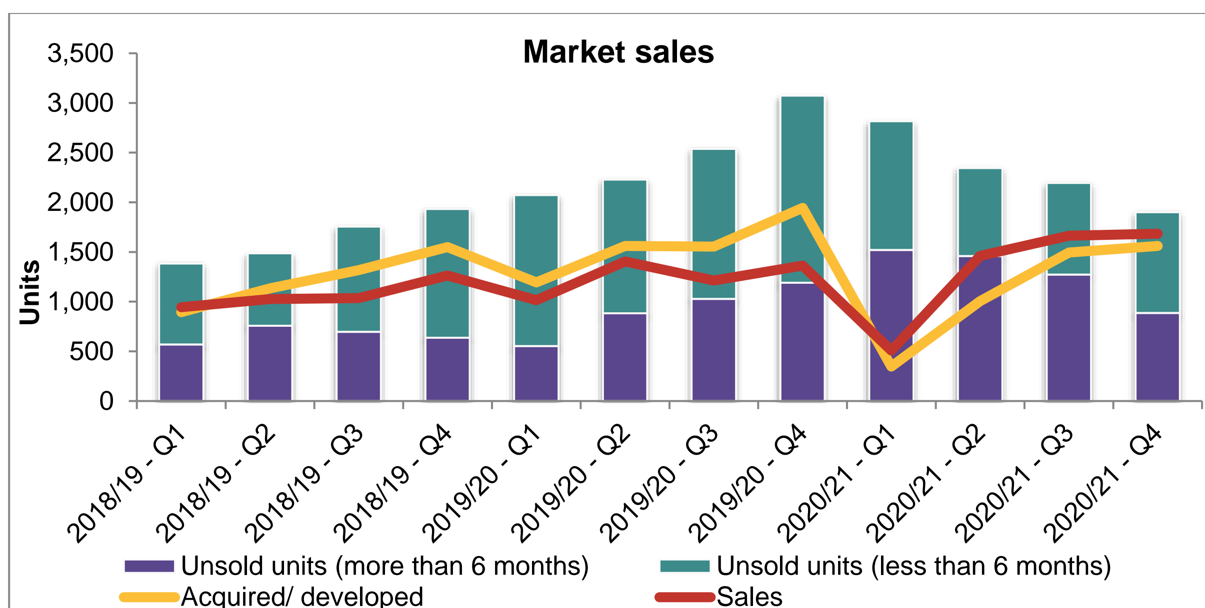
64. Although the number of market sale completions has been recovering since the closure of construction sites in quarter one of 2020/21, the annual total is 30% below the number of completions achieved in the previous year. A total of 4,407 market sale units were acquired or developed during the year, compared to 6,252 in 2019/20.

65. Development for outright market sale continues to be concentrated in relatively few providers, with over 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 £0.4 billion and £1.2 billion worth of cash and undrawn facilities. Between them. this amounted to £4.9 billion, or 14% of the total facilities available within the sector.

66. Of the market sale units unsold for over six months, 25% were held by providers operating mainly in London where development is concentrated; 33% of market sale units developed over the last 12 months were reported by providers operating mainly in this area.

67. The overall surplus on market sales was £125 million in the quarter to March 2021, giving a margin on sales of 16.0% (December: 14.6%). The average margin over the last three years has been 16.7%.

Figure 10: Market sales



68. The pipeline of AHO completions expected in the next 18 months stands at 35,273 units (December pipeline: 35,998) of which 29,876 units are contractually committed. The pipeline figures represent a 50% increase in AHO development compared to actual performance in the 18 months to March 2021, when there were 23,455 completions. It is also a 21% increase compared to the pipeline of AHO units that was planned in March 2020, when 29,221 units were reported.

69. For market sale, completions expected over the next 18 months stand at 11,336 units (December pipeline: 11,323), of which 10,488 are contractually committed. This would give a 43% increase in market sale development in comparison to the actual completions achieved over the previous 18 months, which stood at 7,905 units. It is also a 14% increase in pipeline figures from the figure planned in March 2020, when 9,983 units were reported.

