Regulator of
Social Housing

Quarterly survey for Q1

April to June 2022

September 2022

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Introduction

1. This quarterly survey report is based on regulatory returns from 204 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 April 2022 to 30 June 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.

5. For this quarter, the information submitted by one large provider was partially based on estimated outturn figures. Although this is not expected to have a material impact on the overall position presented for the sector, if necessary, figures will be updated in future publications.

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Summary

Liquidity

Total agreed facilities increased in the quarter – Refinancing reduces after a period of high activity - Aggregate liquidity remains strong

- £119.3 billion total facilities in place at the end of June, up from £118.7 billion in March.
- New finance of £1.9 billion agreed in the quarter; the lowest amount in three years. 70% of new facilities were from capital markets.
- Loan repayments of £0.7 billion made during the quarter, compared to an average of £1.5 billion per quarter during 2021/22.
- Total cash and undrawn facilities total £35.8 billion; sufficient to cover forecast expenditure on interest costs (£3.4 billion), loan repayments (£2.2 billion) and net development (£16.4 billion) for the next year.
- Large reduction in mark-to-market (MTM) exposure on derivatives, down to £0.9 billion, following a sharp increase in swap rates. This is the highest level that swap rates have reached in over six years, and the lowest MTM exposure ever reported.

Performance in the quarter

Cash interest cover reduces in the quarter before a forecast recovery - Capitalised major repairs below forecast but high for Q1 – Income collection indicators remain robust

- £503 million capitalised major repairs expenditure in the quarter; 33% below forecast, but the highest quarter one spend ever recorded.
- New disclosures added to the Quarterly Survey form for 2022/23 show expenditure on non-capital repairs and maintenance amounts to £0.9 billion during the quarter. This brings total repairs and maintenance spend in the quarter to £1.4 billion.
- 56% of providers experience delays to repairs and maintenance programmes during the quarter, with material and labour shortages continuing to have an impact.
- Adverse working capital movements reduce cash interest cover (excluding current asset sales) in the quarter. Interest cover over the 12 months to June 2022 was 124%.
- Forecast interest cover (excluding current asset sales) is 98% over the next 12 months as projected spend on capitalised repairs and maintenance increases.
- Interest payable forecast to increase by £0.2 billion (7%) over the coming year compared to actual costs over the previous 12 months.
- Income collection indicators consistent with previous performance and seasonal trends. Void losses remain above long-term averages.

Investment in new and existing stock

Development expenditure is below both Q4 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 June 2022. Expenditure forecast to reach £3.3 billion over the next 12 months.
- £2.9 billion was invested in new housing properties in the quarter; 2% less than the previous quarter and 14% below forecast for contractually committed schemes.
- Forecast spend to reach £18.2 billion over the next 12 months, of which £11.7 billion is committed.
- Providers continue to report development delays due to on-going supply chain issues leading to labour and material shortages, along with planning delays and slower land acquisitions.
- AHO unit completions 13% lower than the previous quarter, and market sale units also behind with 6% fewer completions.
- 18-month pipeline for AHO units stands at 38,595 units and 9,677 units for market sales.

Sales

AHO unit sales below completions, leading to higher unsold units. However, unit sales for market sale were slightly above completions, resulting in a decrease in unsold units in the quarter. Sales are above the quarterly 12-month average before the pandemic.

- AHO sales total 3,759 units (March: 4,236), and market sales total 1,495 units (March: 1,316). Total unsold AHO units increase by 4%, whereas market sale reduced by 1%.
- 10% increase in AHO units unsold for more than six months, and a 4% reduction in market sale units unsold for over six months.
- Margin on AHO sales were 20.3% in the quarter to June 2022, compared to an average of 19.8% over the last three years. For market sale, a margin of 12.7% was achieved in the quarter compared to the three-year average of 16.1%.
- Total asset sales of £1.7 billion achieved. Current asset sales of £1.0 billion were 26% below forecast, and fixed asset sales of £0.7 billion were 23% above forecast.
- Changes were made to the Quarterly Survey form for 2022/23, separating fixed asset tenants/open market sales from other sales (bulk disposals) for the first time this quarter. Sales to tenants were £0.5 billion, and bulk sales were £0.2 billion.
- Fixed asset sale forecasts continue to increase; a total of £3.7 billion worth of sales forecast for the next 12 months, including £2.0 billion bulk sales.

Operating environment

6. Inflationary pressures and economic uncertainty continue to impact the housing sector. Global growth forecasts have reduced following increases in energy prices, production delays, shortages of certain commodities, and rising inflation.

7. For the UK, the International Monetary Fund has revised its annual gross domestic product (GDP) growth forecast for 2022 once again, down by 0.4 percentage points, from the 3.7% forecast in April 2022 to 3.2%[1]. This compares to the 4.7% projected at the start of the year[2]. Forecast GDP growth in 2023 has been revised downwards from 2.3% in January 2022 to 0.5%.

8. Reported GDP fell by 0.2% in April, after a decline of 0.1% in March, the first time the economy has contracted for two consecutive months since the pandemic began. Over the quarter there was an overall decrease in GDP of 0.1%.

9. Following on from an increase in interest rates in May to 1.00%, the Bank of England further increased the base rate to 1.25% on 16 June[3] and again to 1.75% on 4 August. This is the sixth consecutive rise since December 2021, when rates were at historical lows of 0.1%. Interest rates are at their highest level in 13 years and the increase is the biggest jump in 27 years[4]. The Bank of England expects the economy to shrink in the fourth quarter of this year and enter a recession[5].

10. Overall inflation, as measured by the Consumer Prices Index (CPI), increased to 9.4% in the 12 months to June 2022, up from 9.1% in May[6]. This is the highest 12-month rate recorded since March 1992, when CPI was 7.1%, and the 9th consecutive 12-monthly increase. The Bank of England is forecasting inflation to reach around 13% in the final three months of this year[7], and remain at elevated levels throughout much of 2023, before falling to the 2% target. This is mainly due to gas prices more than doubling since May, higher prices for importing goods, and businesses facing pressures on selling prices and wages.

11. Construction output grew by 2.3% in the quarter to June 2022, despite the decrease of 1.4% in the month. This is the first monthly decrease since October 2021 following seven consecutive months of growth and is driven by falls in both new work and

[1] World Economic Outlook Update, July 2022: Gloomy and More Uncertain (imf.org)

[2] World Economic Outlook Update, January 2022: Rising Caseloads, A Disrupted Recovery, and Higher Inflation (imf.org)

[3] Bank Rate increased to 1.25% - June 2022 | Bank of England

[4] UK interest rates see biggest rise in 27 years - BBC News

[5] Monetary Policy Report - August 2022 | Bank of England

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

[7] Monetary Policy Report - August 2022 | Bank of England

repairs and maintenance works (2.0% and 0.2% respectively). At the end of June, total output was 2.9% higher than February 2020 (pre-pandemic) levels; repairs and maintenance works being 12.6% higher, although new works remaining 2.2% below the levels recorded at that date[8].

12. Construction output prices grew by 9.6% in the year to June 2022; the largest annual increase since records began in 2014. New housing works experienced the greatest annual growth in prices, rising by 12.3%, whilst repairs and maintenance prices increased by 6.9% over the 12-month period[9].

13. England house prices grew by 7.3% in the year to June 2022, down from 13.0% in May 2022, with the average house price reaching £304,867[10]. The largest annual increase was recorded in the East of England (9.7%), and the smallest was in the North East (3.6%).

