Regulator of
Social Housing

Quarterly survey for Q1

April to June 2023

September 2023

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Introduction

1. This quarterly survey report is based on regulatory returns from 202 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 2023 to 30 June 2023.

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, or there is an increasing exposure to risks from activities carried out within non-registered entities. Further assurance may also be required on covenant compliance.

4. From the data presented in this report it is evident that the sector is experiencing the effects of ongoing economic challenges and is in a weaker financial position now than it was 12 months ago. Forecasts for investment in existing stock have been continuing to increase, and the fact that actual expenditure is failing to keep pace with forecasts suggest that there is a growing backlog of investment. In general, we have assurance that PRPs are taking appropriate action to manage risks as they arise, however there is increasing evidence that providers are already making choices between investment priorities and deploying mitigations such as reducing uncommitted development or obtaining loan covenant waivers. This will mean that capacity to manage further additional costs will be limited.

5. We will continue to monitor and engage with individual providers as necessary and reflect findings in regulatory judgements where appropriate. With the passing of the Social Housing (Regulation) Act into law and subsequent increased focus on consumer issues that will follow, boards must ensure that they maintain strong and effective control over financial performance.

6. 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.

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Summary

Liquidity

Liquidity remains strong, however cash balances are the lowest in over eight years

- £123.9 billion total facilities in place at the end of June, up from £123.1 billion in March.
- New finance of £1.8 billion agreed in the quarter compared to three-year average of £2.9 billion per quarter.
- 57% of new finance relates to new bank facilities, the majority of which are revolving credit facilities.
- Loan repayments of £0.5 billion made during the quarter; the lowest in almost five years. Repayments expected to remain low - £2.0 billion forecast over the next 12 months.
- Total cash and undrawn facilities total £33.8 billion; sufficient to cover forecast expenditure on interest costs (£4.8 billion), loan repayments (£2.0 billion) and net development (£14.5 billion) for the next year.
- At £4.6 billion, cash levels are the lowest in over eight years. Forecasts show this reducing further; reaching £3.0 billion by June 2024.
- Mark-to-market (MTM) exposure on derivatives remains low, with current gross exposure of £0.1 billion, down from £0.4 billion in March; lowest level in eight years.

Performance in the quarter

A further reduction in 12-month outturn cash interest cover which remains at historically low levels – quarterly cash interest cover falls due to low net cashflows

Income collection indicators stable however marginally worse than comparative Q1 2022/23 figures

- £1.8 billion total repairs and maintenance spend in the quarter; £1.1 billion relating to revenue works and £0.7 billion relating to capital works.
- Revenue repairs and maintenance works were 3% higher than forecast, and 6% below expenditure in the previous quarter.
- 47% of providers reported delays or changes to repairs and maintenance programmes during the quarter. Around 15% of the sector report continuing high demand for damp and mould works.
- Cash interest cover in the quarter fell to 51% - the lowest level on record. Net cashflows reduced, in part due to payment of year-end accruals and annual invoices such as insurance.
- Aggregate cash interest cover (excluding all sales) for the year to June 2023 was 78%, the lowest ever recorded. Interest cover for the year to June 2024 is forecast to increase slightly to 83%.
- Interest payable is forecast to reach £4.3 billion over the next 12 months, compared to an actual figure of £3.6 billion over the previous 12 months.
- Income collection indicators generally following seasonal trends. Void performance is consistent with Q1 2022/23; arrears and rent collection are marginally worse.

Investment in new and existing stock

Market sale unit completions at lowest level since pandemic and below the three-year average – AHO completions remain in line with three-year average - Market sales pipeline remains at lowest level in eight years

12-month major repairs spend forecasts remain high as building safety and energy efficiency works are carried out

- Expenditure on capitalised repairs totalled £669 million in the quarter; 17% below forecast but the highest Q1 spend on record.
- 12-month expenditure on capitalised repairs totalled £2.8 billion. A further £3.7 billion investment is forecast over the next 12 months, the highest forecast on record.
- £3.7 billion invested in new housing properties in the quarter; 3% below the forecast for contractually committed schemes.
- Development expenditure forecast remains in line with last quarter to reach £16.8 billion over the next 12 months, of which £11.4 billion is committed.
- AHO completions at 4,193 (March: 5,305) are in line with the three-year average but market sale completions at 798 (March: 1,476) are the lowest level achieved since quarter one 2020/21.
- 18-month pipeline for AHO units stands at 34,938 units. Market sale pipeline remains in line with previous quarter at 7,807 units; the lowest in eight years.

Sales

Both AHO and market sales at lowest level since the pandemic, however margins have increased slightly for both tenures this quarter. Unsold AHO units at highest level in almost three years.

Non-social housing sales income at lowest level in eight years and a 65% drop from previous quarter

- AHO sales totalled 3,720 units (March: 4,033) and market sales totalled 675 units (March: 1,496); the lowest level achieved since the same quarter of 2020/21. Both amounts are also below the three-year average.
- Total unsold AHO units of 7,670 (March: 7,407) is above the three-year average and the highest level in almost three years. Total market sale unsold units totalled 1,334 (March: 1,124).
- Providers reporting main reasons for delays due to overrunning of development handovers, contractor insolvencies, and rising interest rates and cost-of-living pressures impacting affordability.
- Margins on AHO sales are 19.3% in the quarter (March: 18.4%). Market sale achieved margins of 14.7% (March: 14.1%).
- Current asset sales totalled £0.7 billion; 30% below forecast. Non-social housing sales income of £233 million is the lowest in eight years, and a 65% drop from previous quarter (March: £670 million).
- Fixed asset sales totalled £0.5 billion and are forecast to reach £5.1 billion over the next 12 months. This includes £3.0 billion bulk sales, mainly between PRPs.

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Operating environment

7. The quarter to June 2023 was a challenging period for PRPs, bringing inflationary pressures as well as economic and operational challenges to the housing sector. An improvement on the April 2023 forecast was mainly due to falling energy prices, however inflation remains high weighing on economic activity[1]. PRPs continue to face increasing pressure on resources and demand to invest in both new and existing stock. The credit rating agency Moody's expects a rise in merger activity to offset the number of issues facing the sector[2].

8. UK Gross domestic product (GDP) grew by 0.2% in the quarter to June 2023, following a monthly increase of 0.5% between May and June. Monthly GDP is now estimated to be 0.8% above the pre-coronavirus levels recorded in February 2020[3]. A recent report from the International Monetary Fund[4] projects that the economy will grow by 0.4% over the year, a contrast to April's forecast where a recession and a contraction of 3% on the economy was predicted.

9. Overall inflation, as measured by the Consumer Prices Index, was 7.9% in the 12 months to June 2023[5]. Annual inflation peaked at 11.1% in October 2022 and, apart from an increase in February, has been decreasing since then. The Bank of England is forecasting inflation to fall to 5.0% by the end of 2023, and to reach the 2% UK target by early 2025[6], thus price increases will continue although to a lesser extent. Post quarter-end, annual inflation reduced further to 6.8%, the lowest level since February 2022.

10. During the quarter the Bank of England announced further increases in interest rates. Base rate rose from 4.5% in May to 5.00% on 22 June. Post quarter-end, a further increase to 5.25% was announced on 3 August, bringing the rate to its highest level in over 15 years, and the 14th consecutive increase since December 2021[7].

11. The average interest rate for a typical 5-year mortgage stood at 4.95% at the end of June. Rates peaked at 5.61% in October 2022, and had been reducing gradually, however since May 2023 rates started to rise again with a large increase in June[8]. Mortgage approvals for house purchases reached 54,700 in June, an increase on the 51,100 in May, and the highest level since October 2022[9]. However, this remains below the monthly average of 62,700 during 2022.

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[1] World Economic Outlook Update, July 2023: Near-Term Resilience, Persistent Challenges (imf.org)

[2] Inside Housing - News - Moody's expects mergers to continue to offset impact of rising costs and high interest rates

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

[4] World Economic Outlook Update, July 2023: Near-Term Resilience, Persistent Challenges (imf.org)

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

[6] Monetary Policy Report - August 2023 | Bank of England

[7] Bank Rate increased to 5.25% - August 2023 | Bank of England

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

[9] Money and Credit - June 2023 | Bank of England

12. Overall construction output increased by 0.3% in the quarter to June 2023 when compared to the previous quarter. The increase came solely from June and was driven by a rise in repair and maintenance work, offset by a reduction in new works. Private new housing works fell by 3.3%, and private housing repairs and maintenance works decreased by 1.3% in the quarter[10]. Monthly construction output in June 2023 is the highest level achieved since records began in January 2010, which includes increases from both new work and repair and maintenance.