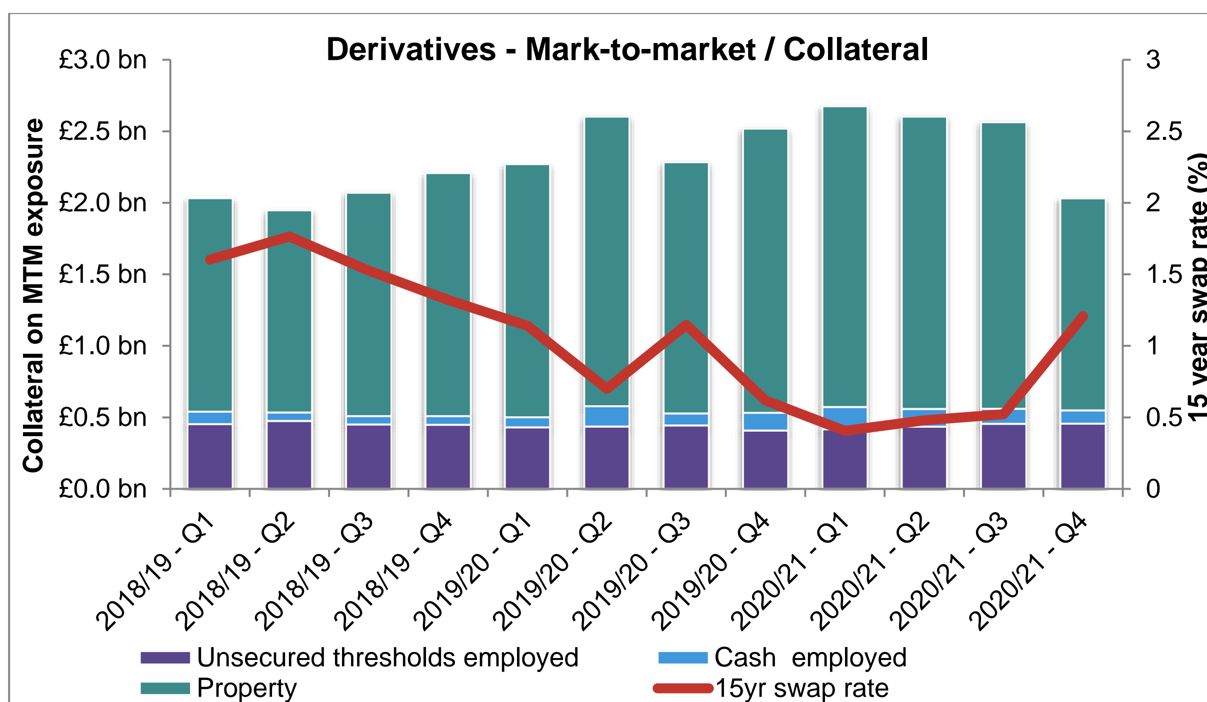
Derivatives

70. At the end of March, 43 providers (December: 43) reported making use of free-standing derivatives. The notional value of standalone derivatives increased by £0.1 billion over the quarter to £9.2 billion. Although five providers reported swaps either maturing or being cancelled during the quarter, one provider substantially increased the value of its derivative products, resulting in the net increase in notional value across the sector.

71. Gross MTM exposure reduced by 21% over the quarter, from £2.6 billion in December to £2.0 billion at the end of March. This follows a significant increase in swap rates, with the 15-year swap rate rising from 0.52% at the end of December to 1.21% at the end of March; the highest rate recorded at a quarter-end since March 2019. The large shift in swap rates reflects market nervousness around inflation, after the announcement of a $1.9 trillion cash injection into the US economy to aid economic recovery from the coronavirus pandemic.

