Regulator of
Social Housing

Quarterly survey for Q2

July to September 2023

November 2023

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Introduction

1. This quarterly survey report is based on regulatory returns from 204 private registered providers (PRPs) and PRP groups who own or manage more than 1,000 homes.

2. The survey provides a regular source of information regarding the financial health of PRPs, in particular with regard to their liquidity position. The quarterly survey returns summarised in this report cover the period from 1 July 2023 to 30 September 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 still experiencing the effects of ongoing economic challenges and is in a weaker financial position now than it has been in the recent past. Outturn and forecast investment in existing stock have continued to increase.

5. 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.

6. 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.

7. 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

Cash balances have further reduced and remain at the lowest in over eight years. In aggregate 12-month liquidity including undrawn facilities remains robust

New finance of £2.6 billion agreed in the quarter, an increase on the £1.8 billion agreed in the previous quarter and in-line with three-year average of £2.7 billion per quarter

- Cash balances decreased from £4.6 billion to £4.4 billon in the quarter. Forecasts show this reducing further to £3.0 billion by September 2024.
- £125.3 billion total facilities in place at the end of September, up from £123.9 billion in June.
- 57% of new finance relates to new bank facilities, the majority of which related to refinancing of existing facilities and new revolving credit facilities.
- Total cash and undrawn facilities total £33.7 billion; sufficient to cover forecast expenditure on interest costs (£4.6 billion), loan repayments (£2.3 billion) and net development (£14.2 billion) for the next year.
- Loan repayments of £1.0 billion made during the quarter; back in line with the three-year average of £1.1 billion. A further £2.3 billion forecast over the next 12 months.
- Mark-to-market (MTM) exposure on derivatives remains low, with current gross exposure of £0.1 billion.

Performance in the quarter

A further reduction in 12-month outturn cash interest cover which remains at historically low levels, individual providers have less financial headroom than usual and their capacity to absorb further downside risk is reduced

- £1.9 billion total repairs and maintenance spend in the quarter (previous quarter £1.8 billion); £1.2 billion relating to revenue works and £0.7 billion relating to capital works.
- Revenue repairs and maintenance works were 5% higher than forecast, and 4% higher than expenditure incurred in the previous quarter.
- 55% of providers reported delays or changes to repairs and maintenance programmes during the quarter, with almost 60% of this cohort stating increased demand in damp and mould issues, reactive works and void repairs.
- Aggregate cash interest cover (excluding all sales) for the year to September 2023 reduced to 74%, the lowest ever recorded. Interest cover for the year to September 2024 is forecast to increase slightly to 76%.
- Cash interest cover in the quarter was 87%, in line with forecast however, still remains below 100% for the fourth consecutive quarter.
- Interest payable is forecast to reach £4.4 billion over the next 12 months, compared to an actual figure of £3.7 billion over the previous 12 months.
- Income collection indicators generally following seasonal trends although rent arrears have marginally increased.

Investment in new and existing stock

12-month outturn spend on all repairs and maintenance was £7.6 billion and the 12-month forecast is £8.5 billion

Market sale and Affordable Home Ownership (AHO) unit completions both below the three-year average – Market sale pipeline sees further reductions

- 12-month expenditure on capitalised repairs totalled £3.0 billion. A further £3.8 billion investment is forecast over the next 12 months - both the highest on record due to building safety and energy efficiency works.
- £3.7 billion invested in new housing properties in the quarter; slightly above the amount reported in the previous quarter but 18% below the total forecast.
- Development expenditure forecast to be £16.7 billion over the next 12 months, of which £11.5 billion is contractually committed; 12-month outturn development spend was £14.6 billion.
- Completions of both market sale (1,095 units) and AHO (4,032 units) properties are below the three-year average, but above levels achieved in the same quarter of 2022.
- Further reduction in the pipeline of market sale properties, down to 7,026 units; the lowest in over eight years. 18-month pipeline for AHO stands at 33,371 units.

Sales

Market sales remain low, leading to increases in unsold units and units unsold over six months – AHO sales return to average levels

- Market sales remain significantly below average; 785 sales achieved compared to 1,266 three-year average.
- AHO sales of 4,319 units achieved; 16% higher than the previous quarter and slightly above the three-year average.
- Total unsold market sale properties increase by 19% to reach 1,584 units, and unsold AHO units reduce by 5%.
- Units unsold for over six months increase for both AHO and market sale; AHO units increase by 10% to 2,808 (June: 2,549 units) and market sale units by 18% to reach 631 (June: 535 units).
- Margins on AHO sales reached 20.7% in the quarter (June: 19.3%). Market sale achieved margins of 16.1% (June: 14.7%).
- Current asset sales totalled £0.8 billion; 19% below forecast. Non-social housing sales income remains low at £324 million, reflecting the low levels of market sales.
- Fixed asset sales totalled £1.0 billion, including a single bulk transfer of units worth £0.5 billion.

Operating environment

8. The quarter to September 2023 remained a challenging period for PRPs, with inflationary pressures as well as economic challenges and high expenditure requirements on both new and existing stock in the sector. Following the credit rating agency Moody's outlook for the UK sovereign changing from negative to stable, it also increased the outlook for dozens of housing providers from negative to stable, as a result of the projected easing of inflation as well as the mitigations adopted by PRPs in the face of the challenging economic environment[1].

9. Overall inflation, as measured by the Consumer Prices Index, stood at 6.7% in the 12 months to September 2023[2]. The Bank of England is forecasting inflation to fall sharply to 4.75% in Q4 of 2023, and continue to fall to reach the 2% UK target by the end of 2025[3]. Post quarter-end, annual inflation reduced further to 4.6%, the lowest level since November 2021.

10. In August, the Bank of England increased interest rates to 5.25%; the 14th consecutive increase since December 2021. Since then base rate has been held at the same level, although the Bank of England have reiterated that further increases may still be needed to ensure inflation returns to the 2% target[4].

11. The average interest rate for a typical 5-year mortgage stood at 5.23% at the end of September, increasing from 4.95% at the end of June. Rates jumped to 5.61% in October 2022 and had been reducing gradually, however since May 2023 rates started to rise again and peaked at 5.72% in July[5]. Mortgage approvals for house purchases fell to 43,300 in September from 54,700 in June[6], markedly below the monthly average of 62,700 during 2022.

12. Overall construction output increased by 0.1% in the quarter to September 2023 when compared to the previous quarter. The growth resulted solely from repair and maintenance works which increased by 0.7% and was partially offset by a reduction in new works of 0.3%[7].

13. Annual price growth in the construction industry slowed further over the quarter and is estimated to have stood at 3.9% at the end of September 2023. This includes annual

[1] Social Housing - News - Moody's raises outlook for 33 housing associations
[2] Consumer price inflation, UK - Office for National Statistics
[3] Monetary Policy Report - November 2023 | Bank of England
[4] Monetary Policy Report - November 2023 | Bank of England
[5] Quoted household interest rates - a visual summary of our data | Bank of England
[6] Money and Credit - September 2023 | Bank of England
[7] Construction output in Great Britain - Office for National Statistics

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increases in the prices of new works of 5.2%, and in repairs and maintenance works of 1.3%[8]. Annual price growth had peaked in May 2022 at 10.4%.

