Regulator of
Social Housing

Quarterly survey for Q4

January to March 2022

May 2022

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Introduction

1. This Quarterly survey report is based on regulatory returns from 205 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 regards to their liquidity position. The Quarterly survey returns summarised in this report cover the period from 1 January 2022 to 31 March 2022.

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. Figures have been rounded to the nearest £billion to one decimal place. This can result in rounding differences in totals and percentages as the individual returns are denominated in £000s.

Summary

Liquidity

Total facilities and available cash balances increased in the quarter - Increase in outturn loan repayments, before a forecast reduction in the year - Aggregate liquidity remains strong

- £118.7 billion total facilities in place at the end of March, up from £117.0 billion in December.
- New finance of £3.9 billion agreed in the quarter and £12.5 billion agreed in the year. 54% of new facilities agreed in the quarter were from bank loans.
- Loan repayments of £1.7 billion made during the quarter, compared to average of £1.4 billion in previous three quarters. Repayments forecast to reduce to an average of £0.6 billion over the next four quarters.
- Total cash and undrawn facilities total £36.4 billion; sufficient to cover forecast expenditure on interest costs (£3.5 billion), loan repayments (£2.3 billion) and net development (£15.7 billion) for the next year.
- Large reduction in mark-to-market (MTM) exposure on derivatives, down to £1.3 billion, following a sharp increase in swap rates.

Performance in the quarter

Interest cover and income collection indicators remain robust - Capitalised major repairs outturn spend is the highest on record

- £771 million capitalised major repairs expenditure in the quarter; 8% below forecast, but a 38% increase on the previous quarter. Providers reported this mainly consisted of catch-up works delayed from previous quarters, and some inflationary price increases.
- Cash interest cover (excluding current asset sales) of 124% in the quarter, compared to forecast of 84% and 12-month average of 128%.
- Increase in interest cover compared to forecast is due to net cashflows from operating activities excluding sales being £0.2 billion above forecast, and capitalised major repairs being £0.1 billion below forecasts.
- Value of debt repayable over the next two years is £4.8 billion (2021: £7.1 billion), with long-term debt continuing to account for most of the sector's borrowing with 82% of debt due for repayment in over five years.
- From the £88.9 billion drawn debt, this comprises of 80% of fixed rate debt greater than one year (2021: 77%), with 60% of total drawn debt at rates fixed for over 10 years.
- Income collection indicators consistent with previous performance. Void losses remain above long-term averages, particularly in supported housing and care home settings.
- 49 providers (2021: 58) anticipate an impairment charge in 2021/22 accounts, and 65 providers (2021: 67) expect a joint venture or non-registered subsidiary to report a loss.

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Investment in new and existing stock

Development expenditure is below both Q3 outturn and the committed amount included in forecasts.

12-month development and major repairs spend forecasts remain high as delayed works are reprofiled into future periods.

- Capitalised repairs and maintenance expenditure was £2.3 billion in the 12 months to March 2022, the highest on record. Forecast expenditure to reach £3.2 billion over the next 12 months.
- £2.9 billion investment in new housing properties; 22% less than the previous quarter and 18% below forecast for contractually committed schemes.
- Development spend was £12.7 billion in the 12 months to March 2022, more than the £12.4 billion reported pre-pandemic in the year to March 2020. Forecast spend to reach £17.5 billion over the next 12 months, of which £11.5 billion is committed.
- Providers continue to report development delays due to labour and material shortages, along with planning delays.
- Large increase in market sale unit completions; up 63% on the previous quarter. AHO unit completions 6% higher than the previous quarter.

Sales

Unit sales below completions for both AHO and market sale, leading to higher unsold units. Sales are below the record numbers achieved during the Stamp Duty holiday, but above or in-line with those reported before the pandemic.

- AHO sales total 4,236 units (December: 4,198), and market sales total 1,316 units (December: 997). Total unsold AHO units increase by 6%, and market sale by 12%.
- 3% reduction in AHO units unsold for more than six months, and a 20% reduction in market sale units unsold for over six months.
- Margin on AHO sales averages 18.6% in the year to March 2022, compared to an average of 20.0% over the last three years. For market sale an average margin of 15.2% was achieved in the year, compared to the three-year average of 16.0%.
- Total asset sales of £1.8 billion achieved. Current asset sales of £1.1 billion were 15% below forecast.
- Fixed asset sales are 31% below forecast, but at £0.8 billion are the second highest ever recorded.
- At £3.3 billion, 12-month forecast fixed asset sales are the highest ever reported, as transactions between Registered Providers increase.

Operating environment

5. The quarter to March 2022 saw the implementation of the Government's 'Living with COVID-19'[1] plan, with the gradual removal of all remaining coronavirus restrictions. Guidance to work from home was removed on 19 January, and the compulsory wearing of facemasks ended a week later, on 27 January. The legal requirement to self-isolate after a positive covid test was removed from 24 February, with the £500 support payment for those on low incomes also being removed from this date. Enhanced Statutory Sick Pay and Employment and Support Allowance provisions for those sick or self-isolating due to COVID-19 ended on 24 March.

6. On 24 February Russia launched an invasion of neighbouring Ukraine. In response, the UK and other governments have imposed a series of economic sanctions against Russia[2]. Inflationary pressures have already been increasing globally since 2021, as countries begin to recover from the COVID-19 pandemic and the demand for goods and energy has outpaced supply. The war has led to further increases in global energy prices and shortages of certain commodities, increasing inflation and drastically reducing global growth forecasts. For the UK, the International Monetary Fund has revised its annual gross domestic product (GDP) growth forecast for 2022 down by one percentage point, from the 4.7% forecast in January 2022[3] to 3.7%[4]. Forecast GDP growth in 2023 has been revised downwards from 2.3% to 1.2%.

7. Due to concerns over inflation, on 3 February the Bank of England increased the base rate from 0.25% to 0.50%. Inflationary pressures were exacerbated by the Russian invasion of Ukraine, and further increases in base rate were announced on 17 March, taking the rate to 0.75%[5], and on 5 May to 1.00%[6].

8. Overall inflation, as measured by the Consumer Prices Index (CPI), increased to 7.0% in the 12 months to March 2022, up from 6.2% in February[7]. This is the highest 12-month rate recorded since March 1992, when CPI was 7.1%. The Bank of England is forecasting inflation to reach around 10% this year[8], in part due to a 54% uplift in the energy price cap from 1 April[9].

[1] COVID-19 Response - Living with COVID-19.docx (publishing.service.gov.uk)
[2] Russia sanctions: guidance - GOV.UK (www.gov.uk)
[3] World Economic Outlook Update, January 2022: Rising Caseloads, A Disrupted Recovery, and Higher Inflation (imf.org)
[4] World Economic Outlook, April 2022: War Sets Back The Global Recovery (imf.org)
[5] Bank Rate increased to 0.75% - March 2022 | Bank of England
[6] Bank Rate increased to 1% - May 2022 | Bank of England
[7] Consumer price inflation, UK - Office for National Statistics
[8] Monetary Policy Report - May 2022 | Bank of England
[9] Price cap to increase by £693 from April | Ofgem

9. GDP fell by 0.1% in March, and is now 1.2% above the pre-pandemic level recorded in February 2020. Over the quarter there was an overall increase in GDP of 0.8%[10].

10. Construction output grew by 3.8% in the quarter to March 2022. Outside of the coronavirus pandemic period, this is the strongest quarterly growth since the same quarter of 2017 (3.9%). Both new work and repairs and maintenance works increased over the quarter, by 2.8% and 5.5% respectively. At the end of March, total output was 3.7% higher than February 2020 (pre-pandemic) levels; repairs and maintenance works being 13.8% higher, although new works remaining 1.6% below the levels recorded at that date[11].

11. Construction output prices grew by 7.3% in the year to March 2022; the largest annual increase since records began in 2014. New housing works experienced the greatest annual growth in prices, rising by 10.9%, whilst repairs and maintenance prices increased by 5.9% over the 12-month period[12].

12. UK house prices increased by 9.8% in the year to March 2022, with the average house price reaching £278,436[13]. In England, the largest annual increase was recorded in the East Midlands (12.4%), and the smallest was in London (4.8%). All other English regions recorded an annual increase in excess of 8%.

13. Estimates of the number of payrolled employees showed an increase during the quarter to March 2022, to a record 29.6 million[14]. The number of job vacancies during the quarter also increased to a new record of 1,288,000. The Bank of England forecasts unemployment rates to fall slightly in the near future before rising in Q4 of 2022[15]. Between March 2021 and March 2022 the number of Universal Credit claimants increased by 6%, up to 5.6 million[16], and between March and November 2021 the number of social rented sector households claiming the housing element of Universal Credit increased by 74,000 to around 1,113,000[17].

