Regulator of
Social Housing

Quarterly survey for Q3

October to December 2023

March 2024

Contents

Introduction 2

Summary 3

Operating environment 5

Private finance 7

Cashflows 9

Development 13

Housing market 14

Derivatives 19

Income collection 20

Introduction

1. This quarterly survey report is based on regulatory returns from 201 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 2023 to 31 December 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 increasing exposure to risks from activities carried out within non-registered entities. Further assurance may also be required on covenant compliance.

4. Providers continue to face inflationary cost pressures, combined with ongoing demand to improve the quality of existing stock; expenditure on which has continued to increase. This will inevitably place pressure on providers' cash resources, and limit their ability to manage further additional costs. In general, we have assurance that PRPs are taking action to manage their position, which for a growing number of providers includes the deferral of uncommitted development or arrangement of loan covenant waivers.

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.

OFFICIAL

Summary

Liquidity

Increasing demand on resources has reduced cash balances to the lowest level in ten years - Record amount of debt drawn in the quarter

Investment in the sector remains strong - New finance of £3.7 billion arranged in the quarter, compared to a three-year average of £2.8 billion per quarter

- Cash balances decreased by £0.2 billion during the quarter, reaching £4.2 billion. Balances are expected to reduce to £3.1 billion by December 2024.
- £2.1 billion net increase in drawn debt during the quarter; the highest recorded since cashflow data was first collected in 2015.
- £126.7 billion total facilities in place at the end of December, up from £125.3 billion in September.
- £3.7 billion new finance agreed in the quarter; offset by loan repayments of £1.3 billion during the same period.
- Total cash and undrawn facilities reduced from £33.7 billion to £32.6 billion over the quarter; this remains sufficient to cover forecast expenditure on interest costs (£4.4 billion), loan repayments (£2.3 billion) and net development (£13.4 billion) for the next year.
- Mark-to-market (MTM) exposure on derivatives increased in the quarter although remains low, with current gross exposure of £0.4 billion.

Performance in the quarter

A further reduction in 12-month outturn cash interest cover which remains at historically low levels - Expenditure on repairs continues to increase

- Aggregate cash interest cover (excluding all sales) for the year to December 2023 reduced to 71%; the lowest ever recorded. Interest cover for the year to December 2024 is forecast at 80%.
- Cash interest cover (excluding all sales) in the quarter was 79%; the fifth consecutive quarter where this has been below 100%.
- Revenue repairs spend was £1.2 billion; the highest level recorded since data was first collected in June 2022, as damp and mould works continue to be prioritised.
- 56% of providers reported delays or changes to repairs and maintenance programmes during the quarter, with labour shortages continuing to be an issue.
- Income collection indicators generally following seasonal trends. Slight reduction in void rent losses.

Investment in new and existing stock

Increase in both the 12-month outturn spend on repairs and maintenance, and the 12-month forecast

Record outturn development spend in over eight years, although 12-month projected spend has fallen by 5% to the lowest level in over three years

Market sale unit completions below three-year average and market sale pipeline sees further reduction, remaining at a record low

- 12-month expenditure on capitalised repairs totalled £3.1 billion, a further £3.9 billion investment is forecast over the next 12 months – both record amounts.
- £3.9 billion invested in new housing properties in the quarter; above the amount reported in the previous quarter and the three-year average, but 12% below the total forecast.
- Development expenditure forecast to be £15.9 billion over the next 12 months, of which £11.5 billion is contractually committed; 12-month outturn development spend was £14.6 billion.
- AHO completions (4,671 units) were above the three-year average, however market sale completions (698 units) were below average and lower than the units achieved in the same period of 2022.
- Further reduction in the pipeline of AHO and market sale properties, down 2% to 32,777 and 12% 6,177 units respectively. Market sale pipeline the lowest in over eight years.

Sales

Current asset sales of £0.7bn in the quarter were 26% below forecast and below the £0.8 billion achieved in the previous quarter

AHO first tranche sales above longer term average levels - Market sales remain low and well below longer term average levels

- Market sales remain significantly below average; 708 sales achieved compared to 1,186 three-year average.
- Non-social housing sales income remains low at £257 million, almost half of the three-year quarterly average of £519 million, and the aggregate margin on sales was 14.7% (September 16.1%).
- AHO sales of 4,559 units achieved; 6% higher than the previous quarter and above the three-year average.
- AHO sales income remains robust at £512 million, commensurate to the three-year quarterly average, and the aggregate margin on sales was 20.4% (September 20.7%).
- Total unsold market sale properties decrease by 6% to reach 1,489 units, and unsold AHO units reduce slightly by 1%.
- Units unsold for over six months increase for both AHO and market sale; AHO units increase by 8% to 3,024 (September: 2,808 units) and market sale units by 16% to reach 729 (September: 631 units).
- Fixed asset sales totalled £0.5 billion, 36% below the amount forecast in September – sales to other organisations were at the lowest level since fixed asset sales data was first split.

