Regulator of Social Housing

Quarterly survey for Q3

October to December 2022

March 2023

Contents

Introduction

1. This quarterly survey report is based on regulatory returns from 203 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 October 2022 to 31 December 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

New bank facilities at highest level in six years – Short term aggregate liquidity remains sufficient

- £121.8 billion total facilities in place at the end of December, up from £119.7 billion in September.
- New finance of £3.4 billion agreed in the quarter. New bank facilities in the quarter are the highest in six years and new capital market facilities the lowest in over three years.
- Loan repayments of £0.6 billion made during the quarter. Repayments forecast to be £3.1 billion over next 12 months.
- Total cash and undrawn facilities total £35.2 billion; sufficient to cover forecast expenditure on interest costs (£4.1 billion), loan repayments (£3.1 billion) and net development (£14.4 billion) for the next year.
- Mark-to-market (MTM) exposure on derivatives remains low, with current gross exposure of £0.3 billion, up from £0.2 billion in September.

Performance in the quarter

A further reduction in 12-month cash interest cover - Capitalised major repairs below forecast but at historically high levels – Income collection indicators stable

- £1.7 billion total repairs and maintenance spend in the quarter; 8% higher than the previous quarter but 9% below forecast.
- Expenditure on capitalised repairs amounted to £678 million; 17% higher than the previous quarter.
- Over 60% of providers report delays or changes to repairs and maintenance programmes during the quarter. Material and labour shortages continue to have an impact. Shifting priorities result in a focus on damp and mould works and deferral of non-essential works.
- Aggregate interest cover (excluding all sales) for the year to December 2022 was 102%, the lowest ever recorded. Interest cover for the year to December 2023 is forecast to reduce to 93%.
- Forecast reduction in interest cover results from increases in projected spend on capitalised repairs and maintenance (£0.9 billion) and interest payable (£0.4 billion), offset by increased net cashflows from operating activities (£1.0 billion).
- Income collection indicators remain consistent with previous performance and seasonal trends. Marginal improvements in arrears and rent collection. Void losses remain above long-term averages.

Investment in new and existing stock

12-month major repairs spend forecasts remain high as delayed works are reprofiled and building safety and energy efficiency works are planned. 12-month development spend forecasts decreased from previous quarter to their lowest level in two years, mainly due to economic uncertainty

Outturn development expenditure above forecasts for committed schemes - Unit completions increase during the quarter

- Capitalised repairs and maintenance expenditure was £2.5 billion in the 12 months to December 2022. Expenditure forecast to reach £3.4 billion over the next 12 months.

- Forecasts for capital investment continue to increase due to inflationary pressures, building safety and energy efficiency works being included in budgets, and increased focus on damp and mould works.

- £3.8 billion invested in new housing properties in the quarter; 7% above forecasts for contractually committed schemes.

- Development expenditure forecast to reach £16.6 billion (September: £17.3 billion) over the next 12 months, of which £11.0 billion (September: £11.4 billion) is committed.

- However, over half of providers have reduced their forecast development, with some pausing or removing uncommitted development due to the current economic uncertainty.

- Development schemes continue to be delayed due to supply chain issues affecting availability of materials and labour, and market volatility has resulted in prolonged contract negotiations.

- Market sale completions rose 28% compared to the previous quarter, and AHO completions increased by 16%.

- 18-month pipeline for AHO units stands at 37,325 units and 8,434 units for market sales.

Sales

Unit sales behind completions during the quarter – Unsold market sales units increased but unsold AHO units marginally decreased at the end of December

- AHO sales totalled 4,445 units (September: 4,345), and market sales totalled 1,100 units (September: 1,313).

- Total unsold AHO units marginally reduced by 1%, and unsold market sale units increased by 9%, although remain below the previous three-year average.

- Margins on AHO sales are 21.6% in the quarter (September: 19.6%). Market sale achieved margins of 15.0% (September: 14.5%).

- Current asset sales totalled £1.0 billion; 10% below forecast. Market sales totalled £497 million, lower than the quarterly average achieved over the last three years. At £565 million, AHO sales are the highest ever recorded.

- Fixed asset sales totalled £0.9 billion. Bulk disposals to other organisations amounted to £0.4 billion of this, 70% below forecast.

- Fixed asset sales forecast to reach £4.0 billion over the next 12 months, including £2.4 billion bulk sales.

Operating environment

5. The quarter to December 2022 continued to be a challenging and turbulent period for PRPs, with inflationary pressures and economic uncertainty continuing to affect the housing sector. The recently published financial viability judgements by the regulator towards the quarter-end, reflect the widespread financial challenges facing the sector[1]. Following the increased media coverage on damp and mould issues, there has been a large focus on maintaining the Decent Homes Standard, with the regulator publishing an initial findings report on damp and mould in social housing on 2 February 2023[2].

6. Reported gross domestic product (GDP) is estimated to have fallen by 0.5% in December, following an unrevised growth of 0.1% in November, driven by a decline in the services sector. More broadly, GDP was flat in the three months to December when compared with the three months to September and is now estimated to be 0.5% below the pre-coronavirus levels recorded in February 2020[3].

7. Latest forecasts from the International Monetary Fund estimate that UK GDP will contract by 0.6% in 2023[4]. This is a decrease of 0.9 percentage points since the previous forecast was issued in October, which projected a growth of 0.3%. Nevertheless, there was a more positive outlook from the National Institute of Economic and Social Research, which forecast that the UK will avoid a 'technical recession' in 2023[5], though with GDP growth set to remain close to zero this year, it will still reflect a weakened economy.

8. Overall inflation, as measured by the Consumer Prices Index (CPI), increased to 10.5% in the 12 months to December 2022[6]. On a monthly basis, CPI increased by 0.4% in December. The Bank of England had forecast inflation to reach around 11% in the final three months of 2022[7], which was surpassed in October at 11.1%, and fell back down in the subsequent months.

9. Following the rent cap announcement in November, several providers have revised their forecasts this quarter to reflect the 7% cap between 1 April 2023 and 31 March 2024. With continued pressures of rising inflation, the restriction on annual rent increases will add to the burden of growing costs and have an impact on providers' liquidity.

---

[1] Regulatory judgements and notices, and gradings under review - GOV.UK (www.gov.uk)
[2] Regulator of Social Housing publishes initial findings on damp and mould in social housing - GOV.UK (www.gov.uk)
[3] GDP monthly estimate, UK - Office for National Statistics (ons.gov.uk)
[4] Inflation Peaking amid Low Growth (imf.org)
[5] Recession Avoided, But Prospects Remain Bleak for Households - NIESR
[6] Consumer price inflation, UK - Office for National Statistics
[7] Bank Rate increased to 3% - November 2022 | Bank of England

10. 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 to 3.00% in November, and then to 3.50% on 15 December[8]. On 2 February 2023, interest rates rose by a further 0.5 percentage points to 4%[9], the tenth consecutive increase since December 2021 and the highest level in almost 15 years.

11. 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 5.05% at the end of December[10]. This has led to net borrowing of mortgage debt by individuals decreasing from £6.1 billion in September to £3.2 billion in December. Mortgage approvals for house purchases decreased to 35,600 from 66,800 in September, the lowest level since May 2020 and the fourth consecutive monthly decrease[11].

12. Construction output remained flat in the quarter to December 2022. This came from an increase in new works of 0.5%, offset by a decrease in repairs and maintenance works of 0.7%[12]. At sector level, non-housing repair and maintenance, and infrastructure new work, increased by 5.4% and 3.7% respectively. The main negative contributors were seen in private housing repair and maintenance, and private new housing, falling 8.5% and 2.3% respectively.

13. Prices in the construction industry are estimated to have increased by 9.7% in the year to December 2022. The overall increase includes growth in the price of new works of 11.9%, and in repairs and maintenance works of 5.5%[13].