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[10] GDP monthly estimate, UK - Office for National Statistics (ons.gov.uk)
[11] Construction output in Great Britain - Office for National Statistics
[12] Construction output price indices - Office for National Statistics
[13] UK House Price Index summary: March 2022 - GOV.UK (www.gov.uk)
[14] Labour market overview, UK - Office for National Statistics (ons.gov.uk)
[15] Bank of England Monetary Policy Report May 2022
[16] Universal Credit statistics, 29 April 2013 to 10 March 2022 - GOV.UK (www.gov.uk)
[17] Universal Credit statistics, 29 April 2013 to 10 March 2022 - GOV.UK (www.gov.uk)

14. Providers need to remain alert and ready to respond to further changes in the operating and economic environment. They will need to ensure that risks are monitored including increasing interest rates, the rising pressures on repairs and build costs, and changes to the market affecting the supply of labour and materials. Increasing energy costs and wider inflationary pressures will need to be understood, and forecasts closely monitored and updated. Flexibility will be needed to ensure that growing risks can be effectively managed.

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Private finance

15. The sector's total agreed borrowing facilities increased by £1.7 billion over the quarter, to reach £118.7 billion at the end of March (December: £117.0 billion).

16. Of the £118.7 billion total facilities, £60.3 billion (51%) related to bank loans and £54.7 billion (46%) related to capital market funding. The proportion of capital market funding held across the sector has increased over recent years, from 37% of total facilities three years ago to the current total of 46%.

Figure 1: Total facilities (£ billions)

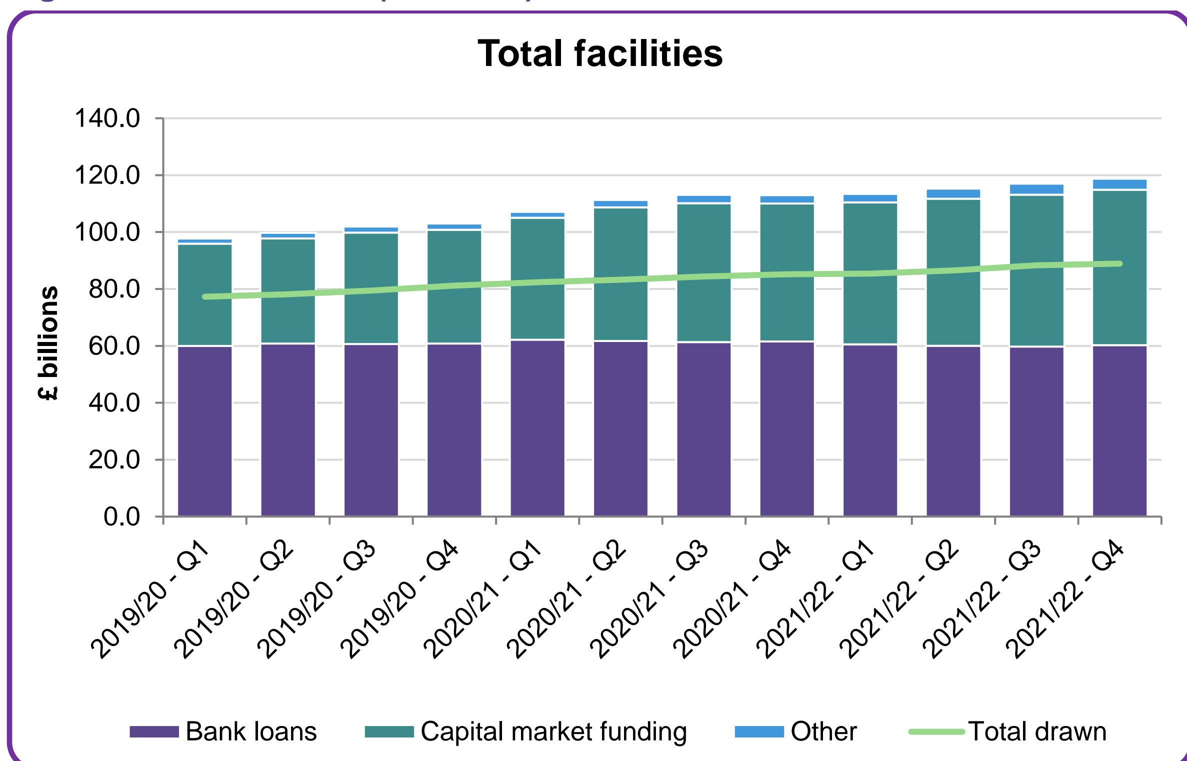


Table 1: Total facilities – drawn and secured

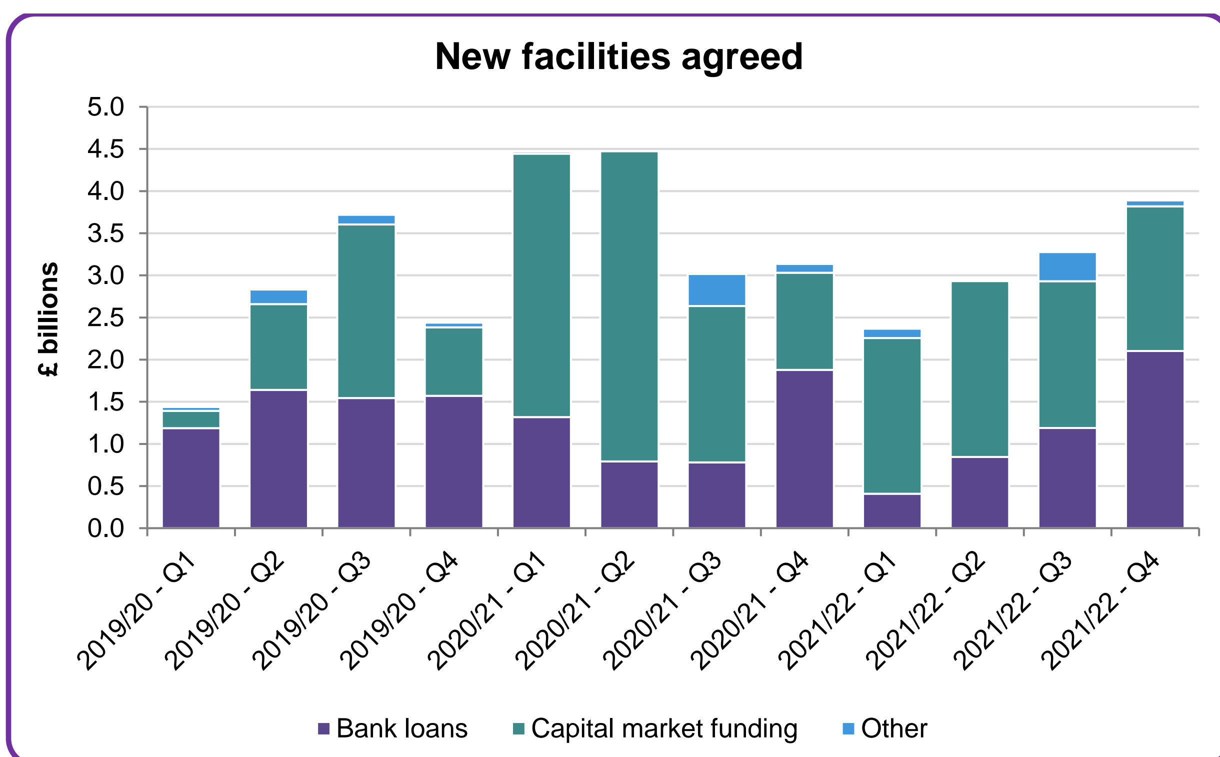
£billons	*Previous quarter*	*Current quarter*	*% change*
Drawn	88.3	88.9	0.7%
Undrawn	28.7	29.8	3.9%
Secured	105.7	107.2	1.5%
Security required	3.9	4.2	7.8%
Security not required	7.5	7.4	(1.6%)

17. 95% (December: 94%) of providers were forecasting that debt facilities available at the end of March would be sufficient for more than 12 months.

18. A total of 41 providers arranged new finance during the quarter (December: 40). The total agreed, including refinancing, amounted to £3.9 billion, with 13 providers each arranging facilities worth £100 million or more. Total new finance arranged in the year amounted to £12.5 billion; less than the £15.1 billion arranged in the previous year, however above the £10.4 billion arranged prior to the pandemic in 2019/20.

19. Bank lending accounted for 54% (£2.1 billion) of new funding arranged in the quarter. Capital market funding, including private placements and aggregated bond finance, accounted for 44% (£1.7 billion) of the total, with three bond issues making up over half of this amount. Other finance sources amounted to £0.1 billion.

Figure 2: New facilities agreed (£ billions)



20. Total cash and undrawn facilities available within the sector totalled £36.4 billion at the end of March (December: £35.2 billion). Total available facilities would be sufficient to cover the forecast expenditure on interest costs (£3.5 billion), loan repayments (£2.3 billion) and net development for the next year (£15.7 billion), even if no new debt facilities were arranged and no sales income were to be received.

21. The year has witnessed amongst the highest level of refinancing activity ever reported. Total loan repayments were £1.7 billion in the quarter to March 2022 and totalled £6.0 billion for the year. Average quarterly repayments over the past three years have been £1.1 billion. The quarter included final repayments due under the terms of the Covid Corporate Financing Facility (CCFF)[18] of £0.4 billion, which was set up to provide short-term cashflow support at the start of the coronavirus pandemic. For the year 2022/23 loan repayments are forecast to decrease to an average of £0.6 billion per quarter.