Operating environment

7. During the quarter, the government announced an extra £1.25 billion under the Social Housing Decarbonisation Fund (SHDF) in December 2023[1], the largest wave to date and a positive move for the housing sector. The consultation for Awaab's Law was launched on the 9th January, which sets out new legal requirements for social landlords to investigate hazards within 14 days, start fixing within a further seven days and resolve emergency repairs within 24 hours[2].

8. Overall inflation, as measured by the Consumer Prices Index rose to 4.0% in the 12 months to December 2023[3], the first increase since February 2023. The Bank of England is forecasting inflation could temporarily fall to the 2% target in quarter two, due to lower oil and gas prices, before rising again and ending the year at 2.75%[4].

9. The base rate has been held at the same level of 5.25% since August 2023, with the latest announcement from the Bank of England (BoE) on 1st February 2024 that rates will remain unchanged[5] and kept high for long enough to get inflation back to the 2% target.

10. The average interest rate for a typical 5-year mortgage stood at 4.68% at the end of December, decreasing from 5.24% at the end of September. The 5-year rate peaked at 5.71% in July 2023, but has gradually declined ever since[6]. For the first time since November 2021 there has been a drop in the 'effective' interest rate (actual interest paid) on newly drawn mortgages, which fell by 6 basis points to 5.28% in December[7]. Net mortgage approvals for house purchases increased to 50,500 in December from September's figures of 44,100, however still below the monthly average of 62,700 in 2022.

11. Overall construction output decreased by 1.3% in the quarter to December 2023 when compared to the previous quarter. This decline resulted solely from a decrease in new works by 5.0%, partially offset by an increase in repair and maintenance works of 4.0%[8].

12. Annual price growth in the construction industry slowed further over the quarter and is estimated to have stood at 3.1% at the end of December 2023, compared with the record annual growth in May 2022 and June 2022 of 10.7%. This includes annual

[1] Social Housing - News - Largest wave of Social Housing Decarbonisation Fund unveiled
[2] Emergency hazards to be repaired in 24 hours through Awaab's Law - GOV.UK (www.gov.uk)
[3] Consumer price inflation, UK - Office for National Statistics
[4] Monetary Policy Report - February 2024 | Bank of England
[5] Bank rate maintained at 5.25% - February 2024 | Bank of England
[6] Quoted household interest rates - a visual summary of our data | Bank of England
[7] Money and Credit - December 2023 | Bank of England
[8] Construction output in Great Britain - Office for National Statistics

increases in the prices of new works of 3.8%, and in repairs and maintenance works of 1.8%[9].

13. House prices in England fell overall by 2.1% in the year to December 2023, reaching an average of £302,000[10] with regional variation recorded. The largest annual decrease was recorded in London (4.8%), whereas only the North West and West Midlands saw an annual price increase of 1.2% and 0.3% respectively.

14. The unemployment rate for the quarter to December decreased to 3.8%, returning to the rate a year ago in the corresponding period of 2022[11], and the number of job vacancies fell for a record 18th consecutive period; reducing by 49,000 to reach 934,000[12]. The total number of people claiming Universal Credit in England was over 5.5 million in December, compared to around 5.0 million in December 2022[13].

15. The limit on annual rent increases was published in January 2024, with the maximum permissible rent increase for existing tenants determined by CPI as at the September prior to the financial year, plus 1%[14]. Therefore the maximum permissible rent increase for the financial year 1 April 2024 to 31 March 2025 is 7.7%, based on September 2023 CPI of 6.7% + 1%. This applies to general needs Social Rent and Affordable Rent homes but excludes specialised supported housing.

16. 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.

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

[10] UK House Price Index - Office for National Statistics (ons.gov.uk)

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

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

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

[14] Limit on annual rent increases 2024-25 (publishing.service.gov.uk)

Private finance

17. The sector's total agreed borrowing facilities increased by £1.3 billion over the quarter, to reach £126.7 billion at the end of December (September: £125.3 billion).