14. The unemployment rate for the quarter to June 2022 increased by 0.1 percentage points to 3.8%[11]. The number of job vacancies in May to July 2022 was 1,274,000; a decrease from the previous quarter and first quarterly fall since June to August 2020. Estimates of the number of payrolled employees in June 2022 stood at 29.6 million, a 3% rise compared with the same period of the previous year[12]. The total number of people on Universal Credit in England as of June 2022 was around 4.9 million, compared to 5.1 million in June 2021, a decrease of 4%[13]. The region with the highest number of claimants was London (0.9 million), whilst the lowest number was in the North East (0.3 million).

15. In response to the exceptional inflation levels currently being experienced, the government has launched a consultation on social housing rents, alongside a proposed draft Direction on the Rent Standard[14]. The current cap is set at CPI+1%, which is expected to be around 11% in total for 2023-24. The new Direction proposes the introduction of a 5% 'ceiling' on annual rent increases from 1 April 2023 to 31 March 2024. Registered Providers would be permitted to increase rents by up to CPI+1% or by 5%, whichever is lower, and this would apply to both Social Rent and Affordable Rent homes. The consultation welcomes views on alternate ceiling options (including a 3% and 7% ceiling) and closes on 12 October 2022.

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[8] Construction output in Great Britain: June 2022, new orders and Construction Output Price Indices - Office for National Statistics

[9] Construction output price indices - Office for National Statistics

[10] UK House Price Index summary: June 2022 - GOV.UK (www.gov.uk)

[11] Labour market overview, UK - Office for National Statistics (ons.gov.uk)

[12] Earnings and employment from Pay As You Earn Real Time Information, UK - Office for National Statistics (ons.gov.uk)

[13] Total number of people on Universal Credit in England | LG Inform (local.gov.uk)

[14] Social housing rents - GOV.UK (www.gov.uk)

16. 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 impacting the cost-of-living burden on tenants will need to be understood, and forecasts closely monitored and updated. Given these trends, and uncertainties over rents, providers will need to ensure that contingency plans and mitigations are robust.

Private finance

17. The sector's total agreed borrowing facilities increased by £0.5 billion over the quarter, to reach £119.3 billion at the end of June (March: £118.7 billion).

18. Of the £119.3 billion total facilities, £59.6 billion (50%) relates to bank loans and £55.8 billion (47%) relates 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 47%. Total agreed bank facilities are at their lowest level in nearly four years.

Figure 1: Total facilities (£ billions)

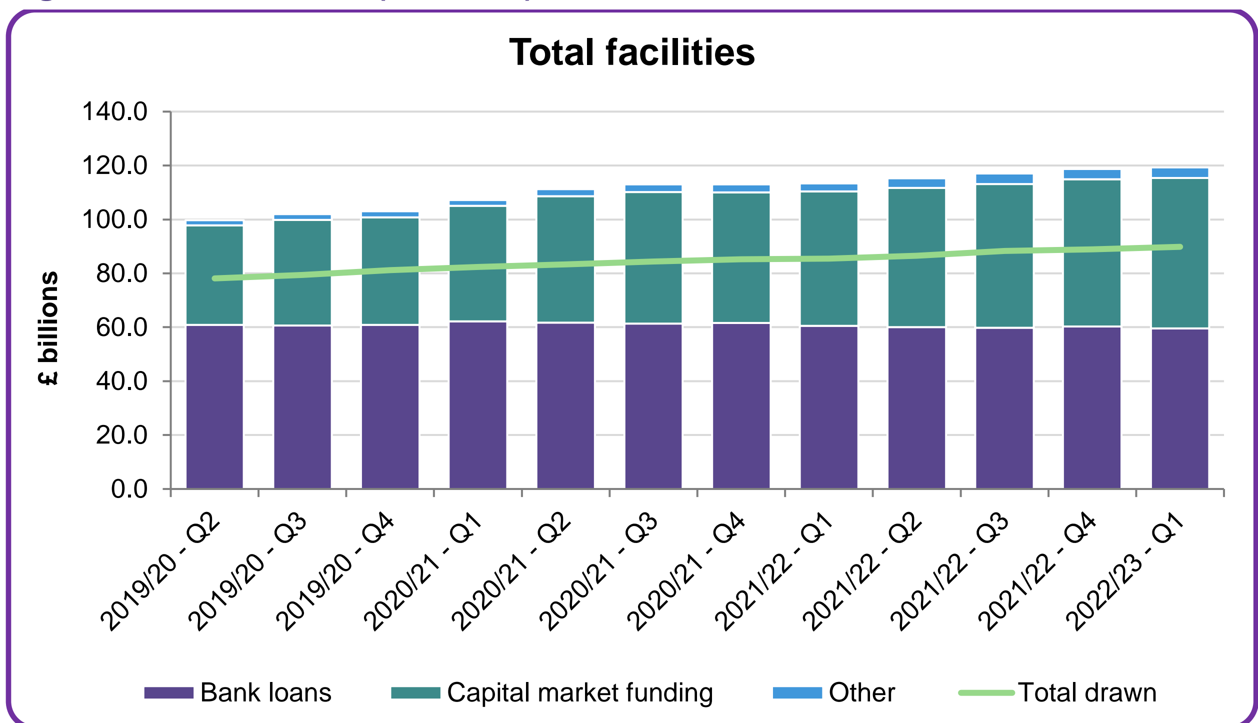


Table 1: Total facilities – drawn and secured

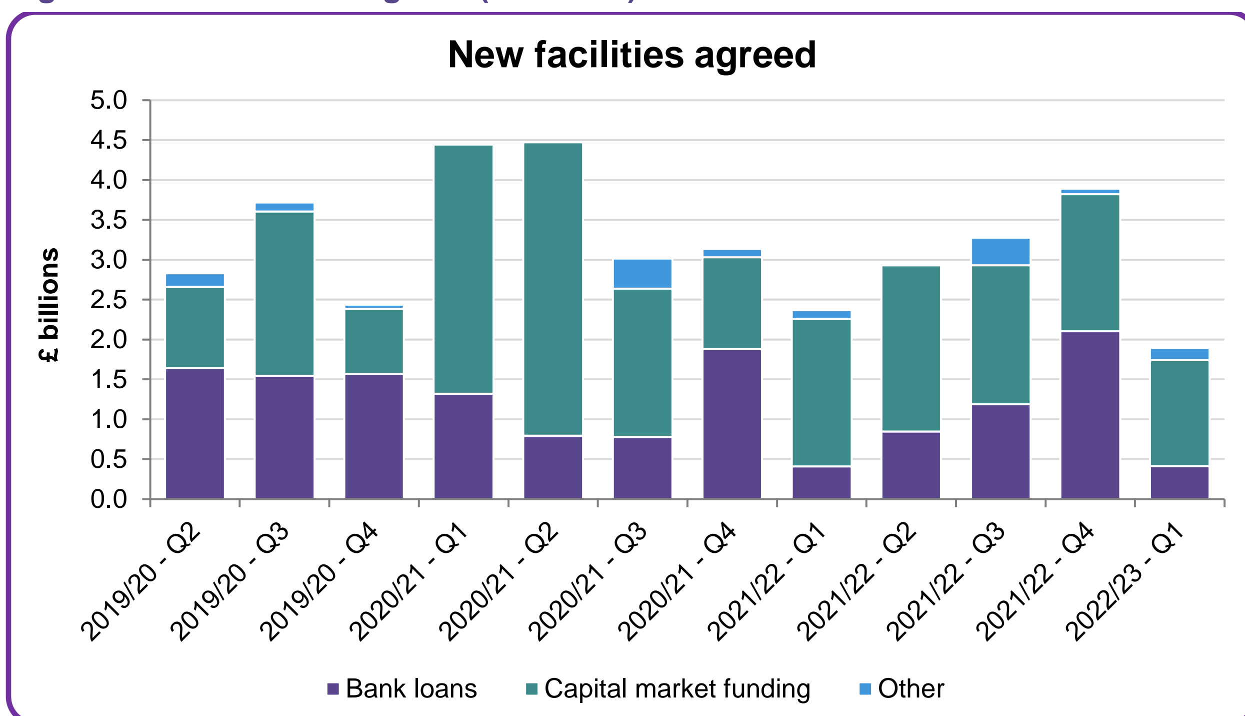
£billons	*Previous quarter*	*Current quarter*	*% change*
Drawn	88.9	89.8	1.1%
Undrawn	29.8	29.4	(1.3%)
Secured	107.2	108.1	0.8%
Security required	4.2	3.8	(10.0%)
Security not required	7.4	7.4	0.9%