Table 2: 12-month forecasts

£billons	*Previous quarter*	*Current quarter*	*% change*
Drawdown from facilities agreed	7.1	5.7	(21%)
Drawdown from facilities not yet agreed	2.0	2.0	(1%)
Loan repayments	3.1	2.3	(25%)

22. Drawdowns from facilities not yet agreed have been forecast by 23 providers that are either increasing borrowing capacity, typically to fund uncommitted development programmes, or are refinancing existing facilities. This can be either to replace expiring facilities, or to secure more favourable terms.

Debt repayment profile

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

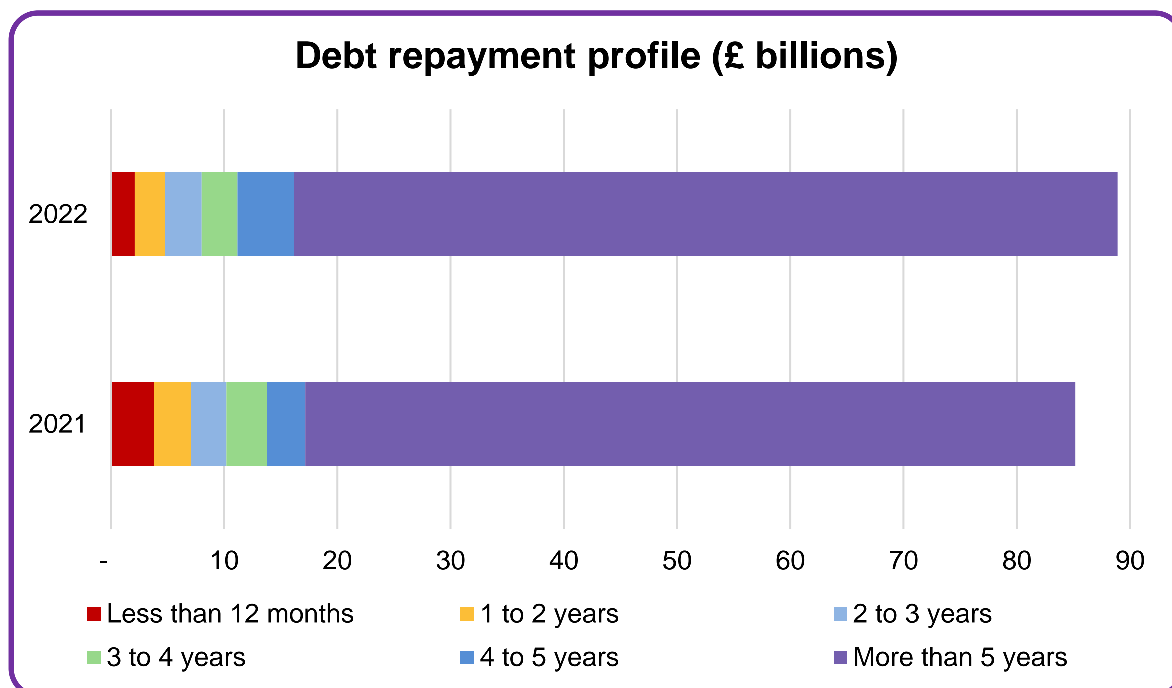
24. The value of debt repayable over the next two years is £4.8 billion, representing 5.4% of the sector debt (2021: £7.1bn, 8.3%, 2020: £4.6 billion, 5.6%). The sector's immediate refinancing risk has decreased, with 2.4% of loans due for repayment within 12 months (2021: 4.5%, 2020: 1.9%[19], 2019: 2.4%). The large increase in repayments during 2021 was due to the maturity of the CCFF loans, where £2.9 billion of facilities were arranged in the sector through this scheme. The sector is forecasting liquidity (with no new facilities included) of £26.3 billion in the next 12 months, and the regulator continues to closely monitor this.

[18] Covid Corporate Financing Facility (CCFF) | Bank of England

[19] 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.

25. Long-term debt continues to account for the majority of the sector's borrowing with 82% of debt being due for repayment in over five years' time (2021: 80%, 2020: 82%). £16.2 billion (2021: £17.2, 2020: £15.2 billion) will become repayable over the next five years as profiled in the chart below.

Figure 3: Debt repayment profile (£ billions)



26. The exposure of individual providers to refinancing risk is covered by routine regulatory engagement. For 92% of providers, more than half of total debt is due for repayment in more than five years (2021: 87%, 2020: 89%). 11 providers have 10% or more of total debt due for repayment within 12 months (2021: 23, 2020: 10[20]), with one provider 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.

[20] 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.

Interest rate profile

27. The charts below provide an analysis of the sector's £88.9 billion drawn debt by interest rate type and the period over which rates have been fixed.

Figure 4: Interest rate analysis (£ billions)

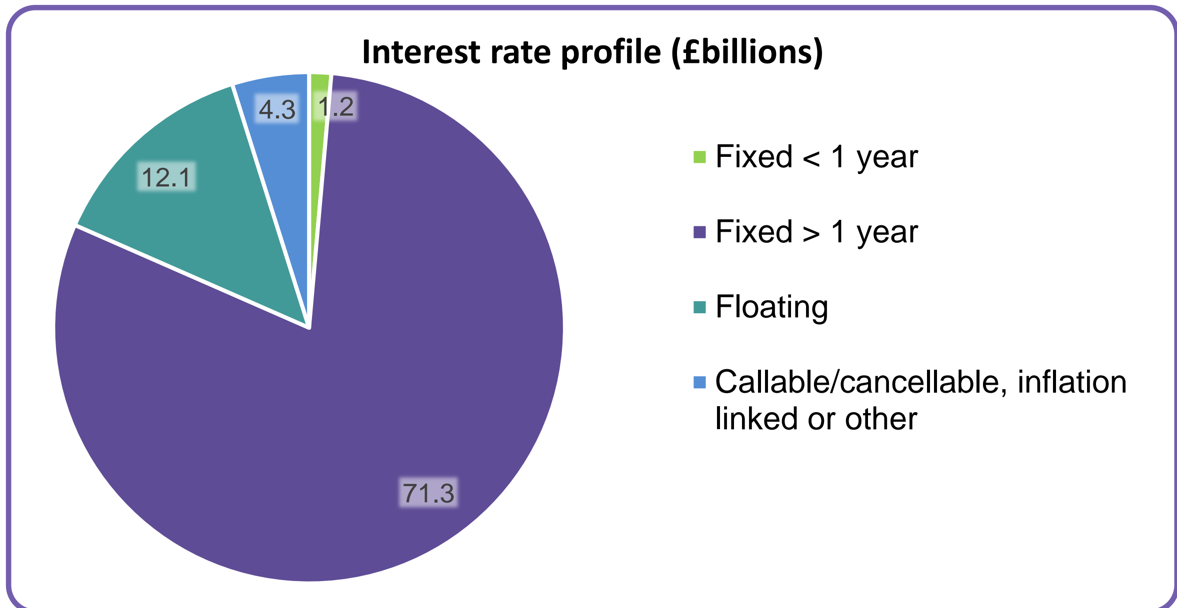
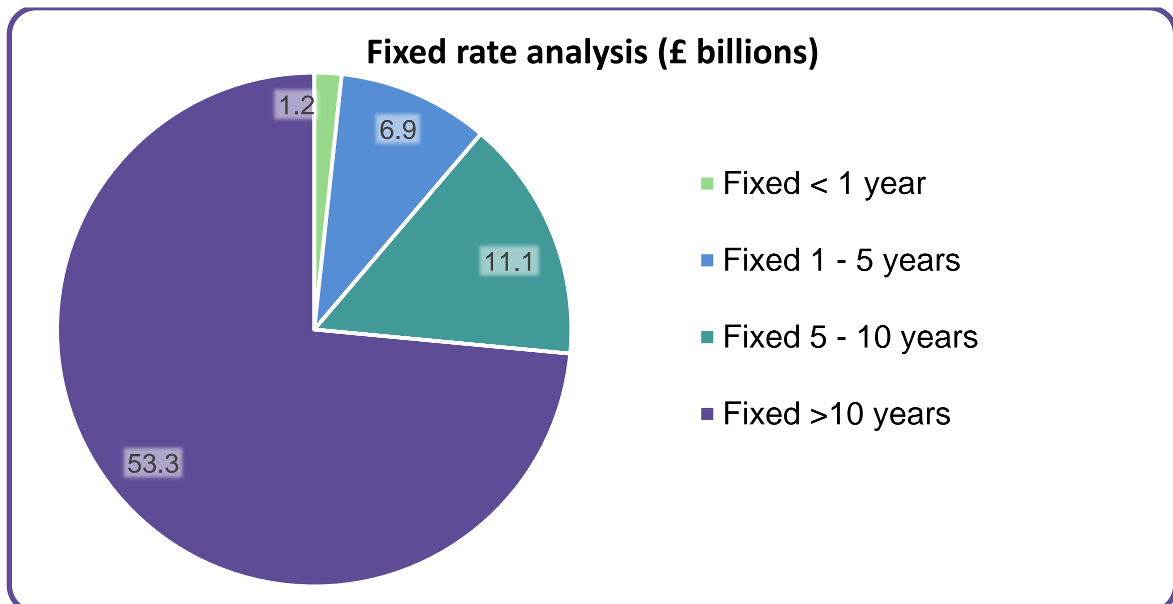


Figure 5: Fixed rate analysis (£ billions)



28. Fixed rate debt (greater than one year) comprises 80% of the sector's drawn borrowings (2021: 77%, 2020: 79%), and has increased by 8% compared to the previous year. 60% 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.