Figure 1: Total facilities (£ billions)

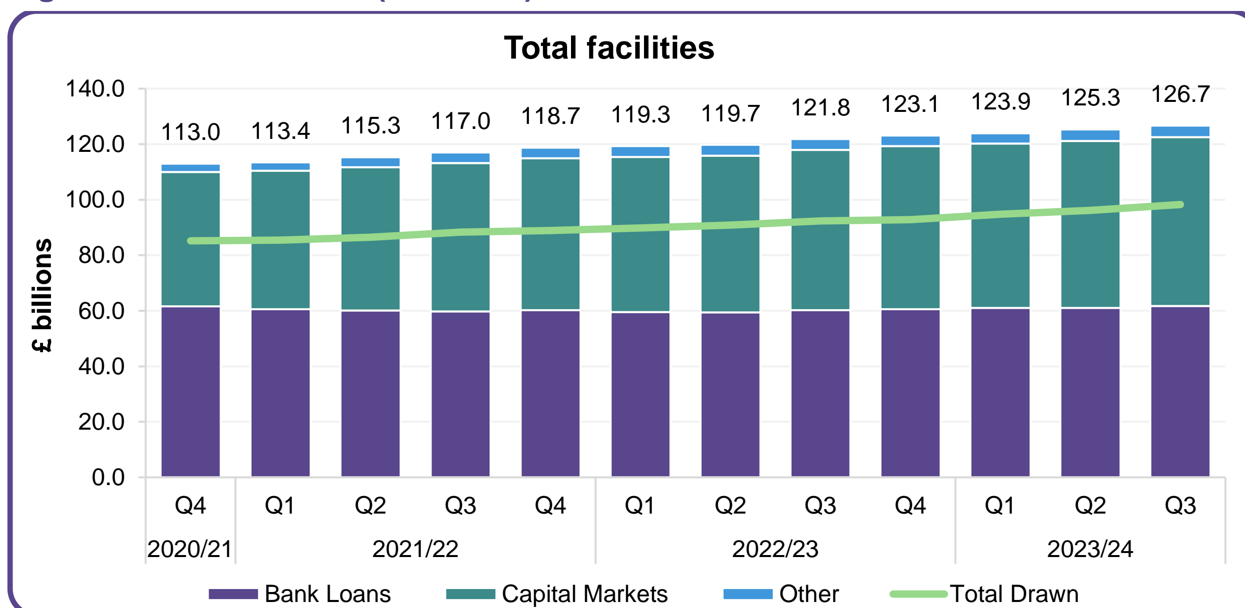


Table 1: Total facilities – drawn and secured

£billons	*Previous quarter*	*Current quarter*	*% change*
Drawn	96.1	98.3	2.2%
Undrawn	29.2	28.4	(2.8%)
Secured	112.9	113.9	0.9%
Security required	3.0	3.2	5.7%
Security not required	9.4	9.6	1.6%

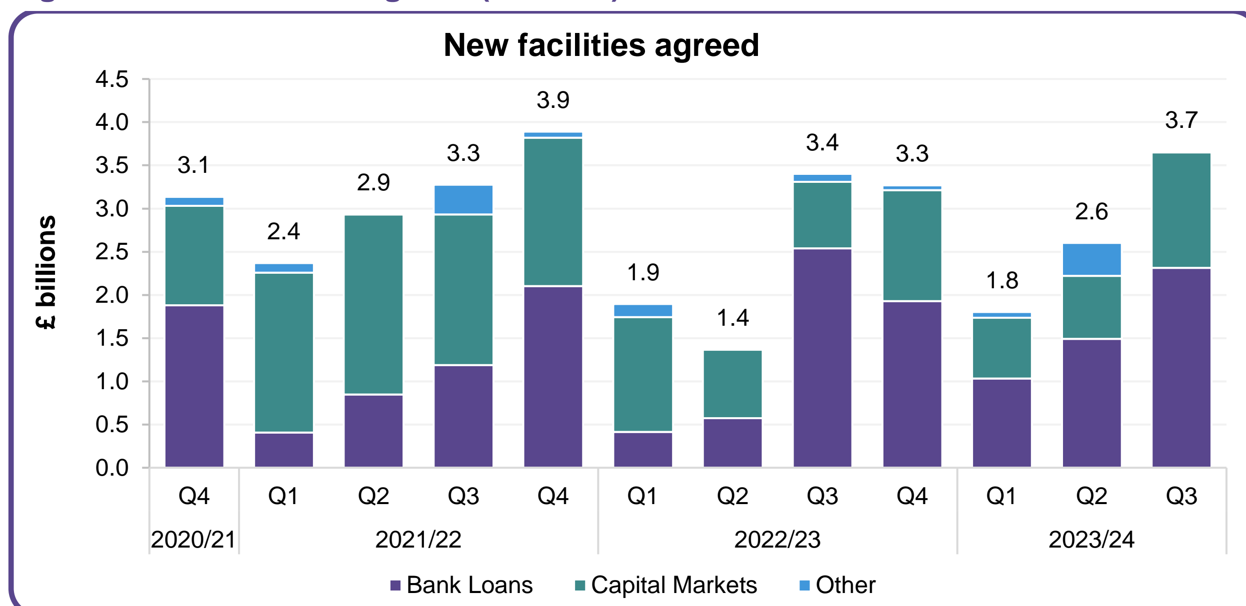
18. At the end of December, 96% of providers (September: 97%) were forecasting that debt facilities would be sufficient for more than 12 months. A total of 33 providers arranged new finance during the quarter (September: 31). The total agreed, including refinancing, amounted to £3.7 billion; compared to an average of £2.8 billion per quarter over the last three years. 16 providers each arranged facilities worth £100 million or more.