19. At the end of June, 96% of providers (March: 95%) were forecasting that debt facilities would be sufficient for more than 12 months.

20. A total of 24 providers arranged new finance during the quarter (March: 41). The total agreed, including refinancing, amounted to £1.9 billion; the lowest amount of new finance agreed in three years. Eight providers each arranged facilities worth £100 million or more.

21. Capital market funding, including private placements and aggregated bond finance, accounted for 70% (£1.3 billion) of new funding arranged in the quarter, with three bond issues making up almost half of this amount. Bank lending accounted for 22% (£0.4 billion) of the total, and other finance sources amounted to £0.2 billion.

Figure 2: New facilities agreed (£ billions)



22. Total cash and undrawn facilities available within the sector totalled £35.8 billion at the end of June (March: £36.4 billion). Total available facilities would be sufficient to cover the forecast expenditure on interest costs (£3.4 billion), loan repayments (£2.2 billion) and net development for the next year (£16.4 billion), even if no new debt facilities were arranged and no sales income were to be received.

23. After a period of particularly high refinancing activity, loan repayments in the quarter reduced to the lowest amount in almost three years. Repayments of £0.7 billion were made during the quarter to June (March: £1.7 billion), compared to an average of £1.5 billion per quarter during 2021/22, and £1.1 billion per quarter over the last three financial years.

Table 2: 12-month forecasts

£billons	*Previous quarter*	*Current quarter*	*% change*
Drawdown from facilities agreed	5.7	6.8	21%
Drawdown from facilities not yet agreed	2.0	0.9	(52%)
Loan repayments	2.3	2.2	(2%)

24. Drawdowns from facilities not yet agreed have been forecast by 13 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.

Cashflows

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

Table 3: Summary cashflow forecast[15]

Figures in £ billions	3 months to 30 June 2022 (forecast)	3 months to 30 June 2022 (actual)	12 months to 30 June 2023 (forecast)
Operating cashflows excluding sales	0.8	0.8	3.5
Interest cashflows	(0.9)	(0.8)	(3.6)
Payments to acquire and develop housing	(4.3)	(2.9)	(18.2)
Current assets sales receipts	1.3	1.0	4.9
Disposals of housing fixed assets	0.6	0.7	3.7
Other cashflows	(0.2)	(0.1)	(0.2)
Cashflows before resources and funding	**(2.6)**	**(1.4)**	**(9.9)**
Financed by:			
Net grants received	0.5	0.4	1.8
Net increase in debt	0.9	0.9	5.5
Use of cash reserves	1.2	0.2	2.6
Total funding cashflows[16]	**2.6**	**1.4**	**9.9**

[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.

26. Interest cover, based on operating cashflows excluding sales, stood at 89% in the quarter to June 2022 (March: 124%); the lowest percentage recorded since cashflow data was first collected in 2015. This compares to a forecast of 95% made in March.

27. On a quarterly basis, interest cover can fluctuate widely as a result of movements in debtor and creditor balances, and has ranged from the current low of 89% to a maximum of 183% over the last two years. Providers have reported increased creditor payments during the quarter as a result of settling year-end accruals, as well as large annual invoices including insurance premiums and utility charges. Other factors reported include the receipt of Housing Benefit after the quarter-end, and additional revenue repair expenditure as a result of both high demand for works and the effect of inflation on prices.

28. The figures submitted by providers show interest cover averaging 98% over the 12-month forecast period (March 12-month forecast: 99%), compared to an average of 124% in the 12 months to June 2022. The anticipated reduction in interest cover from the previous 12 months results primarily from an increase in capitalised repairs and maintenance expenditure of £1.0 billion (41%) over the 12-month forecast period. Interest payable is also forecast to increase by £0.2 billion (7%) over the next 12 months; equivalent to an increase of £59 million per quarter when compared to the average over the previous three years.

29. Actual expenditure on capitalised repairs and maintenance amounted to £503 million during the quarter; 33% lower than the amount previously forecast and 35% lower than the amount recorded in the previous quarter. It is typical for capital works to be delayed during the first quarter of the year as annual contracts are tendered and initial surveys are carried out. Although below forecast, the £503 million is the highest quarter one figure recorded since cashflow data was first collected in 2015, and it is in line with the average quarterly expenditure recorded over the last three years.

30. In addition, 56% of providers reported that they have experienced delays or made changes to repairs and maintenance programmes during the quarter, and of these, around half have stated that material or labour shortages are a factor in this.

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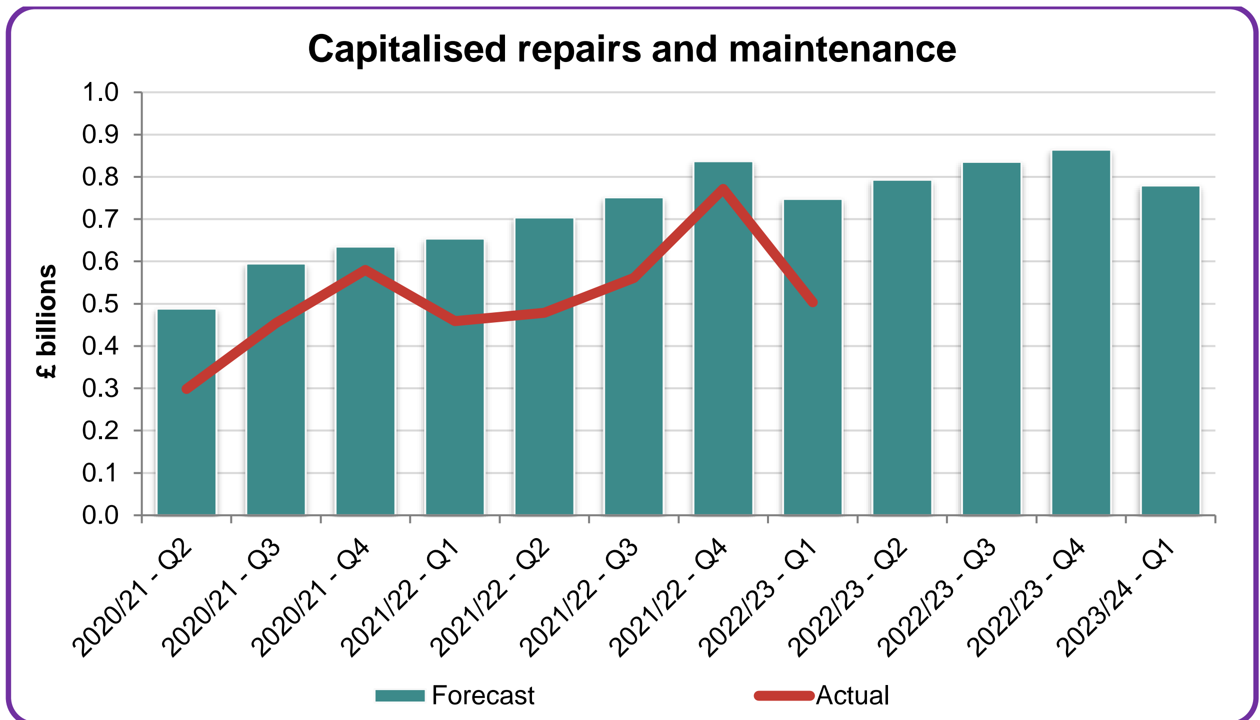
Figure 6: Capitalised repairs and maintenance expenditure (£ billions)



