Regulator of
Social Housing

Quarterly survey for Q2

July to September 2022

November 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 regard to their liquidity position. The quarterly survey returns summarised in this report cover the period from 1 July 2022 to 30 September 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

Refinancing at lowest level in six years – Short term aggregate liquidity remains sufficient

- £119.7 billion total facilities in place at the end of September, up slightly from £119.3 billion in June.
- New finance of £1.4 billion agreed in the quarter; the lowest amount in six years. 58% of new facilities were from capital markets.
- Loan repayments of £0.8 billion made during the quarter, compared to an average of £1.1 billion per quarter over the last 12 months.
- Total cash and undrawn facilities total £34.9 billion; sufficient to cover forecast expenditure on interest costs (£3.7 billion), loan repayments (£2.7 billion) and net development (£15.3 billion) for the next year.
- Swap market volatility results in a large reduction in mark-to-market (MTM) exposure on derivatives, down from £0.9 billion to £0.2 billion. This is the lowest MTM exposure recorded since the data has been collected.

Performance in the quarter

A further reduction in 12-month cash interest cover – Capitalised major repairs below forecast – Current tenant arrears deteriorated

- £581 million capitalised major repairs expenditure in the quarter; 27% below forecast, but 15% higher than previous quarter.
- Expenditure on non-capital repairs and maintenance amounts to £1.0 billion during the quarter. This brings total repairs and maintenance spend in the quarter to £1.6 billion.
- 62% of providers experience delays to repairs and maintenance programmes during the quarter - material and labour shortages alongside cost increases having a major impact.
- Aggregate interest cover (excluding all sales) for the year to September 2022 was 111%. Forecast interest cover over the next year to September 2023 is 92%. Both the outturn and forecast 12-month figures are the lowest reported since we started collecting cashflow data in the QS.
- The anticipated reduction is due to increases in projected spend on capitalised repairs and maintenance of £1.0 billion and increases in interest payable amounts of £0.4 billion.
- Income collection indicators consistent with previous performance and seasonal trends. Current tenant arrears have increased partly due to the cost-of-living crisis and void losses remain above long-term averages.

Investment in new and existing stock

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

Outturn development expenditure below forecasts for committed schemes - Unit completions fall during the quarter

- Capitalised repairs and maintenance expenditure was £2.4 billion in the 12 months to September 2022. Expenditure forecast to reach £3.4 billion over the next 12 months.
- £3.0 billion invested in new housing properties in the quarter; 15% below forecasts for contractually committed schemes.
- Development schemes continue to be delayed due to labour and material shortages, as well as contractor insolvencies.
- Market sale completions fall 35% compared to the previous quarter. AHO completions reduce by 5%.
- Development expenditure forecast to reach £17.3 billion over the next 12 months, of which £11.4 billion is committed.
- Uncertainty over the 2023 rent settlement and wider economic conditions has led to some providers pausing or reviewing uncommitted development.
- 18-month pipeline for AHO units stands at 36,414 units and 9,961 units for market sales.

Sales

Unit sales exceed completions during the quarter – this results in a reduction in the number of unsold AHO and market sale properties

- AHO sales total 4,345 units (June: 3,759), and market sales total 1,313 units (June: 1,495).
- Total unsold AHO units reduce by 8%, and unsold market sale units reduce by 26%. Unsold market sale units reach their lowest level since June 2016.
- Margins on AHO sales are 19.6% in the quarter (June: 20.3%). Market sale achieved margins of 14.5% (June: 12.7%).
- Current asset sales total £1.1 billion; 11% below forecast. Market sales in line with averages over the last three years. At £562 million, AHO sales are the highest ever recorded.
- Fixed asset sales totalled £0.6bn. Bulk disposals to other organisations amounted to just £0.1 billion of this; the majority relates to staircasing and Right to Buy / Acquire sales.
- Fixed asset sale forecasts continue to increase; a total of £4.1 billion worth of sales forecast for the next 12 months, including £2.3 billion bulk sales.

Operating environment

5. The quarter to September 2022 has been a challenging and turbulent period for PRPs, with inflationary pressures and economic uncertainty continuing to affect the housing sector. Changes in Government have led to the announcement, and reversal, of new fiscal policies, and assumptions that were included in business plans at the start of the year are now being reviewed. Uncertainty has continued after the quarter-end, resulting in the outlook for the UK Government and Bank of England's credit ratings being changed from stable to negative[1].

6. Reported gross domestic product (GDP) is estimated to have fallen by 0.6% in September, following a reduction of 0.1% in August. On a quarterly basis, GDP fell by 0.2% in the three months to September and is now estimated to be 0.2% below the pre-coronavirus levels recorded in February 2020[2].

7. Latest forecasts from the International Monetary Fund estimate that UK GDP will grow by 3.6% in 2022, an increase of 0.4 percentage points since the previous forecast was issued in July. For 2023, GDP is now expected to increase by 0.3% compared to the previous estimate of 0.5%[3].

8. Overall inflation, as measured by the Consumer Prices Index (CPI), increased to 10.1% in the 12 months to September 2022[4]. On a monthly basis, CPI increased by 0.5% in September. The Bank of England has forecast inflation to reach around 11% in the final three months of this year before starting to fall in early 2023[5], and the latest inflation figures for the 12 months to October show that this level has already been reached, with CPI increasing to 11.1%.

9. Under the 2019 rent settlement, September CPI would usually determine the maximum permitted rent increase that PRPs can apply from the following April. However, in response to the exceptional inflation levels being experienced, the Government ran a consultation on social housing rents which proposed a ceiling on the maximum increase that could be applied. Without this, rents could potentially have been increased by up to 11.1% from April 2023, adding considerable pressure to tenants' finances.

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[1] Research: Rating Action: Moody's changes the outlook on the UK to negative, affirms Aa3 ratings - (moodys.com)

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

[3] World Economic Outlook, October 2022: Countering the Cost-of-Living Crisis (imf.org)

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

[5] Bank Rate increased to 3% - November 2022 | Bank of England

10. On 17 November the Government announced that the maximum permissible rent increase for existing tenants will be limited to 7% between 1 April 2023 and 31 March 2024. This will apply to general needs Social Rent and Affordable Rent homes but will exclude supported housing. It should be noted that the cashflow forecasts included within this report were made before the announcement of this revised rent policy.

11. In a bid to alleviate rising inflation, further increases in interest rates were announced by the Bank of England during the quarter. Base rate rose from 1.25% to 1.75% on 4 August, and then to 2.25% on 22 September. Post quarter-end, a further increase to 3.00% was announced in November[6]. Mortgage interest rates have been increasing in response to base rate changes, with the cost of a typical 5-year mortgage increasing from 1.59% at the start of the year to 3.96% at the end of September[7].

12. In response to rising energy costs, the Government has introduced a number of measures to support households, including a cap on the unit price payable for electricity and gas. The new Energy Price Guarantee[8] will limit costs for an average household at £2,500 per year, compared to the £3,550 that would have been payable under the previous Ofgem price cap. This came into force on 1 October 2022 and will last for an initial period of six months. A similar support scheme for businesses will also be in place. The Energy Price Guarantee is expected to have a significant impact on inflation, reducing it by around 3 to 4 percentage points over the course of 2023[9].

13. Construction output grew by 0.6% in the quarter to September 2022. This was driven by growth in new works of 2.4%, offset by a reduction in repairs and maintenance works of 2.2%. Total construction output in September was the highest level recorded since records began in January 2010[10].

14. Prices in the construction industry are estimated to have increased by 10.1% in the year to September 2022. The overall increase includes growth in the price of new works of 11.8%, and in repairs and maintenance works of 6.8%[11].

[6] Interest rates and Bank Rate | Bank of England

[7] Quoted household interest rates - a visual summary of our data | Bank of England

[8] Government announces Energy Price Guarantee for families and businesses while urgently taking action to reform broken energy market - GOV.UK (www.gov.uk)

[9] Inflation Slows with the Energy Price Cap Mitigating Further Rises - NIESR

[10] Construction output in Great Britain - Office for National Statistics

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

15. House prices in England increased by 9.6% in the year to September 2022, reaching an average of £314,278[12]. The largest annual increase was recorded in the South West (11.9%), and the smallest was in the North East (5.8%). However, with recent increases in mortgage rates, house prices are predicted to fall by around 8% next year[13].