13. This is driven by higher construction costs and labour shortages constraining development despite increased funding for affordable housing. Whilst starts are expected to stabilise during the second half of the year, forecasts are 18% lower than previously predicted.

14. Annual price growth in the construction industry has slowed in June 2023 and is estimated to have decreased to 4.6%, compared with record levels in mid-2022. The overall decrease includes annual fall in the price growth of new works to 6.1%, and in repairs and maintenance works to 1.8%[11].

15. House prices in England increased by 1.7% in the year to June 2023, reaching an average of £306,000[12], the slowest rate of annual growth since July 2020. The largest annual increase was recorded in the North East (4.7%), and the region with the lowest annual growth was in London where prices decreased by 0.6%.

16. The unemployment rate for the quarter to June increased by 0.3 percentage points to reach 4.2%[13], and the number of job vacancies fell by 85,000 to 1,034,000 for the 12th consecutive period[14]. The increase in unemployment was driven by people unemployed for up to six months. The total number of people claiming Universal Credit in England was over 5.2 million in June, compared to around 5.0 million in December[15].

17. It is evident that a higher inflation and interest rate environment will remain for the foreseeable future, and providers must ensure they can navigate through the challenges this will bring and prepare for further potential rate increases. As providers proceed through the financial year, they will need to balance the requirements to maintain stock decency and complete remediation works with the need to invest in decarbonisation measures and the construction of new homes. With increased costs and a 7% rent cap in place, providers have reduced financial flexibility to respond to further challenges. Providers must be able to identify areas where covenant headroom or liquidity may be restricted and ensure that contingency plans and mitigations remain robust.

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

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

[12] UK House Price Index summary: June 2023 - GOV.UK (www.gov.uk)

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

[14] Vacancies and jobs in the UK - Office for National Statistics (ons.gov.uk)

[15] 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 £0.9 billion over the quarter, to reach £123.9 billion at the end of June (March: £123.1 billion).

19. Of the £123.9 billion total facilities, £61.0 billion (49%) relates to bank loans and £59.3 billion (48%) relates to capital market funding. £2.9 billion of the total (2%) is awaiting securitisation, either before the funding can be accessed or within a specified timeframe after being drawn.

Figure 1: Total facilities (£ billions)

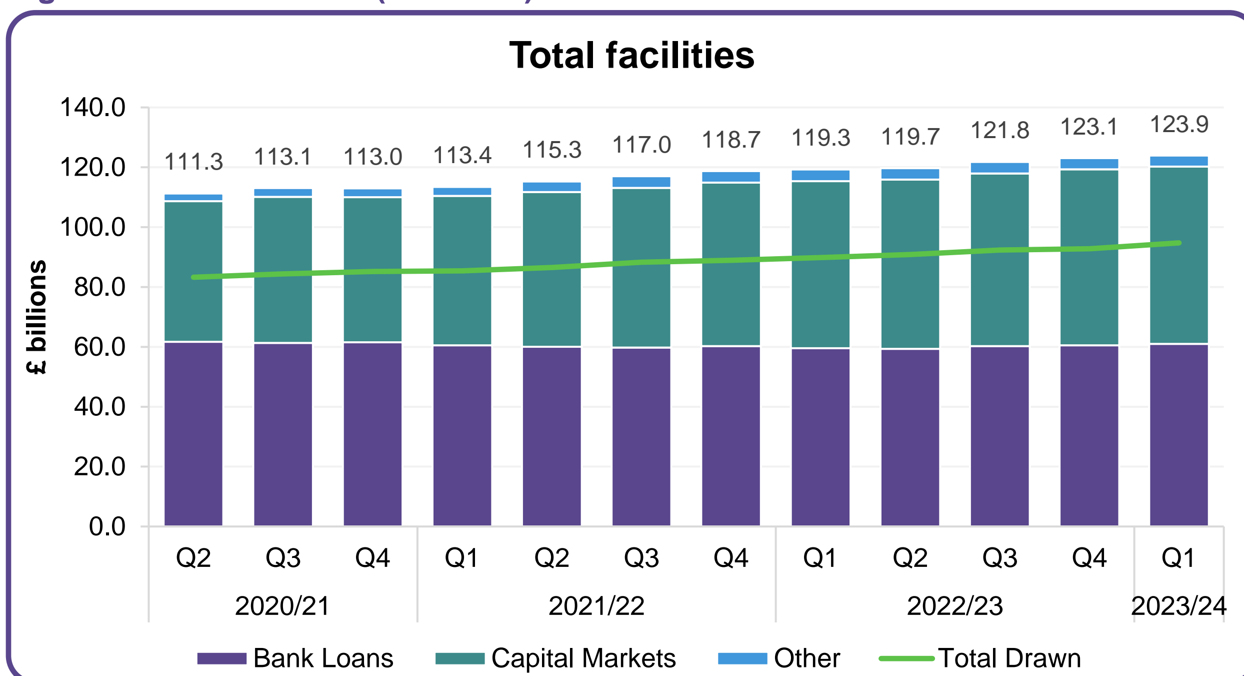

Table 1: Total facilities – drawn and secured

£billons	*Previous quarter*	*Current quarter*	*% change*
Drawn	92.8	94.7	2.1%
Undrawn	30.3	29.2	(3.6%)
Secured	111.3	112.3	0.8%
Security required	3.3	2.9	(11.7%)
Security not required	8.5	8.8	3.7%

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

21. A total of 22 providers arranged new finance during the quarter (March: 40). The total agreed, including refinancing, amounted to £1.8 billion; compared to an average of £2.9 billion per quarter over the last three years. Six providers each arranged facilities worth £100 million or more.

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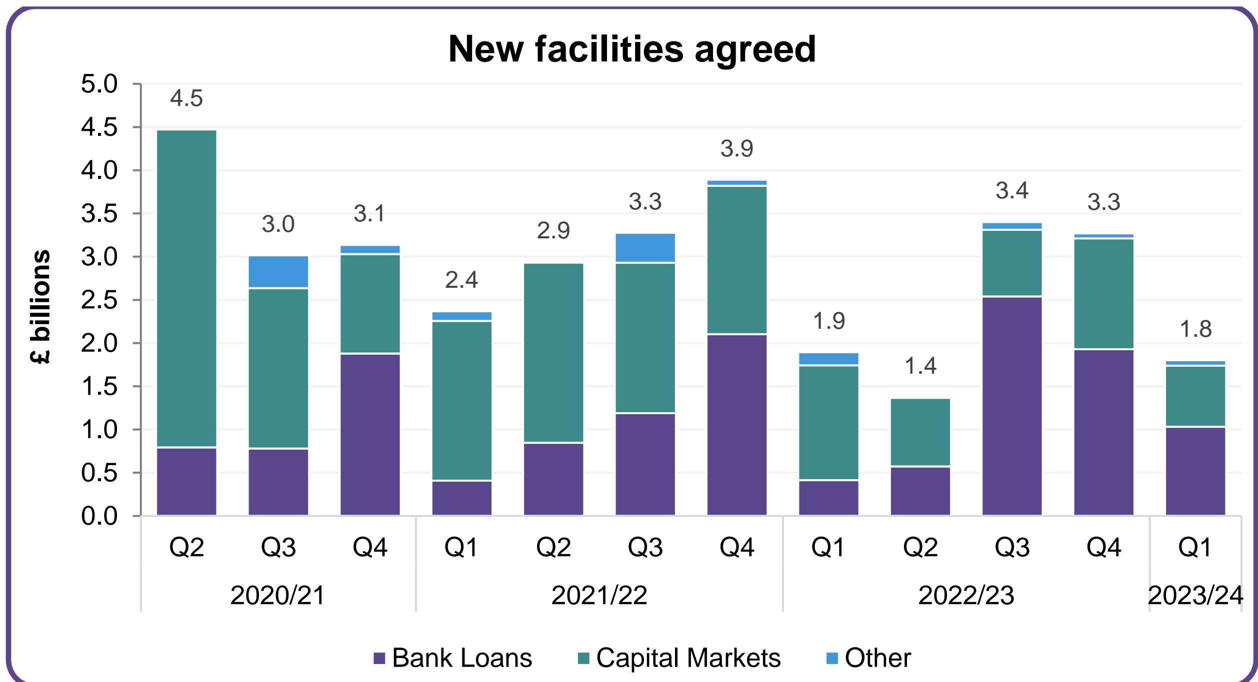
22. Bank lending accounted for 57% (£1.0 billion) of new funding arranged in the quarter, with three providers accounting for over half of this amount. The majority of new bank facilities arranged in the quarter were revolving credit facilities rather than term loans. Capital market funding, including private placements and aggregated bond finance, accounted for 39% (£0.7 billion) of the total, and other finance sources amounted to £0.1 billion.