29. 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 £17.6 billion. This represents 20% of drawn debt (2021: £19.4 billion, 23%, 2020[21]: £5.9 billion, 21%).

- £0.9 billion, 1% (2021: £1.1 billion, 1%, 2020: £1.2 billion, 1%) of drawn debt is callable or cancellable.

- 32 providers (2021: 39, 2020: 43) report that they hold callable or cancellable debt. Of these providers, 30 (2021: 33, 2020: 36) report that this comprises less than 10% of drawn debt.

- £1.4 billion, 2% (2021: £1.2 billion, 1%, 2020: £1.3 billion, 2%) of drawn debt is inflation linked.

- 36 providers (2021: 37, 2020: 41) report that they hold inflation linked debt or hedging. Of these providers, 29 (2021: 28, 2020: 32) report that this comprises less than 10% of drawn debt.

30. 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.

[21] 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.

Cashflows

31. It is essential that providers maintain sufficient liquidity. The regulator engages with PRPs that have low liquidity indicators. Table 3 shows actual performance for the quarter compared to the forecast, and the 12-month cashflow forecasts to March 2023.

Table 3: Summary cashflow forecast[22]

Figures in £ billions	3 months to 31 Mar 2022 (forecast)	3 months to 31 Mar 2022 (actual)	12 months to 31 Mar 2023 (forecast)
Operating cashflows excluding sales	0.7	1.0	3.5
Interest cashflows	(0.8)	(0.8)	(3.5)
Payments to acquire and develop housing	(4.6)	(2.9)	(17.5)
Current assets sales receipts	1.3	1.1	5.0
Disposals of housing fixed assets	1.1	0.8	3.3
Other cashflows	(0.2)	(0.1)	(0.4)
Cashflows before resources and funding	**(2.5)**	**(1.0)**	**(9.7)**
Financed by:			
Net grants received	0.5	0.5	1.8
Net increase in debt	1.2	0.5	5.3
Use of cash reserves	0.8	(0.0)	2.5
Total funding cashflows[23]	**2.5**	**1.0**	**9.7**

32. Interest cover, based on operating cashflows excluding sales, stood at 124% in the quarter to March 2022 (December: 126%); slightly below the average of 128% recorded over the last 12 months. This compares to a forecast of 84% made for the quarter in December. The increase in interest cover compared to forecast is attributable to net cashflows from operating activities excluding sales being 15% above forecast, and capitalised repairs and maintenance costs being 8% below the amount previously budgeted.

33. Net cashflows from operating activities were £229m higher than forecasts, with 55% of providers reporting favourable variances. This was partially due to year-end working capital movements and prudent forecasts. A number of providers also reported reduced spend on routine maintenance and the receipt of additional income not previously forecast, contributing to the favourable outturn.

[22] 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.

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

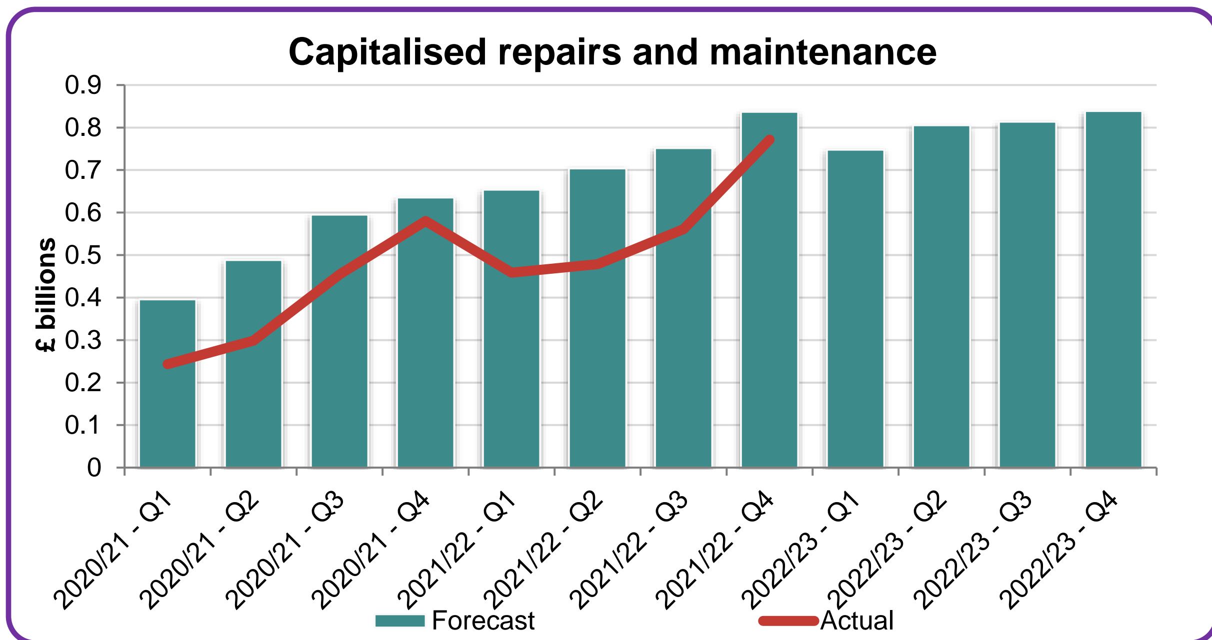
34. The figures submitted by providers show interest cover averaging 99% over the 12-month forecast period (December 12-month forecast: 107%), compared to an average of 128% in the 12 months to March 2022. The anticipated decrease in interest cover from the current quarter, results from capitalised repairs and maintenance costs being, on average, £30 million higher than in the quarter to March 2022. The additional expenditure is compounded with a decrease in net cashflows from operating activities, which are anticipated to reduce by an average of £104 million per quarter over the forecast period.

35. Actual expenditure on capitalised repairs and maintenance amounted to £771 million during the quarter; 8% lower than the amount previously forecast. However, this is the fourth consecutive quarterly increase and the highest spend on record; an increase of 38% on the amount reported in the previous quarter. It is also over 60% higher than the average quarterly expenditure incurred in the previous three years. Most providers reported catch-up works, delayed by external challenges, being completed in the quarter. This also included fire and building safety spend, where 12 providers have reported having waivers with funders to accommodate these costs. It is expected that price increases due to inflation are contributing to the higher spend, which was mentioned by several providers.

36. The majority of providers (62%) have reported an underspend against previous forecasts with many reporting general programme delays, citing labour and supply chain issues continuing to be a factor. Most providers have also mentioned the re-profiling of major repair works into the next financial year, and a small number have reported reprioritising responsive repairs over major works programmes to catch up on the backlog.

37. In the 12 months to March 2022 capitalised expenditure on repairs and maintenance was £2.3 billion, compared to the £2.7 billion forecast at the start of the period. For the 12 months to March 2023, the sector has forecast capitalised repairs and maintenance expenditure of £3.2 billion (December 12-month forecast: £3.2 billion). For many providers, forecasts include catch-up works from programmes that have been affected by delays in earlier quarters and have been re-profiled. Inflationary price increases will also be reflected in the higher forecast spend, although it is difficult to determine how much of this spend is linked to higher costs, and what proportion is related to catch-up works. In addition, supply chain issues and labour shortages and are likely to further affect providers' abilities to deliver programmes, and the regulator will continue to monitor the viability of these forecasts.

Figure 6: Capitalised repairs and maintenance expenditure (£ billions)



38. Current asset sales of £4.2 billion were achieved in the 12 months to March 2022, compared to the £4.4 billion forecast at the start of the period. For the 12 months to March 2023 the sector has forecast a further £5.0 billion worth of current asset sales, of which £4.5 billion relates to properties for which development is contractually committed.

39. In the 12 months to March 2022 fixed asset sales totalled £2.9 billion. For the 12 months to March 2023 the sector has forecast a further £3.3 billion worth of fixed asset sales. Forecast fixed asset sales have been increasing steadily over the last 12 months, with forecasts now at the highest level ever recorded. This follows the addition of new for-profit providers into the dataset, which has led to an increase in the level of sales recorded between associated group companies, and also between for-profit and not-for-profit Registered Providers. Around £0.7 billion of the total £3.3 billion forecast fixed asset sales relate to these types of transactions, where housing properties will effectively remain within the social housing sector.

40. 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 £0.5 billion expected at the end of the previous quarter.