19. Bank lending accounted for 63% (£2.3 billion) of new funding arranged in the quarter. Capital market funding, including private placements and aggregated bond finance, accounted for 37% (£1.3 billion) of the total. This also included just under £0.3 billion funding from the Affordable Homes Guarantee Scheme[15]; a government-backed

[15] Affordable Homes Guarantee Scheme 2020 - GOV.UK (www.gov.uk)

scheme that provides loans to PRPs towards the delivery of new-build affordable homes. Two providers reported new finance from other sources, which amounted to less than £0.1 billion in total.

Figure 2: New facilities agreed (£ billion)



20. Although new facilities worth £3.7 billion were agreed during the quarter, these were exceeded by loan repayments of £1.3 billion (September: £1.0 billion), and £3.4 billion worth of loan drawdowns during the same period. This led to an overall reduction in total cash and undrawn facilities to £32.6 billion (September £33.7 billion); the lowest level in over three years.

21. However, at £32.6 billion, current levels of cash and undrawn facilities available within the sector would be sufficient to cover the forecast expenditure on interest costs (£4.4 billion), loan repayments (£2.3 billion) and net development for the next year (£13.4 billion), even if no new debt facilities were arranged and no sales income were to be received.

Table 2: 12-month forecasts

£billons	*Previous quarter*	*Current quarter*	*% change*
Drawdown from facilities agreed	5.7	4.8	(15.6%)
Drawdown from facilities not yet agreed	2.2	2.2	3.4%
Loan repayments	2.3	2.3	(1.5%)

22. Drawdowns from facilities not yet agreed have been forecast by 22 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

23. It is essential that providers have access to sufficient funds at all times. The regulator engages with PRPs that have low liquidity indicators.

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

Table 3: Summary cashflow forecast[16]

£ billions[17]	3 months to 31 December 2023 (forecast)	3 months to 31 December 2023 (actual)	12 months to 31 December 2024 (forecast)
Operating cashflows excluding sales	2.9	2.8	12.2
Repair & maintenance costs (capital & revenue)	(2.1)	(2.0)	(8.7)
Net operating cashflows excluding sales	**0.8**	**0.8**	**3.5**
Interest cashflows	(1.1)	(1.0)	(4.3)
Payments to acquire and develop housing	(4.4)	(3.9)	(15.9)
Current assets sales receipts	1.0	0.7	3.7
Disposals of housing fixed assets	0.8	0.5	4.7
Other cashflows	(0.2)	(0.1)	(0.2)
Cashflows before resources and funding	**(3.1)**	**(3.0)**	**(8.6)**
Financed by:			
Net grants received	0.6	0.6	2.5
Net increase in debt	1.4	2.1	4.8
Use of cash reserves	1.0	0.3	1.2
Total funding cashflows	**3.1**	**3.0**	**8.6**

25. Cash interest cover[18], based on net operating cashflows excluding sales, stood at 79% in the quarter to December 2023 (September: 87%); the fifth consecutive quarter where interest cover on this basis has been below 100%. This has resulted in a further reduction in rolling 12-month interest cover, down to 71% for the year to December (September: 74%); the lowest level ever recorded. Around half of providers reported aggregate cash interest cover below 100% for the 12 months to December 2023.