Figure 2: New facilities agreed (£ billion)



23. Total cash and undrawn facilities available within the sector totalled £33.8 billion at the end of June (March: £35.3 billion). Total available facilities would be sufficient to cover the forecast expenditure on interest costs (£4.8 billion), loan repayments (£2.0 billion) and net development for the next year (£14.5 billion), even if no new debt facilities were arranged and no sales income were to be received.

24. Loan repayments of £0.5 billion were made in the three months to June (March: £1.3 billion), the lowest amount in almost five years. In comparison, repayments have averaged £1.1 billion per quarter over the last three years. Loan repayments are forecast to remain at relatively low levels, with a further £2.0 billion forecast for repayment over the next 12 months; the lowest 12-month forecast in over three years.

Table 2: 12-month forecasts

£billons	*Previous quarter*	*Current quarter*	*% change*
Drawdown from facilities agreed	4.7	4.5	(4%)
Drawdown from facilities not yet agreed	3.2	2.7	(14%)
Loan repayments	2.3	2.0	(12%)

25. Drawdowns from facilities not yet agreed have been forecast by 20 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 periods of economic uncertainty. The regulator engages with PRPs that have low liquidity indicators.

27. Table 3 below shows the actual performance for the quarter compared to forecast, and the 12-month cashflow forecasts to June 2024.

Table 3: Summary cashflow forecast[16]

Figures in £ billions	3 months to 30 June 2023 (forecast)	3 months to 30 June 2023 (actual)	12 months to 30 June 2024 (forecast)
Operating cashflows excluding sales	2.7	2.3	11.7
Repair & maintenance costs (capital & revenue)	(1.9)	(1.8)	(8.2)
Net operating cashflows excluding sales	0.8	0.5	3.5
Interest cashflows	(1.0)	(0.9)	(4.3)
Payments to acquire and develop housing	(4.8)	(3.7)	(16.8)
Current assets sales receipts	0.9	0.7	4.1
Disposals of housing fixed assets	0.7	0.5	5.1
Other cashflows	(0.1)	(0.1)	(1.1)
Cashflows before resources and funding	**(3.5)**	**(3.1)**	**(9.4)**
Financed by:			
Net grants received	0.5	0.5	2.3
Net increase in debt	1.7	1.9	5.2
Use of cash reserves	1.3	0.6	1.9
Total funding cashflows[17]	**3.5**	**3.1**	**9.4**

28. Cash interest cover, based on net operating cashflows excluding sales, stood at 51% in the quarter to June 2023 (March: 66%); the lowest level recorded since cashflow data was first collected in 2015. This has led to a further reduction in rolling 12-month

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

interest cover, down to 78% for the year to June (March: 87%); also the lowest level ever recorded.

29. The calculation of cash interest cover prudently excludes operating surpluses from properties developed for sale (either 1st tranche shared ownership sales or outright market sales). Calculations include all interest and repairs costs, without the deduction of capitalised interest or grant funding.

30. Interest cover for the quarter was substantially below the forecast of 80% made in March. Expenditure on total repairs and maintenance and net interest payable were both below the amounts previously forecast, meaning that the low interest cover in the quarter was wholly attributable to operating cashflows excluding repairs, which fell to £2.3 billion compared to the £2.7 billion forecast. Operating cashflows are typically lower in the first quarter of the financial year, as invoices relating to year-end accruals are settled and annual costs such as insurance premiums and licence fees are paid out. A small number of providers have also reported experiencing delays with Housing Benefit and Universal Credit payments being uplifted to reflect rent and service charge increases that were applied in April.

31. For the 12 months to June 2024 cash interest cover excluding sales receipts is forecast to average 83%; consistent with forecasts submitted in March. Although still low, it is a small improvement from the 78% recorded over the previous 12 months, and results from a forecast increase in net cashflows from operating activities of £1.6 billion. This is offset by increased expenditure on repairs and maintenance of £0.9 billion and net interest payable of £0.6 billion.

32. Around half of providers reported cash interest cover excluding sale receipts for the 12 months to June 2023 below 100%, and this is the second consecutive quarter where rolling 12-month interest cover for the sector has been below this level. Although this demonstrates the challenging operating environment, the fact that aggregate cover calculated on this basis is below, and is forecast to remain below, 100% does not mean that providers are not financially viable in the longer term.

33. However, it does mean that revenues and costs will need to be carefully managed and understood, in particular the exposure to interest rate risk. Approximately 20% of sector debt is held at a variable rate, and a further £2.7 billion worth of debt is forecast to be drawn in the next 12 months from facilities that have not yet been agreed, both of which will be affected by recent rises in interest rates. Actual interest payable over the 12 months to June 2023 amounted to £3.6 billion, and annual 12-month forecasts have gradually increased from £3.6 billion in June 2022 up to the current forecast of £4.3 billion (March £4.0 billion).

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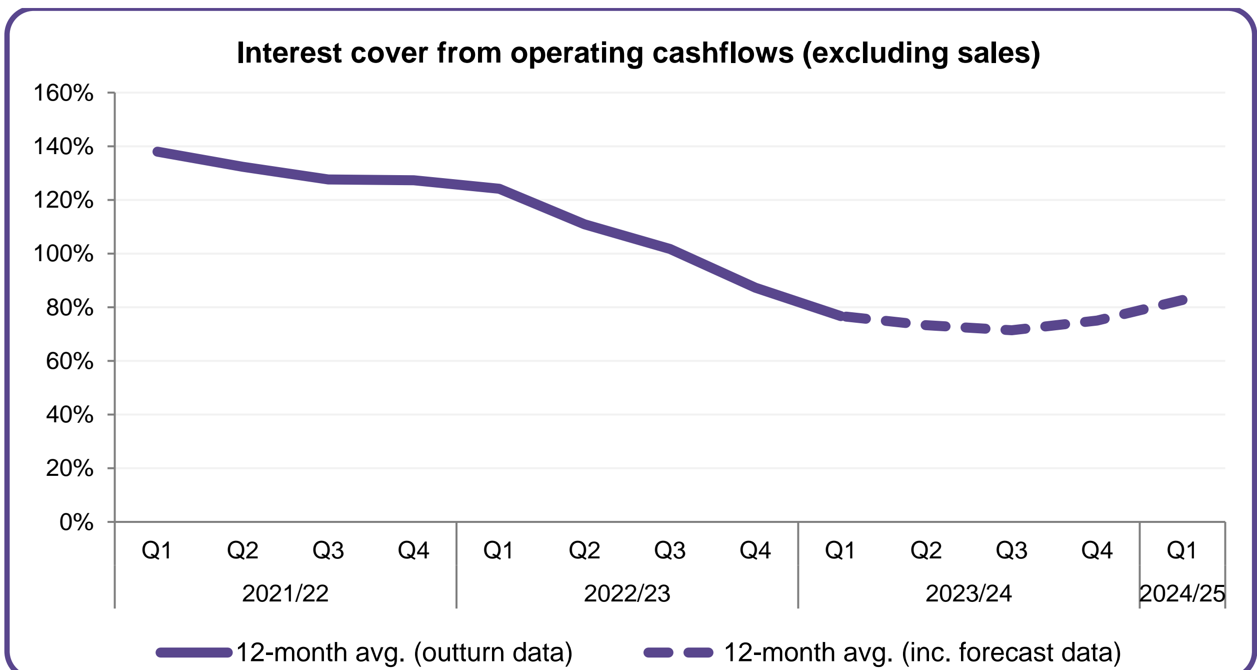
34. Data collected for the first time this quarter shows that 92% of providers consider interest cover to be their tightest Statement of Comprehensive Income based loan covenant; however individual covenants will be calculated on a varying basis and often allow the inclusion of surpluses from current asset sales.

35. A total of 47 providers report having one or more loan covenant waivers in place, compared to 56 at the end of March. The reduction is due to a number of waivers expiring that related specifically to the 2022/23 financial year, the majority of which were to exclude one-off loan breakage costs. Providers are continuing to make use of loan covenant waivers in order to prioritise and increase investment in existing stock. A total of 27 providers have reported having a waiver in place to exclude the exceptional costs of building safety works from loan covenant calculations, and a further 25 waivers have been disclosed in respect of energy efficiency or decarbonisation works. An additional five waivers relate to general major works expenditure.