14. House prices in England increased by 10.3% in the year to December 2022, reaching an average of £315,119[14]. The largest annual increase was recorded in the East Midlands (12.3%), and the smallest was in the London (6.7%). However, with uncertainty around the cost of living and rising interest rates, the housing market is showing signs of a significant slowdown, with UK house prices falling for a fourth month in a row at the end of December[15].

[8] Bank Rate increased to 3.5% - December 2022 | Bank of England
[9] Bank Rate increased to 4% - February 2023 | Bank of England
[10] Quoted household interest rates - a visual summary of our data | Bank of England
[11] Money and Credit - December 2022 | Bank of England
[12] Construction output in Great Britain: December 2022, new orders and Construction Output Price Indices, October to December 2022 - Office for National Statistics
[13] Construction output price indices - Office for National Statistics
[14] UK House Price Index summary: December 2022 - GOV.UK (www.gov.uk)
[15] UK house prices drop for fourth month in a row - BBC News

15. The unemployment rate for the quarter to December 2022 increased by 0.1 percentage points, to reach 3.7%[16]. The number of job vacancies in October to December was 1,161,000; a decrease of 75,000 from July to September[17], and the sixth consecutive quarterly fall. Estimates of the number of payrolled employees in December 2022 reached 29.9 million[18]. The total number of people claiming Universal Credit in England was around 5.0 million in December, compared to 4.9 million in September[19]. The number of claimants has been increasing steadily since June 2022.

16. As risks begin to crystallise within the operating environment, providers will have reduced financial flexibility to respond to further challenges. 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.

[16] Labour market overview, UK - Office for National Statistics (ons.gov.uk)
[17] Vacancies and jobs in the UK - Office for National Statistics (ons.gov.uk)
[18] Labour market overview, UK - Office for National Statistics (ons.gov.uk)
[19] Total number of people on Universal Credit in England | LG Inform (local.gov.uk)

Private finance

17. The sector's total agreed borrowing facilities increased by £2.1 billion over the quarter, to reach £121.8 billion at the end of December (September: £119.7 billion).

18. Of the £121.8 billion total facilities, £60.2 billion (49%) relates to bank loans and £57.7 billion (47%) relates to capital market funding. £3.6 billion of the total (3%) is awaiting securitisation, either before the funding can be accessed or within a specified timeframe after being drawn.

Figure 1: Total facilities (£ billions)

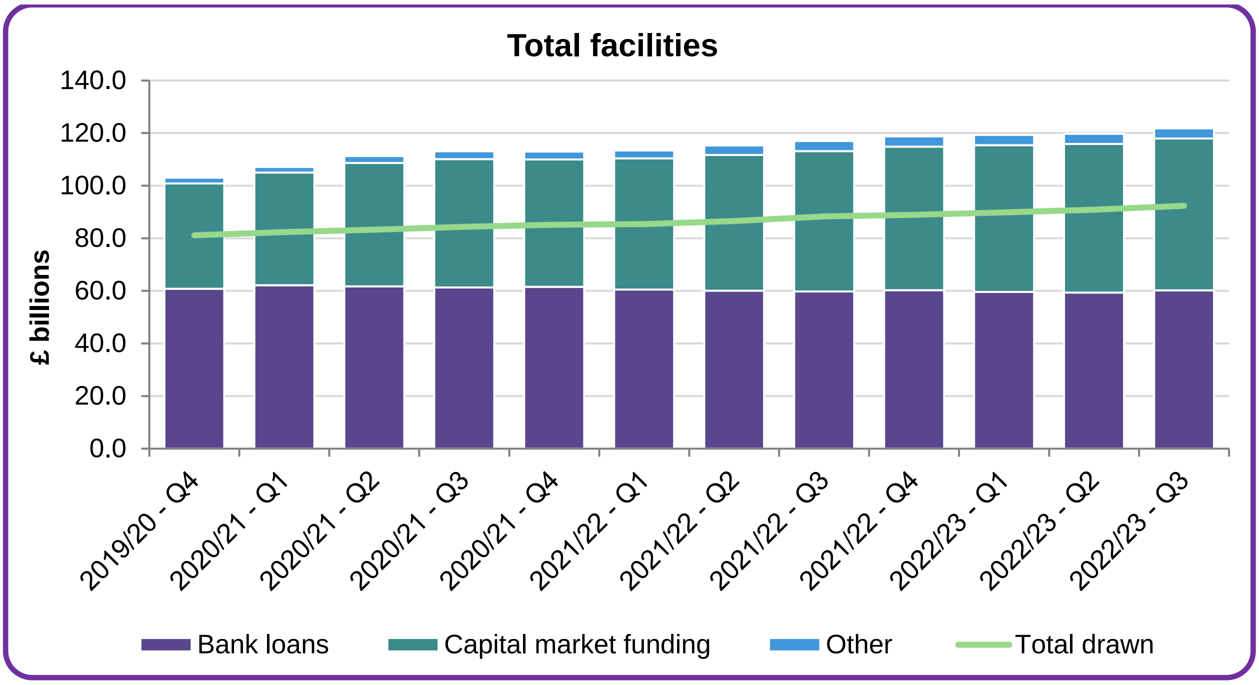


Table 1: Total facilities – drawn and secured

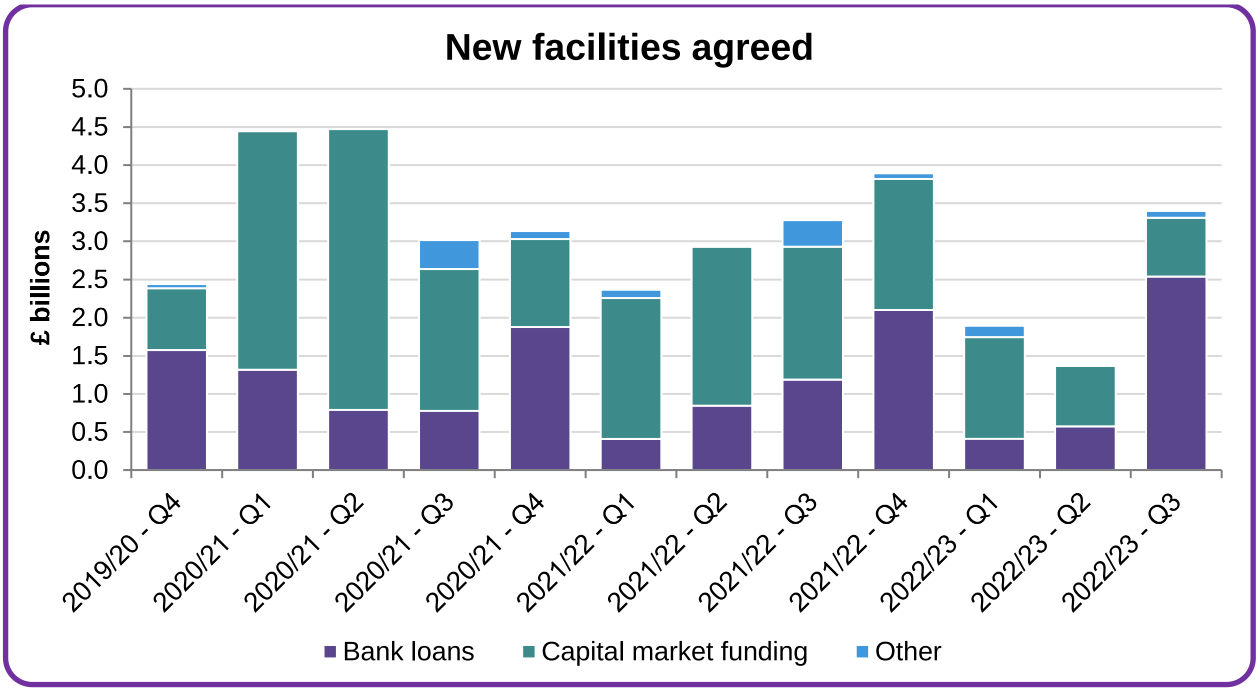
£billons	*Previous quarter*	*Current quarter*	*% change*
Drawn	90.9	92.4	1.6%
Undrawn	28.9	29.4	2.0%
Secured	109.0	110.1	1.0%
Security required	3.3	3.6	10.8%
Security not required	7.4	8.1	8.9%

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

20. A total of 29 providers arranged new finance during the quarter (September: 26). The total agreed, including refinancing, amounted to £3.4 billion; slightly above the £3.1 billion average over the last three years. Ten providers each arranged facilities worth £100 million or more.