16. The unemployment rate for the quarter to September 2022 decreased by 0.2 percentage points, to reach 3.6%[14]. The number of job vacancies in July to September stood at 1,246,000; a decrease of 3.6% from the previous quarter[15], with estimates of the number of payrolled employees in September 2022 reaching a record 29.7 million[16]. The total number of people claiming Universal Credit in England was around 5.0 million in September, compared to 4.9 million in June[17].

17. As risks begin to crystallise within the operating environment, providers will have reduced financial flexibility to respond to further challenges. This increasing pressure on sector finances is reflected in financial viability judgements recently published by the regulator. Providers are expected to closely monitor and update forecasts to reflect ongoing inflationary and interest-rate risks, along with the potential for increasing arrears as cost-of-living pressures impact upon tenants. Providers must be able to identify areas where covenant headroom or liquidity may be restricted, and ensure that contingency plans and mitigations remain robust.

[12] UK House Price Index summary: September 2022 - GOV.UK (www.gov.uk)
[13] Lloyds predicts UK house prices will fall 8% next year - BBC News
[14] Labour market overview, UK - Office for National Statistics (ons.gov.uk)
[15] Vacancies and jobs in the UK - Office for National Statistics (ons.gov.uk)
[16] Labour market overview, UK - Office for National Statistics (ons.gov.uk)
[17] Total number of people on Universal Credit in England | LG Inform (local.gov.uk)

Private finance

18. The sector's total agreed borrowing facilities increased by £0.4 billion over the quarter, to reach £119.7 billion at the end of September (June: £119.3 billion).

19. Of the £119.7 billion total facilities, £59.4 billion (50%) relates to bank loans and £56.5 billion (47%) relates to capital market funding. The proportion of capital market funding held across the sector has gradually increased over recent years, from 38% of total facilities three years ago to the current total of 47%. In contrast, total agreed bank facilities are at their lowest level in four years.

Figure 1: Total facilities (£ billions)

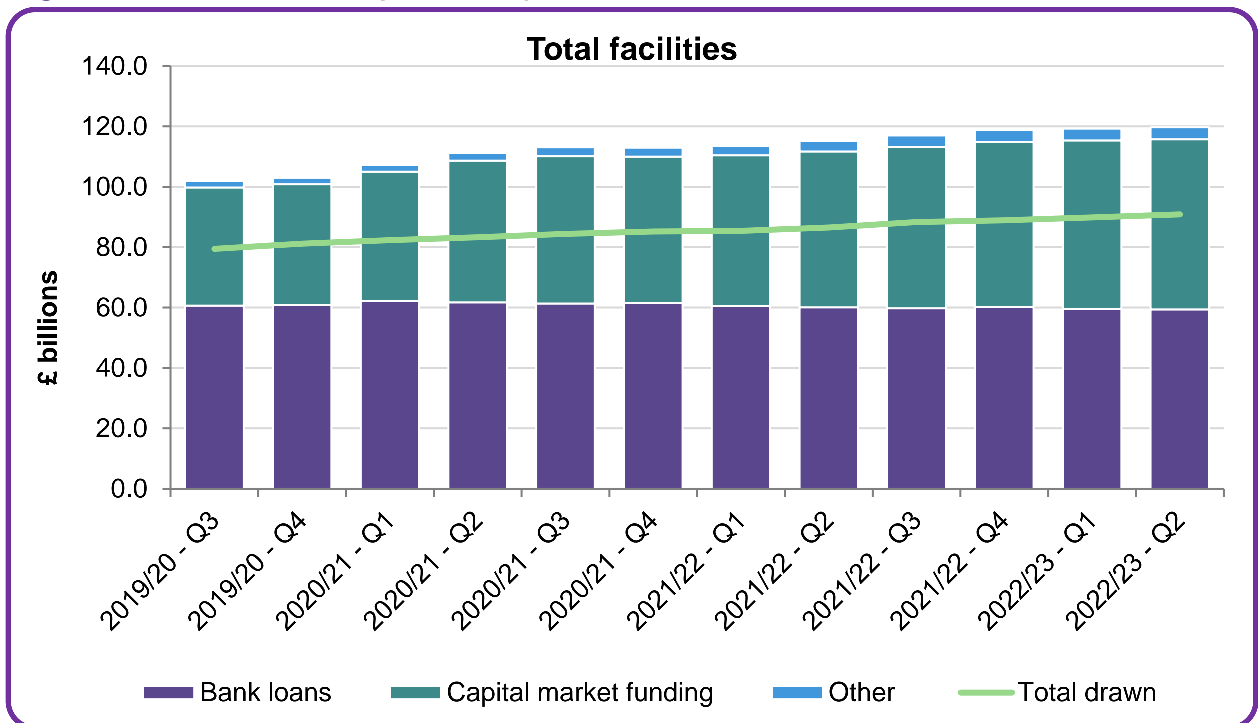


Table 1: Total facilities – drawn and secured

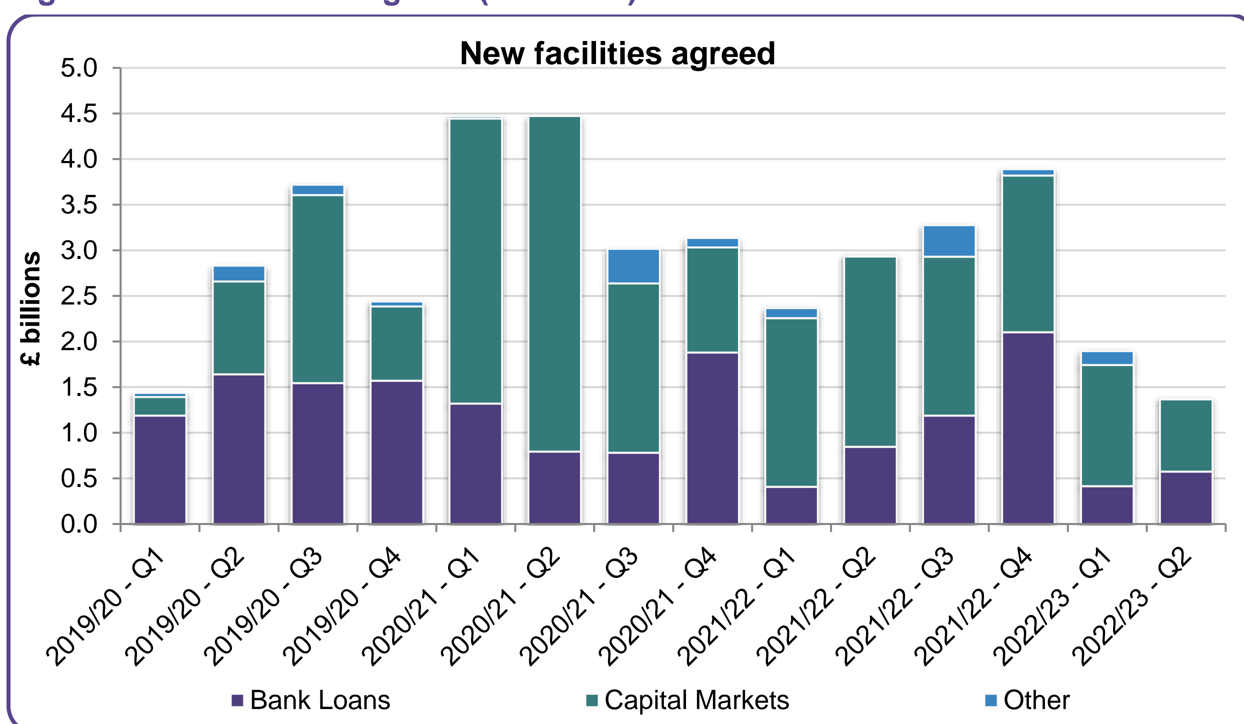
£billons	*Previous quarter*	*Current quarter*	*% change*
Drawn	89.8	90.9	1.1%
Undrawn	29.4	28.9	(2.0%)
Secured	108.1	109.0	0.9%
Security required	3.8	3.3	(13.0%)
Security not required	7.4	7.4	0.0%

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

21. A total of 26 providers arranged new finance during the quarter (June: 24). The total agreed, including refinancing, amounted to £1.4 billion; the lowest amount of new finance agreed in six years. Six providers each arranged facilities worth £100 million or more.