31. In the 12 months to June 2022 capitalised expenditure on repairs and maintenance was £2.3 billion, compared to the £2.9 billion forecast at the start of the period. For the 12 months to June 2023, the sector has forecast capitalised repairs and maintenance expenditure of £3.3 billion (March 12-month forecast: £3.2 billion). For many providers, forecasts include the completion of building safety or decarbonisation works that are in excess of standard component replacement programmes. A total of 21 providers have reported having agreed a waiver to exclude the exceptional costs of building safety works from loan covenant calculations, and a further 14 waivers have been reported in respect of decarbonisation works.

32. Although the majority of providers have reported that they are expecting to complete all planned works during the year, supply-chain issues and labour shortages are likely to affect providers' abilities to deliver programmes. The regulator will continue to monitor the viability of providers and will engage where appropriate.

33. New disclosures added to the Quarterly Survey form for 2022/23 show expenditure on non-capital repairs and maintenance amounts to £0.9 billion during the quarter. This brings total repairs and maintenance spend in the quarter to £1.4 billion.

34. Current asset sales of £4.0 billion were achieved in the 12 months to June 2022, compared to the £4.6 billion forecast at the start of the period. For the 12 months to June 2023 the sector has forecast a further £4.9 billion worth of current asset sales, of which £4.4 billion relates to properties for which development is contractually committed.

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35. In the 12 months to June 2022 fixed asset sales totalled £3.0 billion. For the 12 months to June 2023 the sector has forecast a further £3.7 billion worth of fixed asset sales; an increase of over £0.4 billion compared to the previous quarter's forecast. Of the £3.7 billion total forecast, £1.7 billion relates to sales to tenants or open market sales, and £2.0 billion relates to other fixed asset sales, including bulk sales to other Registered Providers.

36. Available cash balances, excluding amounts held in secured accounts, reduced by £0.2 billion during the quarter. Cash available as at June 2022 totalled £6.4 billion (March: £6.6 billion), and forecasts show this reducing to £4.2 billion over the next 12 months as cash reserves are used to fund development programmes.

37. In addition to the £6.4 billion available, cash held in secured accounts or otherwise inaccessible to providers totalled £1.4 billion (March: £1.4 billion). Typically, these amounts relate to cash held on long-term deposit, mark-to-market (MTM) cash collateral, amounts in escrow and leaseholder sinking funds.

Development

38. In the 12 months to June 2022, £12.4 billion was invested in the acquisition and development of housing properties. This compares to £11.6 billion in the year to June 2021, and £11.1 billion in the year to June 2020.

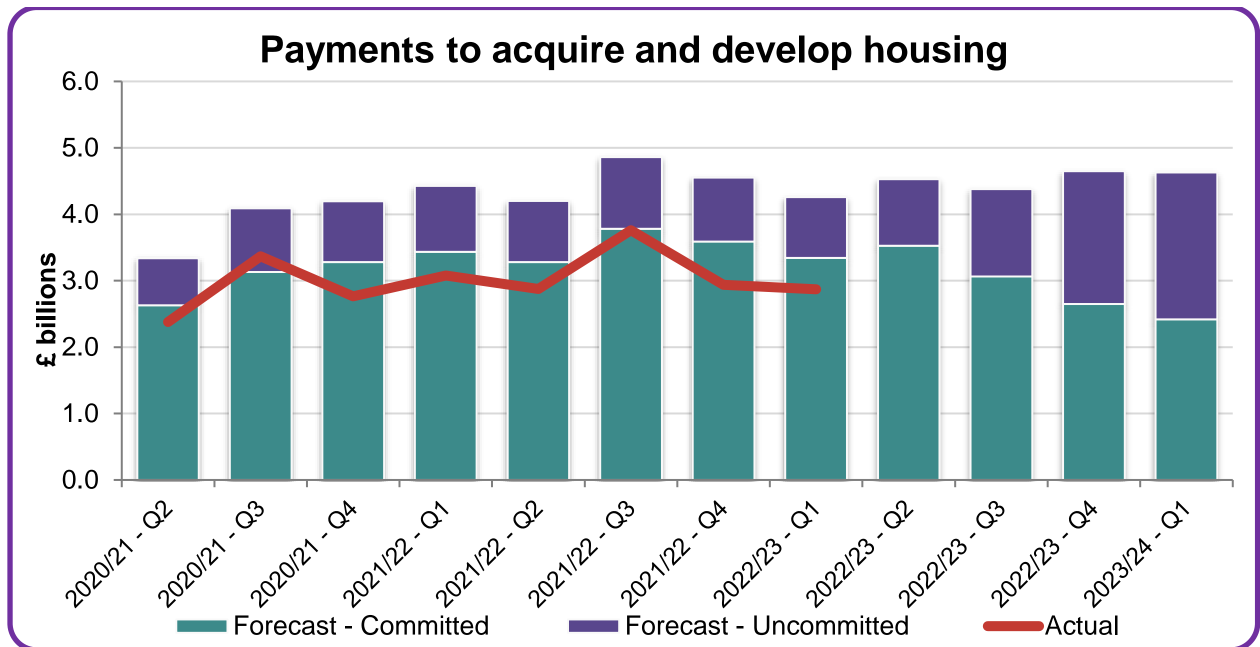
39. Actual expenditure in the quarter to June 2022 amounted to £2.9 billion; in line with the previous quarter and consistent with the average quarterly expenditure incurred over the last two years. Development spend is concentrated. Five providers, account for almost a quarter of overall expenditure, with two being for-profits. In comparison, development expenditure averaged £3.0 billion per quarter over the two years prior to the coronavirus pandemic.

40. Expenditure was 33% below the £4.3 billion forecast for the quarter, and 14% below the £3.3 billion forecast for contractually committed schemes. This is widespread with 88% of providers reporting an underspend against total development forecasts and 66% reporting an underspend against committed development forecasts.

41. In addition to general scheme delays and timing differences with payments, providers have reported development works being affected by the continued supply chain issues impacting the availability of materials and labour. Pressures in the contractor market across the construction sector has also led to contractor insolvencies, resulting in further development delays. A small number of providers have also experienced

delays with developers signing S106 contracts, planning approval setbacks and delayed land acquisitions affecting programme start dates.

Figure 7: Payments to acquire and develop housing



42. For the next 12 months a further £18.2 billion worth of investment has been forecast, of which £11.7 billion is contractually committed. This is a 4% increase in comparison to the previous quarter's forecast of £17.5 billion but would represent an increase of 46% in investment when compared to the previous 12 months. Forecast expenditure includes an element of catch-up works from re-profiled schemes.