21. Bank lending accounted for 75% (£2.5 billion) of new funding arranged in the quarter, with one provider accounting for over a third of this amount as a result of refinancing and extending an expiring facility. Capital market funding, including private placements and aggregated bond finance, accounted for 23% (£0.8 billion) of the total, and other finance sources amounted to £0.1 billion. New bank facilities were the highest amount arranged in six years, and new capital market facilities were at their lowest level in over three years.

Figure 2: New facilities agreed (£ billions)



22. Total cash and undrawn facilities available within the sector totalled £35.2 billion at the end of December (September: £34.9 billion). Total available facilities would be sufficient to cover the forecast expenditure on interest costs (£4.1 billion), loan repayments (£3.1 billion) and net development for the next year (£14.4 billion), even if no new debt facilities were arranged and no sales income were to be received.

23. Loan repayments of £0.6 billion were made in the three months to December (September £0.8 billion). Over the next 12 months, repayments are forecast to reach £3.1 billion, compared to a forecast of £2.7 billion made in September. The increase in anticipated repayments since the previous quarter is mainly due to the renegotiation of existing facilities by one provider, for which a repayment of £0.4 billion now falls within the forecast period.

Table 2: 12-month forecasts

£billons	*Previous quarter*	*Current quarter*	*% change*
Drawdown from facilities agreed	5.6	5.4	(4%)
Drawdown from facilities not yet agreed	1.4	2.2	55%
Loan repayments	2.7	3.1	15%

24. Drawdowns from facilities not yet agreed have been forecast by 21 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, particularly during the current period of economic uncertainty. The regulator engages with PRPs that have low liquidity indicators.

26. Table 3 below shows the actual performance for the quarter compared to forecast, and the 12-month cashflow forecasts to December 2023.

Table 3: Summary cashflow forecast[20]

Figures in £ billions	3 months to 31 December 2022 (forecast)	3 months to 31 December 2022 (actual)	12 months to 31 December 2023 (forecast)
Operating cashflows excluding sales	0.8	0.8	3.6
Interest cashflows	(0.9)	(0.9)	(3.9)
Payments to acquire and develop housing	(4.6)	(3.8)	(16.6)
Current assets sales receipts	1.2	1.0	4.4
Disposals of housing fixed assets	1.7	0.9	4.0
Other cashflows	(0.2)	(0.1)	(0.9)
Cashflows before resources and funding	**(2.1)**	**(2.1)**	**(9.3)**
Financed by:			
Net grants received	0.4	0.4	2.1
Net increase in debt	0.5	1.5	4.6
Use of cash reserves	1.2	0.3	2.6
Total funding cashflows[21]	**2.1**	**2.1**	**9.3**

[20] 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.

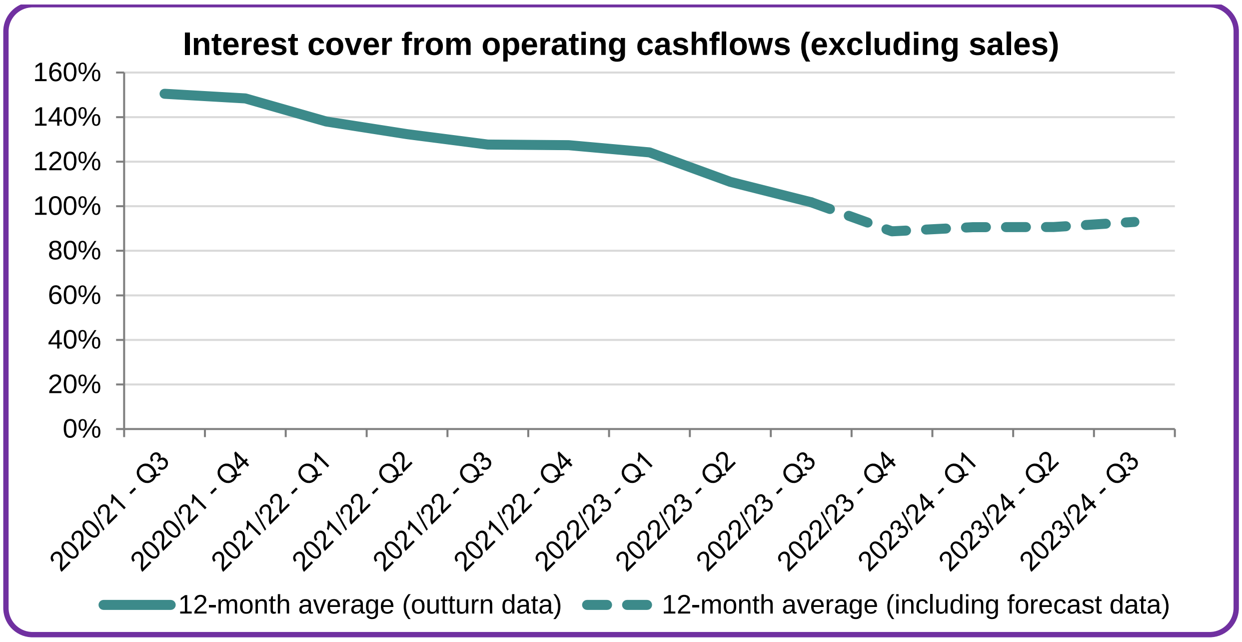
[21] There are rounding differences in the calculated totals; figures are reported by providers in £000.

27. Interest cover, based on operating cashflows excluding sales, stood at 91% in the quarter to December 2022 (September: 105%), compared to a forecast of 84%. The improvement in interest cover compared to forecast is mainly attributable to a £184m underspend in capitalised repair and maintenance costs, partially offset by a reduction in net cashflows from operating activities of £86m. In addition to fluctuations in working capital, providers have reported increased utility costs and one-off staff payments as contributing towards the reduced net cashflows from operating activities in the quarter.

28. The figures submitted by providers show interest cover excluding sales averaging 93% over the 12-month forecast period (September 12-month forecast: 92%). This compares to a total of 102% recorded over the 12 months to December 2022 (12 months to September 2022: 111%); the lowest rolling 12-month interest cover reported since the data was first collected in 2015. Average 12-month interest cover over the last three years has been 131%.

29. The anticipated further reduction in interest cover from the previous 12 months results from an increase in capitalised repairs and maintenance expenditure of £0.9 billion (35%) over the 12-month forecast period, combined with an increase in net interest payable of £0.4 billion (12%) largely due to the higher interest-rate environment. This is partially offset by an increase in net cashflows from operating activities (net of revenue repairs and maintenance costs) of £1.0 billion (16%). The latest 12-month projections include three quarters which will be covered by a 7% rent cap.