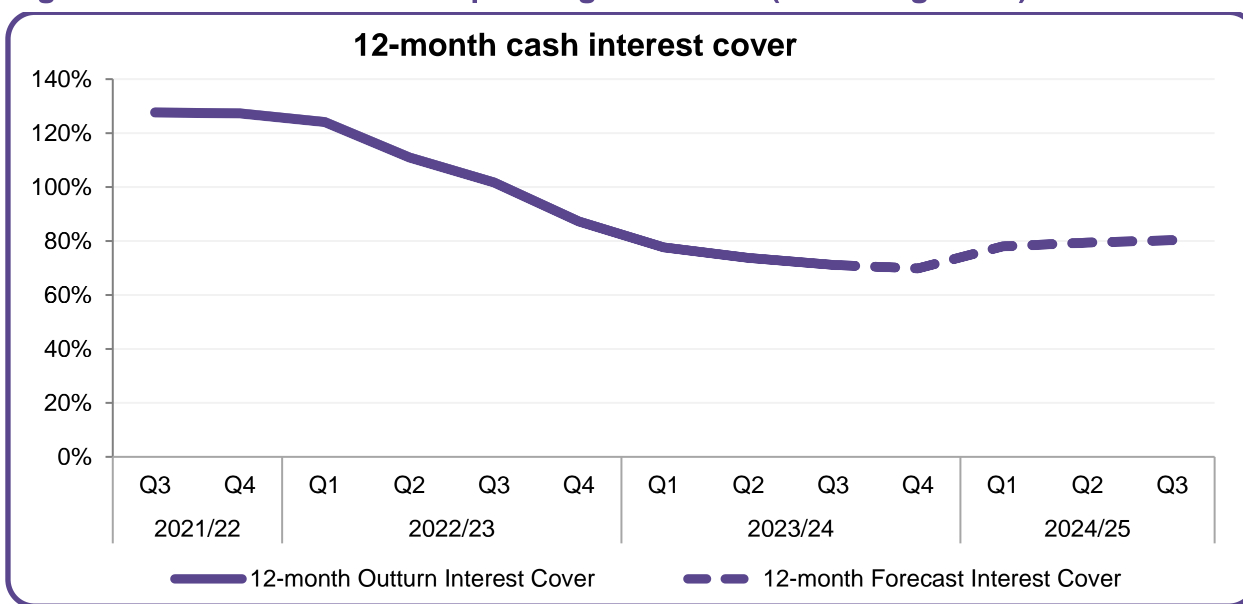
[16] Operating cashflow excludes current asset sales receipts and costs of sales. 'Payments to acquire and develop housing' include payments in respect of both current and fixed assets.

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

[18] 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.

26. For the 12 months to December 2024 cash interest cover excluding sales receipts is forecast to average 80% (September forecast: 76%). Although the information is not specifically collected in the quarterly survey, a number of providers have commented that forecasts have been revised following confirmation of the 7.7% maximum permitted rent increase from April 2024, which will have contributed towards the improvement in forecast interest cover since the previous quarter.

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



27. 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. 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.

28. 91% of providers consider interest cover to be their tightest Statement of Comprehensive Income based loan covenant; however individual covenants will be calculated on varying bases and often allow the inclusion of surpluses from current asset sales, or the exclusion of certain repair costs.

29. A total of 48 providers report having one or more loan covenant waivers in place (September: 51). Providers are continuing to make use of loan covenant waivers in order to prioritise and increase investment in existing stock. A total of 26 providers have reported having a waiver in place to exclude the exceptional costs of building safety works from loan covenant calculations, and a further 24 waivers have been disclosed in respect of energy efficiency or decarbonisation works. Three providers have agreed for any major works that are funded by grant, such as the Social Housing Decarbonisation Fund[19], to be excluded from covenants.

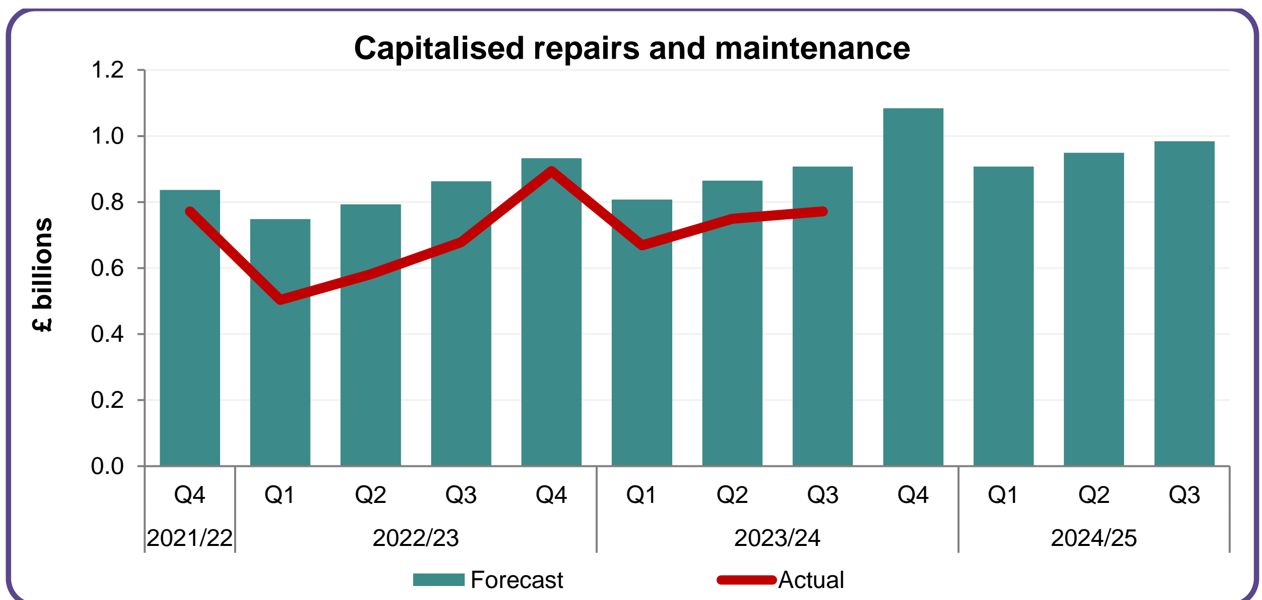
[19] Social Housing Decarbonisation Fund: Wave 2.2 (closed to applications) - GOV.UK (www.gov.uk)