72. Unsecured thresholds and available security pledged to swap counterparties was £3.5 billion. Of this total collateral, £1.7 billion (December: £2.1 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 11: Derivatives – Mark-to-market / Collateral



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

74. Collateral given in terms of security and cash continues to exceed the sector's exposure levels, providing some mitigation against the risk of future adverse movements in swap rates. At sector level, the headroom of collateral and unsecured thresholds available over current exposure was £1.5 billion.

75. Of the 43 providers that were making use of free-standing derivatives, 39 had collateral pledged that exceeded or equalled their level of exposure. The four providers that were under-collateralised at the end of the quarter were not required to provide additional security to cover exposure.

76. Interest rate volatility means that collateral requirements will remain a long-term exposure, and MTM positions need to be closely monitored. Although rates at the end of March were more in line with those experienced before the start of the coronavirus pandemic, providers must ensure that they have sufficient security available to manage the effects of further volatility in swap rates.

Non-registered entities

77. Information on non-registered entities is collected through the additional annual questions that are included in the year-end Quarterly survey. Comparative annual data for 2020 was collected in quarter two of 2021.

78. 129 providers (2020: 132) have investment in, or lending to, non-registered subsidiaries, special purpose vehicles or joint ventures. The total value of the investment or indebtedness is reported to be £8.5 billion, compared to £8.8 billion reported in 2020. Investment is concentrated in a small number of providers; 14 providers have each reported a total investment of over £100 million, and together account for nearly 80% of the sector total.

79. 24 providers (2020: 23) have given guarantees on the obligations or liabilities of other parties, up to a total estimated value of £2.0 billion (2020: £1.9 billion). Of these 24 providers, 3 (2020: 3) have given security.

80. 67 providers (2020: 69) report that a joint venture or non-registered subsidiary is forecasting a loss in their 2020/21 accounts, the total value of which is estimated to be £116 million (2019/20: £190 million). Providers have reported losses in start-up development companies, with costs being incurred in early years before sales receipts are realised. Additionally, providers have attributed losses to coronavirus restrictions and resultant increases in costs and/or reductions in turnover.

81. Where providers engage in activities through non-registered entities, the regulator seeks assurance that Boards understand the associated risks and that social housing assets are not exposed to undue risk.

Impairment

82. Information on impairment is collected through the additional annual questions that are included in the year-end Quarterly survey. Comparative annual data for 2020 was collected in quarter two of 2021.

83. 58 providers anticipate an impairment charge in their 2020/21 accounts. This compares to 72 providers reporting charges in their 2019/20 accounts, and 57 providers anticipating charges in 2018/19.

84. The total anticipated charge is £159 million, of which £51 million relates to social housing assets (2019/20: £160 million, £76 million).

85. 34 providers (2019/20: 39) have forecast a total impairment charge of less than £1 million. Over half of the total impairment charge is forecast by just two providers; and over one third is attributable to one provider.

86. 36 providers have reported an impairment charge in relation to social housing assets. The average charge is £1.4 million, although nearly half of the £51 million total is attributable to just one provider.

87. None of the providers anticipating an impairment charge in their 2020/21 accounts have reported that this will lead to a breach of loan covenants over the next three years.