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



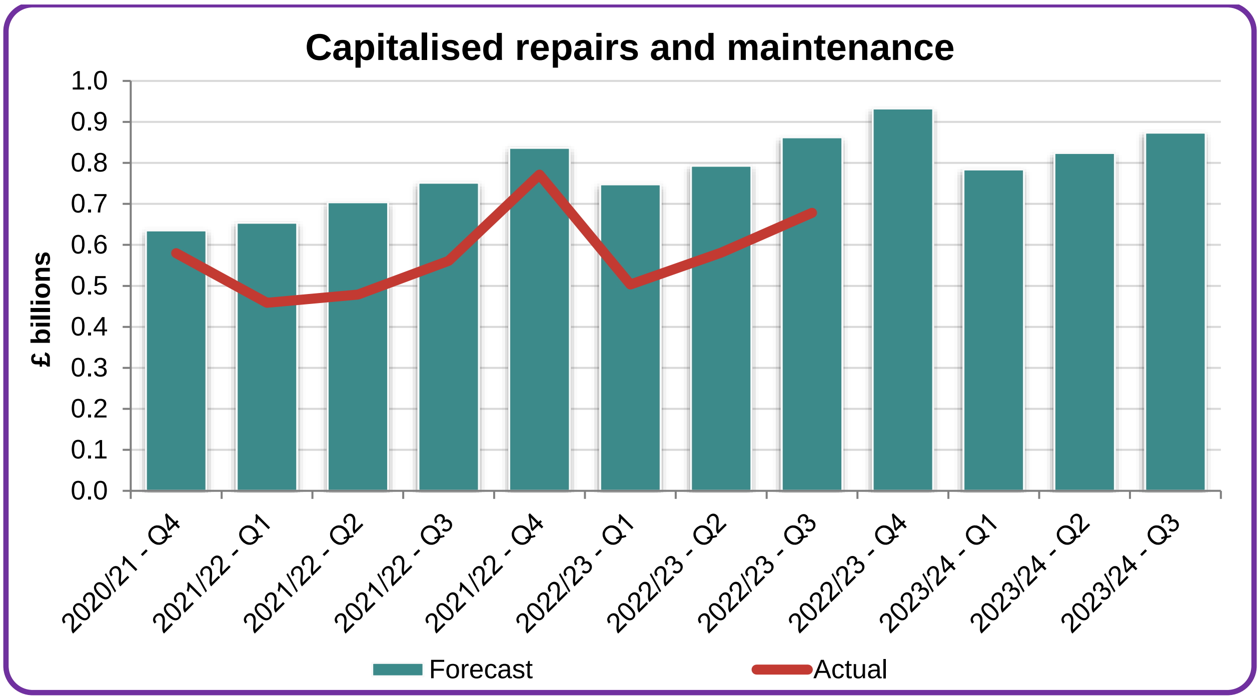
30. Approximately 10% of the sector's operating surplus is derived from properties developed for sale (either 1st tranche shared ownership sales or outright market sales). Income from these activities is not included in the interest cover figures referenced above.

31. 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 158% over the last two years. 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. Actual expenditure on capitalised repairs and maintenance amounted to £678 million during the quarter; 21% lower than the amount previously forecast but 17% higher than the £581 million recorded in the previous quarter. This is only the second time since cashflow data was first collected in 2015 that capitalised repairs and maintenance spend has exceeded £600 million in a single quarter. Expenditure is forecast to increase to £933 million in the last quarter of the financial year. Providers have reported costs being impacted by a number of factors, including the continued effects of inflation combined with high demand for repairs, which has been compounded by recent media coverage of mould and damp issues within the sector. Additional investment is also being made in areas such as building safety and energy efficiency.

33. In the 12 months to December 2022 capitalised expenditure on repairs and maintenance was £2.5 billion, compared to the £3.2 billion forecast at the start of the period. For the 12 months to December 2023 the sector has forecast capitalised repairs and maintenance expenditure of £3.4 billion, consistent with the 12-month forecast made in September.

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



34. Total expenditure on non-capitalised repairs and maintenance amounted to £1.1 billion during the quarter (September £1.0 billion); 2% higher than the £1.0 billion forecast in the previous quarter. This brings total repairs and maintenance spend in the quarter to £1.7 billion. Including both capital and revenue works, total expenditure on existing stock is forecast to reach £7.7 billion over the next 12 months.

35. Over 60% of providers reported that they experienced delays or made changes to repairs and maintenance programmes during the quarter. Price increases and labour and material shortages continue to be significant factors; however a small number of providers have reported that these are beginning to stabilise. Although not specifically reported on in the quarterly survey return, around 10% of providers have commented that they are redirecting resources from non-essential works or absorbing additional costs in order to prioritise damp and mould works, with actions including the establishment of dedicated teams and the employment of external contractors to deal with an increase in demand in this area.

36. Providers are facing increasing pressure to improve the quality of existing stock, and many are reporting having to prioritise works that maintain Decent Homes Standard and Health and Safety legislation compliance. A number of providers have obtained loan covenant waivers in response to increasing investment in existing stock, with 26 reporting having agreed a waiver to exclude the exceptional costs of building safety works from loan covenant calculations, and 22 waivers being reported in respect of energy efficiency or decarbonisation works. The regulator has sought additional assurance from providers where investment in stock appears to be insufficient and will continue to engage where appropriate.

37. Current asset sales of £4.2 billion were achieved in the 12 months to December 2022, compared to the £4.9 billion forecast at the start of the period. For the 12 months to December 2023 the sector has forecast a further £4.4 billion worth of current asset sales (September: £4.7 billion), of which £4.1 billion relates to properties for which development is contractually committed.

38. In the 12 months to December 2022 fixed asset sales totalled £2.9 billion. For the 12 months to December 2023 the sector has forecast a further £4.0 billion worth of fixed asset sales (September 12-month forecast: £4.1 billion). Of the £4.0 billion total forecast, £1.6 billion relates to sales to tenants or open market sales, which include mainly staircasing, RTB/RTA and sale of void properties (voluntary sales). The remaining £2.4 billion relates to other fixed asset sales, including bulk sales to other registered providers. A total of 41 providers are forecasting bulk or other fixed asset sales, with six providers accounting for over three-quarters of the sector total.

39. Available cash balances, excluding amounts held in secured accounts, reduced by £0.3 billion during the quarter. Cash available as at December 2022 totalled £5.8 billion (September: £6.0 billion), and forecasts show this reducing to £3.6 billion over the next 12 months as cash reserves are used to fund development programmes. A small number of providers have also reported plans to reduce the amount of surplus cash that they hold in response to rising interest rates, as the cost of drawing down additional debt increases.

40. In addition to the £5.8 billion available, cash held in secured accounts or otherwise inaccessible to providers totalled £1.3 billion (September: £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

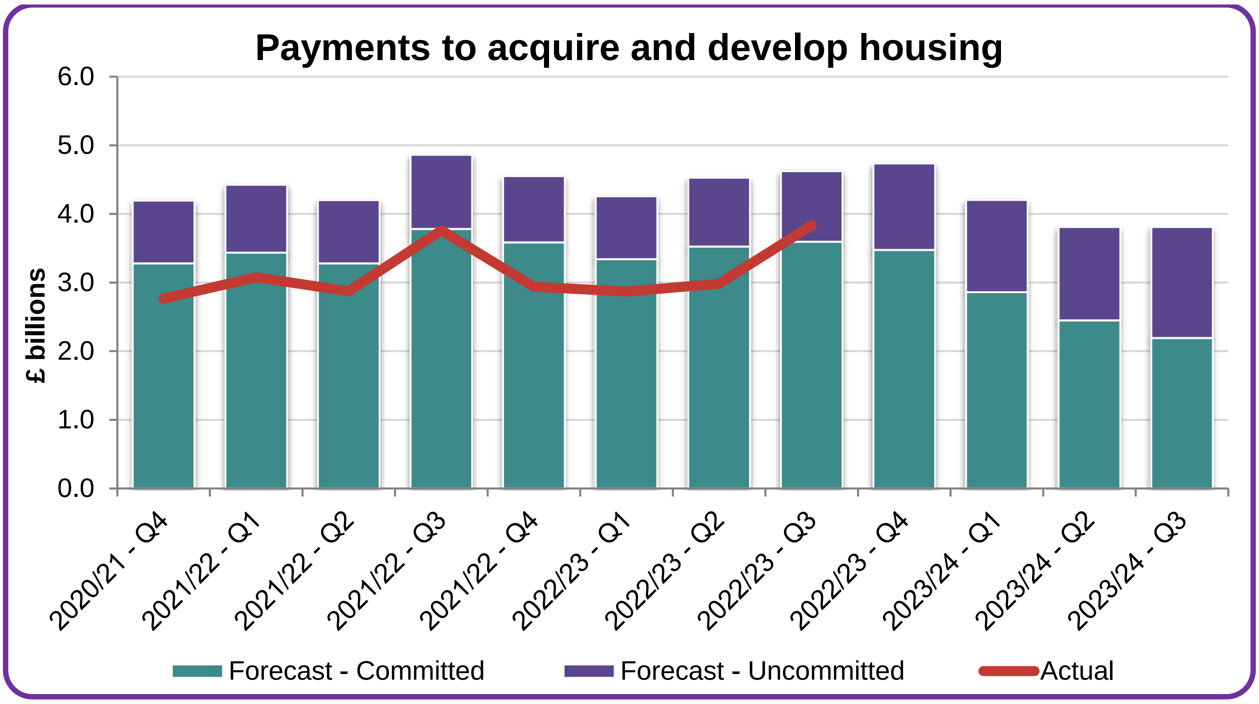
41. In the 12 months to December 2022, £12.6 billion was invested in the acquisition and development of housing properties. This compares to £12.5 billion in the year to December 2021, and £10.5 billion in the year to December 2020.