30. Total repairs and maintenance spend in the quarter was £2.0 billion (September: £1.9 billion); of which £1.2 billion related to revenue works and £0.8 billion related to capital works. Revenue repairs are at the highest level recorded since the data was first separately identified in quarter one of 2022/23, and were 8% higher than the amount forecast in September. Providers are continuing to report a high level of demand for repairs, in particular for damp and mould works, and a number of providers are carrying out additional, proactive works during void periods to help prevent future issues.

31. In the 12 months to December 2023 total repairs and maintenance spend (capital and revenue) was £7.8 billion (September 2023: £7.6 billion). For the 12 months to December 2024 the sector has forecast further expenditure of £8.7 billion; a 3% increase on the 12-month forecast made in September.

32. Actual expenditure on the capitalised element of repairs and maintenance amounted to £772 million during the quarter; 3% higher than the previous quarter. In the 12 months to December 2023 capitalised expenditure on repairs and maintenance was £3.1 billion (September: £3.0 billion). For the 12 months to December 2024 the sector has forecast capitalised repairs and maintenance expenditure of £3.9 billion. Both the 12-month actual and 12-month forecast expenditure are the highest ever recorded, as providers continue to implement building safety and energy efficiency measures.

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



33. Although expenditure is at record levels, 56% of providers experienced delays or made changes to repairs and maintenance programmes during the quarter (September: 55%). Providers continue to report issues in recruiting trades staff and contractors, which in turn has led to increased costs as alternative suppliers are sourced and in some cases, providers have rescheduled non-essential works into the next financial year.

34. Current asset sales of £3.3 billion were achieved in the 12 months to December 2023, compared to the £4.4 billion that was forecast in December 2022. For the 12 months to December 2024 the sector has forecast a further £3.7 billion worth of current asset sales (September: £4.0 billion), of which £3.4 billion relates to properties for which development is contractually committed (September: £3.6 billion). Of the providers that participate in current asset sales, 54% have reduced their sales forecasts since September. Just over half of the overall net reduction in forecast current asset sales is attributable to two providers.

35. In the 12 months to December 2023 fixed asset sales totalled £2.8 billion. For the 12 months to September 2024 the sector has forecast a further £4.7 billion worth of fixed asset sales (September 12-month forecast: £4.7 billion), of which £1.7 billion relates to sales to tenants or other open market sales (including mainly staircasing, RTB/RTA and sale of void properties). The remaining £2.9 billion relates to other fixed asset sales, including bulk sales to other registered providers. Half of these sales are attributable to two for-profit providers, where bulk sales to related group companies are planned.

36. Net cashflows before use of resources and funding, as per table 3 above, totalled £3.0 billion during the quarter; only the second time that this level has been reached – the first time being in quarter one of this year. Rising development costs, combined with reducing sales receipts, in particular from declining market sales activity, has increased the level of cash required to fund development activity. In the year to December 2023, development net of sales receipts and grants has required an average cash investment of £1.6 billion per quarter, compared to £1.0 billion per quarter in both the years ending December 2022 and December 2021.

37. As interest cover has continued to sit below 100%, net operating cashflows have been insufficient to fund net interest payments, resulting in an average cash shortfall of £278 million per quarter over the year to December 2023. In comparison, in the year to December 2022 surplus cash of £15 million per quarter was generated from operating activities, and in the year to December 2021 a surplus of £237 million per quarter.

38. This increasing demand on cash resources has resulted in a steady reduction in cash levels and an increase in drawn debt. The net increase in drawn debt in the quarter stood at £2.1 billion; the highest recorded since cashflow data was first collected in 2015. In the 12 months to December 2023 total drawn debt increased by £5.7 billion, compared to £3.7 billion in the year to December 2022. Forecasts show this increasing by a further £4.8 billion over the coming year.