22. Capital market funding, including private placements and aggregated bond finance, accounted for 58% (£0.8 billion) of new funding arranged in the quarter. Five bond issues each raised over £100 million, making up 77% of the total amount. Bank lending accounted for 42% (£0.6 billion) of the total, and other finance sources amounted to just £3.8 million.

Figure 2: New facilities agreed (£ billions)



23. Total cash and undrawn facilities available within the sector totalled £34.9 billion at the end of September (June: £35.8 billion). Total available facilities would be sufficient to cover the forecast expenditure on interest costs (£3.7 billion), loan repayments (£2.7 billion) and net development for the next year (£15.3 billion), even if no new debt facilities were arranged and no sales income were to be received.

24. Loan repayments have increased in the quarter following a reduction in the previous quarter. Repayments of £0.8 billion were made in the three months to September (June £0.7 billion), compared to an average of £1.1 billion per quarter over the last 12 months.

Table 2: 12-month forecasts

£billons	Previous quarter	Current quarter	% change
Drawdown from facilities agreed	6.8	5.6	(18%)
Drawdown from facilities not yet agreed	0.9	1.4	52%
Loan repayments	2.2	2.7	19%

25. Drawdowns from facilities not yet agreed have been forecast by 16 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

26. It is essential that providers maintain sufficient liquidity, particularly during current economic uncertainty. 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 September 2023.

Table 3: Summary cashflow forecast[18]

Figures in £ billions	3 months to 30 September 2022 (forecast)	3 months to 30 September 2022 (actual)	12 months to 30 September 2023 (forecast)
Operating cashflows excluding sales	0.9	0.9	3.5
Interest cashflows	(0.9)	(0.9)	(3.8)
Payments to acquire and develop housing	(4.5)	(3.0)	(17.3)
Current assets sales receipts	1.2	1.1	4.7
Disposals of housing fixed assets	0.8	0.6	4.1
Other cashflows	(0.1)	(0.1)	(0.4)
Cashflows before resources and funding	**(2.6)**	**(1.4)**	**(9.2)**
Financed by:			
Net grants received	0.3	0.2	2.0
Net increase in debt	0.9	0.9	4.4
Use of cash reserves	1.3	0.3	2.8
Total funding cashflows[19]	**2.6**	**1.4**	**9.2**

[18] 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.

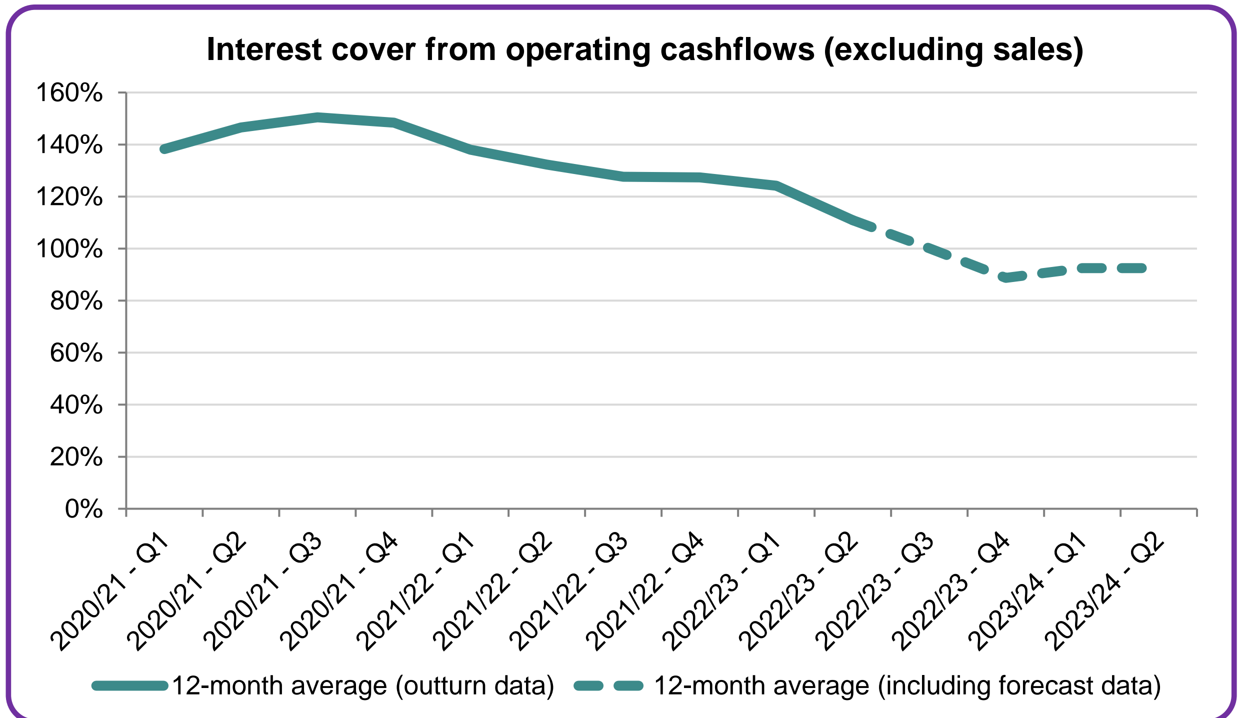
[19] There are rounding differences in the calculated totals; figures are reported by providers in £000.

27. Interest cover, based on operating cashflows excluding sales, stood at 105% in the quarter to September 2022 (June: 89%). On a quarterly basis, interest cover can fluctuate widely as a result of movements in debtor and creditor balances and has ranged from a low of 89% to a maximum of 183% over the last two years. Providers have reported an increase in rent debtors, lower operating surpluses, and large working capital movements. Other one-off factors reported include a delayed large insurance settlement receipt, and a pension exit fee not materialising in the quarter.

28. The figures submitted by providers show interest cover excluding sales averaging 92% over the 12-month forecast period (June 12-month forecast: 98%). This is the lowest projected 12-month level of cover since we started collecting cashflow data in the quarterly survey.

29. Interest cover excluding sales was 111% in the 12 months to September 2022, also the lowest 12-month outturn figure on record. For comparison, the 12-month outturn average over the past three years has been 134%.

Figure 3: Interest cover from operating cashflows (excluding sales)



30. Approximately 10% of the sector's operating surplus is derived from properties developed for sale (either 1st tranche shared ownership sales or outright market sales). Income from these activities is not included in the figures referenced above.

31. However, it is evident that levels of interest cover have deteriorated and are set to reduce again over the next 12 months. Increasing interest rates and continued investment in existing stock will inevitably result in weakened financial performance