42. Actual expenditure in the quarter to December 2022 amounted to £3.8 billion (Sept: £3.0 billion); significantly higher than the previous quarter and above the average quarterly expenditure incurred over the last three years of £3.0 billion. Development spend is relatively concentrated, with seven providers each investing over £100 million in development during the quarter and together accounting for almost 30% of the total expenditure within the sector.

43. Expenditure was 17% below the £4.6 billion forecast for the quarter, however 7% above the £3.6 billion forecast for contractually committed schemes. The overspend on committed schemes was driven by two providers, one of which is a for-profit, reporting over £300 million of combined overspend between them. Overall, 42% of providers were reporting an overspend against forecasts for committed schemes.

44. Prudent forecasts have led to outturn variances due to general scheme delays and timing differences with payments. In addition, some providers continue to be affected by supply chain issues which are limiting the availability of materials and labour. Market volatility has resulted in prolonged contract negotiations, and the requirement for updated appraisals, further delaying development works. Other reported issues include delays during the planning process, some developers pausing schemes and setbacks in handovers due to stock quality issues.

Figure 5: Payments to acquire and develop housing



45. For the next 12 months a further £16.6 billion (September: £17.3 billion) worth of investment has been forecast, of which £11.0 billion (September: £11.4 billion) is contractually committed. Forecast expenditure includes around £0.3 billion worth of payments to other registered providers, where stock transfers are being undertaken.

46. Forecast development payments have reduced by 4% in comparison to the previous quarter's forecast of £17.3 billion. The decrease in 12-month forecast means that development expenditure is at the lowest level in two years, which reflects the ongoing challenges in the sector and economic uncertainty going forward. The majority of this reduction is driven by one provider reducing their 12-month development spend, accounting for over 40% of the overall decrease. Over half of providers have also reduced their forecast development, with some pausing or removing uncommitted development due to the current operating environment.

Housing market

47. 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 £1.9 billion in the quarter to December (September: £1.7 billion). Market sales totalled £497 million, lower than the quarterly average achieved over the last three years of £0.6 billion. At £565 million, AHO first tranche sale receipts were the highest ever recorded since the data was first collected in 2011, reflecting the high volume of sales transactions in the quarter.

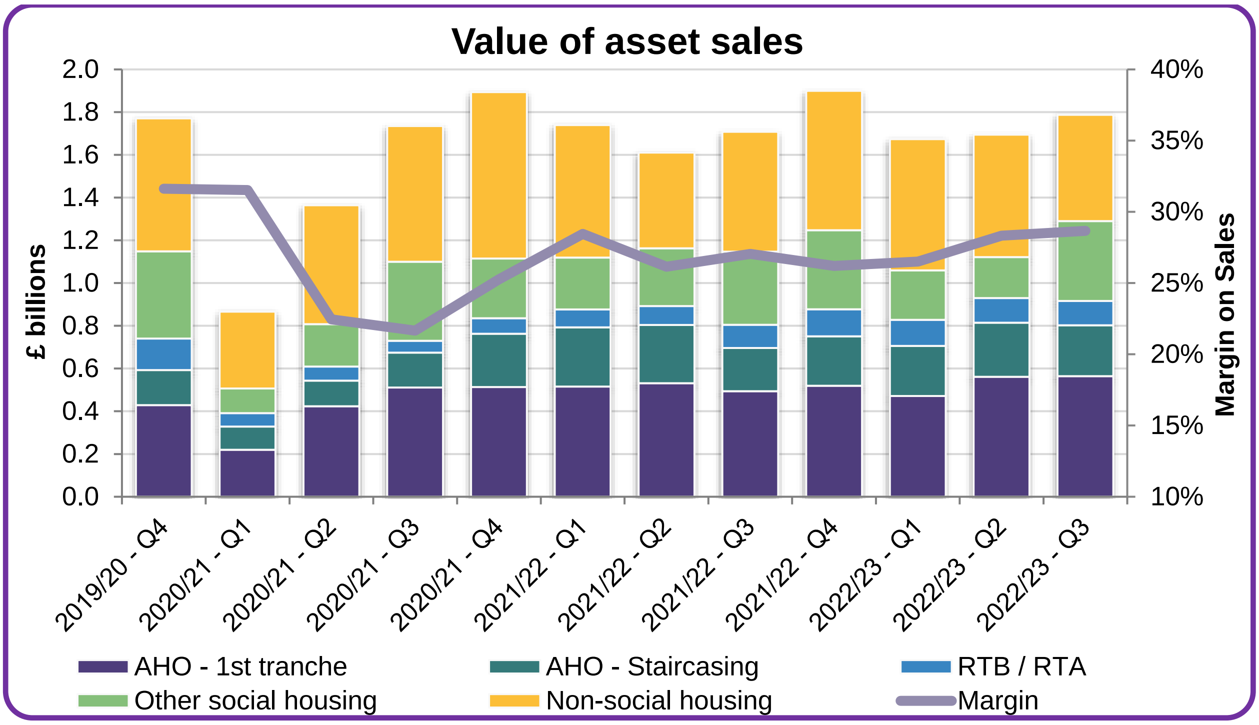
48. Current asset sales for the quarter (market sales and first tranche AHO sales) amounted to £1.0 billion, compared to £1.1 billion in the quarter to September. Sales were 10% below forecast, with three providers reporting adverse variances of over £30 million each. Providers are continuing to experience 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, and into the next financial year, to reflect the revised development timescales.

49. Total fixed asset sales amounted to £0.9 billion (September: £0.6 billion); 49% below the amount forecast in September, however above 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 (September: £0.5 billion), 13% 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 57% of providers. Four providers accounted for over a quarter of total sales to tenants, with reported sales of over £25 million each.

    - Fixed asset sales to other organisations amounted to £0.4 billion; 70% below the amount previously forecast. 64% of these sales were reported by just three providers, with one being for-profit. The adverse variance against the forecast was mainly attributable to two providers, where bulk disposals to other organisations have been delayed.

Figure 6: Value of asset sales



50. Overall surpluses from asset sales remained at £0.5 billion for the quarter and overall margins increased from 28% to 29%. The margin is driven by RTB/RTA sales, which although they only account for 6% of sales receipts, and 13% of the total surplus, have a margin of 59%.

Table 4: AHO units

AHO units	*Previous quarter*	*Current quarter*	*% change*
Completed	3,881	4,506	16.1%
Sold	4,345	4,445	2.3%
Margin	19.6%	21.6%	10.1%
Unsold	6,263	6,225	(0.6%)
Unsold for more than 6 months	2,449	2,601	6.2%
18-month pipeline	36,414	37,325	2.5%

51. The number of AHO completions increased by 16% during the quarter to reach 4,506 units. This is above the average achieved over the last three years of 4,058 units per quarter.