39. Available cash, excluding amounts held in secured accounts, reduced by £0.2 billion during the quarter to reach £4.2 billion (September: £4.4 billion). This is the seventh consecutive quarter where cash balances have reduced, and they are now at the

lowest level in ten years. In comparison, in the three years prior to the pandemic average cash balances were £5.8 billion. Available cash is forecast to reduce to £3.1 billion over the next 12 months as reserves continue to be used, primarily, to fund development programmes. In aggregate, 12-month liquidity within the sector remains strong, however, the regulator reviews each quarterly survey submission and engages with providers where there are indicators to the contrary.

40. Cash held in secured accounts or otherwise inaccessible to providers totalled £0.9 billion (September: £1.0 billion). Typically, these amounts relate to amounts in escrow, leaseholder sinking funds, debt servicing reserve accounts, and cash held on long-term deposit.

Development

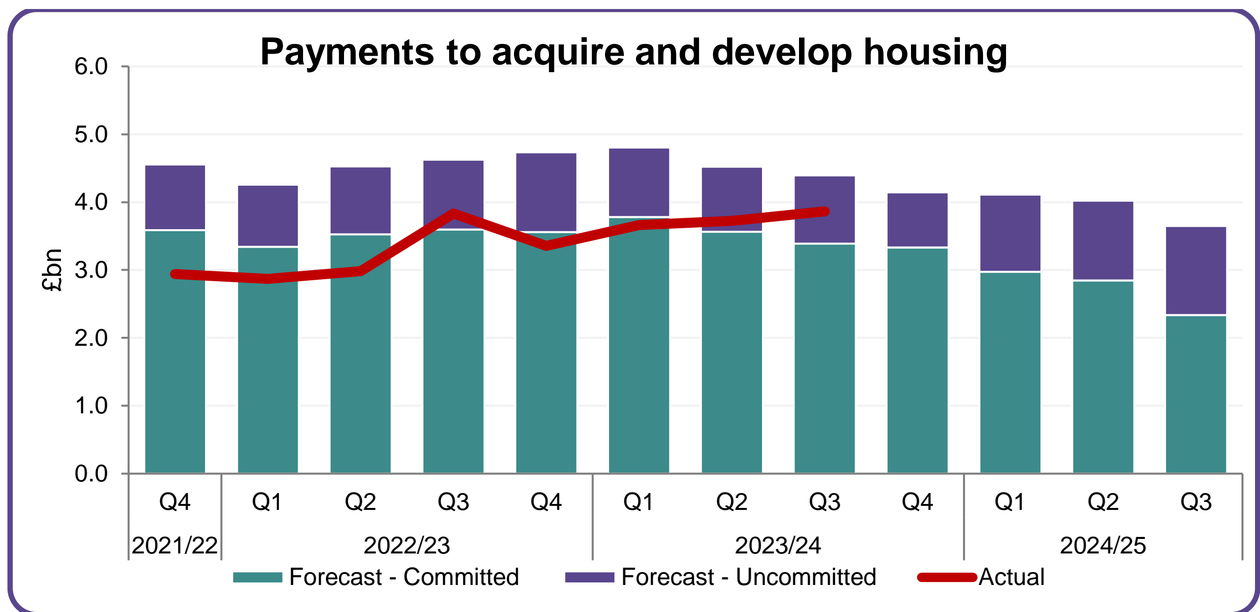
41. In the 12 months to December 2023, £14.6 billion was invested in the acquisition and development of housing properties. This compares to £12.6 billion in the year to December 2022, and £12.5 billion in the year to December 2021.

42. Actual expenditure in the quarter to December 2023 amounted to £3.9 billion (September: £3.7 billion); above the £3.3 billion average quarterly expenditure incurred over the last three years and is the highest level of expenditure in over eight years. Development spend is relatively concentrated, with almost half of the sector spend during the quarter being reported by 17 providers.

43. Quarterly expenditure was 12% below the £4.4 billion forecast for the quarter, but 14% above the £3.4 billion forecast for contractually committed schemes. One for-profit provider accounted for one-third of the overall overspend on committed development, relating to an intra-group transaction.

44. Development and approval delays on site, together with timing differences continue to be a factor. Providers have also mentioned remediation delays, caused by ongoing negotiations on works impacting programmes. As a result this has led to setbacks in handovers from developers, contributing to forecast variances. A small number of providers continue to report being affected by contractor insolvencies, and some schemes being aborted.