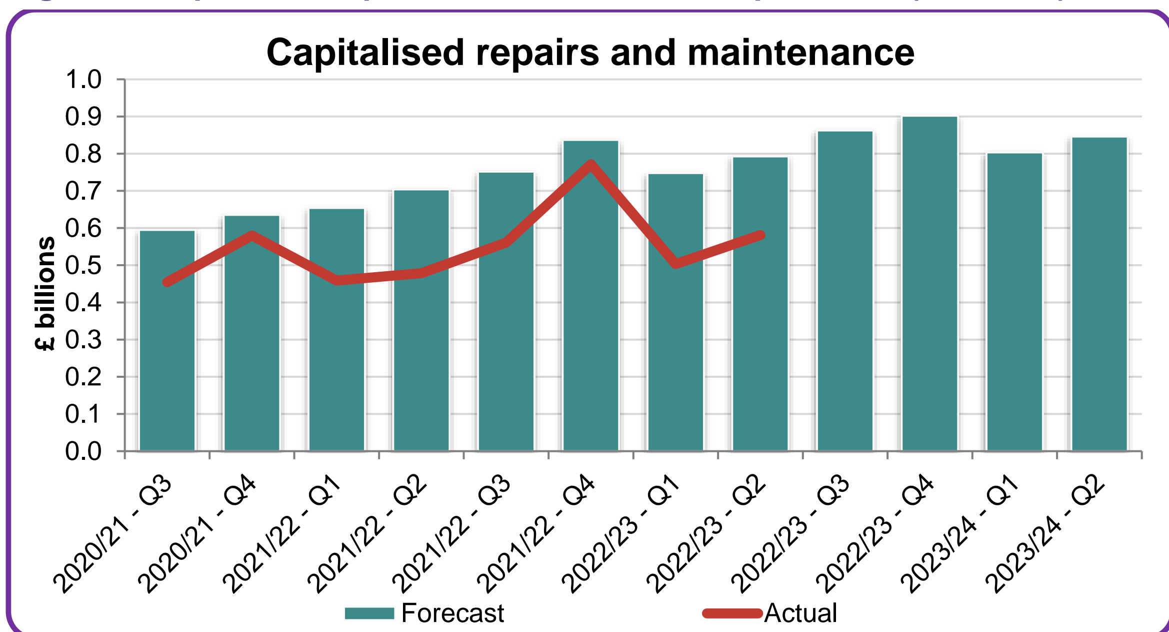
and reduced capacity to manage downside risk. The regulator will continue to monitor the financial viability of providers forecasting low interest cover.

32. 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 £0.4 billion (13%) over the next 12 months; equivalent to an increase of £112 million per quarter when compared to the average over the previous three years, reflecting the continuing rise of interest rates.

33. Actual expenditure on capitalised repairs and maintenance amounted to £581 million during the quarter; 27% lower than the amount previously forecast but 15% higher than the amount recorded in the previous quarter. Almost 75% of providers reported an underspend compared to budget, although the £581 million is higher than the two-year average of £481 million prior to the pandemic.

34. In addition, 62% of providers reported that they have experienced delays or made changes to repairs and maintenance programmes during the quarter. Of these, over 60% have reported that material or labour shortages, alongside cost increases, are a factor. Limited skilled labour is impacting supply chains therefore leading to longer lead times, and continued shortages in certain components are causing build delays. Price increases are forcing some providers to consider alternative suppliers and retender contracts. Almost 30% stated general scheme delays and around 10% related to contractor capacity and procurement issues. Due to constrained capacity, many providers are having to outsource work to subcontractors, resulting in delays relating to recruitment and price negotiations.

Figure 4: Capitalised repairs and maintenance expenditure (£ billions)



35. In the 12 months to September 2022 capitalised expenditure on repairs and maintenance was £2.4 billion, compared to the £3.1 billion forecast at the start of the period. For the 12 months to September 2023, the sector has forecast capitalised repairs and maintenance expenditure of £3.4 billion (June 12-month forecast: £3.3 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 24 providers have reported having agreed a waiver to exclude the exceptional costs of building safety works from loan covenant calculations, and 15 waivers have been reported in respect of decarbonisation works.

36. New disclosures added to the quarterly survey form for 2022/23 show expenditure on non-capital repairs and maintenance amounts to £1.0 billion during the quarter. This brings total repairs and maintenance spend in the quarter to £1.6 billion.

37. 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. Cost pressures are also arising, with some providers reporting re-profiling of non-essential works to mitigate this, and prioritising building safety works. The regulator will continue to monitor the viability of providers and will engage where appropriate.

38. Current asset sales of £4.2 billion were achieved in the 12 months to September 2022, compared to the £5.0 billion forecast at the start of the period. For the 12 months to September 2023 the sector has forecast a further £4.7 billion worth of current asset sales (June: £4.9 billion), of which £4.3 billion relates to properties for which development is contractually committed. The 12-month current asset sales forecast decreased in the quarter mainly due to one provider reducing its forecast in relation to a reallocation to its sister company.

39. In the 12 months to September 2022 fixed asset sales totalled £3.0 billion. For the 12 months to September 2023 the sector has forecast a further £4.1 billion worth of fixed asset sales; an increase of over £0.4 billion compared to the previous quarter's forecast. Of the £4.1 billion total forecast, £1.8 billion relates to sales to tenants or open market sales, which include mainly staircasing, RTB / RTA and sale of voids (voluntary sales).

40. The remaining £2.3 billion relates to other fixed asset sales, including bulk sales to other registered providers. Forecast fixed asset sales to other organisations were £0.4 billion higher than previous quarter. The increase is primarily driven by three providers who account for 75% of the overall increase.

41. Loan repayment forecasts over the next 12 months have increased to £2.7 billion (June: £2.2 billion). This is mainly due to one provider forecasting an additional £291 million of loan repayments relating to refinancing activity.

42. Available cash balances, excluding amounts held in secured accounts, reduced by £0.3 billion during the quarter. Cash available as at September 2022 totalled £6.0 billion (June: £6.4 billion), and forecasts show this reducing to £3.7 billion over the next 12 months as cash reserves are used to fund development programmes. In addition to the £6.0 billion available, cash held in secured accounts or otherwise inaccessible to providers totalled £1.4 billion (June: £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

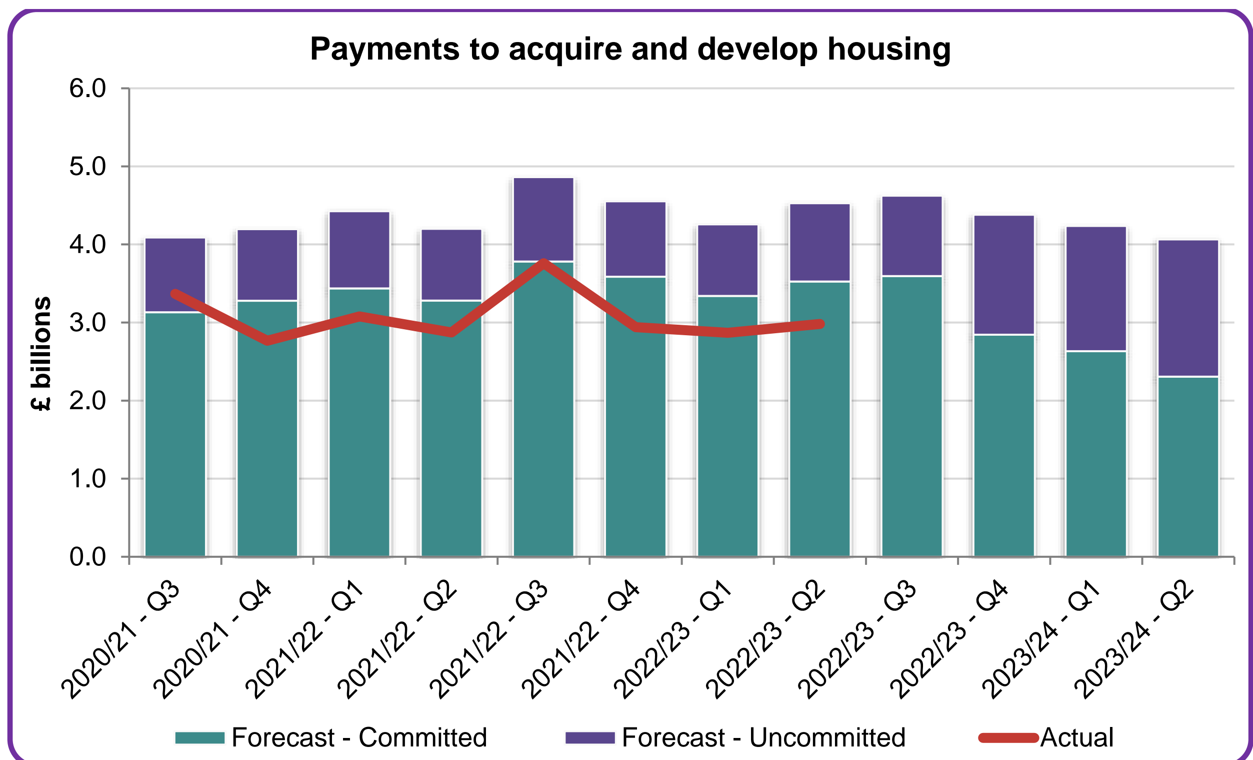
43. In the 12 months to September 2022, £12.6 billion was invested in the acquisition and development of housing properties. This compares to £12.1 billion in the year to September 2021, and £10.6 billion in the year to September 2020.