14. House prices in England fell overall by 0.5% in the year to September 2023, reaching an average of £310,000[9] with regional variation recorded. The largest annual decrease was recorded in the South West (1.6%), whereas the North East saw with the largest annual growth (1.6%).

15. The unemployment rate for the quarter to September remained unchanged at 4.2%[10], and the number of job vacancies fell for the 15th consecutive period; reducing by 43,000 to reach 988,000[11]. The total number of people claiming Universal Credit in England was over 5.3 million in September, compared to around 5.0 million in December 2022[12].

16. Under the 2019 rent settlement the maximum permissible rent increase for existing tenants is determined by CPI as at the September prior to the financial year, plus 1%. Assuming there is no change to this policy, as September 2023 CPI stood at 6.7%, this will result in a maximum permissible rent increase for the financial year 1 April 2024 to 31 March 2025 of 7.7%. This applies to general needs Social Rent and Affordable Rent homes but excludes specialised supported housing.

17. Although inflation is predicted to ease over the coming months, interest rates are likely to remain elevated, and providers must be prepared to handle further increases in interest payments and operating costs, particularly if they have previously benefitted from relatively low fixed-price contracts or debt. The challenge of balancing stock decency and remediation requirements with the need to invest in decarbonisation measures and the construction of new homes will continue, and providers must be able to identify areas where covenant headroom or liquidity may be restricted and ensure that contingency plans and mitigations remain robust.

[8] Construction output in Great Britain - Office for National Statistics
[9] UK House Price Index summary: September 2023 - GOV.UK (www.gov.uk)
[10] Labour market overview, UK - Office for National Statistics (ons.gov.uk)
[11] Labour market overview, UK - Office for National Statistics (ons.gov.uk)
[12] 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 £1.4 billion over the quarter, to reach £125.3 billion at the end of September (June: £123.9 billion).

Figure 1: Total facilities (£ billions)

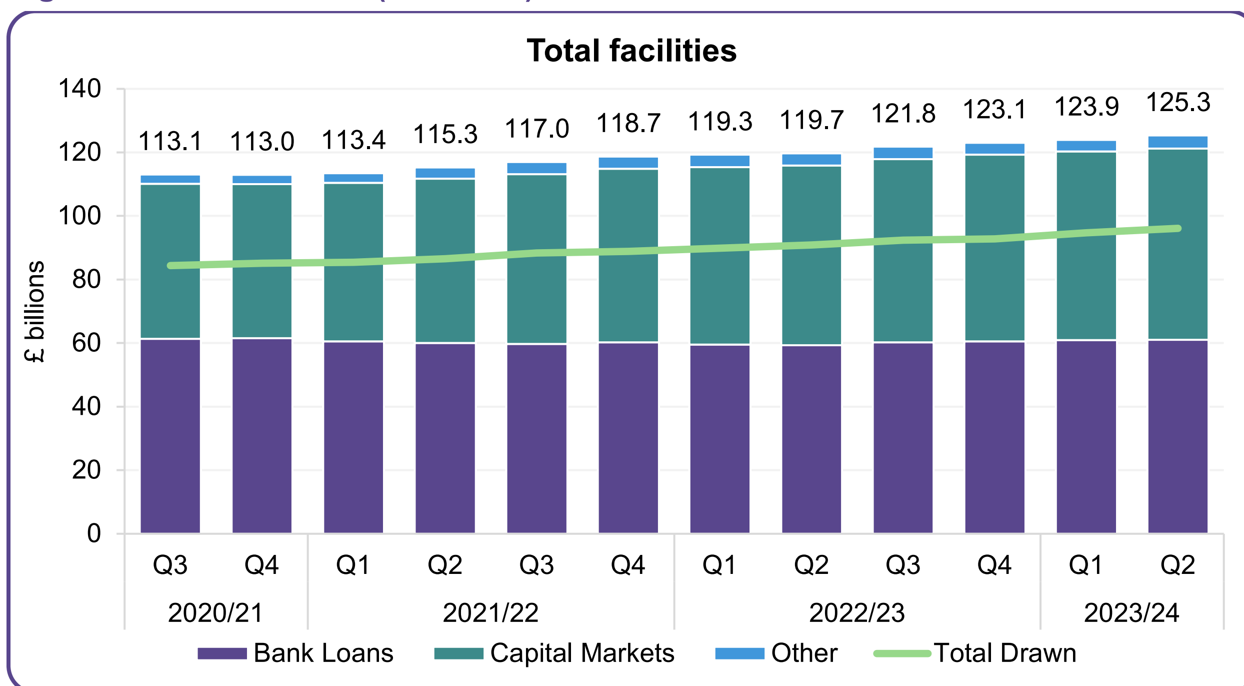


Table 1: Total facilities – drawn and secured

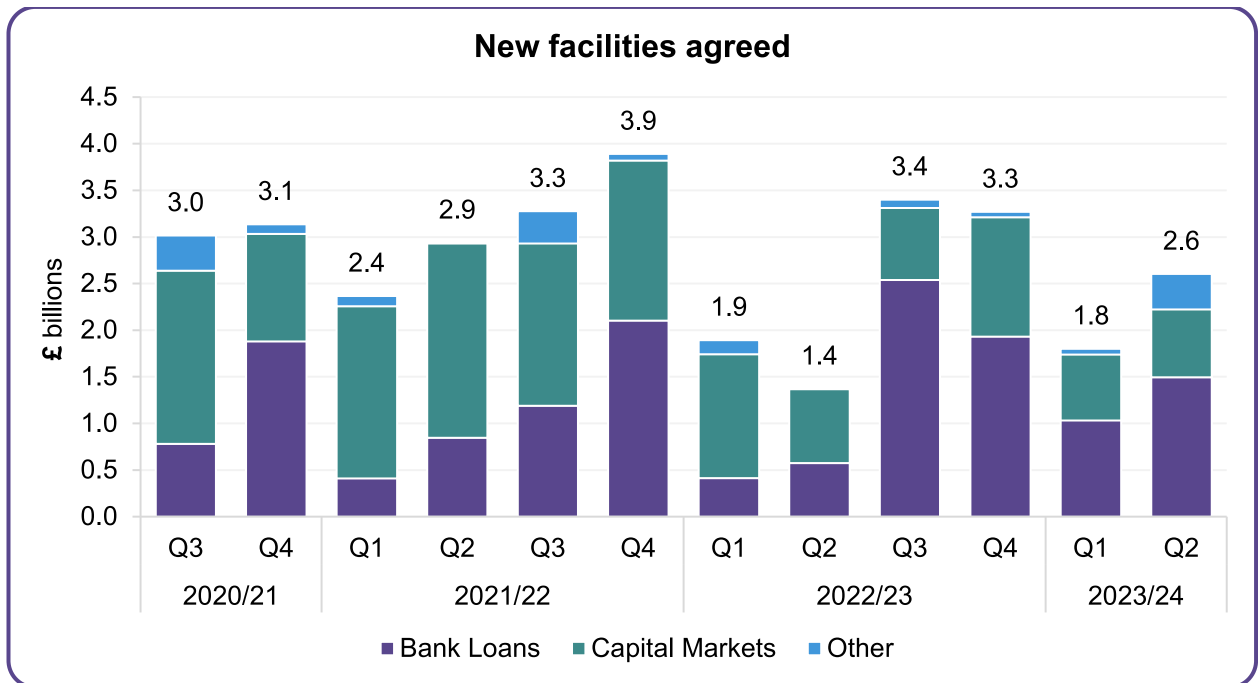
£billons	*Previous quarter*	*Current quarter*	*% change*
Drawn	94.7	96.1	1.4%
Undrawn	29.2	29.2	0.1%
Secured	112.3	112.9	0.5%
Security required	2.9	3.0	5.5%
Security not required	8.8	9.4	7.3%

19. At the end of September, 97% of providers (June: 95%) were forecasting that debt facilities would be sufficient for more than 12 months. A total of 31 providers arranged new finance during the quarter (June: 22). The total agreed, including refinancing, amounted to £2.6 billion; compared to an average of £2.7 billion per quarter over the last three years. Nine providers each arranged facilities worth £100 million or more.