36. Despite the potential mitigating factors referenced above, it is evident that levels of interest cover have deteriorated and are set to remain depressed over the next 12 months. Increasing interest rates combined with increasing investment in existing stock will inevitably result in weakened financial performance and reduced capacity to manage downside risk, including meeting any additional expenditure requirements, and reduced headroom was a factor in many of the viability regrades published towards the end of 2022. There are currently only a small minority of providers that are actively managing their covenant compliance position, however the regulator will continue to monitor the financial viability of providers that are forecasting low interest cover and will engage with providers as necessary, reflecting findings in regulatory judgements where appropriate.

Figure 6: Interest cover from operating cashflows (excluding sales)



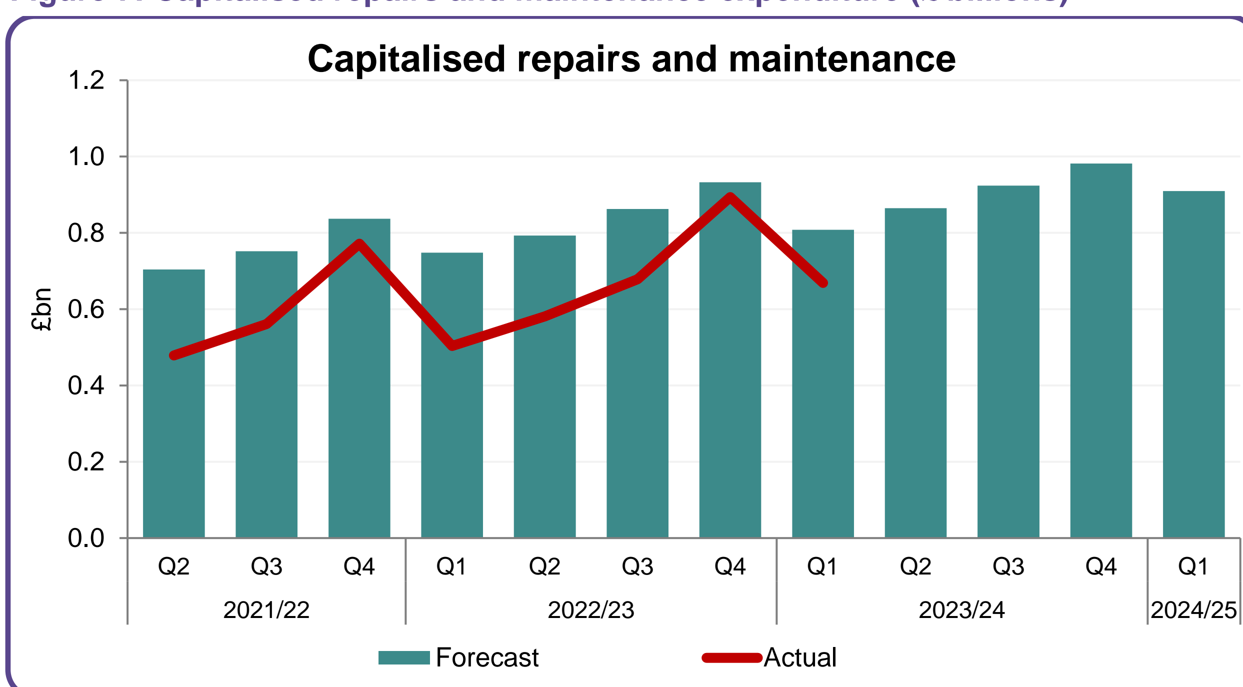
37. Total repairs and maintenance spend in the quarter was £1.8 billion; of which £1.1 billion related to revenue works and £0.7 billion related to capital works.

38. At £1.1 billion, revenue repairs and maintenance works were 3% higher than the amount previously forecast, and 6% below the amount incurred in the previous quarter. In the 12 months to June 2023 revenue repairs and maintenance expenditure was £4.4 billion. For the 12 months to June 2024 the sector has forecast revenue repairs and maintenance expenditure of £4.5 billion, a 2% increase on the 12-month forecast made in March.

39. Actual expenditure on the capitalised element of repairs and maintenance amounted to £669 million during the quarter. This is 17% less than the amount previously forecast and 25% below the expenditure recorded in the previous quarter, but it is the highest quarter one spend since cashflow data was first collected in 2015 and 33% higher than the same period of 2022. Capital works can often be delayed during the first quarter of the year as annual contracts are tendered and initial surveys are carried out, and forecasts show capitalised expenditure increasing further over the rest of the financial year.

40. In the 12 months to June 2023 capitalised expenditure on repairs and maintenance was £2.8 billion (June 2022: £2.3 billion). For the 12 months to June 2024 the sector has forecast capitalised repairs and maintenance expenditure of £3.7 billion, of which one- quarter is attributable to eight providers. This is a 5% increase on the 12-month forecast made in March, and both the 12-month outturn and the 12-month forecast expenditure are the highest on record.

Figure 7: Capitalised repairs and maintenance expenditure (£ billions)



41. During the quarter, 48% of providers experienced delays or made changes to repairs and maintenance programmes (March: 55%), of which around a third attributed these to temporary factors such as tenant consultations and contract finalisation. Of the providers reporting ongoing or longer-term issues, around half - equivalent to around 15% of the sector - reported being affected by continuing high demand for damp and mould works, either as a result of increased customer awareness or from carrying out proactive property inspections. Other reported issues continue to include limited availability of contractors, particularly for specialist works, and price inflation leading to work programmes being reassessed and, in some cases, postponed until later years. A number of providers have reported making increased provision within 2023/24 repairs budgets to allow for higher contract costs and a greater volume of works, in particular damp and mould works.

42. Current asset sales of £3.9 billion were achieved in the 12 months to June 2023, compared to the £4.9 billion forecast at the start of the period. For the 12 months to June 2024 the sector has forecast a further £4.1 billion worth of current asset sales (March: £4.0 billion), of which £3.8 billion relates to properties for which development is contractually committed (March: £3.6 billion).

43. In the 12 months to June 2023 fixed asset sales totalled £2.7 billion. For the 12 months to June 2024 the sector has forecast a further £5.1 billion worth of fixed asset sales (March 12-month forecast: £4.8 billion), of which £2.2 billion relates to sales to tenants or other open market sales (including mainly staircasing, RTB/RTA and sale of void properties). The remaining £3.0 billion relates to other fixed asset sales, including bulk sales to other registered providers. Over half of this amount is attributable to just one provider, where sales to related group companies are planned.

44. Available cash balances, excluding amounts held in secured accounts, reduced by £0.4 billion during the quarter to reach £4.6 billion (March: £5.1 billion), with 68% of the sector reporting a reduction compared to the previous quarter. Over the last five quarters, cash balances have reduced by £2.0 billion and are now at the lowest level in over eight years. Cash balances are forecast to continue reducing down to £3.0 billion over the next 12 months as reserves are used, primarily, to fund development programmes. In addition to this, a small number of providers have reported reducing the amount of surplus cash that they hold in response to rising interest rates, as the cost of drawing additional debt increases.

45. In addition to the £4.6 billion available, cash held in secured accounts or otherwise inaccessible to providers totalled £1.1 billion (March: £1.3 billion). Typically, these amounts relate to mark-to-market (MTM) cash collateral, amounts in escrow, leaseholder sinking funds, and cash held on long-term deposit.