41. Cash available as at March 2022 totalled £6.6 billion (December: £6.5 billion). Forecasts show this reducing to £4.5 billion over the next 12 months as cash reserves are used to fund development programmes. In addition to the £6.6 billion available, cash held in secured accounts and therefore not accessible to providers totalled £1.4 billion (December: £1.5 billion). Typically, these accounts are used to hold mark-to-market (MTM) cash collateral, amounts in escrow and leaseholder sinking funds.

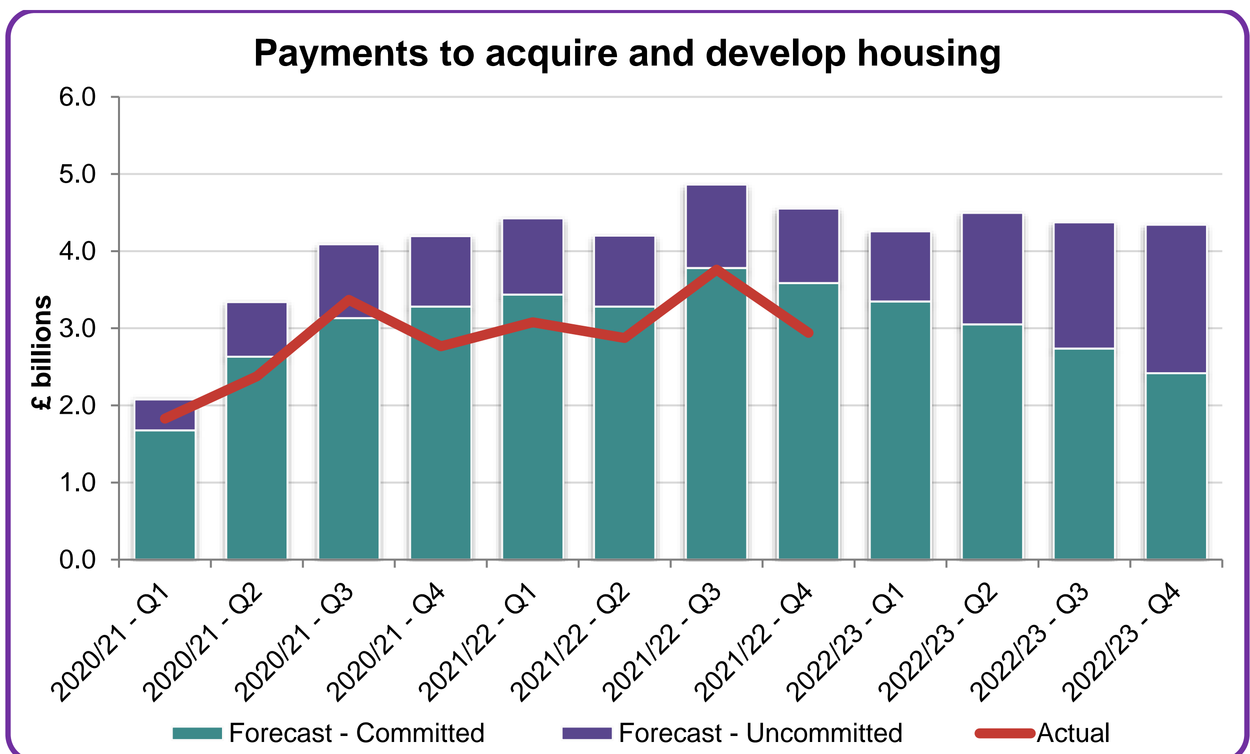
Development

42. In the 12 months to March 2022, £12.7 billion was invested in the acquisition and development of housing properties. This compares to £10.3 billion in the year to March 2021, and £12.4 billion in the year to March 2020.

43. Actual expenditure in the quarter to March 2022 amounted to £2.9 billion; 22% less than in the previous quarter but consistent with the average quarterly expenditure incurred over the last four years. In the two years prior to the coronavirus pandemic development expenditure averaged £3.0 billion per quarter. Expenditure was 35% below the £4.6 billion forecast for the quarter, and 18% below the £3.6 billion forecast for contractually committed schemes, with 87% of providers reporting an underspend against total development forecasts and 64% reporting an underspend against committed development forecasts.

44. In addition to general scheme delays and slippage, providers have reported development works being affected by the continued supply chain issues and pressures in the contractor market across the construction sector. A small number of providers have also experienced delays with developers signing contracts whilst they re-price works, due to increasing costs. Providers have also reported planning approval delays affecting scheme start dates.

Figure 7: Payments to acquire and develop housing



45. For the next 12 months a further £17.5 billion worth of investment has been forecast, of which £11.5 billion is contractually committed. This is a 3% reduction in comparison to the previous quarter's forecast of £18.0 billion, but would represent an increase of 38% in investment when compared to the previous 12 months. Forecast expenditure includes an element of catch-up works from schemes impacted by material and labour shortages.

Housing market

46. Total asset sales, including staircasing, RTB/RTA and voluntary sales, as well as Affordable Home Ownership (AHO) first tranche sales and market sales, amounted to £1.8 billion in the quarter to March (December: £2.0 billion). Market sales totalled £652 million, higher than the 3-year average of £551 million. At £520 million, AHO first tranche sales were also higher than the 3-year average of £443 million.

47. Current asset sales for the quarter (market sales and first tranche AHO sales) were 15% below forecast, with a total of £1.1 billion sales achieved (December £1.0 billion). Providers have reported delays in handovers, in part due to the knock-on effect of supply chain issues which have delayed development works, along with timing differences where sales were completed in March but cash proceeds were not received until April.

48. Fixed asset sales (including staircasing, RTB/RTA and voluntary sales) amounted to £0.8 billion (December: £1.0 billion); 31% less than the amount forecast in December. This is only the second time that fixed asset sales have been below forecast since cashflow data was first collected in 2015. The majority of the underspend is attributable to one large provider, where the transfer of units to another provider has been delayed. Four other providers also reported large adverse variances of over £20 million where completions were delayed, and these are now forecast to complete in the new financial year. Although below forecast, fixed asset sales values were the second highest recorded since the data was first collected, after last quarter's record.

49. Overall surpluses from asset sales stood at £0.5 billion for the quarter (December: £0.5 billion), and overall margins decreased from 27% to 26%. The average margin achieved over the last three years has been 27%.

Figure 8: Value of asset sales

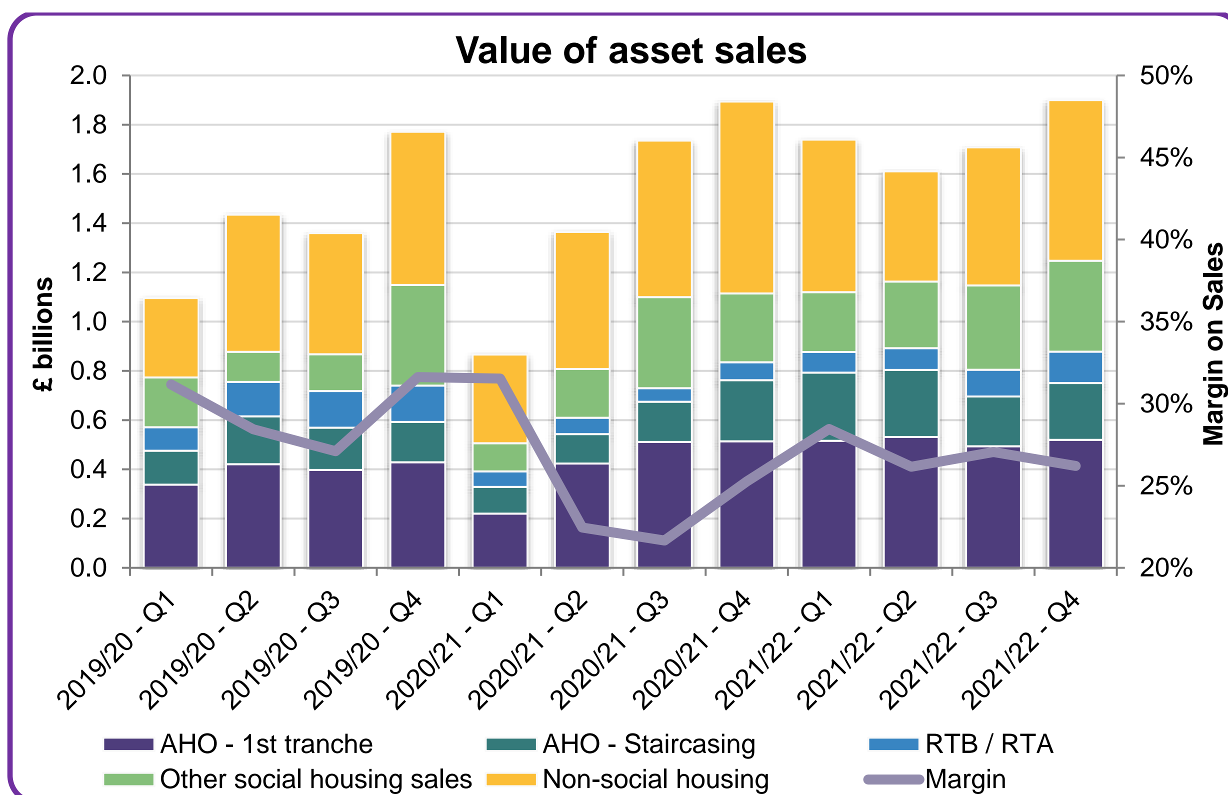


Table 4: AHO units

AHO units	*Previous quarter*	*Current quarter*	*% change*
Completed	4,452	4,709	5.8%
Sold	4,198	4,236	0.9%
Margin	19.0%	18.1%	(4.8%)
Unsold	6,234	6,600	5.9%
Unsold for more than 6 months	2,264	2,207	(2.5%)
18-month pipeline	37,208	37,084	(0.3%)

50. The number of AHO completions was 6% higher than in the previous quarter, and was the third highest volume ever recorded[24]. Completions tend to increase in the last quarter of the financial year, and the two highest activity levels were recorded in quarters four of 2019/20 and 2018/19. Although completions did not exceed these levels, they were the highest amount recorded since the start of the coronavirus pandemic.