20. Bank lending accounted for 57% (£1.5 billion) of new funding arranged in the quarter, with five providers accounting for 60% of this amount. The majority of new bank facilities arranged in the quarter related to refinancing of existing facilities and new revolving credit facilities. Capital market funding, including private placements and

aggregated bond finance, accounted for 28% (£0.7 billion) of the total, and other finance sources amounted to £0.4 billion.

Figure 2: New facilities agreed (£ billion)



21. Total cash and undrawn facilities available within the sector totalled £33.7 billion at the end of September (June: £33.8 billion). Total available facilities would be sufficient to cover the forecast expenditure on interest costs (£4.6 billion), loan repayments (£2.3 billion) and net development for the next year (£14.2 billion), even if no new debt facilities were arranged and no sales income were to be received.

22. Loan repayments of £1.0 billion were made in the three months to September (June: £0.5 billion), similar to the average level seen over the last three years of £1.1 billion.

Table 2: 12-month forecasts

£billons	*Previous quarter*	*Current quarter*	*% change*
Drawdown from facilities agreed	4.5	5.7	27%
Drawdown from facilities not yet agreed	2.7	2.2	(21%)
Loan repayments	2.0	2.3	13%

23. Drawdowns from facilities not yet agreed have been forecast by 18 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

24. It is essential that providers maintain sufficient liquidity, particularly during periods of economic uncertainty. The regulator engages with PRPs that have low liquidity indicators.

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

Table 3: Summary cashflow forecast[13]

£ billions	3 months to 30 September 2023 (forecast)	3 months to 30 September 2023 (actual)	12 months to 30 September 2024 (forecast)
Operating cashflows excluding sales	2.9	2.8	11.8
Repair & maintenance costs (capital & revenue)	(2.0)	(1.9)	(8.5)
Net operating cashflows excluding sales	0.9	0.9	3.3
Interest cashflows	(1.0)	(1.0)	(4.4)
Payments to acquire and develop housing	(4.5)	(3.7)	(16.7)
Current assets sales receipts	1.0	0.8	4.0
Disposals of housing fixed assets	0.7	1.0	4.7
Other cashflows	(0.2)	(0.0)	(0.6)
Cashflows before resources and funding	**(3.1)**	**(2.1)**	**(9.6)**
Financed by:			
Net grants received	0.6	0.5	2.5
Net increase in debt	1.6	1.3	5.6
Use of cash reserves	1.0	0.4	1.6
Total funding cashflows[14]	**3.1**	**2.1**	**9.6**

26. Cash interest cover[15], based on net operating cashflows excluding sales, stood at 87% in the quarter to September 2023 (June: 51%). This is the fourth consecutive quarter interest cover on this basis has been below 100%. This has meant a further reduction in rolling 12-month interest cover, down to 74% for the year to September (June: 78%); the lowest level ever recorded. Over half of providers reported cash interest cover for the 12 months to September 2023 below this threshold.

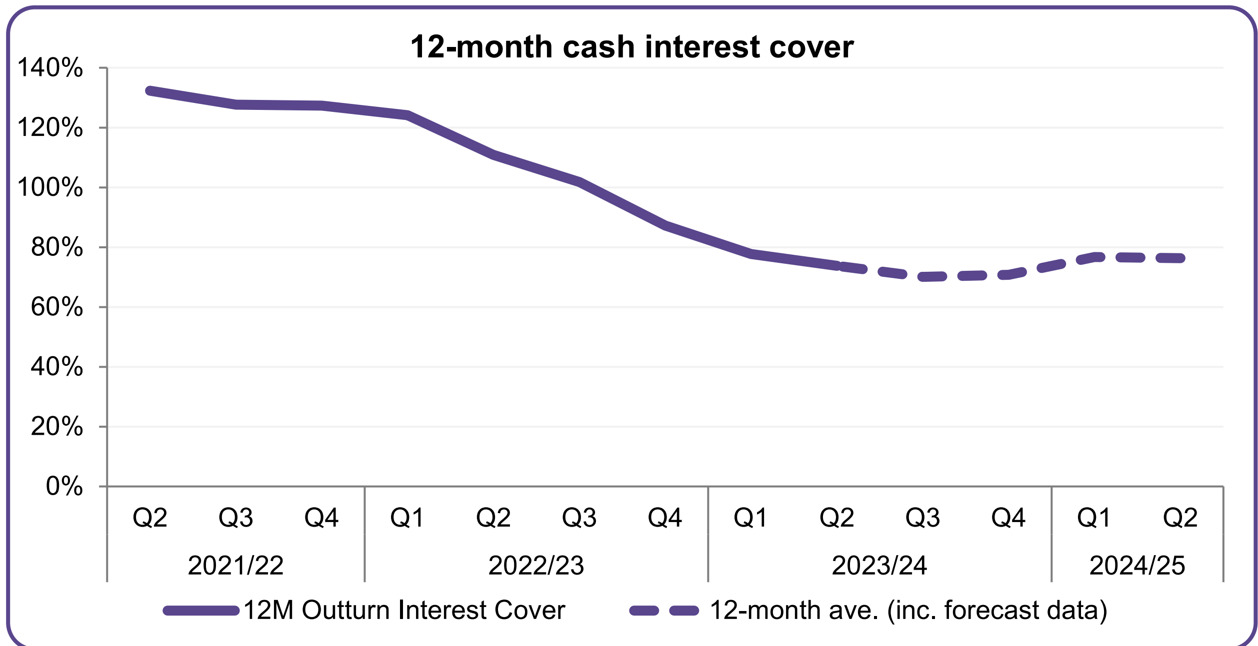
[13] Operating cashflow excludes current asset sales receipts and costs of sales. 'Payments to acquire and develop housing' include payments in respect of both current and fixed assets.

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

[15] 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.

27. For the 12 months to September 2024 cash interest cover excluding sales receipts is forecast to average 76% (June 12-month forecast: 83%); the lowest projected 12-month level of cover since the start of cashflow data collection in the Quarterly Survey. This is mainly due to an increase in forecast spend on routine and capitalised repairs and maintenance costs of £0.3 billion, together with an increase in interest cashflows of £0.1 billion over the next 12 months.