Development

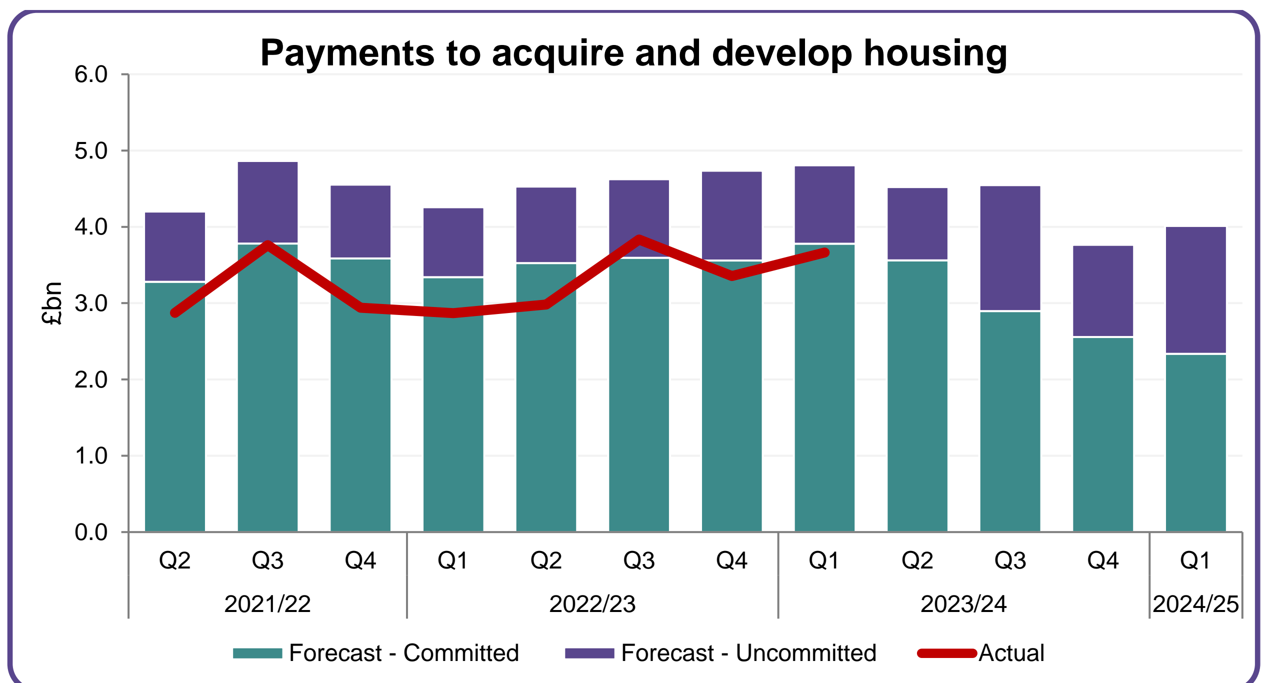
46. In the 12 months to June 2023, £13.8 billion was invested in the acquisition and development of housing properties. This compares to £12.4 billion in the year to June 2022, and £11.6 billion in the year to June 2021.

47. Actual expenditure in the quarter to June 2023 amounted to £3.7 billion (March: £3.4 billion); 9% higher than the previous quarter and above the £3.0 billion average quarterly expenditure incurred over the last three years. Development spend is relatively concentrated, with half of the sector spend during the quarter being reported by 19 providers, with expenditure of over £60 million each. These were mainly providers based in London and the South East, who accounted for 20% of the overall expenditure.

48. Expenditure was 24% below the £4.8 billion forecast for the quarter, and 3% below the £3.8 billion forecast for contractually committed schemes. Underspends against development forecasts are common and widespread, with 78% of providers reporting expenditure below the amount forecast for both committed and uncommitted schemes, and 50% reporting expenditure below the forecast for committed schemes.

49. In addition to planning and development delays and timing differences, other issues reported by providers include delays in land acquisition and contractor insolvencies. A minority of providers have stated that they are continuing to assess their appetite to enter new uncommitted development, contributing to lower spend compared to forecast whilst schemes are under review.

Figure 8: Payments to acquire and develop housing



50. For the next 12 months a further £16.8 billion (March: £16.8 billion) worth of investment has been forecast, of which £11.4 billion (March: £11.4 billion) is contractually committed. A small number of providers have also revised business plans to reduce overall development spend, particularly uncommitted schemes.

51. Forecast 12-month development payments have remained in line with the previous quarter's forecast of £16.8 billion. 53% of providers had increased their forecast expenditure from last quarter, however this is offset by 47% of providers who had reduced or not changed their forecast. £1.1 billion of the forecast spend is attributable to three for-profit providers, where the majority of this expenditure relates to a bulk sale associated with an intercompany transaction.

Housing market

52. 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 £1.1 billion in the quarter to June (March: £1.9 billion). AHO first tranche sale proceeds of £448 million were reported, below the three-year average of £504 million. Non-social housing sales totalled £233 million, compared to a quarterly average of £570 million over the last three years.

53. Total cash receipts in respect of current asset sales (market sales and first tranche AHO sales) amounted to £0.7 billion in the quarter, compared to £1.1 billion in the quarter to March. Sales were 30% below the total forecast, driven by eight providers who accounted for 77% of the overall variance. These providers each had sales of over £10 million behind forecast.

54. The main reasons for the delays to sales are due to overrunning of development handovers, contractors entering administration, and a general slow down of the property market. Providers have reported increased difficulty for purchasers to obtain mortgages as a result of rising interest rates and cost-of-living pressures impacting affordability, notably in outright sales.

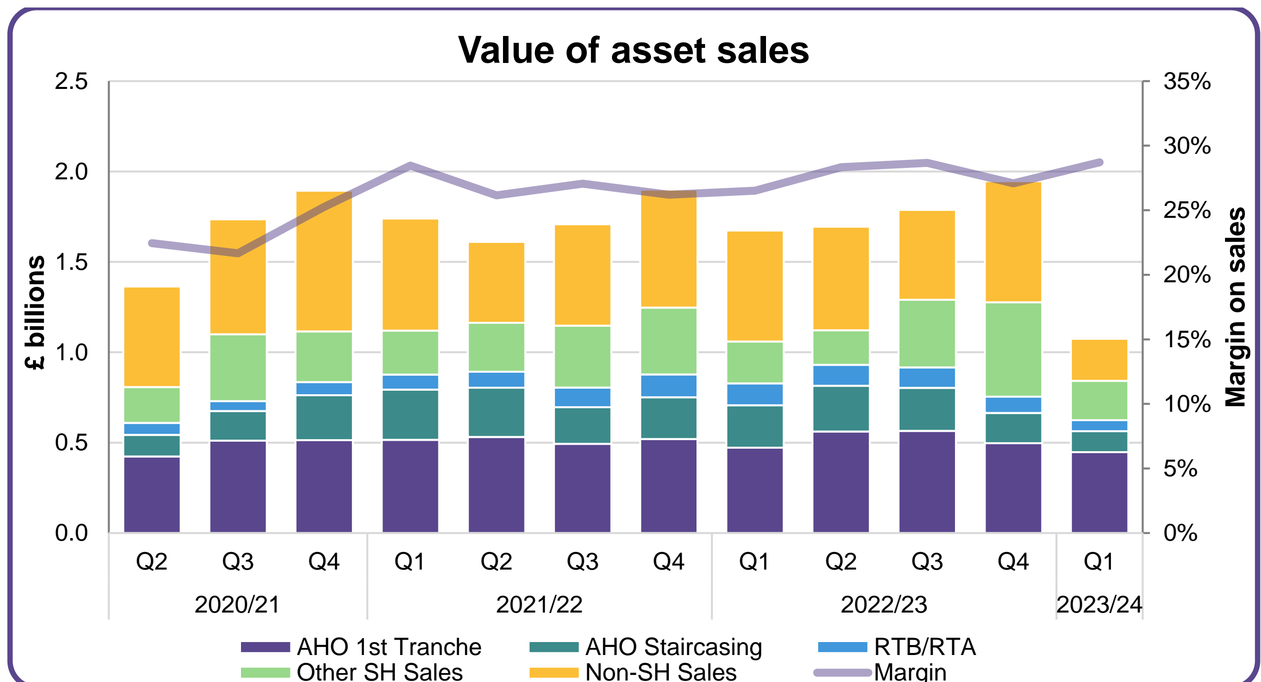
55. Total fixed asset sales amounted to £0.5 billion (March: £0.8 billion); 30% below the amount forecast in March, and 43% below the amount achieved last quarter. Fixed asset sales are categorised as either sales to tenants/open market sales, or other sales (bulk disposals to other organisations, including stock transfers and rationalisation).

- Sales to tenants and other open market sales (including staircasing, RTB/RTA and voluntary sales) amounted to £0.3 billion (March: £0.4 billion), 23% below the amount previously forecast. This was driven by three providers who accounted for half of the

overall variance. 15 providers each reported sales in excess of £5 million, together accounting for over 50% of the sector total.

- Fixed asset sales to other organisations amounted to £0.2 billion (March: £0.4 billion), with over 40% relating to an intercompany transfer between a for-profit provider. The outturn figure for the quarter was 39% below the amount previously forecast. Over half of the adverse variance was attributable to just one provider, where a transaction is anticipated to complete later in the year. £156 million (90%) of the total receipts were reported by just six providers.

Figure 9: Value of asset sales



56. Overall surpluses from asset sales reduced to £0.3 billion for the quarter, however the overall margin increased from 27% to 29%. This is above the average margin achieved over the last three years of 27%, although margins tend to increase in the first quarter of the year.