Housing market

43. 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 £1.7 billion in the quarter to June (March: £1.8 billion). Market sales totalled £615 million, higher than the 3-year average of £575 million. At £472 million, AHO first tranche sales were also higher than the 3-year average of £454 million.

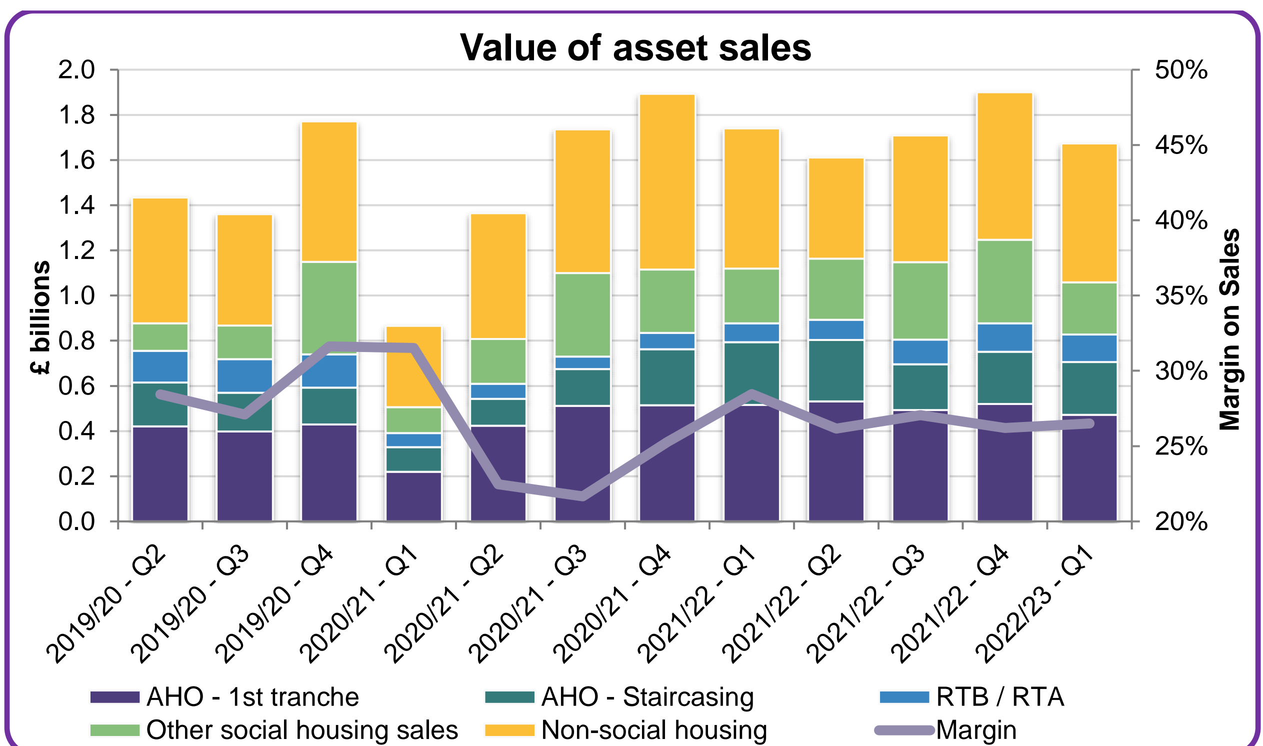
44. Current asset sales for the quarter (market sales and first tranche AHO sales) were 25% below forecast, with a total of £1.0 billion sales achieved (March £1.1 billion). The lower sales performance is mainly attributable to one provider, where their Q4 forecast included a large disposal under current assets in error and should have been classified as a fixed asset sale. Three other providers also reported large adverse variances of over £20 million.

45. Providers have reported delays in handovers, in part due to the knock-on effect of supply chain issues which have delayed development works. A small number of providers have also reported delays in the conveyancing process (mortgage approvals and final settlement payments) impacting sales progression. Completions have been re-profiled to later quarters to reflect revised development timescales.

46. This is the first quarter fixed asset sales have been split into the usual sales to tenants/open market sales, and other sales (bulk disposals to other organisations).

- Total fixed asset sales amounted to £0.7 billion (March: £0.8 billion); 23% above the amount forecast in March and exceeds the two-year average of £0.6 billion. The favourable variance is driven by the large sales disposal by one provider, who excluded the transaction in their previous quarter forecast.
- Sales to tenants (including staircasing, RTB/RTA and voluntary sales) amounted to £0.5 billion. Three providers contributed almost a third of this figure.
- Fixed asset sales to other organisations amounted to £0.2 billion with 36 providers reporting sales of this nature. However, 83% of sales to other organisations were reported by just three providers. In the next 12 months it is forecast that £2.0 billion worth of bulk asset sales will occur, with one provider contributing to over 40% of this total from an intercompany sale.

Figure 8: Value of asset sales



47. Overall surpluses from asset sales stood at £0.4 billion for the quarter (March: £0.5 billion), and overall margins increased from 26% to 27%. The average margin achieved over the last three years has been 27%.

Table 4: AHO units

AHO units	Previous quarter	Current quarter	% change
Completed	4,709	4,087	(13.2%)
Sold	4,236	3,759	(11.3%)
Margin	18.1%	20.3%	11.7%
Unsold	6,600	6,831	3.5%
Unsold for more than 6 months	2,207	2,427	10.0%
18-month pipeline	37,084	38,595	4.1%

48. The number of AHO completions was 13% lower than in the previous quarter, following the usual cyclical trend of increased completions in the last quarter of the financial year.

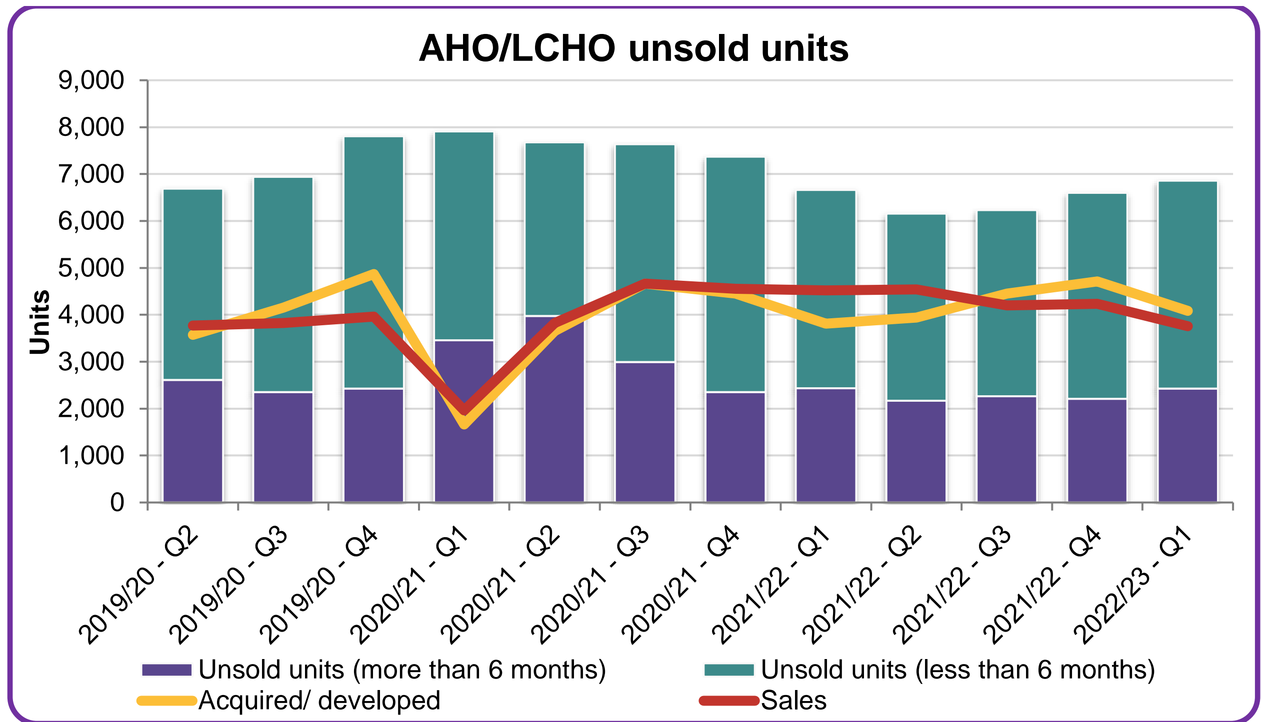
49. Sales of AHO units dropped in the quarter to below 4,000 units for the first time since quarter two of 2020/21. AHO sales are now more in line with levels seen in the year before the pandemic, where the average quarterly sales were around 3,700 units.