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



28. A further £2.2 billion worth of debt is forecast to be drawn in the next 12 months from facilities that have not yet been agreed, which will be affected by current interest rates. Actual interest payable over the 12 months to September 2023 amounted to £3.7 billion, however annual 12-month forecasts have gradually increased to £4.4 billion (June £4.3 billion). Revenues and costs will need to be carefully managed and understood, in particular the exposure to interest rate risk.

29. 91% 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, or the exclusion of some repair costs.

30. A total of 51 providers report having one or more loan covenant waivers in place, compared to 47 at the end of June. The increase is due to new waivers being agreed following the expiration of a number of waivers at the end of 2022/23. Providers are continuing to make use of loan covenant waivers in order to prioritise and increase investment in existing stock. A total of 30 providers have reported having a waiver in place to exclude the exceptional costs of building safety works from loan covenant calculations, and a further 29 waivers have been disclosed in respect of energy

efficiency or decarbonisation works. An additional four waivers relate to general major works expenditure.

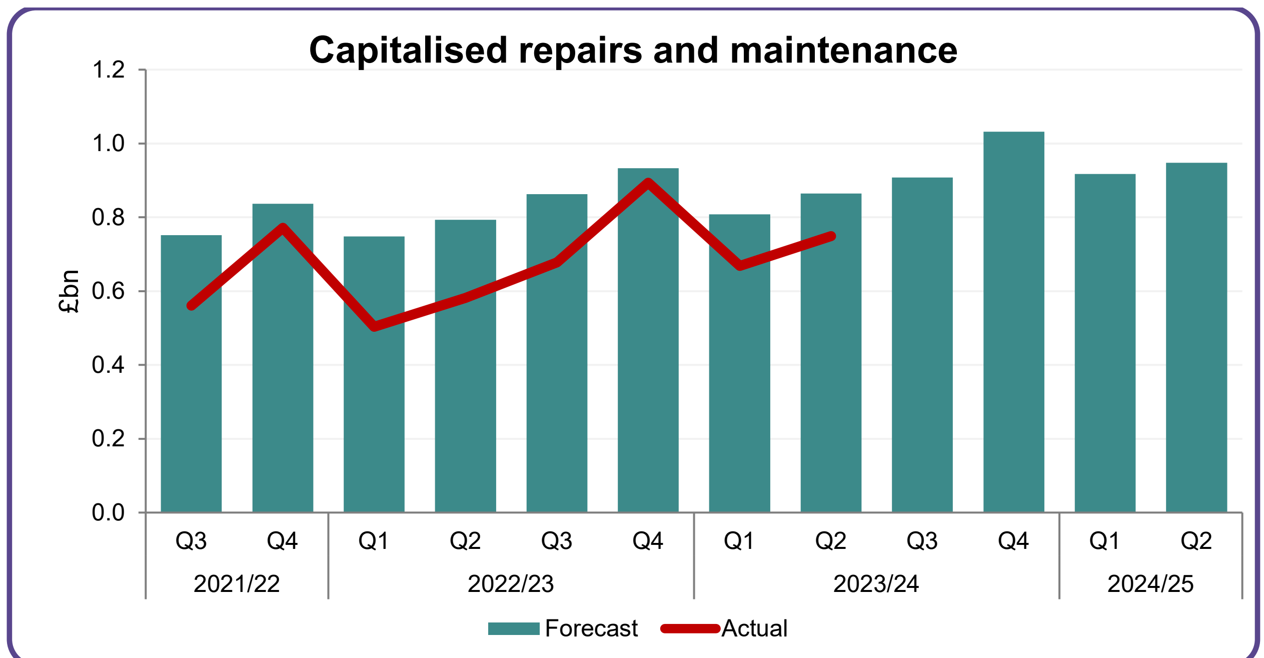
31. It is evident that levels of interest cover have deteriorated and are set to remain depressed over the next 12 months, however this does not necessarily mean that providers are not financially viable in the longer term. High interest rates combined with increasing investment in existing stock will inevitably result in weakened financial performance and reduced capacity to manage downside risk. The regulator will continue to monitor the financial viability of providers that are forecasting low interest cover and will engage with providers as necessary, reflecting findings in regulatory judgements where appropriate.

32. Total repairs and maintenance spend in the quarter was £1.9 billion (previous quarter £1.8 billion); of which £1.2 billion related to revenue works and £0.7 billion related to capital works.

33. In the 12 months to September 2023 total spend was £7.6 billion (spend to June 2023 was £7.2 billion). For the 12 months to September 2024 the sector has forecast total repairs and maintenance expenditure of £8.5 billion, a 3% increase on the 12-month forecast made in June.

34. Actual expenditure on the capitalised element of repairs and maintenance amounted to £749 million during the quarter. This is 12% above the expenditure recorded in the previous quarter, and the second highest expenditure recorded since data collection began in 2015.

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



35. In the 12 months to September 2023 capitalised expenditure on repairs and maintenance was £3.0 billion (September 2022: £2.4 billion). For the 12 months to September 2024 the sector has forecast capitalised repairs and maintenance expenditure of £3.8 billion.

36. Providers have reported delays to capitalised works are partly due to the increased focus on responsive repairs, procurement challenges and ongoing supply chain issues. A small number of providers have also stated contractor insolvencies are impacting timeframes. During the quarter, 55% of providers experienced delays or made changes to repairs and maintenance programmes (June: 48%). This included short-term factors such as delays in tendering and procurement of works and mobilising contracts. Longer-term factors consisted of ongoing supply chain issues and challenges in recruitment for specialised roles, which in turn has resulted in the use of subcontractors at a higher cost. Almost 60% of providers experiencing delays reported increased demand in damp and mould issues, reactive works and void repairs.

37. Current asset sales of £3.6 billion were achieved in the 12 months to September 2023, compared to the £4.7 billion forecast at the start of the period. For the 12 months to September 2024 the sector has forecast a further £4.0 billion worth of current asset sales (June: £4.1 billion), of which £3.6 billion relates to properties for which development is contractually committed (June: £3.8 billion).

38. In the 12 months to September 2023 fixed asset sales totalled £3.2 billion. For the 12 months to September 2024 the sector has forecast a further £4.7 billion worth of fixed asset sales (June 12-month forecast: £5.1 billion), of which £2.1 billion relates to sales to tenants or other open market sales (including mainly staircasing, RTB/RTA and sale of void properties). The remaining £2.6 billion relates to other fixed asset sales, including bulk sales to other registered providers. Almost half of this amount is attributable to just one provider, where sales to related group companies are planned.

39. Available cash balances, excluding amounts held in secured accounts, reduced by £0.2 billion during the quarter to reach £4.4 billion (June: £4.6 billion). This is the sixth consecutive quarter cash balances have reduced and are now at the lowest level in over eight years. For comparison, in the three years prior to the pandemic average cash balances were £5.8 billion. 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.

40. Cash held in secured accounts or otherwise inaccessible to providers totalled £1.0 billion (June: £1.1 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.