Table 4: AHO units

AHO units	*Previous quarter*	*Current quarter*	*% change*
Completed	5,305	4,193	(21.0%)
Sold	4,033	3,720	(7.8%)
Margin	18.4%	19.3%	(0.9%)
Unsold	7,407	7,670	3.6%
Unsold for more than 6 months	2,374	2,549	7.4%
18-month pipeline	36,979	34,938	(5.5%)

57. The number of AHO properties completed during the quarter dopped by over 20%, following the highest level recorded in Q4, but remained in line with the three-year average of 4,100 units per quarter. Over the year, a total of 17,885 AHO units have been completed, compared to 17,188 in the year to June 2022, and 16,584 units in the year to June 2021.

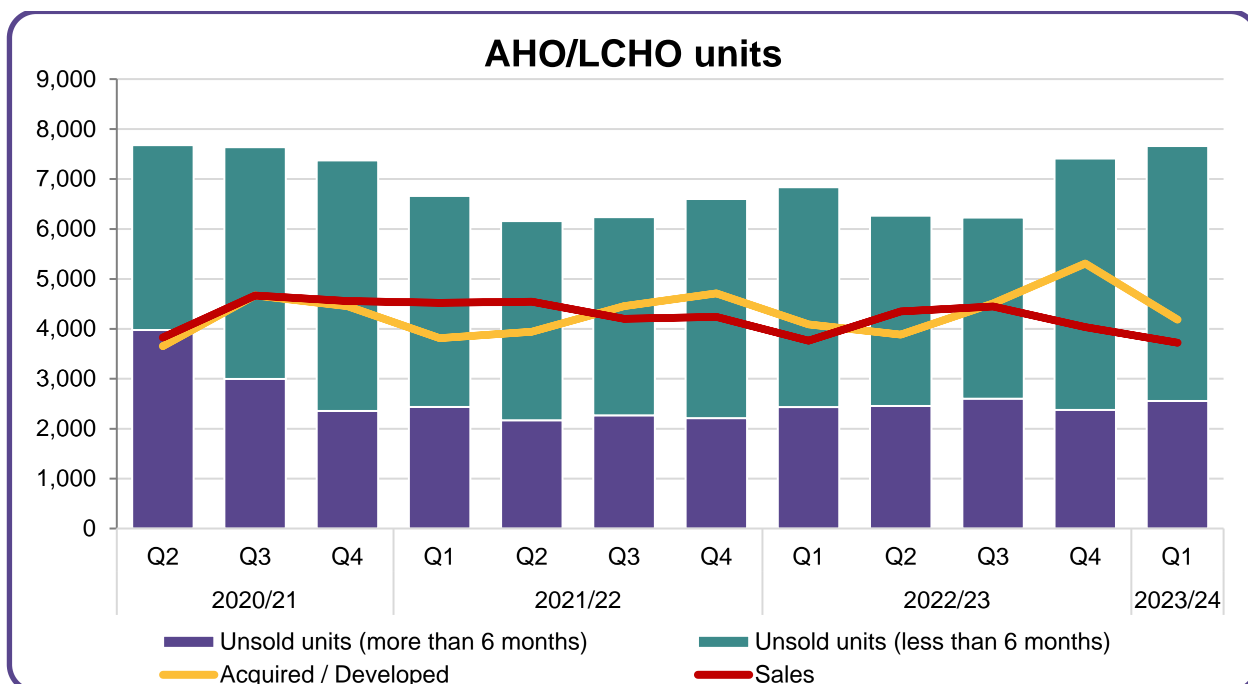
58. Sales of AHO units were 8% lower than in the previous quarter and below the average of 4,062 units per quarter over the last three years. It is also the lowest level achieved since quarter one 2020/21 during the pandemic. Five providers each reported sales of more than 100 AHO units during the quarter, accounting for almost 30% of the sector total. A total of 16,543 AHO sales were recorded during the year, compared to 16,736 in the year to June 2022 and 17,563 in the year to June 2021.

59. The below-average sales have resulted in a 3% increase in the total number of unsold units over the quarter, up to 7,670 units; the highest level in almost three years. Six providers each reported an increase of over 50 unsold AHO units, with one for-profit provider accounting for almost 40% of the total increase. The number of units unsold for over six months has increased by 7% to 2,549, slightly increasing the proportion of stock unsold for over six months up to 33% (March: 32%).

60. Units unsold for more than six months were concentrated amongst 11 providers, each of which held over 50 units of unsold stock. Together they accounted for almost 70% of the sector total. 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.

61. Sales proceeds from 1st tranche AHO sales amounted to £448 million during the quarter (March: £497 million). The overall surplus on AHO sales stood at £86 million (March: £91 million), resulting in an average margin of 19.3% (March: 18.4%). This is in line with the average margin of 19.3% over the last three years.

Figure 10: AHO/LCHO units



62. The pipeline of AHO completions expected in the next 18 months has reduced by 6% to 34,938 units (March: 36,979), of which 30,596 units are contractually committed. Almost half of the reduction is attributable to one provider and this is the lowest pipeline figure since the same quarter of 2020/21. The pipeline figure still represents a 31% increase in AHO development compared to actual performance in the 18 months to June 2023, when there were 26,681 completions. Seven providers have each reported over 1,000 pipeline units, accounting for 27% of the overall total. This includes two for-profit providers.

Table 5: Market sale units

Market sale units	*Previous quarter*	*Current quarter*	*% change*
Completed	1,476	798	(45.9%)
Sold	1,496	675	(54.9%)
Margin	14.1%	14.7%	0.6%
Unsold	1,124	1,334	18.7%
Unsold for more than 6 months	487	536	10.1%
18-month pipeline	7,809	7,807	(0.0%)

63. A total of 798 market sale units were completed in the quarter to June; a decrease of 46% when compared to the previous quarter (March: 1,476) significantly below the average of 1,161 units per quarter over the last three years. This is the lowest level achieved since the same quarter of 2020/21, the start of the pandemic. In the year, a

total of 4,431 market sale units have been completed, compared to 5,087 in the year to June 2022 and 5,238 units in the year to June 2021.

64. Units sold dropped to their lowest level in three years since quarter one of 2020/21, and at 675 units, were 55% lower than in the previous quarter, which is also around half the average units per quarter achieved over the last three years. This was driven by three providers who had a reduction in sales of over 160 units each, accounting for 73% of the overall decrease. In the year to June 2023 a total of 4,584 market sales were achieved, compared to 5,058 in the year to June 2022 and 6,222 sales in the year to June 2021.

65. Due to the reduction in units sold at the end of the quarter, the total number of unsold market sale properties had increased by almost 20% to 1,334 units (March: 1,124), however remains below the three-year average of 1,615 units per quarter. Of these, 40% (March 43%) had been unsold for over six months.

66. Development for outright market sale continues to be concentrated in relatively few providers. 15 providers each developed over 100 market sale units during the year, together accounting for 81% of the sector total, and 18% of total market sale development during the year was attributable to just one provider. Over half of the total unsold units at the end of the quarter were held by five providers. These providers each had access to between £0.2 billion and £1.5 billion worth of cash and undrawn facilities, ensuring sufficient liquidity if sales receipts are delayed.

67. Total non-social housing sales income amounted to £233 million during the quarter (March: £670 million), the lowest amount in eight years. This is a 65% drop compared to last quarter, where the sales value was the highest amount in two years. Over half of the reduction was attributable to two providers, who achieved over £100 million less than previous quarter. The surplus on non-social housing sales reduced to £34 million (March: £94 million), however the average margin increased to 14.7% (March: 14.1%). This is slightly lower than the three-year average margin of 14.8%, but higher than the margin achieved in June 2022 of 12.7%.