[24] Data first collected in 2011.

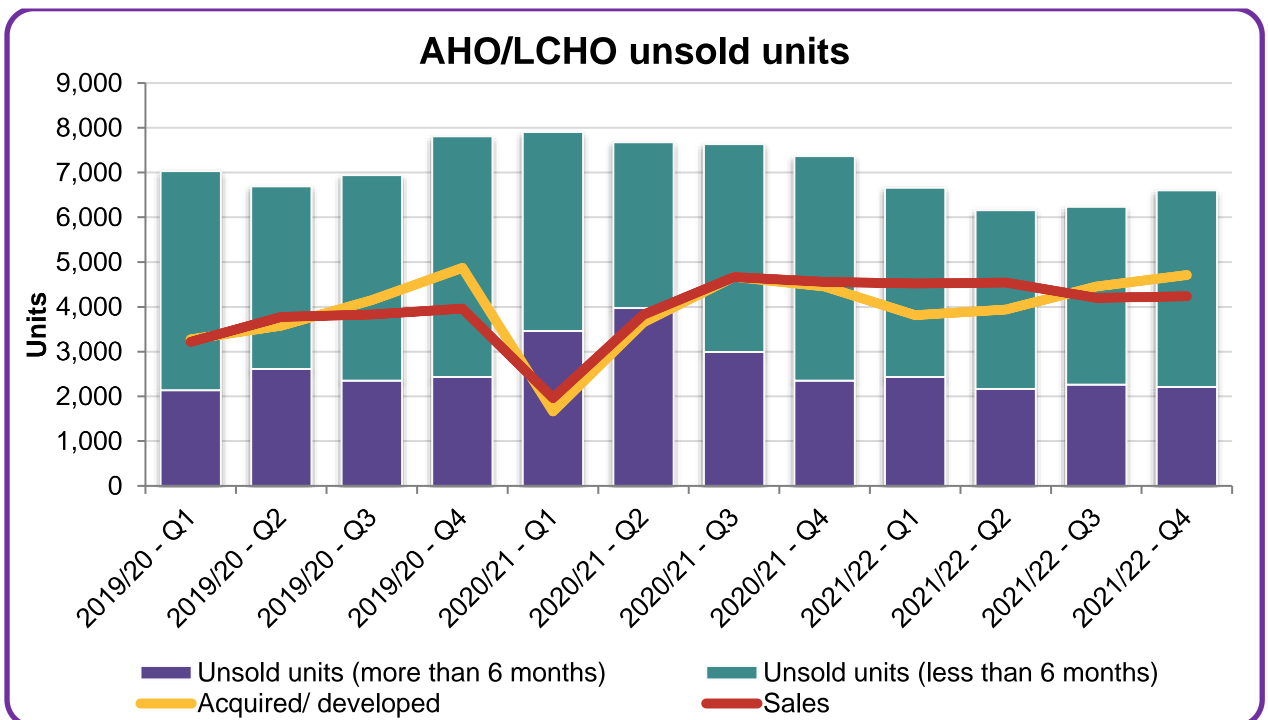
51. Sales of AHO units were marginally higher than in the previous quarter, although below the record levels being achieved whilst the Stamp Duty threshold was temporarily increased between July 2020 and September 2021. AHO sales are still higher than in any period before the pandemic.

52. The high number of completions during the quarter in comparison to sales has resulted in a 6% increase in the overall number of unsold units. However, the number of units unsold for over six months has reduced by 3%. 45% of the unsold AHO stock at the end of the quarter was held by 10 providers. These 10 providers all reported access to sufficient liquidity, together accounting for nearly 20% of the total facilities available within the sector.

53. Five providers held over 100 units of stock that had been unsold for more than six months, accounting for 39% 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.

54. The overall surplus on AHO sales stood at £94.2 million in the quarter to March (December: £94.0 million). In the 12 months to March 2022 a total surplus of £384.1 million was recorded (2021: £319.5 million), which resulted in an average margin of 18.6%; slightly below the average of 20.0% achieved over the last three years.

Figure 9: AHO/LCHO unsold units



55. The pipeline of AHO completions expected in the next 18 months stands at 37,084 units, of which 32,802 units are contractually committed. The pipeline figures represent a 42% increase in AHO development compared to actual performance in the 18 months to March 2022, when there were 26,033 completions. Five providers each have over 1,000 units in the pipeline, making up over a quarter of the overall total. Two of these five are for-profit providers.

Table 5: Market sale units

Market sale units	*Previous quarter*	*Current quarter*	*% change*
Completed	952	1,547	62.5%
Sold	997	1,316	32.0%
Margin	18.7%	10.1%	(46.4%)
Unsold	1,280	1,439	12.4%
Unsold for more than 6 months	641	513	(20.0%)
18-month pipeline	11,198	11,400	1.8%

56. As with AHO units, the number of market sale completions increased in the last quarter of the financial year, exceeding the previous quarter's total by 63%. Completions have not yet reached the peak level seen immediately before the coronavirus pandemic though, when 1,944 units were developed in the quarter to March 2020. Market sales were 32% higher than in the previous quarter, and above the average numbers being achieved before the coronavirus pandemic.

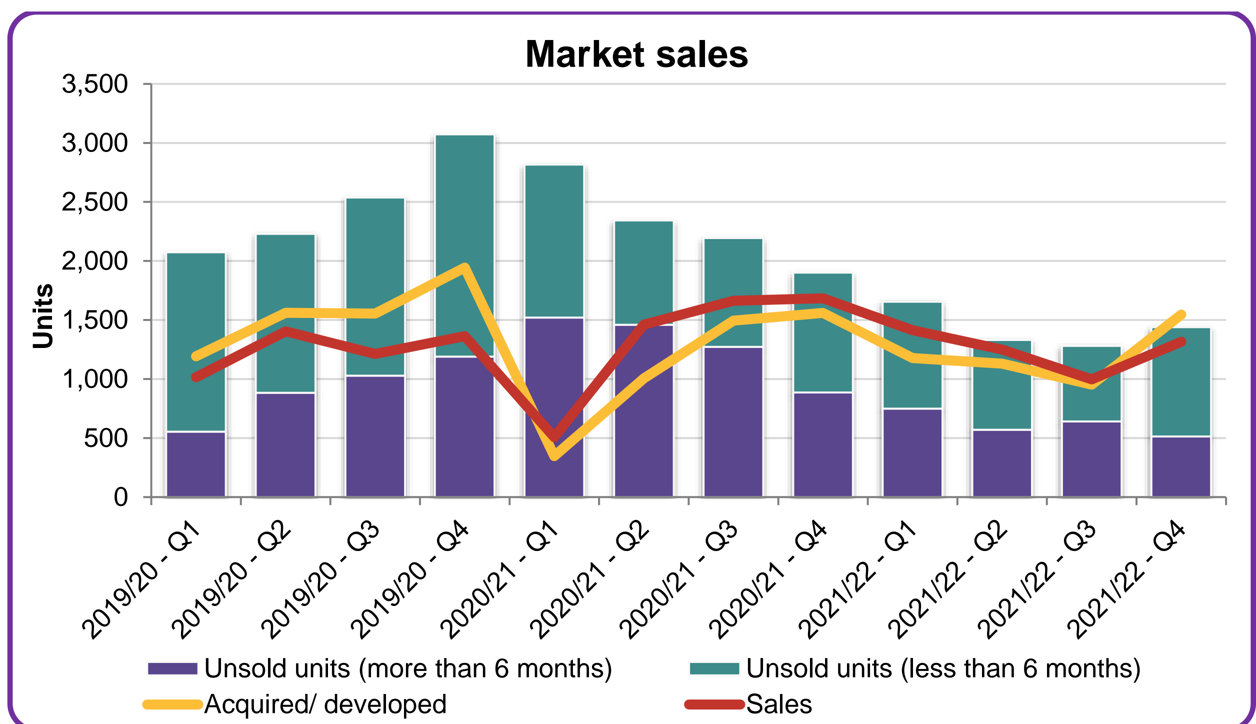
57. The high number of market sale completions compared to sales during the quarter has resulted in a 12% increase in total unsold units; the first increase in two years. The number of unsold units had been gradually decreasing over the last two years, in part due to the high demand for sales during the period when Stamp Duty thresholds were temporarily increased. However, the number of units unsold for over six months has reduced by 20%, and total unsold units remain below the averages recorded in the two years prior to the coronavirus pandemic.