50. The higher number of completions during the quarter along with decreased sales has resulted in a 4% increase in the overall number of unsold units, the highest level seen over the past 12 months. One provider, with the highest level of unsold units of over 1,000, reported that the increase was due to high handovers in the previous financial year at blocks with high quantities of units, which has added to the existing pandemic related delays. The number of units unsold for over six months has also increased by 10%. Over half 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 20% of the total facilities available within the sector.

51. Nine providers held over 100 or more units of stock that had been unsold for more than six months, accounting for 62% 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.

52. The overall surplus on AHO sales stood at £95.6 million in the quarter to June (March: £94.2 million), above the three-year average of £89.8 million. Despite a reduction in sales value in the quarter, the margin on sales was 20.3% (March: 18.1%) and compares to the average of 19.8% achieved over the last three years.

Figure 9: AHO/LCHO unsold units



53. The pipeline of AHO completions expected in the next 18 months stands at 38,595 units, of which 32,726 units are contractually committed. The pipeline figures represent a 52% increase in AHO development compared to actual performance in the 18 months to June 2022, when there were 25,453 completions. Eight providers each have over 1,000 units in the pipeline, making up over a third of the overall total, consisting of two for-profit providers.

Table 5: Market sale units

Market sale units	*Previous quarter*	*Current quarter*	*% change*
Completed	1,547	1,458	(5.8%)
Sold	1,316	1,495	13.6%
Margin	10.1%	12.7%	25.9%
Unsold	1,439	1,402	(2.6%)
Unsold for more than 6 months	513	493	(3.9%)
18-month pipeline	11,400	9,677	(15.1%)

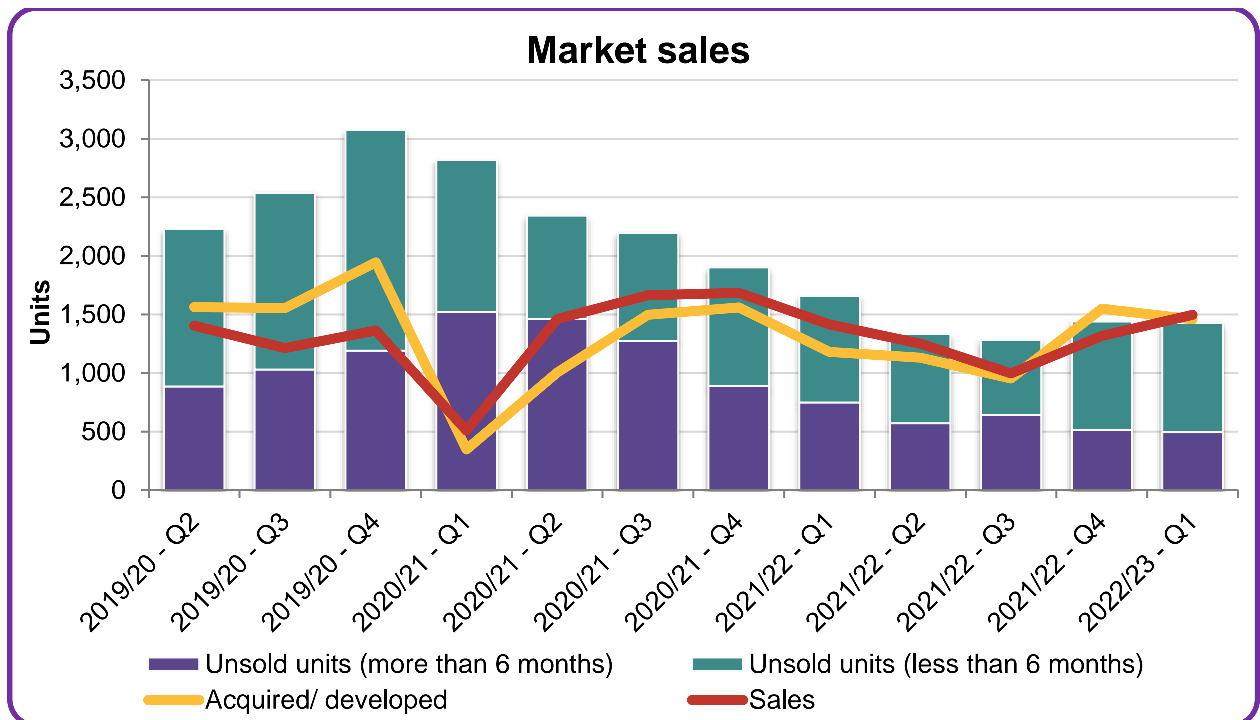
54. As with AHO units, the number of market sale completions decreased over the quarter by 6%. Although completions have dropped, this is the highest quarter one figure seen over the last three years. Market sales continue to be strong and were 14% higher than in the previous quarter, and above the average numbers being achieved before the coronavirus pandemic.

55. The lower number of market sale completions compared to sales during the quarter has resulted in a 3% decrease in total unsold units. The number of units unsold for over six months has also reduced by 4%, and total unsold units remain below the averages recorded in the two years prior to the coronavirus pandemic.

56. Development for outright market sale continues to be concentrated in relatively few providers, with almost 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 £0.5 billion and £1.8 billion worth of cash and undrawn facilities, ensuring sufficient liquidity if sales receipts are delayed.

57. The surplus on market sales was £77.8 million, higher than the surplus achieved in the previous quarter, but lower than the three-year average of £90.7 million. Margins have increased to 12.7% on previous quarter (March: 10.1%). However, they remain below the three -year average of 16.1%. Three large providers reported high sales values in the quarter and between them accounted for over half of the total sales value; from these sales they achieved an average margin of 8%.

Figure 10: Market sales



58. For market sale, completions expected over the next 18 months stand at 9,677 units, of which 9,073 are contractually committed. If achieved, this would equate to a 24% increase in market sale development in comparison to the actual completions achieved over the previous 18 months, which stood at 7,825 units. Half of the total pipeline units are reported by just six providers.