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Development

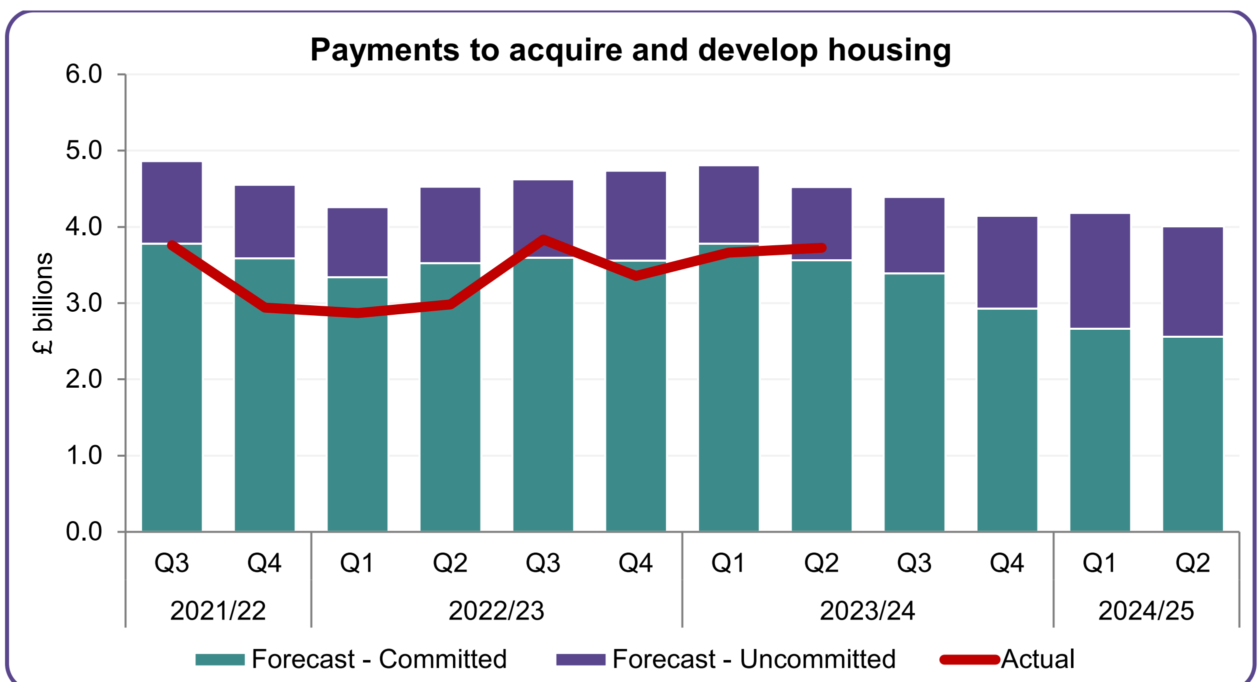
41. In the 12 months to September 2023, £14.6 billion was invested in the acquisition and development of housing properties. This compares to £12.6 billion in the year to September 2022, and £12.1 billion in the year to September 2021.

42. Actual expenditure in the quarter to September 2023 amounted to £3.7 billion (June: £3.7 billion); above the £3.3 billion average quarterly expenditure incurred over the last three years. The total for the quarter includes a single transaction of £0.5 billion relating to a bulk transfer of existing units between PRPs. Development spend is relatively concentrated, with over half of the sector spend during the quarter being reported by 15 providers.

43. Quarterly expenditure was 18% below the £4.5 billion forecast for the quarter, but 5% above the £3.6 billion forecast for contractually committed schemes. The bulk transfer of £0.5 billion referred to above was not included in the forecast for the period, therefore without this transaction, expenditure would have been below both the total forecast and the forecast for committed development.

44. In addition to general development delays and timing differences, providers continue to report being affected by contractor insolvencies. A small number of providers have also reported having to reassess potential schemes due to increasing costs and interest rates, or to resolve planning issues.

Figure 8: Payments to acquire and develop housing



45. For the next 12 months a further £16.7 billion (June: £16.8 billion) worth of investment has been forecast, of which £11.5 billion (June: £11.4 billion) is contractually committed. Of the total, £0.8 billion (5%) is attributable to for-profit providers, with around £0.3 billion of this relating to bulk transfers between related provider groups.

Housing market

46. Total asset sales, including staircasing, RTB/RTA and voluntary sales, as well as Affordable Home Ownership (AHO) first tranche sales and market sales, amounted to £1.8 billion in the quarter to September (June: £1.1 billion). AHO first tranche sale proceeds of £520 million were reported, compared to a three-year average of £512 million. Non-social housing sales totalled £324 million, substantially below the quarterly average of £551 million over the last three years due to a low volume of market sales being achieved.

47. Total cash receipts in respect of current asset sales (market sales and first tranche AHO sales) amounted to £0.8 billion in the quarter; 22% higher than the £0.7 billion recorded in the previous quarter but 19% below forecast. A total of six providers reported current asset sales that were more than £10m below forecast, accounting for over two-thirds of the overall net variance.

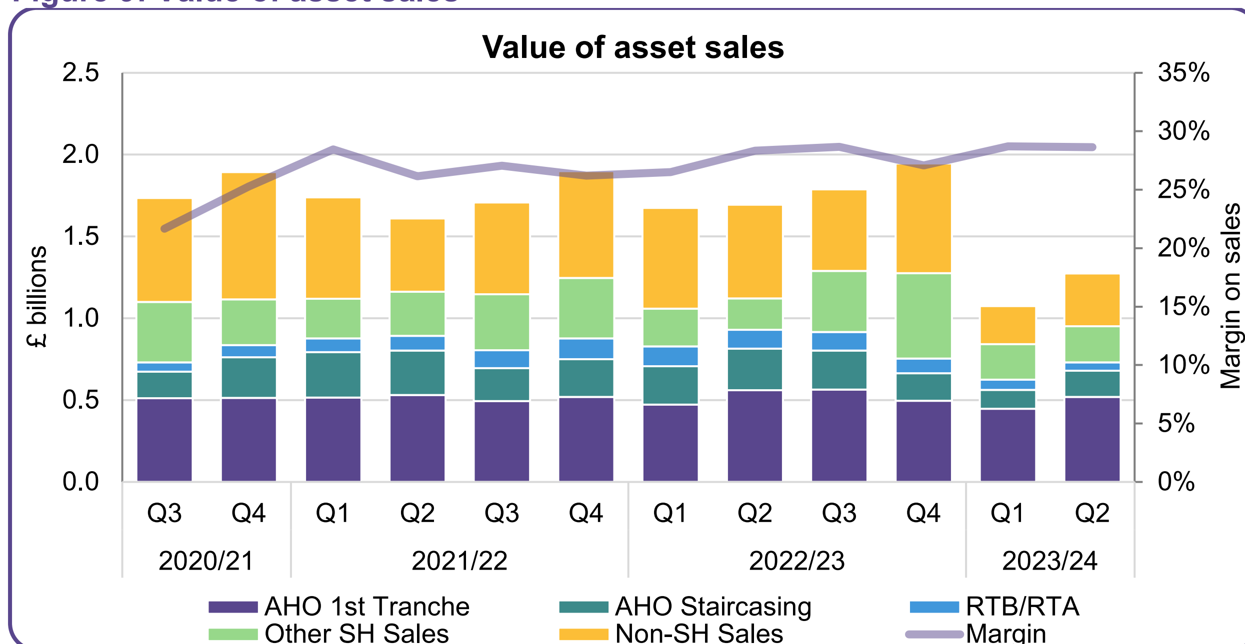
48. Providers have reported ongoing delays to sales as a result of development handovers taking longer than planned. Comments also suggest that providers are beginning to feel the effects of a general market slow-down, in particular affecting outright market sales. Increased mortgage rates and cost of living pressures are also reported as contributing to longer mortgage approval times, and smaller first tranche percentage shares being purchased.