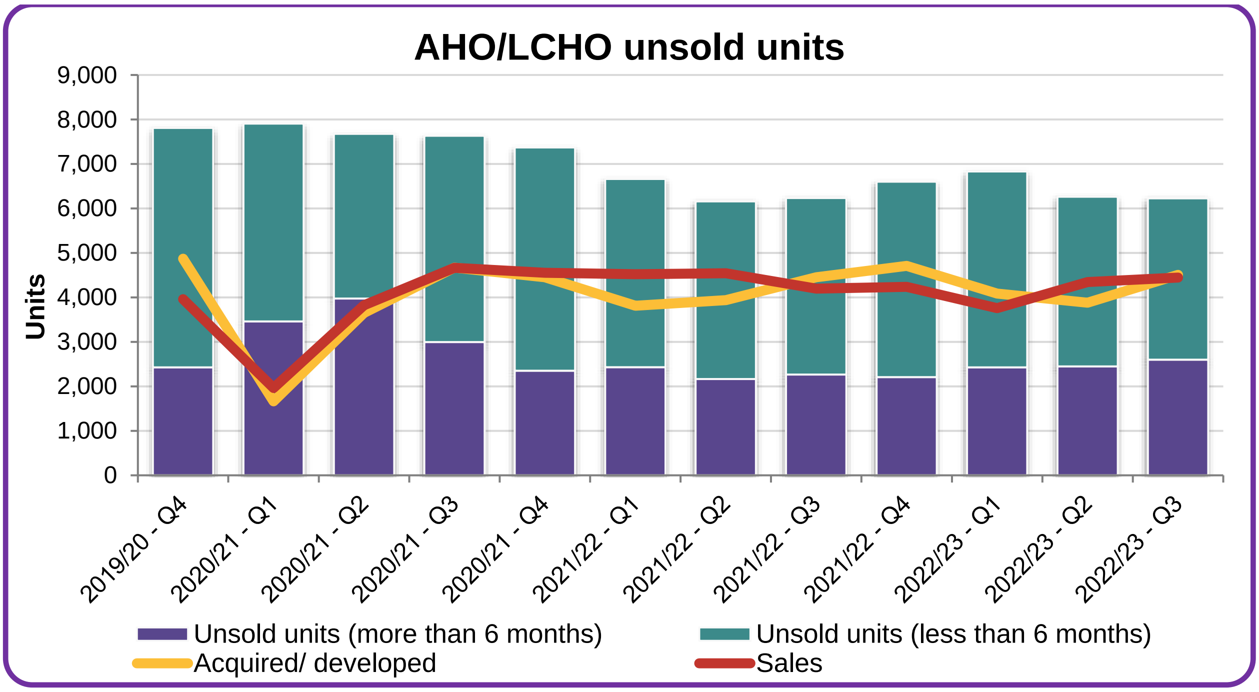
52. Sales of AHO units increased slightly by 2% to reach 4,445 units and compares to average sales of 4,084 units per quarter over the last three years. 43% of unit sales were reported by ten providers, with the largest number of unit sales from a for-profit provider.

53. The total number of unsold units reduced marginally by 1% over the quarter to 6,225 units, and the number of units unsold for over six months increased to reach 2,601. This has increased the proportion of units unsold for over six months up to 42% (September: 39%). Over half of the unsold AHO stock at the end of the quarter was held by 11 providers, each reporting over 100 units unsold. These 11 providers all reported access to sufficient liquidity, together accounting for 25% of the total facilities and cash available within the sector.

54. Units unsold for more than six months were concentrated amongst seven providers holding over 100 or more units of unsold stock, accounting for over 60% 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.

55. The overall surplus on AHO sales stood at £122.0 million in the quarter to December (September: £110.2 million), the highest value recorded since the data was first collected in 2011. This was concentrated amongst four providers, accounting for over a quarter of overall surplus. AHO sales totalled £564.7 million in the quarter, also the highest value ever reported. A margin of 21.6% was achieved on AHO sales (September: 19.6%), compared to an average of 19.6% over the last three years, however still below the pre-pandemic average of 26.5%.

Figure 7: AHO/LCHO unsold units



56. The pipeline of AHO completions expected in the next 18 months has increased to 37,325 units (September: 36,414), of which 31,818 units are contractually committed. The pipeline figures represent a 46% increase in AHO development compared to actual performance in the 18 months to December 2022, when there were 25,575 completions. Six 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	947	1,210	27.8%
Sold	1,313	1,100	(16.2%)
Margin	14.5%	15.0%	3.1%
Unsold	1,042	1,131	8.5%
Unsold for more than 6 months	503	468	(7.0%)
18-month pipeline	9,961	8,434	(15.3%)

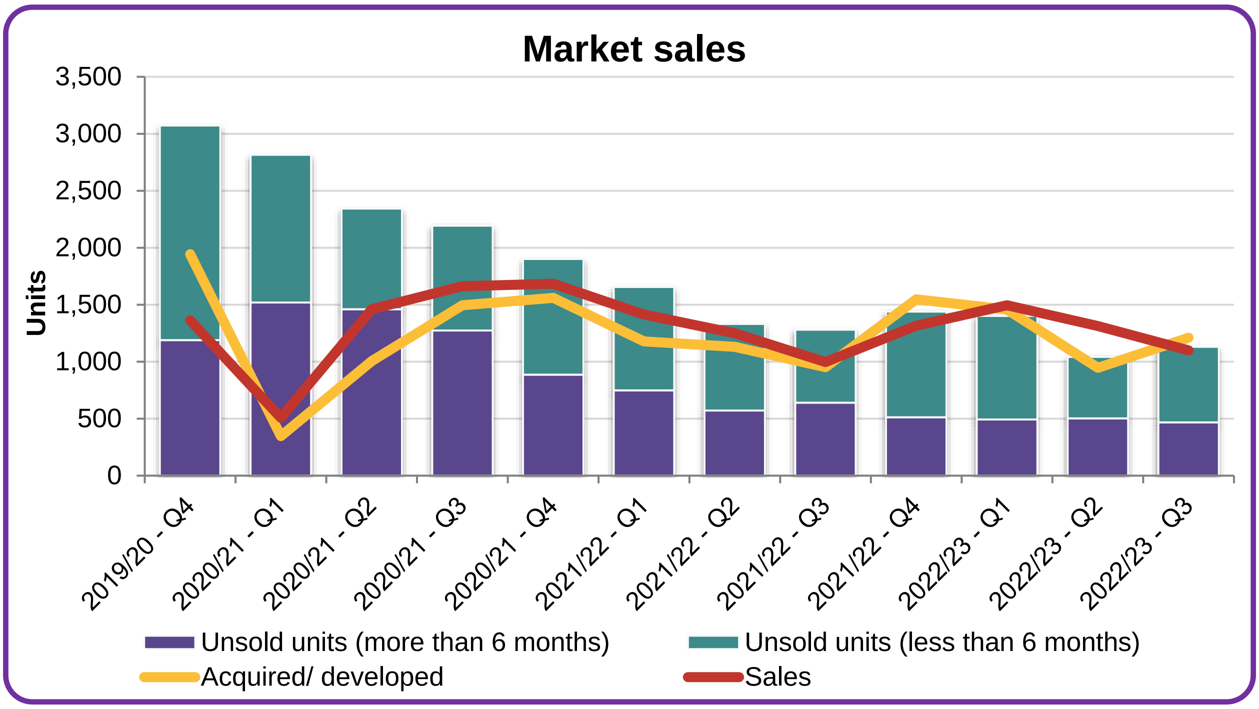
57. In the quarter to December a total of 1,210 market sale units were completed; an increase of 28% when compared to the previous quarter. This is in line with the level of completions recorded over the last three years, where the average stood at 1,231 units per quarter. Market sales were 16% lower than in the previous quarter at 1,100 units, and below the average achieved over the last three years of 1,297 units.

58. The high number of market sale completions compared to unit sales during the quarter has resulted in an increase in the total number of unsold units. However, the 1,131 unsold units reported at the quarter-end remains low compared to the previous three-year average of 1,801 units. Units unsold for over six months have decreased to 468, the lowest reported since 2018, and substantially below the average of 856 recorded over the last three years.