Income collection

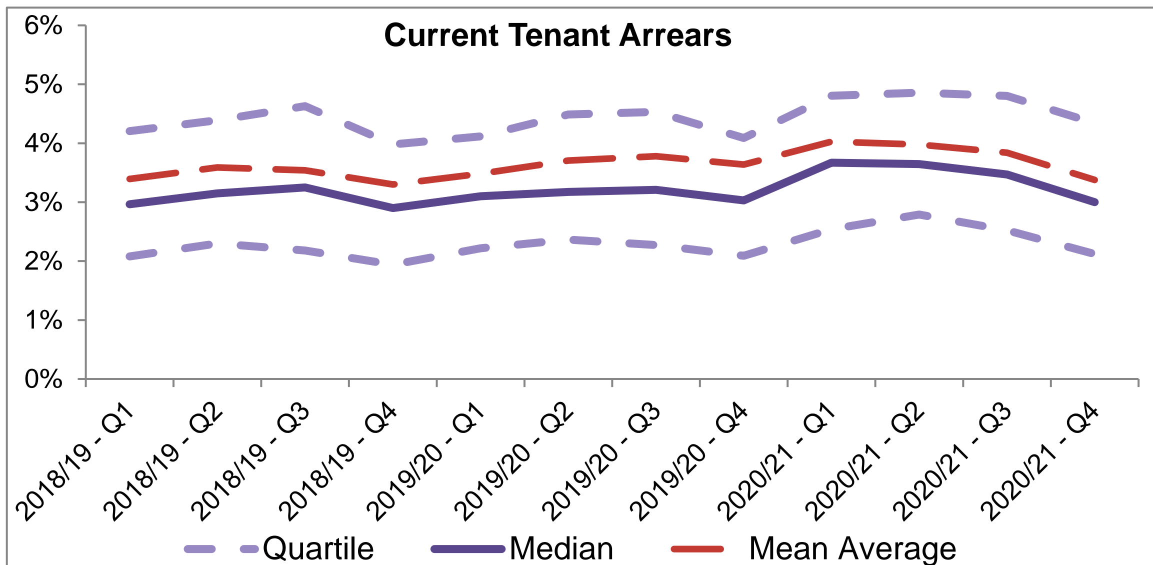
88. Overall rent collection rates improved during the quarter, and there was an increase in the number of providers reporting income collection figures as being within their business plan assumptions. 79% of providers reported that their levels of arrears, rent collection and voids were all within, or outperforming their business plan assumptions, compared to 70% at the end of December.

89. Income collection is influenced by the timing of Housing Benefit payments, and for some providers, rent-free weeks also affect collection rates. The timing of the rent-free week in quarter four, week commencing 29 March 2021, has contributed to the improved income collection and reduction in tenant arrears.

90. Despite the high unemployment levels being recorded between December and February 2021[18], these figures were lower than previous quarter, with income collection and tenant arrears showing improvements at the end of March. Void losses however have remained relatively constant and significantly higher than previous years.

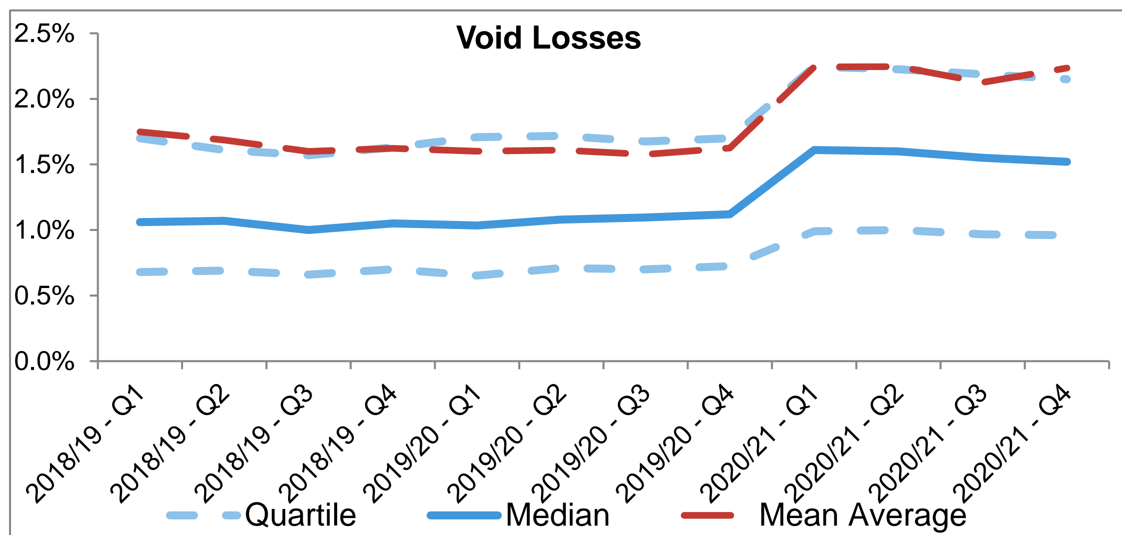
[18] Employment in the UK - Office for National Statistics (ons.gov.uk)