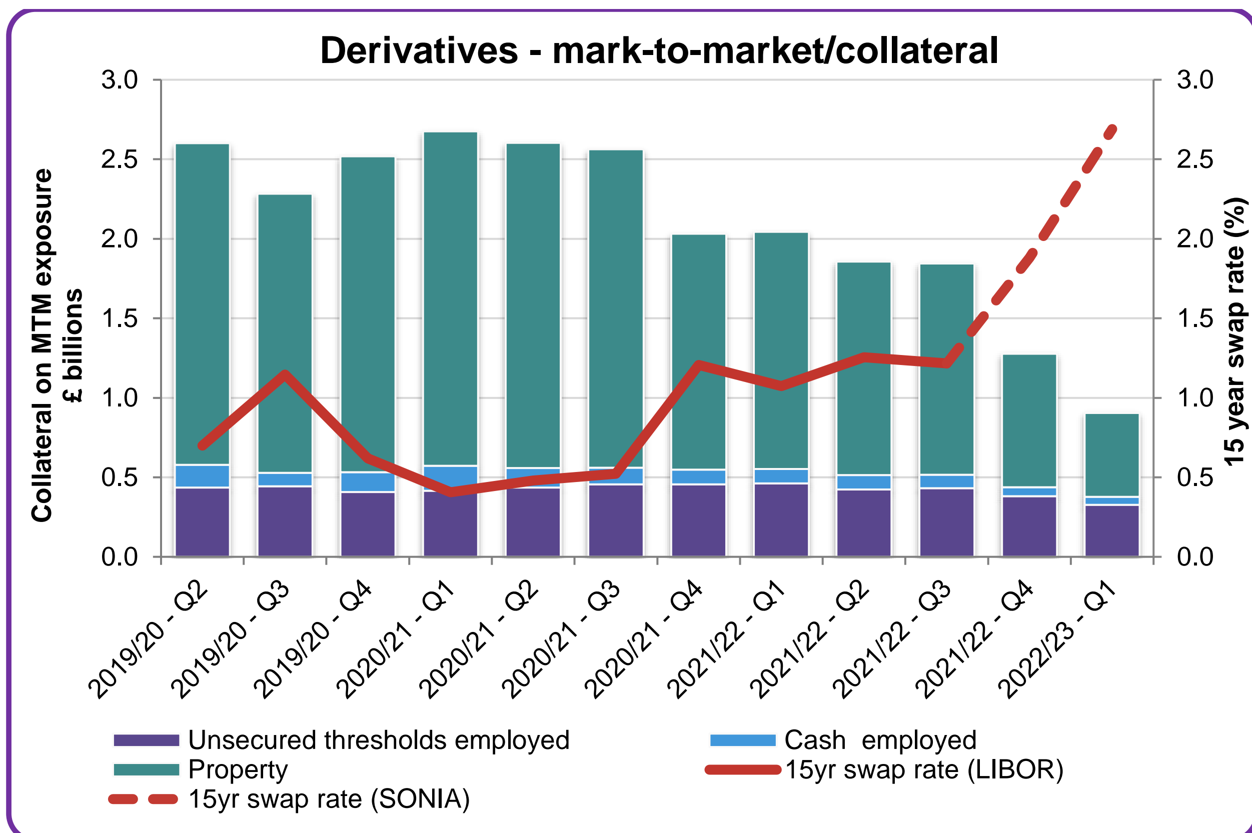
Derivatives

59. At the end of June, 43 providers (March: 44) reported making use of free-standing derivatives. The notional value of standalone derivatives remained at £7.8 billion in the quarter.

60. Gross MTM exposure reduced by 29% over the quarter, from £1.3 billion in March to £0.9 billion at the end of June. Swap rates increased in the quarter, with the 15-year swap rate increasing from 1.88% to 2.69% at the end of June. This is the highest level that swap rates have reached in over six years, and MTM exposure levels are the lowest ever reported[17].

61. Unsecured thresholds and available security pledged to swap counterparties totalled £2.9 billion. Of this total collateral, £0.7 billion (March: £0.9 billion) had been employed in the form of property or cash, together with unsecured thresholds of £0.3 billion. The excess collateral available consisted primarily of property pledged but not employed.

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



62. The above graph shows MTM exposure excluding excess collateral. Collateral given in terms of security and cash continues to exceed the sector's exposure levels, providing

[17] Data first collected in 2011.

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 £1.9 billion (March: £1.7 billion).

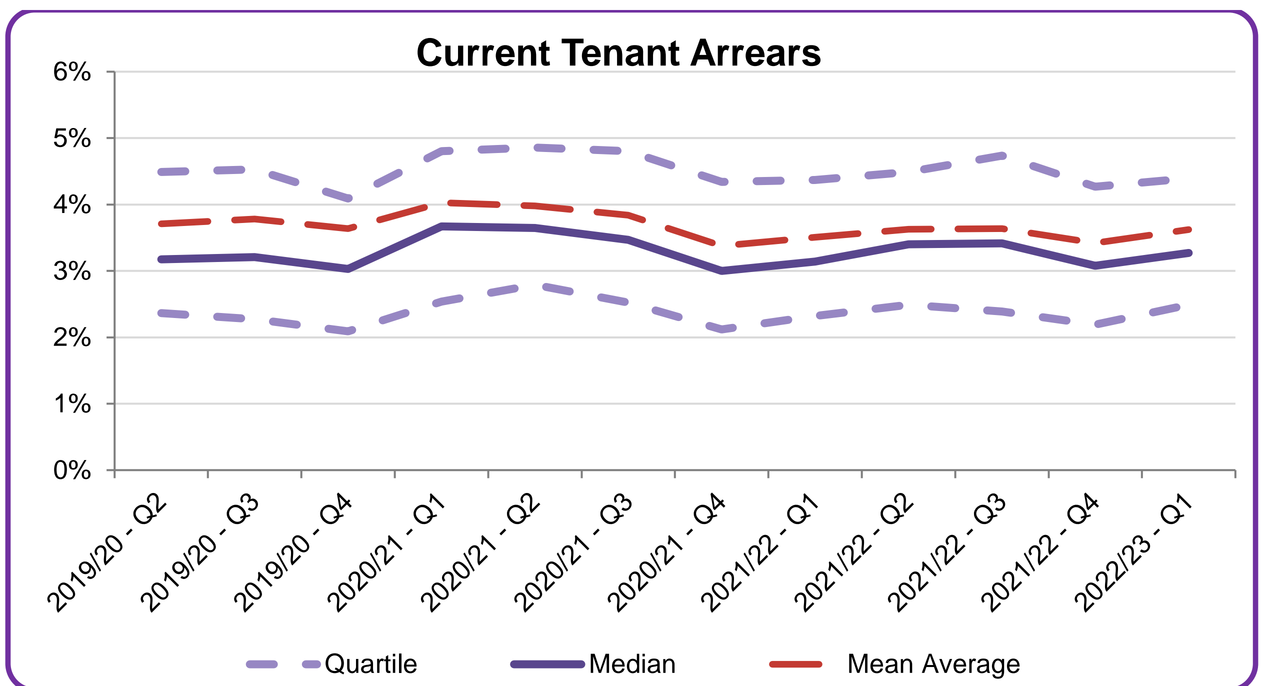
63. Of the 43 providers that were making use of free-standing derivatives, 40 had collateral pledged that exceeded or equalled their level of exposure. The three providers that were under-collateralised at the end of the quarter were not required to provide additional security to cover exposure.

64. With the continuing rise in interest rates, MTM exposure is expected to reduce within the sector. However a small minority of providers could 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.

Income collection

65. At the end of June, 68% of providers reported that their levels of arrears, rent collection and voids were all within, or outperforming their business plan assumptions, compared to 69% at the end of March.