59. Development for outright market sale continues to be concentrated in relatively few providers, with almost 60% of the unsold market sale units reported at the end of the quarter being held by just four providers, with over 100 unsold units each. These providers each had access to between £0.6 billion and £1.8 billion worth of cash and undrawn facilities, ensuring sufficient liquidity if sales receipts are delayed.

60. The surplus on non-social housing sales amounted to £74.4 million for the quarter (September: £83.3m). Sales margins increased to 15.0%, up from 14.5% in the previous quarter. Almost a third of the total non-social housing sales income reported in the quarter were from three providers.

Figure 8: Market sales



61. For market sale, completions expected over the next 18 months stand at 8,434 units (September: 9,961), of which 7,988 are contractually committed. If achieved, this would equate to a 16% increase in market sale development in comparison to the actual completions achieved over the previous 18 months, which stood at 7,244 units. Half of the total pipeline units are reported by just eight providers.

Derivatives

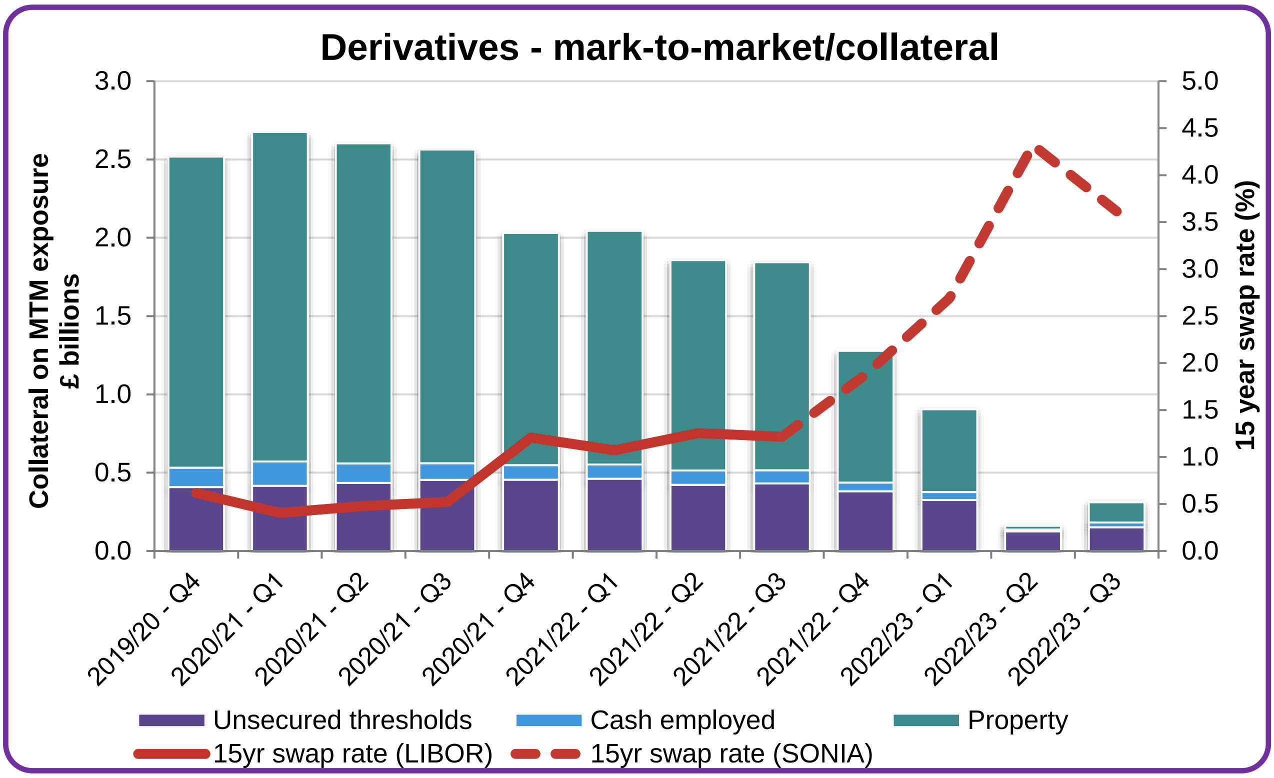
62. At the end of December, 44 providers (September: 44) reported making use of free-standing derivatives. The notional value of standalone derivatives increased to reach £8.2 billion in the quarter (September £7.9 billion).

63. Swap rates decreased over the quarter with the 15-year swap rate reducing from 4.32% at the end of September, the highest rate recorded at a quarter-end since 2009, to 3.62% at the end of December. Gross exposure increased from £0.2 billion at the end of September to £0.3 billion at the end of December, however MTM exposure levels continue to remain at an all-time low.

64. 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. Over a quarter of the providers that hold derivatives reported favourable MTM positions on all of their swaps as at the end of December.

65. At a sector level, unsecured thresholds and available security pledged to swap counterparties totalled £2.4 billion at the end of December (September: £2.6 billion).

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



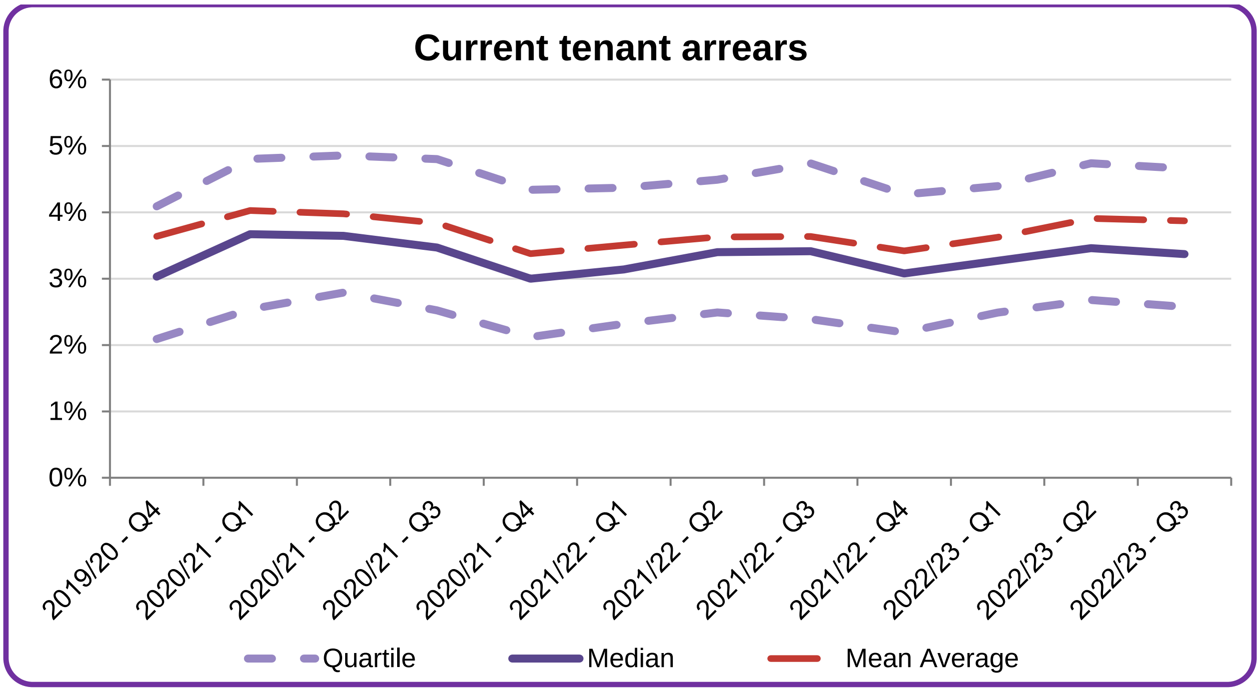
66. The above graph shows MTM exposure excluding excess collateral. Due to the large reduction in exposure since the start of the year, collateral pledged in terms of property and cash is now well above the sector's exposure levels. At the end of December, the total headroom of collateral and unsecured thresholds available over MTM exposure was £2.1 billion (September: £2.5 billion).

67. 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

68. At the end of December, 67% of providers reported that their levels of arrears, rent collection and voids were all within, or outperforming their business plan assumptions, compared to 66% at the end of September.