44. Actual expenditure in the quarter to September 2022 amounted to £3.0 billion (June: £2.9 billion); slightly higher than the previous quarter and consistent with the average quarterly expenditure incurred over the last three years. Development spend is relatively concentrated, with 17 providers each investing over £50 million in development during the quarter and together accounting for almost half of the total expenditure within the sector. This includes two for-profit providers.

45. Expenditure was 34% below the £4.5 billion forecast for the quarter, and 15% below the £3.5 billion forecast for contractually committed schemes. This is widespread, with 84% of providers reporting an underspend against total development forecasts, and 61% reporting an underspend against forecasts for committed schemes.

46. In addition to general scheme delays and timing differences with payments, some providers continue to be affected by supply chain issues which are limiting the availability of materials and labour. Increasing prices have resulted in a number of contractor insolvencies, and also lengthened the time taken to negotiate and enter into contracts. Other reported issues include delays during the planning process, and with the connection of utilities.

Figure 5: Payments to acquire and develop housing



47. For the next 12 months a further £17.3 billion worth of investment has been forecast, of which £11.4 billion is contractually committed. If achieved, the £17.3 billion would represent an increase of 38% in investment when compared to the previous 12 months. Forecast expenditure includes around £0.4 billion worth of payments to other registered providers, where stock transfers are being undertaken.

48. Forecast development payments have reduced by 5% in comparison to the previous quarter's forecast of £18.2 billion. The majority of this reduction relates to the transfer of development activity from one large provider to a sister company that is not part of the current QS dataset. Without this transfer, forecast development expenditure has remained consistent with the previous quarter. However there have been changes at individual provider level, with around half of providers increasing their development forecasts, in part due to re-profiling works that have been delayed. Half of providers have also reduced their forecast development, with some pausing or removing uncommitted development in light of the current economic uncertainty and while the rent policy consultation was ongoing.

Housing market

49. 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 September (June: £1.7 billion). Market sales totalled £574 million, consistent with the averages achieved over the last three years. At £562 million, AHO first tranche sale receipts were the highest ever recorded since the data was first collected in 2011, in part due to a high volume of sales transactions. AHO first tranche sales receipts are also affected by the percentage share being purchased, and a small number of providers have reported that initial shares purchased during the quarter were higher than budgeted.

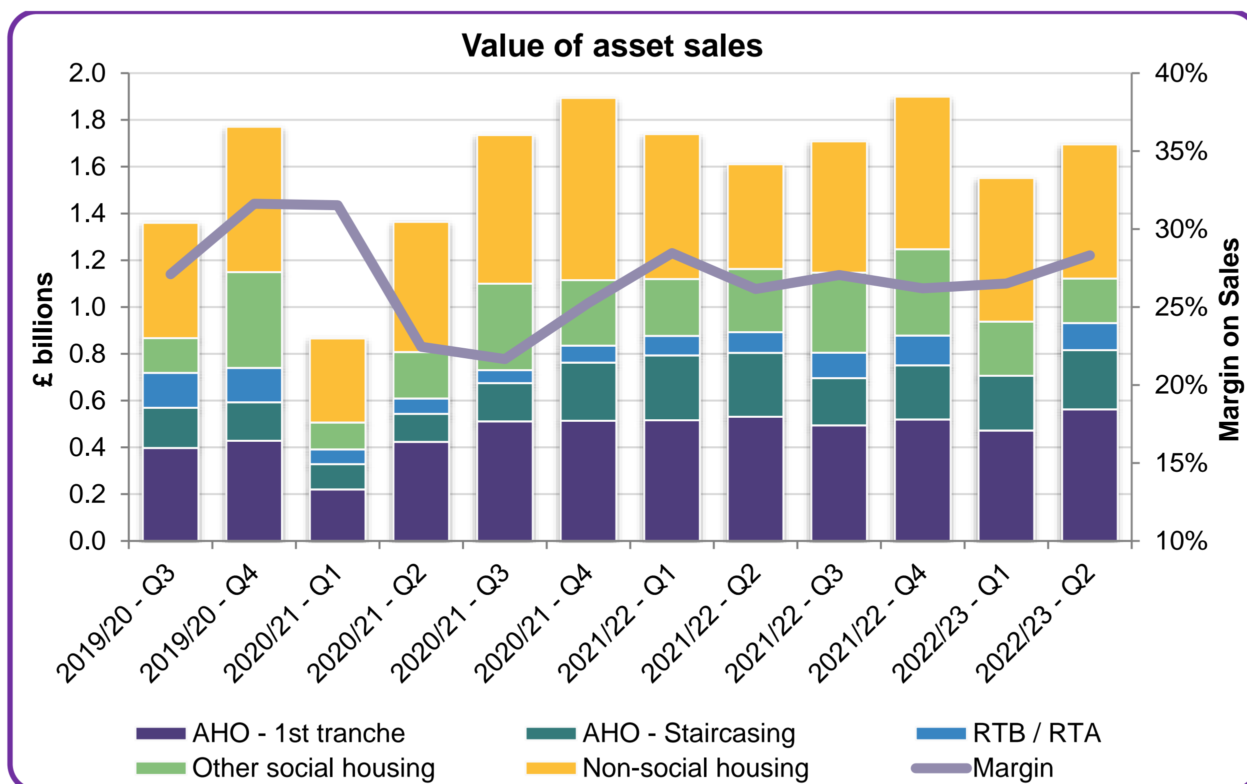
50. Current asset sales for the quarter (market sales and first tranche AHO sales) amounted to £1.1 billion, compared to £1.0 billion in the quarter to June. Sales were 11% below forecast, with five providers reporting adverse variances of over £20 million each. Providers are continuing to experience delays in handovers as supply chain issues affect the completion of properties. Where this is the case, sales receipts have been re-profiled to later quarters to reflect the revised development timescales.

51. Total fixed asset sales amounted to £0.6 billion (June: £0.7 billion); 31% below the amount forecast in June, but in line with the average sales achieved over the last three years. Fixed asset sales are categorised as either sales to tenants/open market sales, or other sales (bulk disposals to other organisations).

    - Sales to tenants and other open market sales (including staircasing, RTB/RTA and voluntary sales) amounted to £0.5 billion (June: £0.5 billion), 21% higher than the amount previously forecast. Providers tend to take a prudent approach to forecasting these types of sales, and favourable variances were reported by over 60% of providers. Four providers accounted for over a quarter of total sales to tenants.

    - Fixed asset sales to other organisations amounted to £0.1 billion; 81% below the amount previously forecast. Almost half of these sales were reported by just one provider, where a stock transfer to another PRP was undertaken. The adverse variance against the forecast was almost entirely attributable to three providers, where bulk disposals to other organisations have been delayed.

Figure 6: Value of asset sales



52. Overall surpluses from asset sales stood at £0.5 billion for the quarter (June: £0.4 billion), and overall margins increased from 27% to 28%. The margin is driven by other social housing sales, which account for only 11% of sales receipts, but contribute almost a quarter of the total surplus with a margin of 59%. These sales include bulk disposals of stock to other PRPs.

Table 4: AHO units

AHO units	*Previous quarter*	*Current quarter*	*% change*
Completed	4,087	3,881	(5.0%)
Sold	3,759	4,345	15.6%
Margin	20.3%	19.6%	(3.1%)
Unsold	6,831	6,263	(8.3%)
Unsold for more than 6 months	2,427	2,449	0.9%
18-month pipeline	38,595	36,414	(5.7%)

53. The number of AHO completions reduced by 5% during the quarter to reach 3,881 units. This is slightly below the average achieved over the last three years of 4,028 units per quarter.

54. After a reduction in activity during the previous quarter, sales of AHO units increased by 16% to reach 4,345 units. This compares to average sales of 4,033 units per

quarter over the last three years. Over 40% of unit sales were reported by ten providers.