49. Total fixed asset sales amounted to £1.0 billion (June: £0.5 billion); 40% higher than the amount forecast in June. 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 £0.4 billion (June: £0.3 billion), 27% below the amount previously forecast. Five providers each reported sales being more than £10 million below forecast; together accounting for over 70% of the net adverse variance.

- Fixed asset sales to other organisations amounted to £0.6 billion (June: £0.2 billion), with over 80% (£0.5 billion) of this amount relating to a single transaction where existing units were transferred between providers.

Figure 9: Value of asset sales



50. The overall surplus from asset sales stood at £365 million for the quarter (June: £308 million), and the overall margin remained at 29%; slightly above the average margin achieved over the last three years of 27%.

Table 4: AHO units

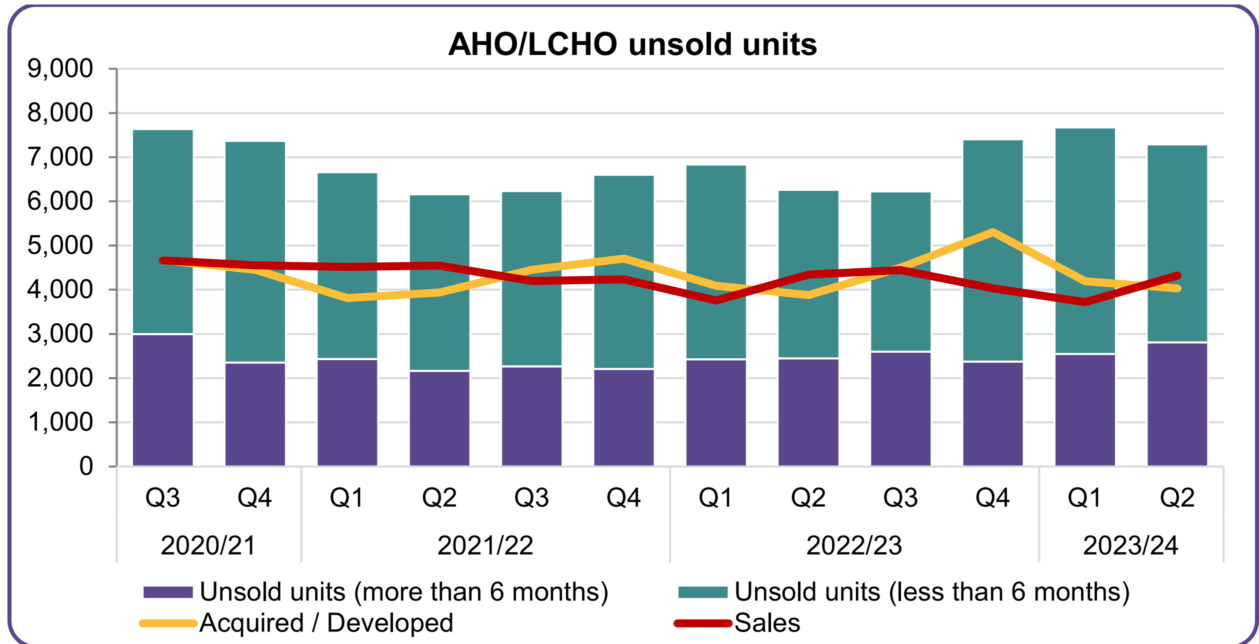
AHO units	*Previous quarter*	*Current quarter*	*% change*
Completed	4,193	4,032	(3.8%)
Sold	3,720	4,319	16.1%
Margin	19.3%	20.7%	7.5%
Unsold	7,670	7,288	(5.0%)
Unsold for more than 6 months	2,549	2,808	10.2%
18-month pipeline	34,938	33,371	(4.5%)

51. AHO property completions were below the quarterly average of 4,336 units over the last three years, but higher than the 3,881 units completed in the corresponding period of 2022. In the twelve months to September a total of 18,036 AHO units were completed (September 2022: 17,129, September 2021: 16,872).

52. AHO sales were slightly above the three-year average of 4,278 units per quarter. Seven providers each reported sales of more than 100 AHO units during the quarter, accounting for 30% of the sector total. Units unsold for over six months are at the highest level in almost three years. These units are concentrated amongst 13 providers, each of which held over 50 units of unsold stock. Together they account for 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.

53. Sales proceeds from 1st tranche AHO sales amounted to £520 million during the quarter (June: £448 million), with an overall surplus of £108 million being reported (June: £86 million). This resulted in an average margin of 20.7% (June: 19.3%); above the average of 19.4% achieved over the last three years.

Figure 10: AHO/LCHO units



54. The pipeline of AHO completions expected in the next 18 months has reduced by 4% to 33,371 units (June: 34,938), of which 28,682 units are contractually committed (June: 30,596). This is the lowest pipeline figure reported in over three years, although if achieved, would still represent a 28% increase in AHO development compared to actual performance in the 18 months to September 2023, when 26,004 units were completed. Five providers have each reported over 1,000 pipeline units, including two for-profit providers. Together these five providers account for 22% of the overall total.

Table 5: Market sale units

Market sale units	*Previous quarter*	*Current quarter*	*% change*
Completed	798	1,095	37.2%
Sold	675	785	16.3%
Margin	14.7%	16.1%	9.1%
Unsold	1,334	1,584	18.7%
Unsold for more than 6 months	535	631	17.9%
18-month pipeline	7,807	7,026	(10.0%)