Figure 12: Current tenant arrears

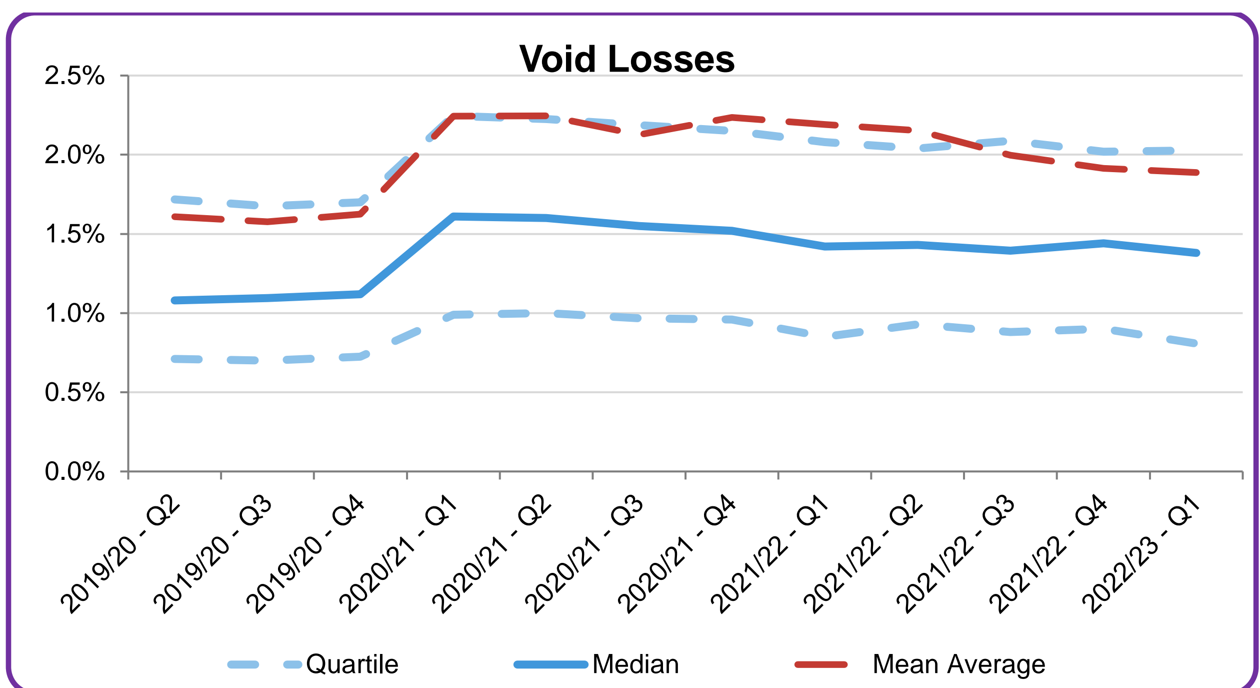


66. Mean current tenant arrears stood at 3.6% at the end of June (March: 3.4%), with the median at 3.3% (March: 3.1%). Both mean and median arrears were slightly higher

than the same quarter of 2021/22, but below the levels recorded in quarter one of 2020/21.

67. The highest levels of arrears continue to be experienced by providers operating mainly in London[18], where the mean average stood at 5.4%. However, this is the only region where average arrears have reduced since March and is also the region that has experienced the smallest increase in Universal Credit claimants over the quarter[19]. The lowest arrears continue to be reported by providers operating mainly in the South West, where the mean average stood at 2.3%.

Figure 13: Void losses



68. Median void losses stood at 1.4% for the first quarter of the year, consistent with the amounts reported in all four quarters of 2021/22. Void levels have remained high since the start of the coronavirus pandemic; prior to this median void losses had averaged 1.1% in 2019/20.

69. Mean void losses stood at 1.9% at the end of June (March: 1.9%), compared to 2.2% reported in the same quarter of 2021/22. The apparent improvement since 2021/22 is due to the population of providers within the dataset; there has been a net reduction of five providers since quarter one of 2021/22, including three providers with void losses of over 15%. If these providers were excluded, the mean average would have remained the same.

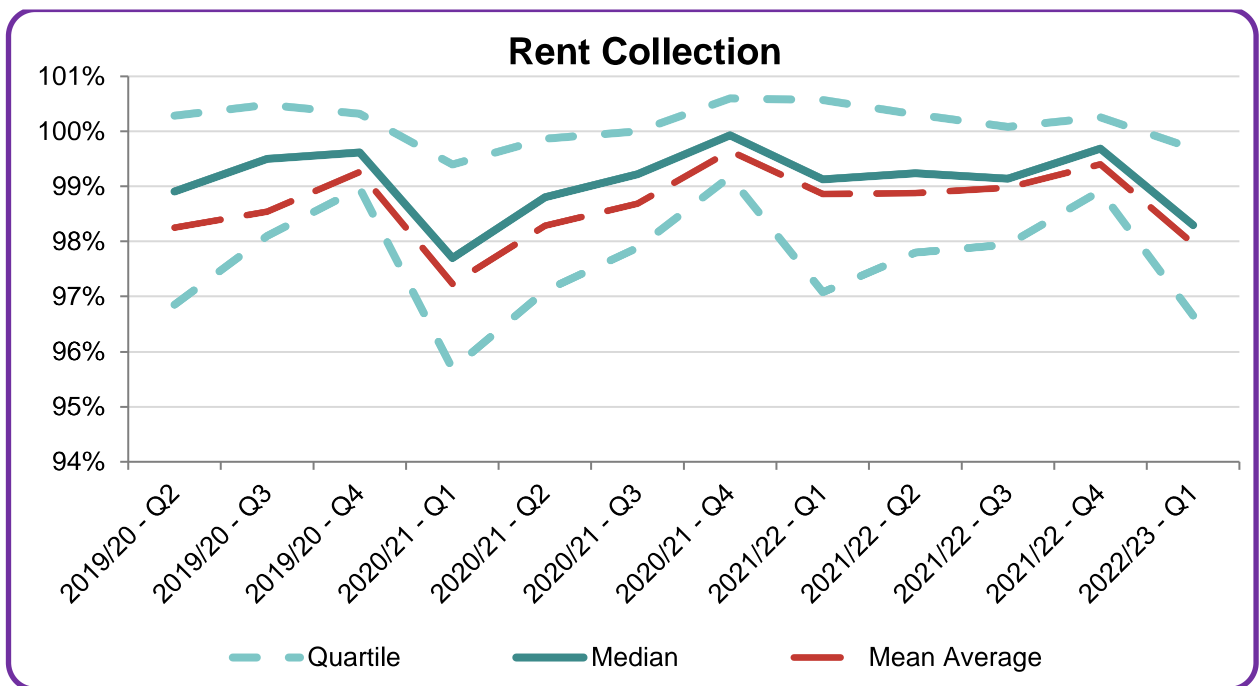
[18] Defined as providers holding 50% or more of their existing stock within the region

[19] Total number of people on Universal Credit in England | LG Inform (local.gov.uk)

70. 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. Providers with over 50% of their stock within these categories reported mean void losses of 5.8%, compared to 1.5% reported by providers with less than 50%.

71. A total of 11 providers have recorded void losses of 5% or more (March: 11). Providers have reported that material and labour shortages are continuing to affect void repair times, and covid-related backlogs are still present.

Figure 14: Rent collection



72. Mean average rent collection rates stood at 98.0% for the first quarter of the year (March: 99.4%), compared to 98.9% in the same quarter of 2021/22. Median rent collection rates were 98.3% (March: 99.7%); slightly below the 99.1% reported in June 2021.

73. The number of providers reporting rent collection rates of less than 95% increased to 24 at the end of June (March: 6, June 2021: 24), in line with seasonal trends. 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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