58. Development for outright market sale continues to be concentrated in relatively few providers, with nearly half of the unsold market sale units reported at the end of the quarter being held by just three providers. These providers each had access to between £0.3 billion and £1.6 billion worth of cash and undrawn facilities, ensuring sufficient liquidity if sales receipts are delayed.

59. Of the market sale units unsold for over six months, 31% were held by providers operating mainly in London[25], where development is concentrated. Between them, these providers were responsible for 37% of the total number of market sale units that were developed over the last 12 months.

60. Although there was an increase in sales activity during the quarter, the surplus on market sales stood at £65.6 million, compared to the £105.2 million achieved in the previous quarter. In the year to March 2022 the overall surplus on market sales amounted to £347.2 million; below the previous year's total of £383.6 million but above the £327.7 million achieved in the year to March 2020. An overall margin of 15.2% was achieved in the 12 months to March 2022, slightly below the average of 16.0% achieved over the last three years. On a quarterly basis margins can fluctuate, and in the quarter to March 2022 the average margin was affected by year-end adjustments. Three large providers reported high sales values in the quarter; between them they accounted for nearly half of the total sales value, and on these sales they achieved an average margin of 6%.

Figure 10: Market sales



61. For market sale, completions expected over the next 18 months stand at 11,400 units, of which 10,416 are contractually committed. If achieved, this would equate to a 45% increase in market sale development in comparison to the actual completions achieved over the previous 18 months, which stood at 7,862 units. Over half of the total pipeline units are reported by just seven providers.

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

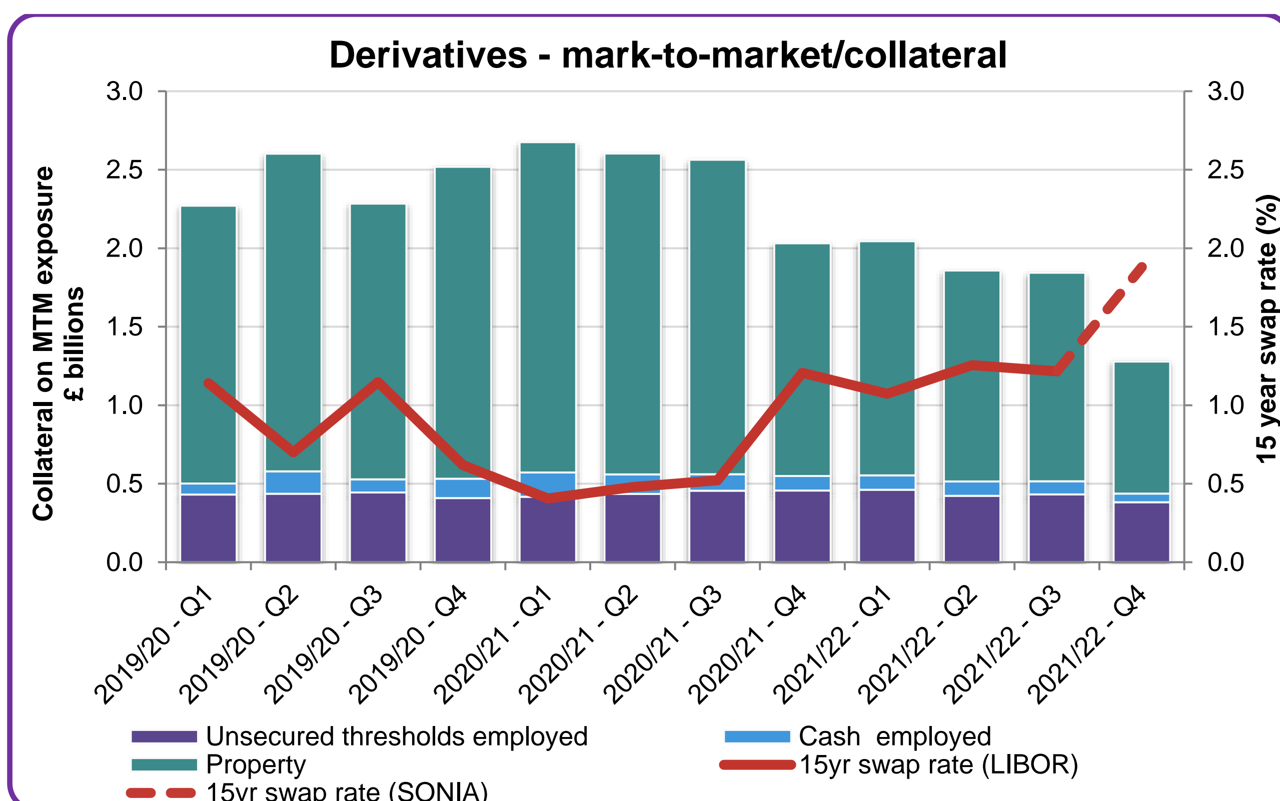
Derivatives

62. At the end of March, 44 providers (December: 42) reported making use of free-standing derivatives. The notional value of standalone derivatives decreased by £0.9 billion over the quarter to £7.8 billion.

63. Gross MTM exposure reduced by 31% over the quarter, from £1.8 billion in December to £1.3 billion at the end of March. Swap rates increased in the quarter, with the 15-year swap rate increasing from 1.216% at the end of December to 1.88% at the end of March. This is the highest level that swap rates have reached in over six years, and MTM exposure levels are the lowest ever reported[26].

64. Unsecured thresholds and available security pledged to swap counterparties totalled £2.9 billion. Of this total collateral, £0.9 billion (December: £1.5 billion) had been employed in the form of property or cash, together with unsecured thresholds of £0.4 billion. The excess collateral available consisted primarily of property pledged but not employed.

Figure 11: Derivatives – Mark-to-market/collateral



[26] Data first collected in 2011.

65. The above graph shows MTM exposure excluding excess collateral. Generally, for PRPs, MTM exposure decreases as swap rates increase.

66. 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 £1.7 billion (December: £1.6 billion).

67. Of the 44 providers that were making use of free-standing derivatives, 41 had collateral pledged that exceeded or equalled their level of exposure. The three providers that were under-collateralised at the end of the quarter were not required to provide additional security to cover exposure.

68. Interest rate volatility means that collateral requirements will remain a long-term exposure, and MTM positions need to be closely monitored. For the majority of providers, MTM exposure decreases as swap rates rise, however a small minority of providers would be adversely impacted by future increases in swap rates. Providers must ensure that they have sufficient security available to manage the effects of further volatility in swap rates. All LIBOR settings ceased after the 31 December 2021 and rates from its replacement SONIA, are now used in the calculation of swap rates.

Non-registered entities

69. Information on non-registered entities is collected through the additional annual questions that are included in the year-end Quarterly survey. 129 providers (2021: 129) 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 £7.8 billion, compared to £8.5 billion reported in 2021. Investment is concentrated in a small number of providers; four providers have each reported a total investment of over £500 million, and together account for almost half of the sector total.

70. 27 providers (2021: 24) have given guarantees on the obligations or liabilities of other parties, up to a total estimated value of £2.2 billion (2021: £2.0 billion). Of these 27 providers, 6 (2021: 3) have given security.

71. A total of 65 providers (2021: 67) report that a joint venture or non-registered subsidiary is forecasting a loss in their 2021/22 accounts, the total value of which is estimated to be £142 million (2020/21: £116 million). Providers have reported losses in the early stages of development schemes, where costs are incurred before sales receipts are realised. A small number of providers have attributed losses to additional remedial works or to construction delays resulting in higher voids and delivery costs.

72. 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

73. Information on impairment is collected through the additional annual questions that are included in the year-end Quarterly survey. 49 providers anticipate an impairment charge in their 2021/22 accounts. This compares to 58 providers reporting charges in their 2020/21 accounts and 72 providers reporting charges in their 2019/20 accounts.

74. The total anticipated charge is £155 million, of which £54 million relates to social housing assets (2020/21: £159 million, £51 million, 2019/20: £160 million, £76 million). Not all providers who have reported a potential impairment have yet fully quantified the expected value. Where a reliable estimate cannot yet be made, this has been excluded from the overall sector total.

75. 28 providers[27] (2020/21: 34) have forecast a total impairment charge of less than £1 million. Over sixty percent of the total impairment charge is forecast by three providers.