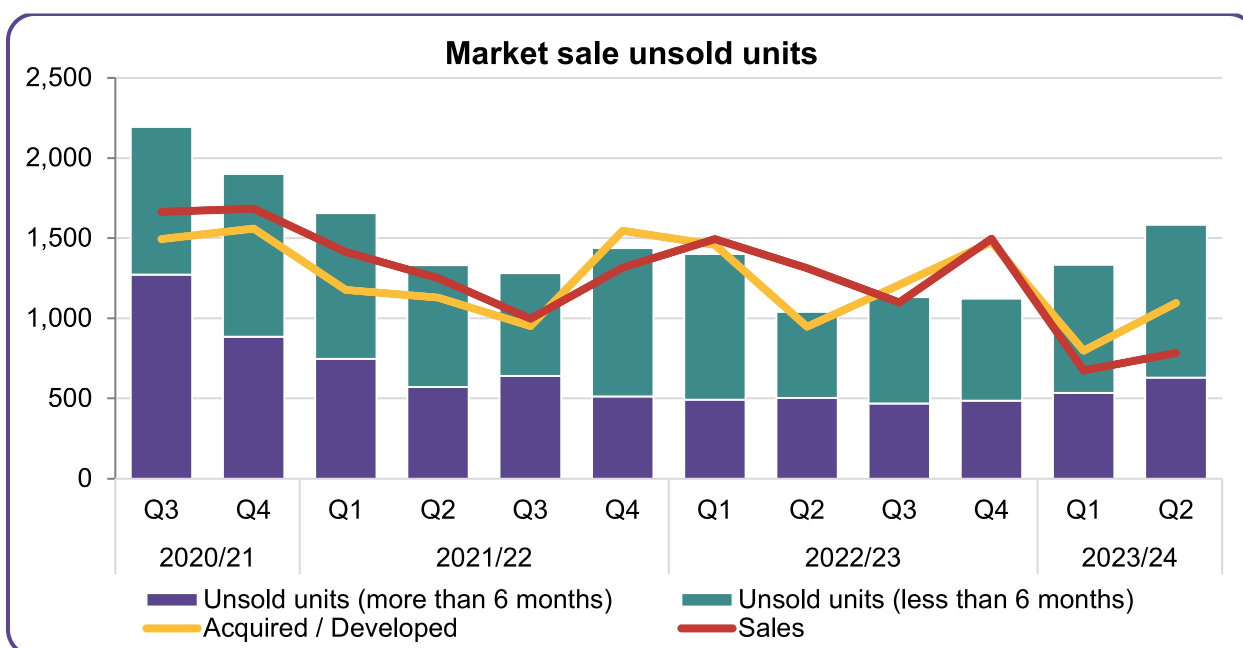
55. Completions and sales of market sale units were both significantly below the three-year averages of 1,237 units and 1,266 units per quarter respectively.

56. In the twelve months to September a total of 4,579 market sale units have been completed. Market sale activity continues to be concentrated in relatively few providers; 14 providers each developed over 100 market sale units in the year to September 2023, together accounting for almost 80% of the sector total. 28% of the sales achieved during the quarter were attributable to just one provider.

57. Unsold market sale units are now at the highest level in over two years. Five providers each held over 100 unsold market sale units at the end of the quarter, accounting for 57% of the sector total. These providers each had access to between £0.2 billion and £1.3 billion worth of cash and undrawn facilities, ensuring sufficient liquidity if sales receipts are delayed.

58. Total non-social housing sales income amounted to £324 million during the quarter; 19% higher than the £233 million recorded in the quarter to June. The surplus on non-social housing sales increased to £52 million (June: £34 million), giving an average margin of 16.1% (June: 14.7%). This compares to an average margin of 14.8% achieved over the last three years.

Figure 11: Market sale units



59. The pipeline of market sale completions expected over the next 18 months has reduced by a further 10% and now stands at 7,026 units (June: 7,807), of which 6,621 units are contractually committed (June: 7,416). The total pipeline remains at the lowest level in over eight years, and is now only marginally higher than the 6,984 actual completions recorded over the previous 18 months. Over half of the total pipeline units are reported by just seven providers.

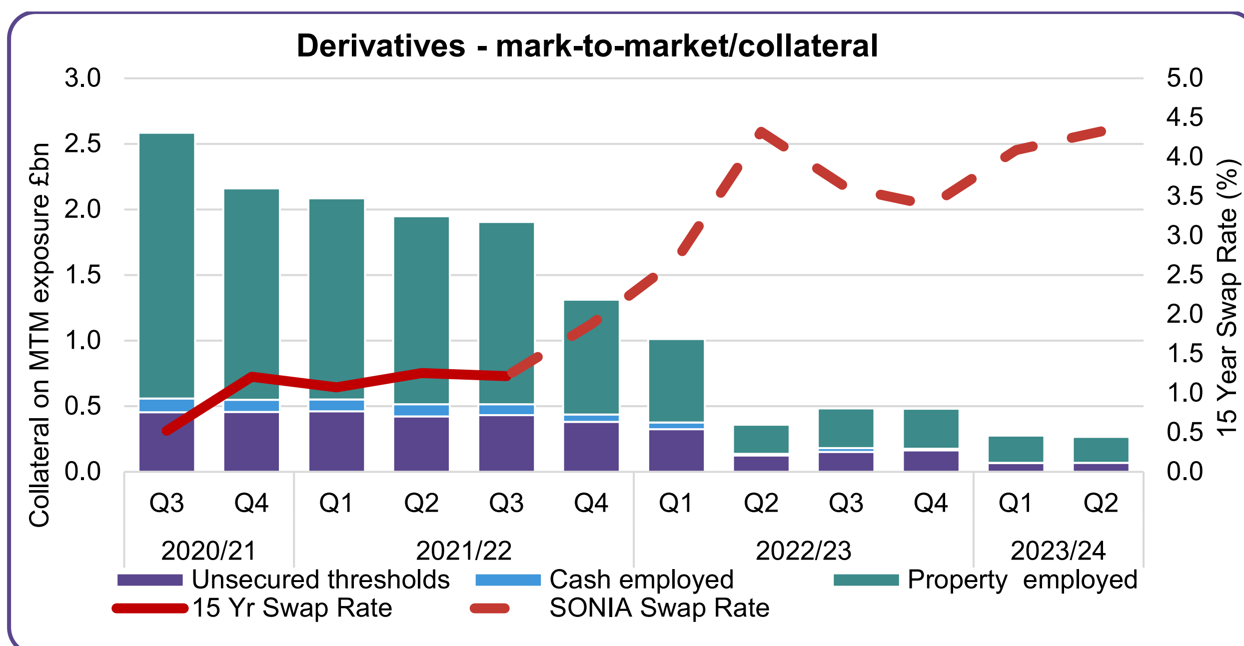
Derivatives

60. At the end of September 44 providers (June: 43) reported making use of free-standing derivatives. The notional value of standalone derivatives increased to £9.0 billion (June: £8.1 billion) over the quarter as a result of seven providers entering into new derivative arrangements.

61. The 15-year swap rate increased marginally over the quarter, moving from 4.09% at the end of June to 4.33% at the end of September. Shorter-term swap rates reduced over the same period, resulting in gross MTM exposure remaining at £0.1 billion.

62. Of the 44 providers that were making use of free-standing derivatives, 41 had collateral pledged that exceeded or equalled their level of gross exposure. The three providers that were under-collateralised at the end of the quarter were either not required to provide security or were in an overall favourable net position. At sector level, unsecured thresholds and available security pledged to swap counterparties remained unchanged at £2.2 billion at the end of September.

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



63. The above graph shows MTM exposure excluding excess collateral. Collateral pledged continues to be well above the sector's exposure levels, and at the end of September, the total headroom of collateral and unsecured thresholds available over MTM exposure was £2.1 billion (June: £2.1 billion).

64. 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.