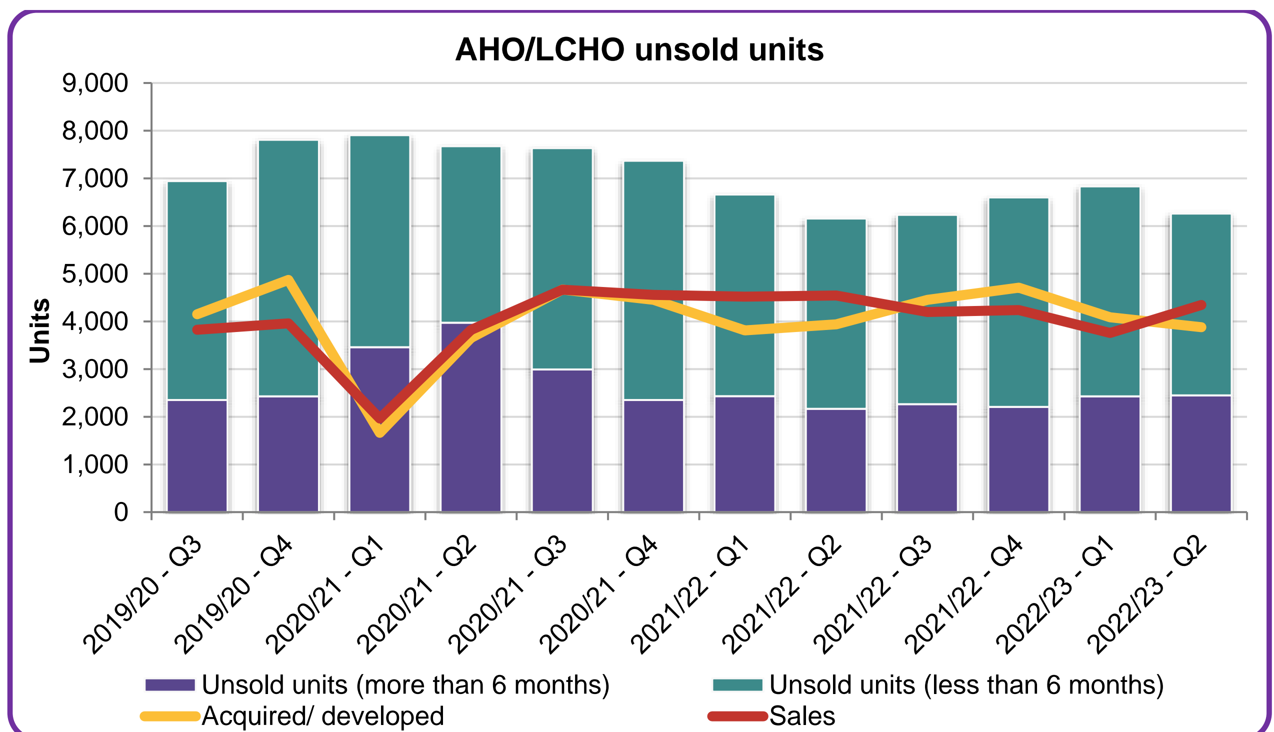
55. A small number of providers have reported that although demand for AHO properties remains high, increasing inflation and mortgage rates are affecting the affordability of products for prospective purchasers. In some cases, future sales forecasts have been reduced in anticipation of a more challenging sales environment.

56. The total number of unsold units reduced by 8% over the quarter to 6,263 units, and the number of units unsold for over six months increased slightly to reach 2,449. This has increased the proportion of units unsold for over six months up to 39% (June: 36%). Over half of the unsold AHO stock at the end of the quarter was held by nine providers. These nine providers all reported access to sufficient liquidity, together accounting for 19% of the total facilities and cash available within the sector.

57. Five providers held over 100 or more units of stock that had been unsold for more than six months, accounting for 44% 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.

58. The overall surplus on AHO sales stood at £110.2 million in the quarter to September (June: £95.6 million), the highest value recorded since the data was first collected in 2011. A margin of 19.6% was achieved on AHO sales (June: 20.3%), compared to an average of 19.5% over the last three years.

Figure 7: AHO/LCHO unsold units



59. The pipeline of AHO completions expected in the next 18 months has reduced to 36,414 units (June: 38,595), of which 31,236 units are contractually committed. The pipeline figures represent a 46% increase in AHO development compared to actual performance in the 18 months to September 2022, when there were 24,881 completions. Five providers have each reported over 1,000 pipeline units, accounting for almost a quarter of the overall total. This includes two for-profit providers.

Table 5: Market sale units

Market sale units	*Previous quarter*	*Current quarter*	*% change*
Completed	1,458	947	(35.0%)
Sold	1,495	1,313	(12.2%)
Margin	12.7%	14.5%	14.8%
Unsold	1,402	1,042	(25.7%)
Unsold for more than 6 months	493	503	2.0%
18-month pipeline	9,677	9,961	2.9%

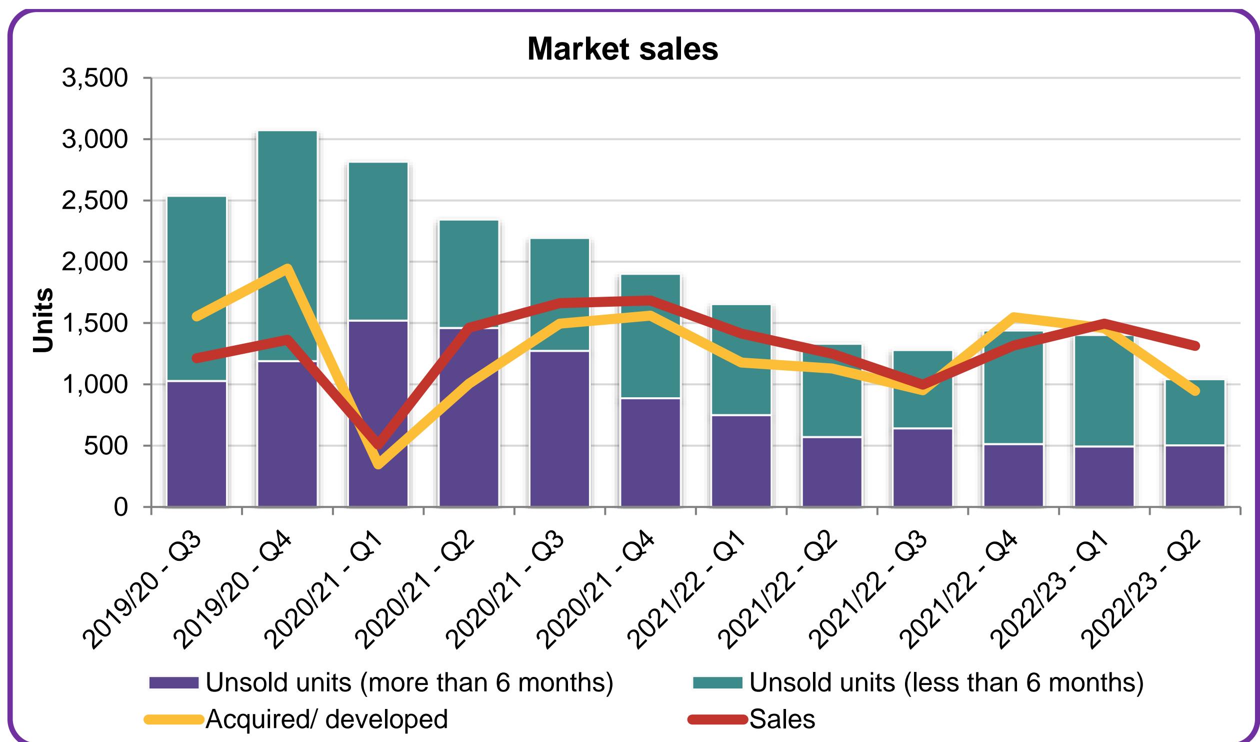
60. In the quarter to September a total of 947 market sale units were completed; a reduction of 35% when compared to the previous quarter. This is the second lowest level of completions recorded over the last three years, when the average has stood at 1,260 units per quarter. Market sales were 12% lower than in the previous quarter, but in line with the averages being achieved over the last three years.