Figure 10: Current tenant arrears

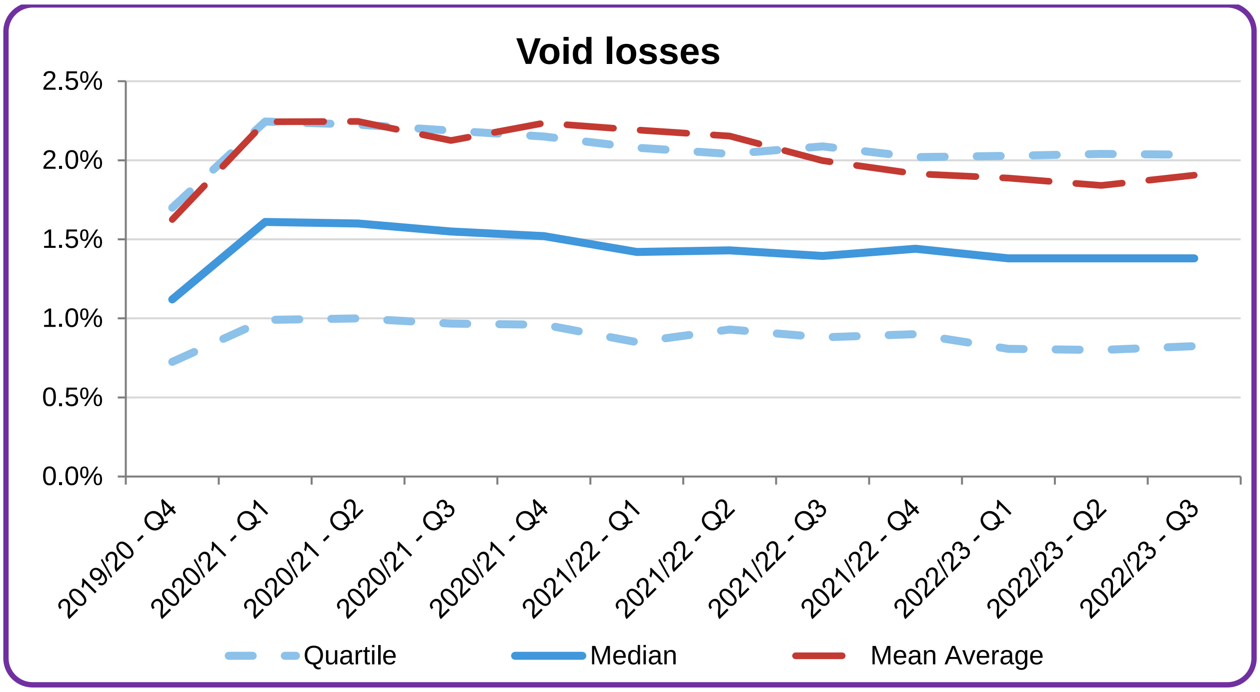


69. Mean current tenant arrears remained at 3.9% at the end of December, compared to 3.6% in the same period of 2021/22. There was a slight reduction in median arrears to 3.4% (September: 3.5%), which was consistent with the figure reported in December 2021. Around half of providers reported an increase in arrears over the quarter, and half experienced a reduction, with the timing of Housing Benefit payments and cost-of-living pressures being reported as impacting on performance.

70. The highest levels of arrears continue to be experienced by providers operating mainly in London[22], where the mean average stood at 5.8%. An average of 4.5% was recorded by providers operating mainly in the North West, and all other regions experienced arrears of between 2.5% and 3.5%.

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

Figure 11: Void losses

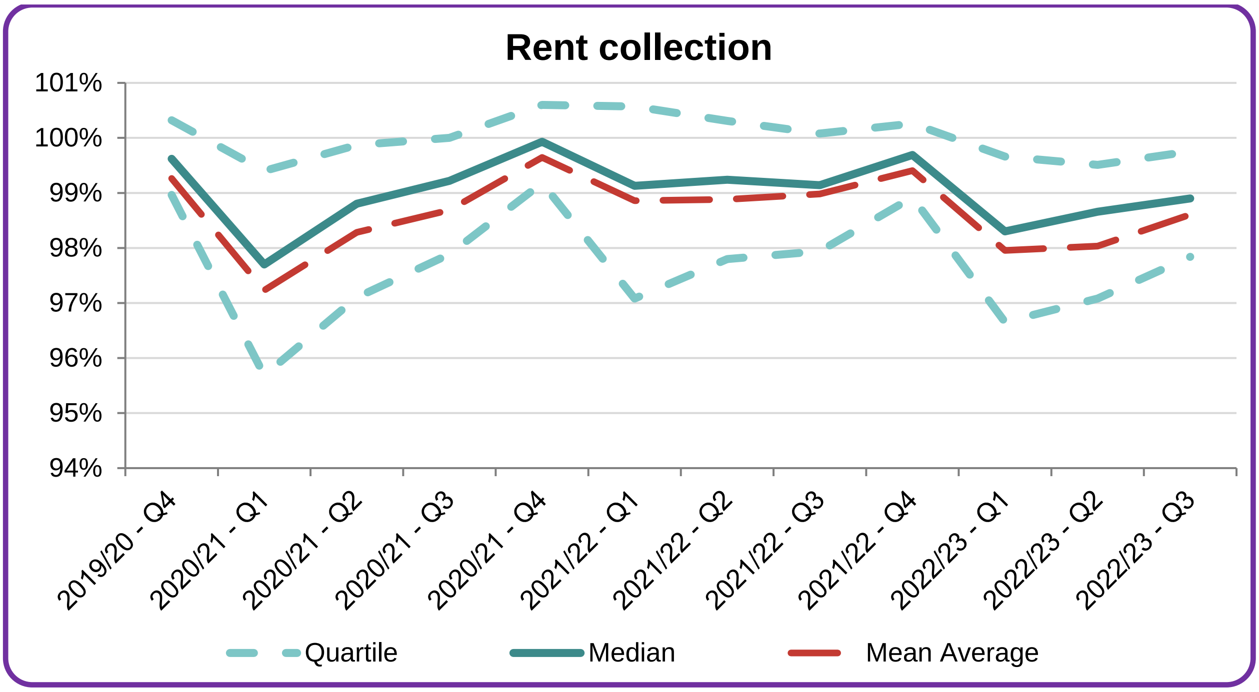


71. Median void losses remained at 1.4% for the seventh consecutive quarter. Mean void losses increased slightly to 1.9% (September: 1.8%) compared to 2.0% in the same quarter of 2021/22. Void levels increased at the start of the pandemic and have not shown signs of improvement; prior to this median void losses had averaged 1.1% in 2019/20.

72. 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 6.1%, compared to 1.5% reported by providers with less than 50%.

73. A total of 13 providers have recorded void losses of 5% or more (September: 11). Material and labour shortages continue to affect a small number of providers, either through ongoing issues or through a resulting backlog of properties. Void properties held for strategic purposes have also been reported as contributing to increased void losses.

Figure 12: Rent collection



74. Mean average rent collection rates increased from 98.0% in September up to 98.6% at the end of December. This compares to 99.0% reported in December 2021. Median rent collection rates stood at 98.9% (September: 98.7%), slightly below the 99.1% reported in the same quarter of 2021/22.

75. The number of providers reporting rent collection rates of less than 95% reduced to 10 at the end of December (September: 22, December 2021: 9), in line with seasonal trends. Although income collection can be adversely affected by the Christmas period at the end of the quarter, a number of providers apply rent-free weeks in December which typically have a positive impact on rent collection rates.

This publication is available at: www.gov.uk/rsh

Any enquiries regarding this publication should be sent to us via enquiries@rsh.gov.uk

or call 0300 124 5225.

or write to:

Regulator of Social Housing
Level 2
7-8 Wellington Place
Leeds LS1 4AP

RSH regulates private registered providers of social housing to promote a viable, efficient and well-governed social housing sector able to deliver and maintain homes of appropriate quality that meet a range of needs.