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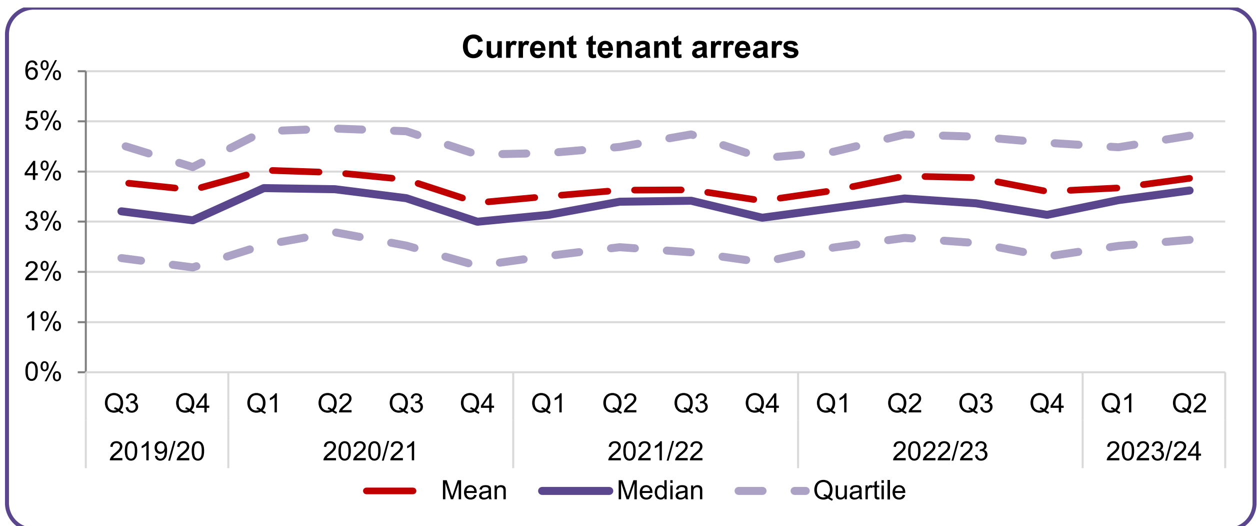
Income collection

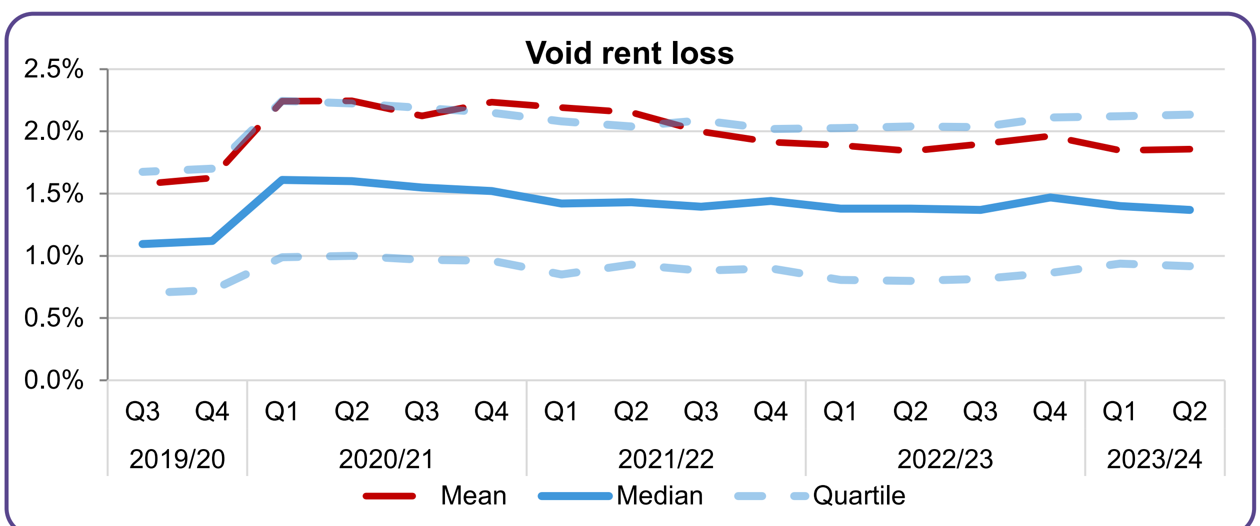
65. At the end of September, 64% of providers reported that their levels of arrears, rent collection and voids were all within, or outperforming their business plan assumptions, compared to 66% at the end of June.

Figure 13: Current tenant arrears



66. Median arrears have increased to the highest level in three years to 3.6% (June:3.4%), however in line with seasonal trends. Mean current tenant arrears increased marginally to 3.9% at the end of September (June: 3.7%), although this is in line with the level reported in the same quarter last year. An increase in arrears in quarter two is consistent with cyclical trends due to the timing of Direct Debit and Housing Benefit payment cycles, however the higher median value is mainly due to two new providers submitting a return this quarter; both with relatively high arrears. Providers continue to report tenants being affected by cost-of-living pressures.

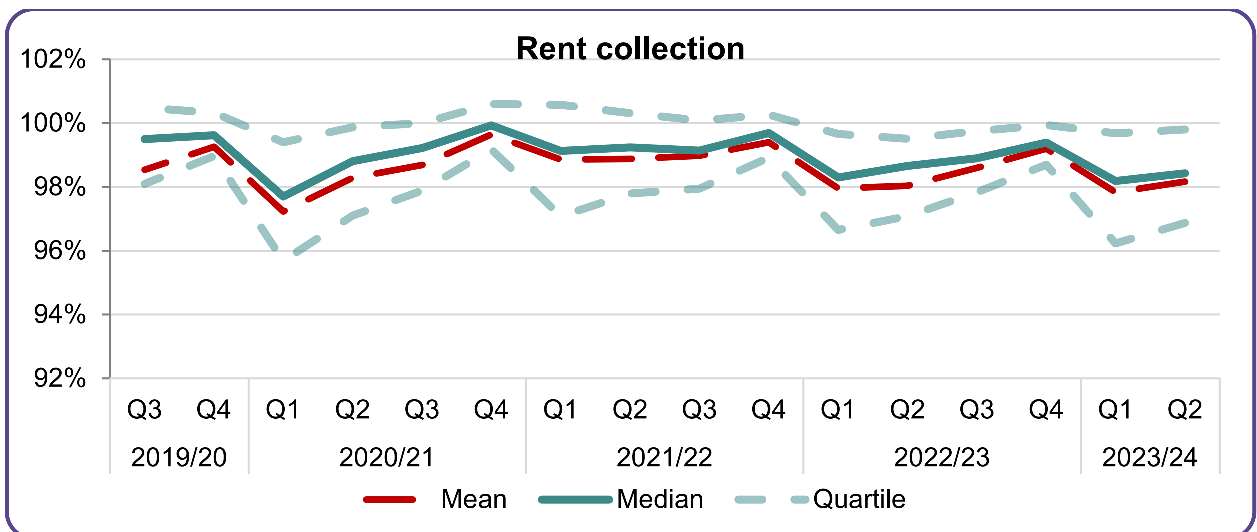
Figure 14: Void losses



67. Median void losses remained at 1.4% at the end of September, in line with the three-year average. Mean void losses increased slightly to 1.9% (June: 1.8%), slightly above the same period of 2022 (1.8%) but below the three-year average of 2.0%.

68. A small number of providers have reported holding void properties for longer due to the higher than anticipated repair works relating to damp and mould and building safety, resulting in a backlog of works. In addition, delays in referrals to supported housing and staffing pressures in support organisations are having a negative impact on relet times. 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.

Figure 15: Rent collection



69. Mean average rent collection rates increased from 97.8% at the end of June to 98.2% at the end of September, with the median increasing from 98.2% to 98.4%. The number of providers reporting rent collection rates of less than 95% stood at 24 at the end of September (June: 30, September 2022: 22). 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.

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