61. The high number of market sales compared to completions during the quarter has resulted in a significant reduction in the total number of unsold units. The 1,042 unsold units reported at the quarter-end is the lowest level recorded since June 2016, and the first time since then when the number of unsold market sale units has fallen below 1,200. Units unsold for over six months have increased marginally to 503, but are substantially below the average of 902 recorded over the last three years.

62. Development for outright market sale continues to be concentrated in relatively few providers, with half of the unsold market sale units reported at the end of the quarter being held by just four providers. These providers each had access to between £0.3 billion and £1.8 billion worth of cash and undrawn facilities, ensuring sufficient liquidity if sales receipts are delayed.

63. The surplus on non-social housing sales amounted to £83.3 million for the quarter (June: £77.8m). Sales margins increased to 14.5%, compared to 12.7% in the quarter to June. Around a quarter of the total non-social housing sales income reported in the quarter was attributable to one provider, and over half was reported by six providers.

Figure 8: Market sales



64. For market sale, completions expected over the next 18 months stand at 9,961 units (June: 9,677), of which 9,394 are contractually committed. If achieved, this would equate to a 38% increase in market sale development in comparison to the actual completions achieved over the previous 18 months, which stood at 7,212 units. Half of the total pipeline units are reported by just seven providers.

Derivatives

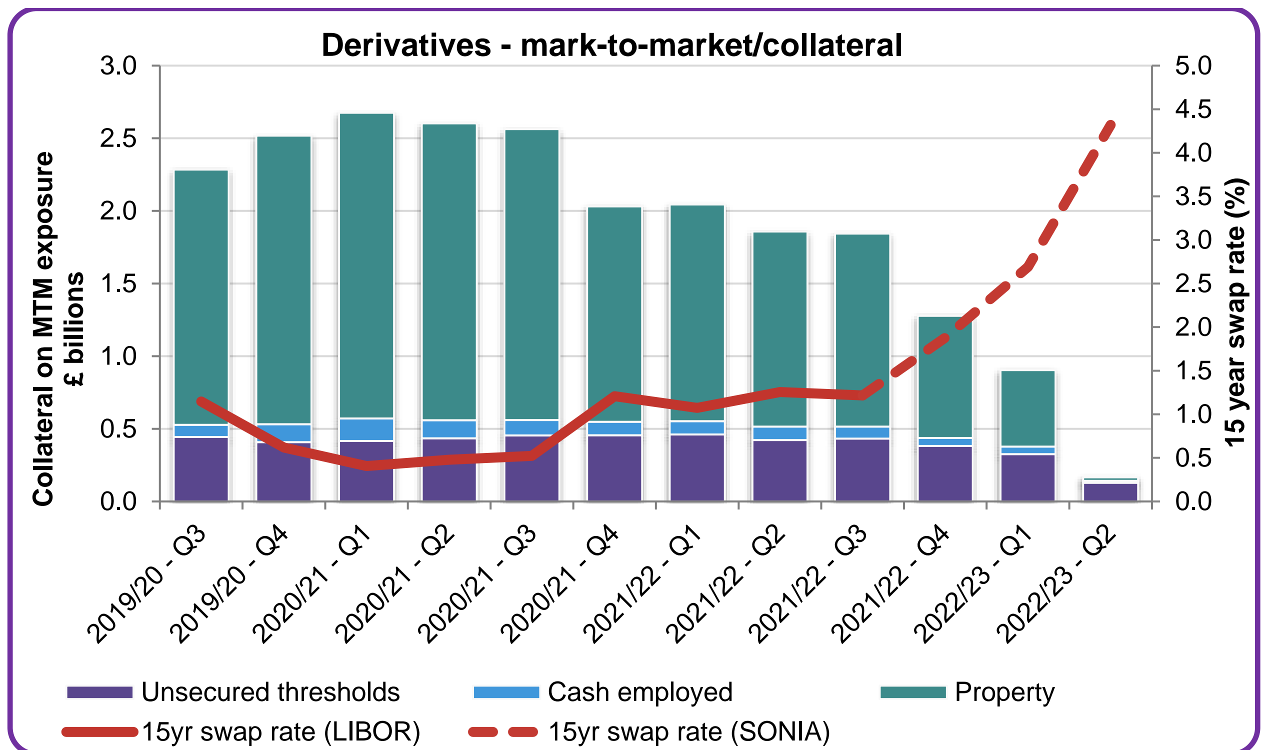
65. At the end of September, 44 providers (June: 43) reported making use of free-standing derivatives. The notional value of standalone derivatives increased slightly to reach £7.9 billion in the quarter (June £7.8 billion).

66. In response to ongoing economic uncertainty, swap rates increased steadily over the quarter, resulting in a significant reduction in MTM exposure. The 15-year swap rate increased from 2.69% at the end of June to 4.32% at the end of September; the highest rate recorded at a quarter-end since 2009. Gross exposure decreased from £0.9 billion at the end of June to £0.2 billion at the end of September; a reduction of over 80%. MTM exposure levels are the lowest reported since the data was first collected in 2011.

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. Around a third of the providers that hold derivatives reported favourable MTM positions on all of their swaps as at the end of September.

68. At a sector level, unsecured thresholds and available security pledged to swap counterparties totalled £2.6 billion at the end of September (June: £2.9 billion).

Figure 9: Derivatives – Mark-to-market/collateral



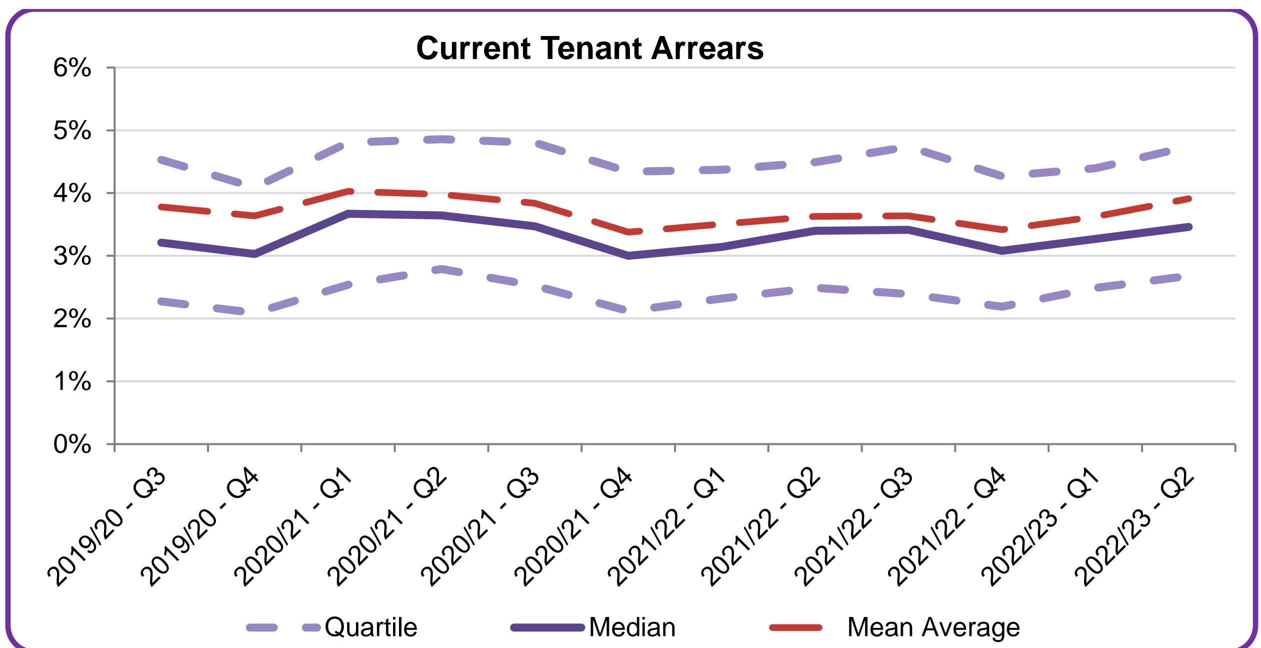
69. The above graph shows MTM exposure excluding excess collateral. Due to the large reduction in exposure since the start of the year, collateral pledged in terms of property and cash is now well above the sector's exposure levels. At the end of September, the total headroom of collateral and unsecured thresholds available over MTM exposure was £2.5 billion (June: £1.9 billion).