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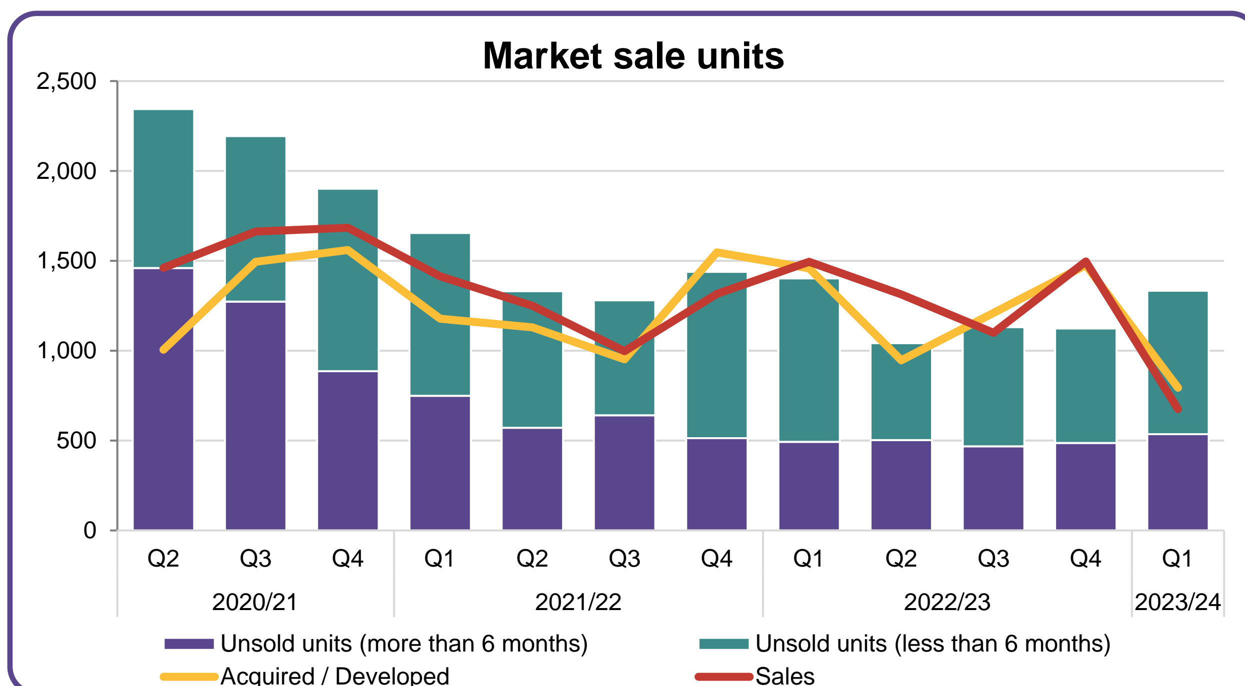
Figure 11: Market sale units



68. The pipeline of market sale completions expected over the next 18 months remained unchanged at 7,807 units (March: 7,809), of which 7,416 units are contractually committed. The total pipeline remans at the lowest level in eight years. If achieved, it would represent a 5% increase in development compared to the actual completions achieved over the previous 18 months, which stood at 7,436 units. Half of the total pipeline units are reported by just seven providers.

Derivatives

69. At the end of June, 43 providers (March: 43) reported making use of free-standing derivatives. The notional value of standalone derivatives stood at £8.1 billion (March: £8.0 billion) in the quarter.

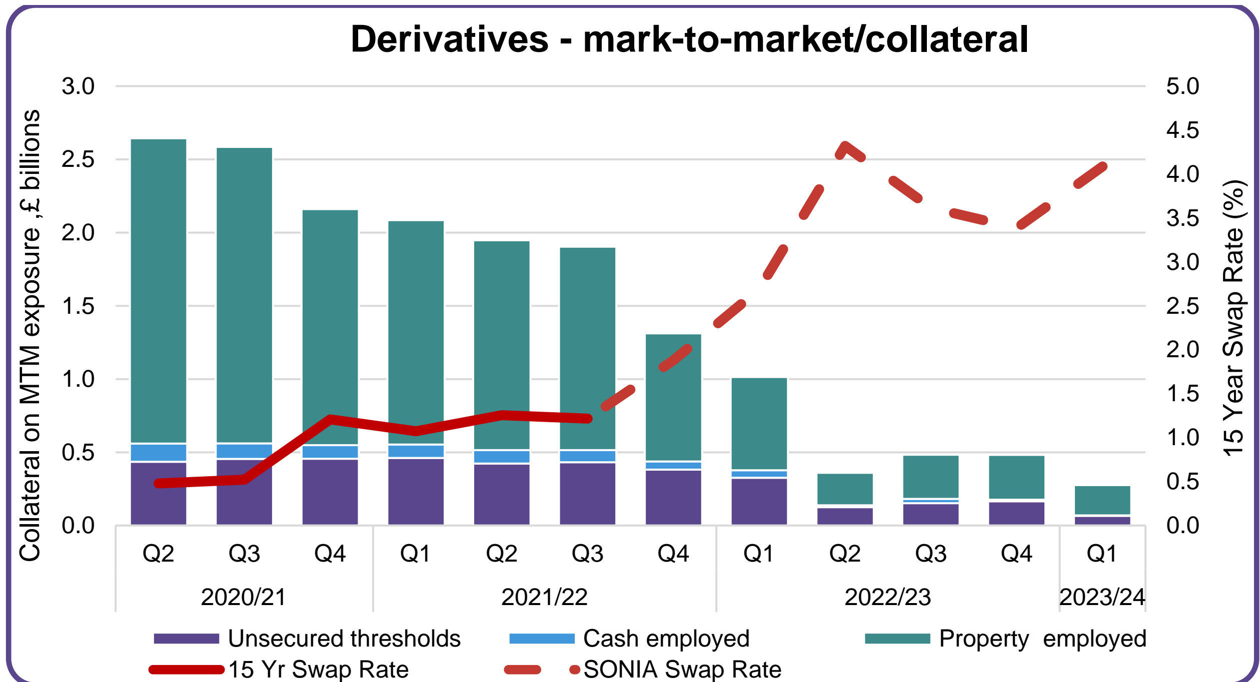
70. Swap rates increased over the quarter, with the 15-year swap rate increasing from 3.39% at the end of March to 4.09% at the end of June. This resulted in gross MTM exposure reducing from £0.4 billion to £0.1 billion over the same period, the lowest level in eight years. MTM exposure levels continue to remain at historically low levels, whilst the swap rate has remained above 2% since the same quarter last year.

71. Of the 43 providers that were making use of free-standing derivatives, 42 had collateral pledged that exceeded or equalled their level of exposure. The one provider that was under-collateralised at the end of the quarter was not required to provide additional

security to cover exposure. Nine providers reported favourable MTM positions on all of their swaps as at the end of June.

72. At sector level, unsecured thresholds and available security pledged to swap counterparties remained unchanged at £2.2 billion at the end of June.

Figure 12: Derivatives – Mark-to-market/collateral



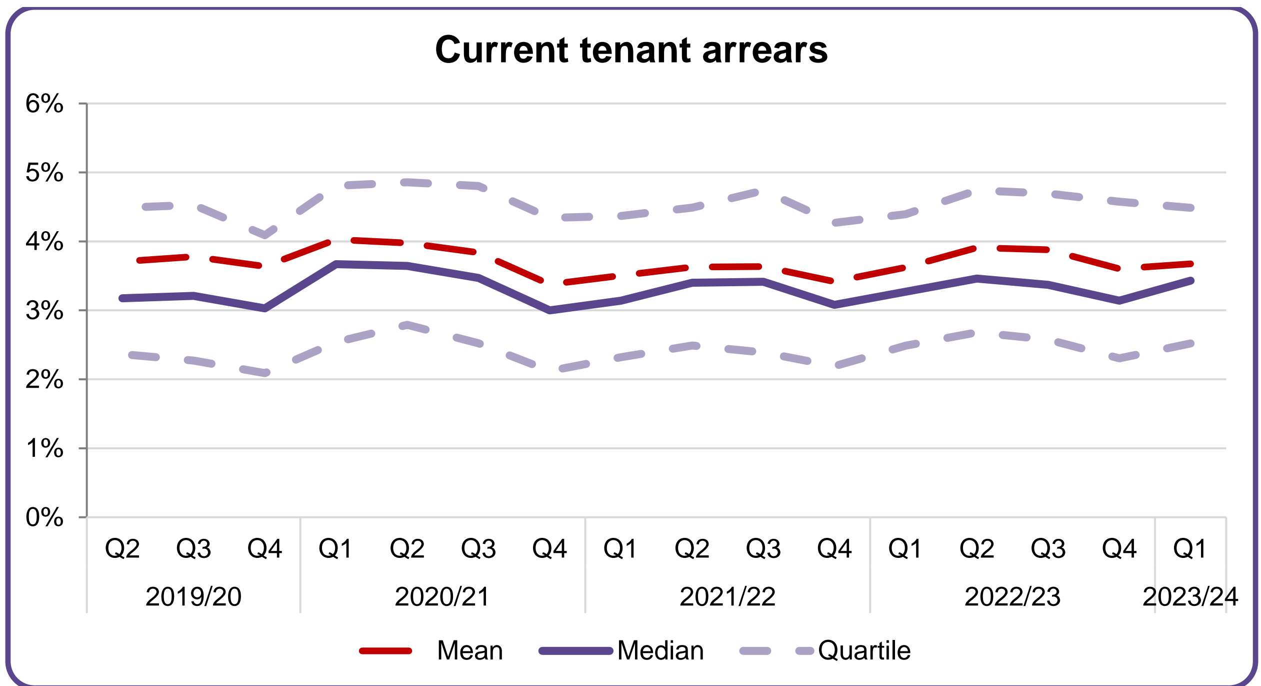
73. The above graph shows MTM exposure excluding excess collateral. Due to the large reduction in exposure over the last 12 months, collateral pledged is well above the sector's exposure levels. At the end of June, the total headroom of collateral and unsecured thresholds available over MTM exposure was £2.1 billion (March: £1.9 billion).