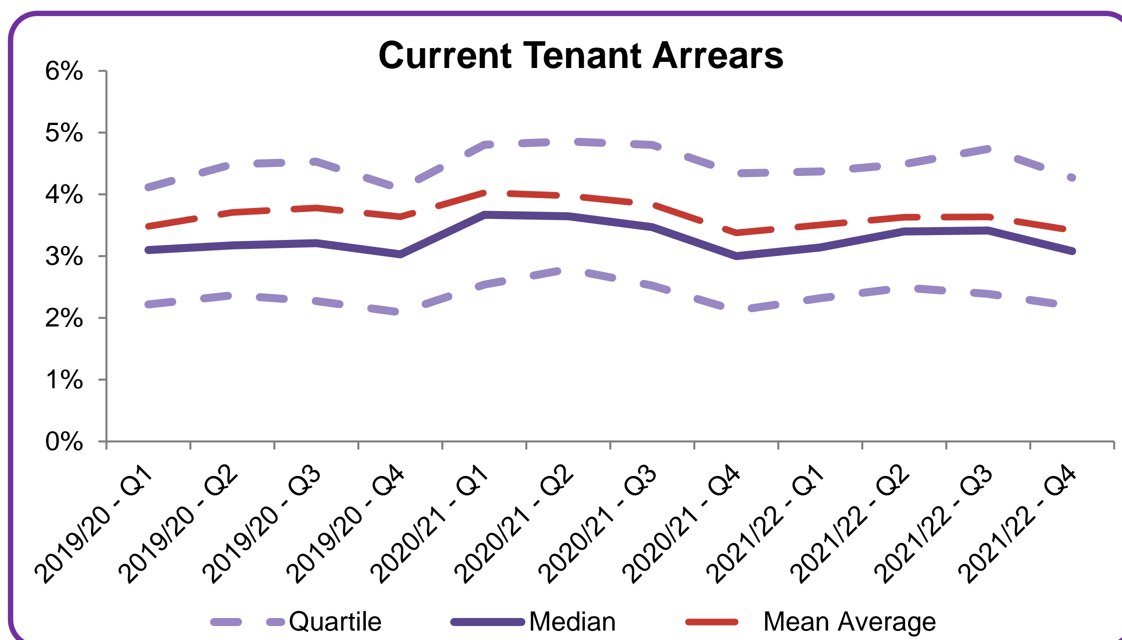
[27] Excludes providers where an impairment charge is anticipated but has not yet been quantified.

76. Although the aggregate level of impairment has not increased in recent years, charges recognised by individual providers have the potential to result in breaches of loan covenants. Where this is the case, we engage with the provider to ensure the necessary mitigations and arrangements are in place to maintain viability.

Income collection

77. At the end of March, 69% 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.

Figure 12: Current tenant arrears

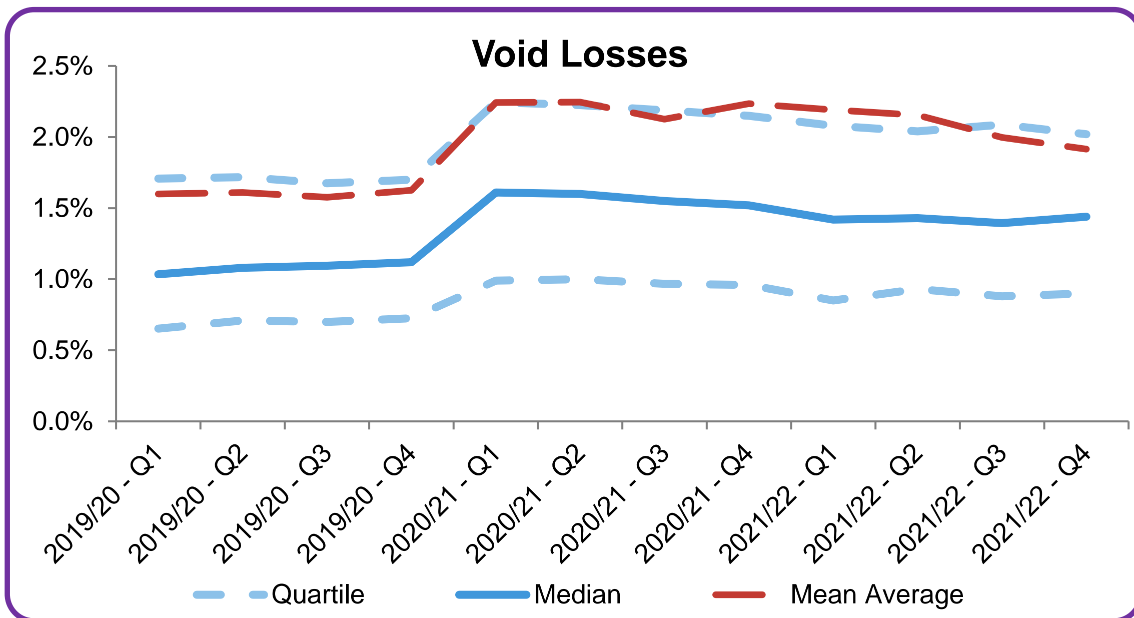


78. Mean current tenant arrears stood at 3.4% at the end of March (December: 3.6%); in line with the corresponding quarter of 2020/21.

79. At 3.1%, median arrears were slightly higher than in the same quarters of 2020/21 and 2019/20 (3.0%), however they remain in line with pre-pandemic levels reported on average of 3.1% over the four quarters of 2019/20.

80. The highest levels of arrears continue to be experienced by providers operating mainly in London, where three providers reported arrears of over 5% in this region, and the mean average stood at 5.3%. In comparison, the lowest arrears were reported by providers operating mainly in the southwest, where the average stood at 2.1%.

Figure 13: Void losses



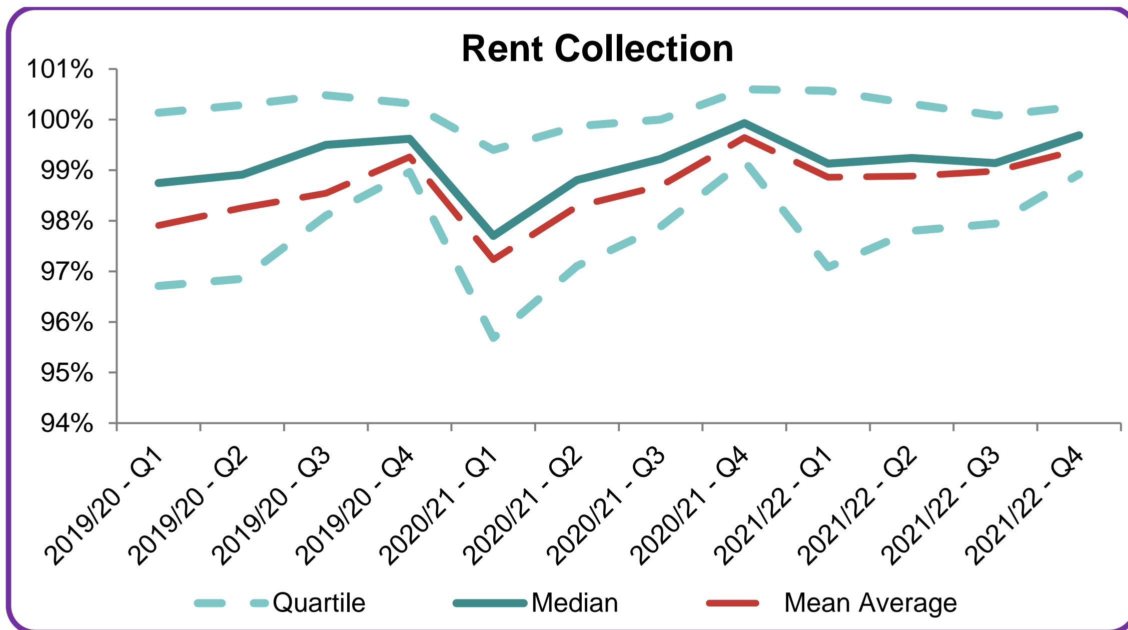
81. Median void losses remained at 1.4% during the quarter, consistent with the previous three quarters' results. This is lower than the median of 1.5% reported in the same quarter of 2020/21, but still significantly higher than the void levels experienced before the start of the coronavirus pandemic, which averaged 1.1% in 2019/20.

82. Mean void losses have reduced to 1.9% at the end of March (December: 2.0%), mainly due to one provider reporting a significant improvement in void losses of over 60%.

83. The highest void rent losses are typically reported by providers with a large proportion of supported housing units, care home units or Housing for Older People, and providers continue to report that this is being exacerbated by the pandemic. Providers with over 50% of their stock within these categories reported mean void losses of 4.7%, compared to 1.6% reported by providers with less than 50%.

84. A total of 63 providers have stated that income collection indicators are outside of business plan assumptions. Across all providers, 11 have recorded void losses of 5% or more (December: 12). Providers have reported that material and labour shortages are continuing to affect void repair times, and covid-related backlogs are still present. A small number of providers have also mentioned that issues relating to the allocation and referral of tenants from local authorities have increased void losses.

Figure 14: Rent collection



85. Mean average rent collection rates increased to 99.4% at the end of March (December: 99.0%), with the median at 99.7% (December: 99.1%), in line with seasonal trends. The number of providers reporting rent collection rates of less than 95% stood at 6 (December: 9). Income collection rates generally increase over the course of a financial year as Housing Benefit receipts fall in line with rent charges, and for some providers, as rent-free weeks are applied.

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