70. With the continuing fluctuations in swap rates, MTM exposure will remain volatile over the coming months. Providers must retain the ability to respond to future increases in exposure and understand the sensitivity to reductions in swap rates.

Income collection

71. At the end of September, 66% of providers reported that their levels of arrears, rent collection and voids were all within, or outperforming their business plan assumptions, compared to 68% at the end of June.

Figure 10: Current tenant arrears



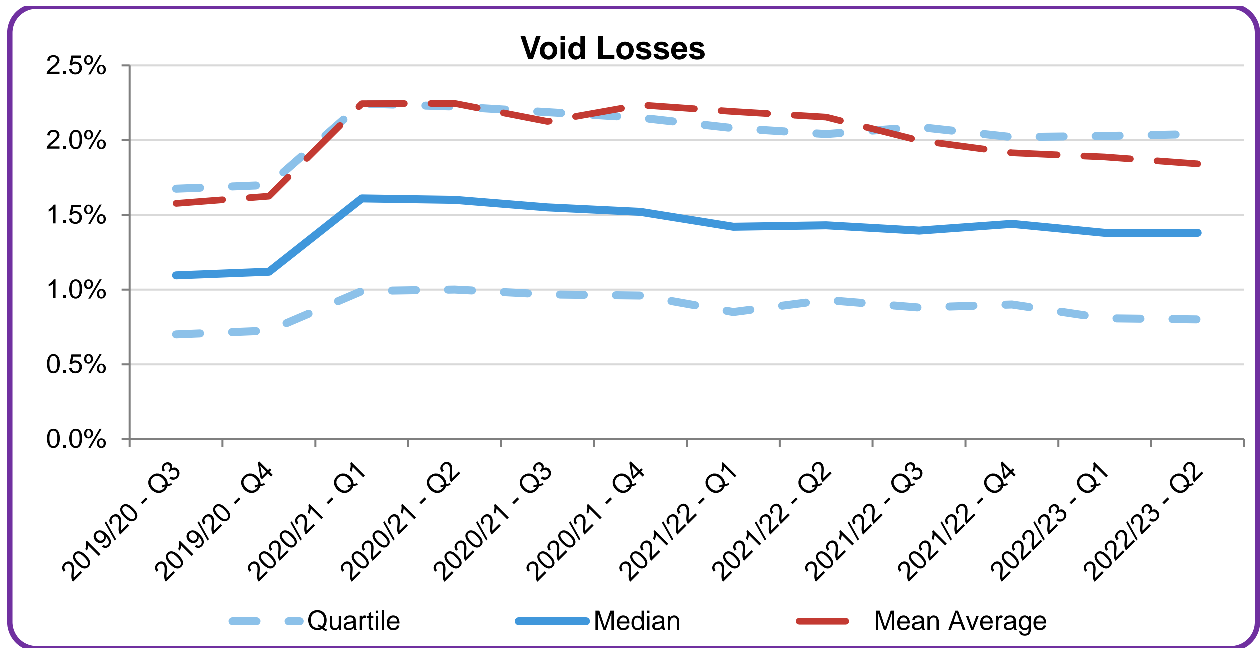
72. Mean current tenant arrears stood at 3.9% at the end of September (June: 3.6%), with the median at 3.5% (June: 3.3%). Both mean and median arrears increased from last quarter, and from the same quarter of last year when mean arrears were 3.6% and the median was 3.4%. 150 providers reported their arrears have deteriorated in comparison to last quarter mainly due to the timings of Housing Benefit payments and the cost-of-living crisis. Providers have stated they are closely monitoring the situation, and a minority are implementing initiatives to support tenants.

73. The highest levels of arrears continue to be experienced by providers operating mainly in London[20], where the mean average stood at 5.7%. However, this region has experienced the smallest percentage increase in Universal Credit claimants over the quarter[21]. The lowest arrears continue to be reported by providers operating mainly in the South West, where the mean average stood at 2.5%.

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

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

Figure 11: Void losses



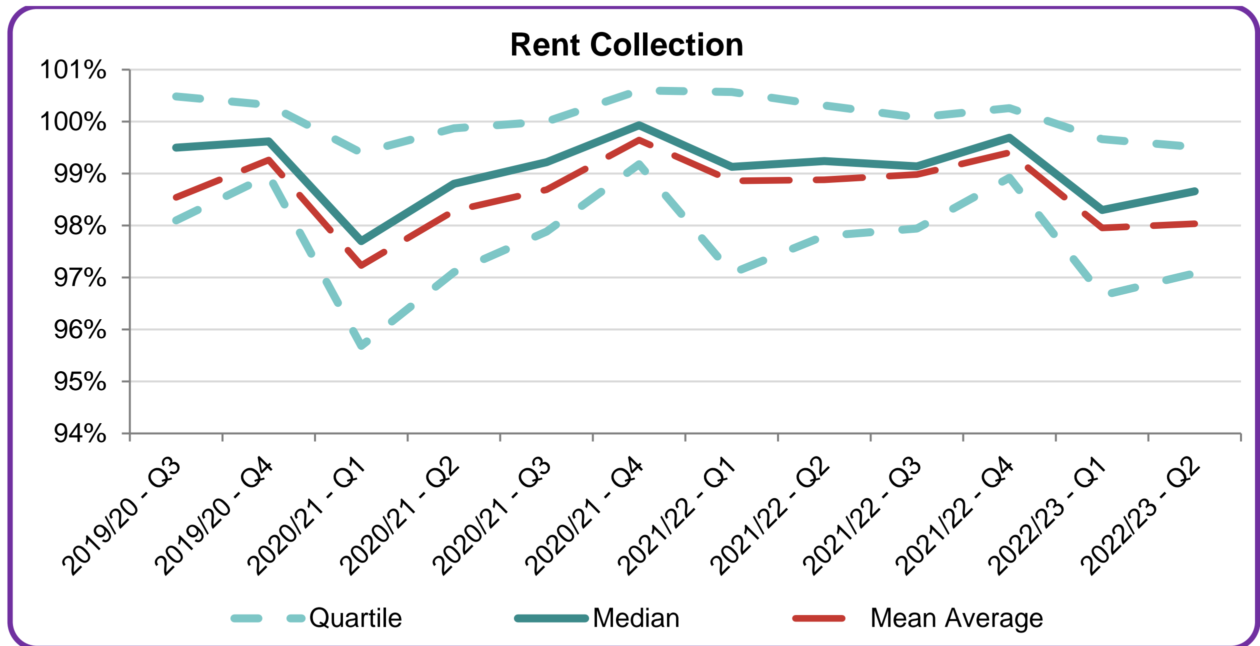
74. Median void losses remained at 1.4% for the second quarter of the year, consistent with the amounts reported in all four quarters of 2021/22. Void levels increased at the start of the pandemic and have not shown signs of improvement; prior to this median void losses had averaged 1.1% in 2019/20.

75. Mean void losses stood at 1.8% at the end of September (June: 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 four providers since quarter two of 2021/22, including two providers with void losses of over 15%.

76. 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 5.5%, compared to 1.5% reported by providers with less than 50%.

77. A total of 11 providers have recorded void losses of 5% or more (June: 11). Providers have reported that material and labour shortages are continuing to affect void repair times, and staffing difficulties in the care and support sector are impacting tenancy of properties.

Figure 12: Rent collection



78. Mean average rent collection rates remained at 98.0% for the second quarter of the year (June: 98.0%), compared to 98.9% in the same quarter of 2021/22. Median rent collection rates were 98.7% (June: 98.3%); slightly below the 99.2% reported in September 2021.

79. The number of providers reporting rent collection rates of less than 95% reduced to 22 at the end of September (June: 24, September 2021: 14), 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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