Figure 12: Current tenant arrears



91. Mean current tenant arrears reduced to 3.4% at the end of March (December: 3.8%) and compare to a mean average of 3.6% in the same quarter of 2019/20. The last time arrears have been this low was in quarter one of 2018/19. Median arrears reduced to 3.0% (December: 3.5%), back in line with December 2019 figures. The highest levels of arrears were reported by providers operating mainly in London[19], where the mean average was 5.2%, and the lowest figures were reported by providers in the south west, where mean arrears stood at 1.9%.

Figure 13: Void losses



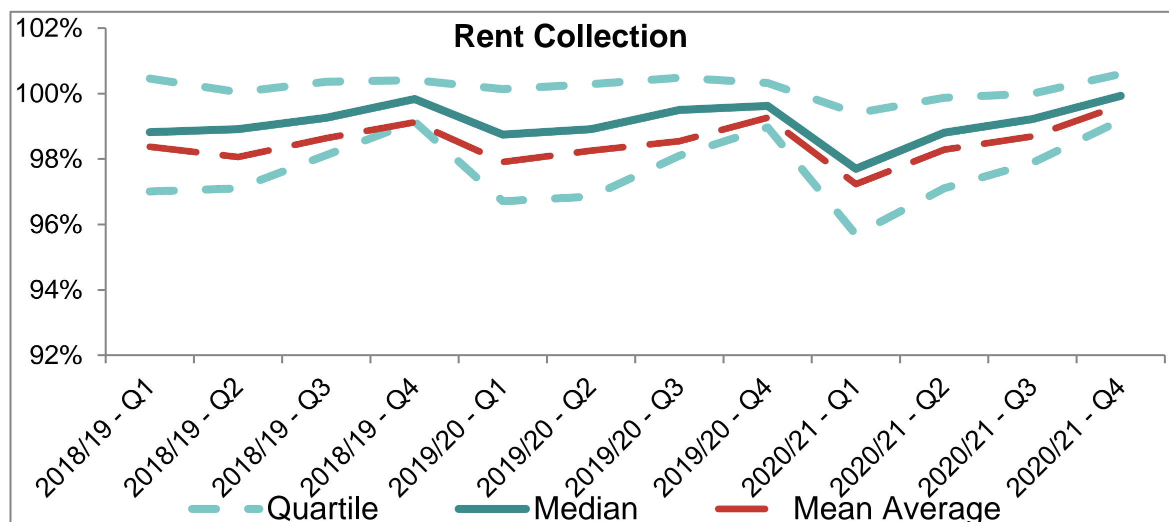
[19] Defined as providers holding 50% or more of their existing stock within the region.

92. 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 reduced slightly to 1.5% in March 2021 compared to the 1.6% reported since the start of the pandemic (December: 1.6%). After a slight improvement last quarter, mean void losses increased back to 2.2% (December: 2.1%).

93. During the quarter, 14 providers reported void losses of 5% or more (December: 13). Providers have stated this was mainly due to an impact on referrals and allocations of properties resulting from the ongoing restrictions, and two providers reported voids of over 20%, contributing to the overall increase.

94. 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. Five providers with void losses of more than 15% specialise in supported housing. Providers with over 50% of their stock within these categories reported mean void losses of 6.72%, compared to the 1.78% reported by providers with less than 50% of stock in these categories. The highest figures were reported by providers based in East and West Midlands, where void losses stood at 2.9% for both regions.

Figure 14: Rent collection



95. After the initial impact of coronavirus restrictions was experienced in the quarter to June 2020, mean average rent collection rates have now increased to 99.6% at the end of March (December: 98.7%), with the median at 99.9%. Both figures are the highest levels seen over the past three years, with the highest mean average reported previously in the same quarter of 2019/20. The number of providers reporting rent collection rates of less than 95% reduced to 5 (December: 13).

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