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

Income collection

76. At the end of March, 66% 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 13: Current tenant arrears

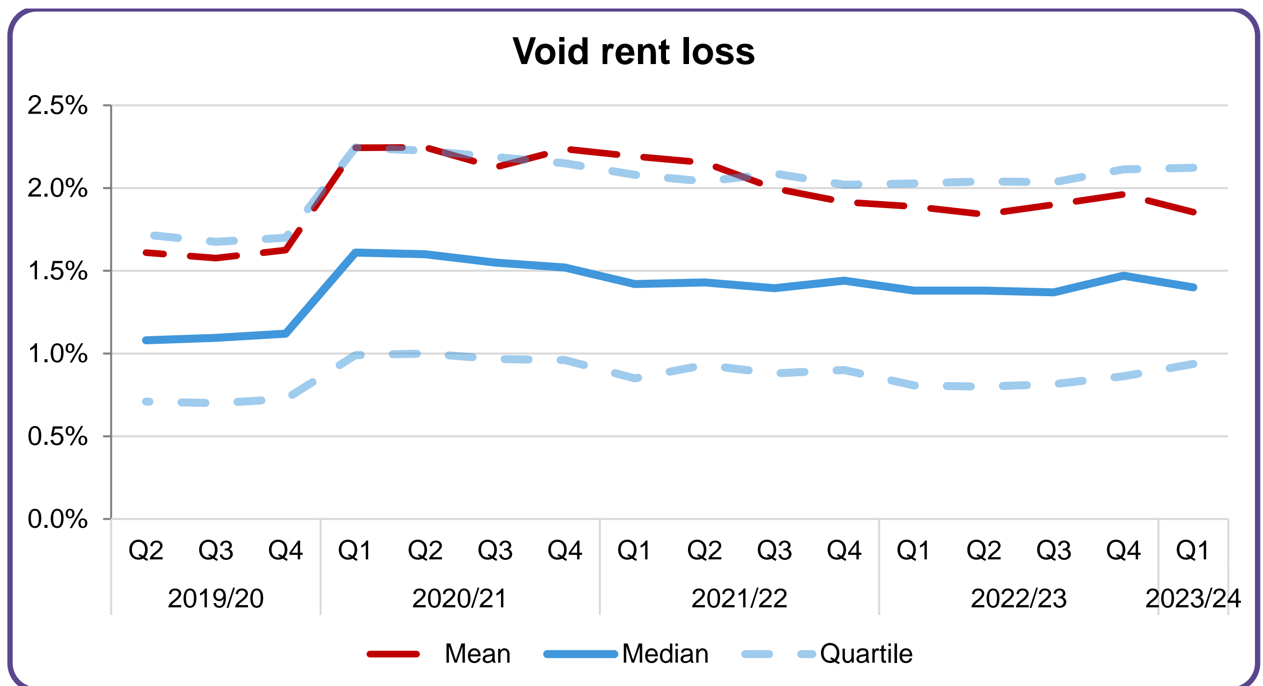


77. Mean current tenant arrears increased marginally to 3.7% at the end of June (March: 3.6%), and median arrears increased to 3.4% (March: 3.1%). An increase in arrears in quarter one is consistent with cyclical trends; however, the level reported is higher than the corresponding periods of both 2022 and 2021, when mean arrears stood at 3.6% and 3.5% respectively. Providers continue to report tenants being affected by cost-of-living pressures. Arrears at the quarter-end are also affected by the timing of Direct Debit and Housing Benefit payments.

78. The highest levels of arrears continue to be experienced by providers operating mainly in London[18], where the mean average stood at 5.7%. In all other regions arrears ranged between 2.5% and 3.8%.

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

Figure 14: Void losses

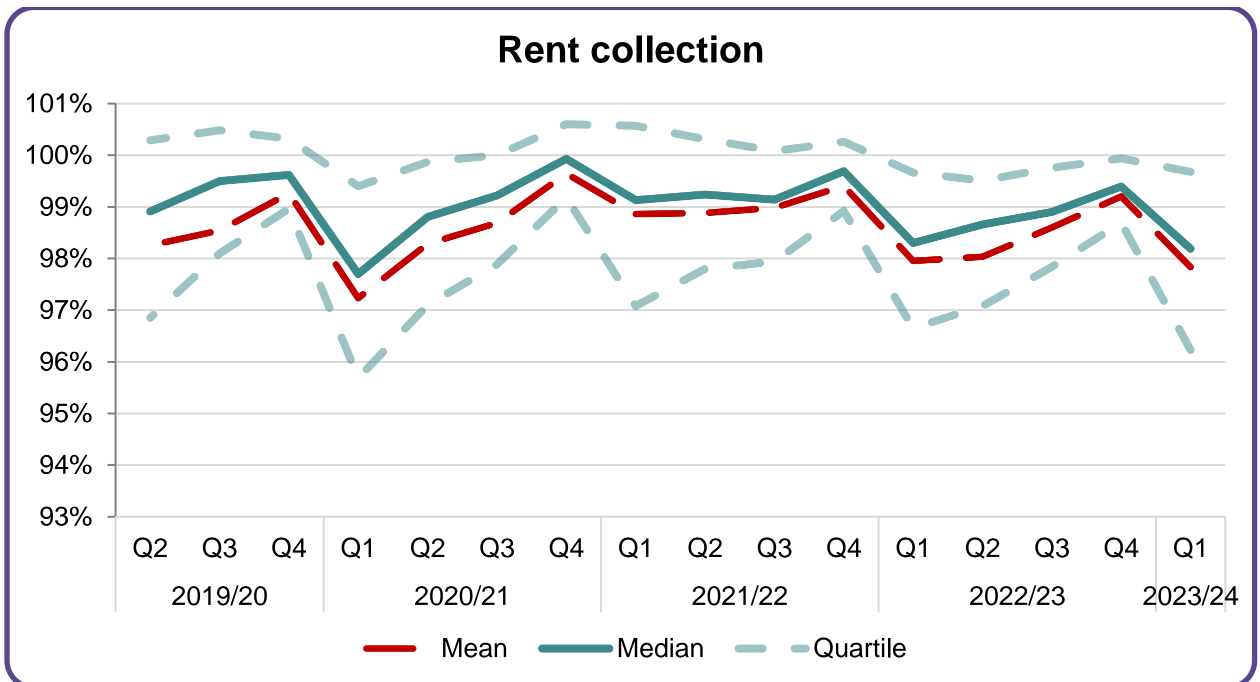


79. Median void losses returned to 1.4% at the end of June, following a slight increase to 1.5% in the previous quarter. Prior to this, the median had stood at 1.4% since June 2021. Mean void losses reduced to 1.8% (March: 2.0%), slightly below the same period of 2022 (1.9%).

80. 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 fewer than 50%. A total of 10 providers recorded void losses of 5% or more (March: 11).

81. Around a quarter of providers reported being outside of their business plan assumptions for voids. A small number of providers have reported holding void properties for longer to ensure that all relevant works, including fire safety and damp works, are carried out, or to assess their long-term viability.

Figure 15: Rent collection



82. Mean average rent collection rates reduced from 99.2% at the end of March to 97.8% at the end of June, with the median reducing from 99.4% to 98.2%. Both the mean and median are below the collection rates recorded in the same quarters of 2022 and 2021, when median rent collection rates stood at 98.3% and 99.1% respectively.

83. The number of providers reporting rent collection rates of less than 95% stood at 30 at the end of June (March: 5, June 2022: 24). Income collection rates generally increase over the course of a financial year as Housing Benefit receipts fall in line with rent debits, and for some providers, as rent-free weeks are applied. There can also be a delay in the uplift of Housing Benefit and Universal Credit payments at the start of the financial year to reflect rent increases applied in April, which has a greater impact in years when there is a relatively high percentage rent increase.

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