Figure 8: Payments to acquire and develop housing



45. For the next 12 months a further £15.9 billion (September: £16.7 billion) worth of investment has been forecast, of which £11.5 billion (September: £11.5 billion) is contractually committed. This is a 5% decrease on the projection from the previous quarter and the lowest forecast spend since the start of the pandemic. Of the forecast total, £0.7 billion (5%) is attributable to for-profit providers, with around £0.2 billion of this relating to bulk transfers between related provider groups.

46. Forecast uncommitted development expenditure has dropped by 14%, with over 50% of providers reducing their development forecast from previous quarter. This is partially due to delays and development reviews (where some uncommitted schemes are not progressed).

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 £1.2 billion in the quarter to December (September: £1.8 billion).

48. Total cash receipts in respect of current asset sales (market sales and first tranche AHO sales) amounted to £0.7 billion in the quarter; 8% lower than the £0.8 billion recorded in the previous quarter and 26% below forecast. This is widespread with over half of providers reporting less current asset sales than previously forecast, with six providers reporting current asset sales that were more than £10m below forecast, accounting for around 75% of the overall net variance.

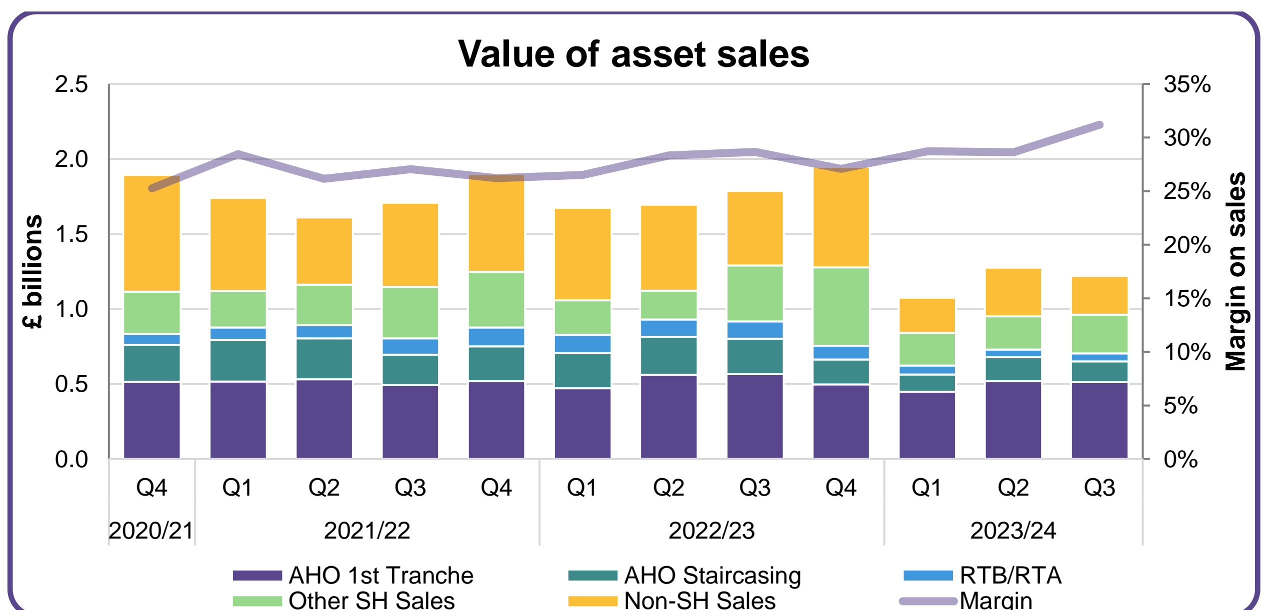
49. Providers have reported ongoing postponement to sales due to the knock-on effect of development delays resulting in handovers taking longer than planned. Comments continue to suggest that providers are feeling the effects of a market slow-down, in particular affecting outright market sales. High mortgage rates and cost of living pressures continue to impact affordability, resulting in smaller first tranche percentage shares being purchased. A small number of providers have also reported legal delays affecting the timing of completions.

50. Total fixed asset sales amounted to £0.5 billion (September: £1.0 billion); 36% lower than the amount forecast in September. 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 (September: £0.4 billion), 8% below the amount previously forecast. Almost 50% of the net adverse variance was due to inaccurate forecasting by one provider.

- Fixed asset sales to other organisations amounted to £46 million (September: £0.6 billion), 84% below forecast and the lowest outturn figure since fixed asset sales was first split in quarter one 2022/23. This was mainly due to stock transfer delays re-profiled into the following quarter, with three providers accounting for 87% of overall decrease.

Figure 9: Value of asset sales



51. The overall surplus from asset sales stood at £381 million for the quarter (September: £365 million), and the overall margin increased to 31%; above the average margin achieved over the last three years of 28%.

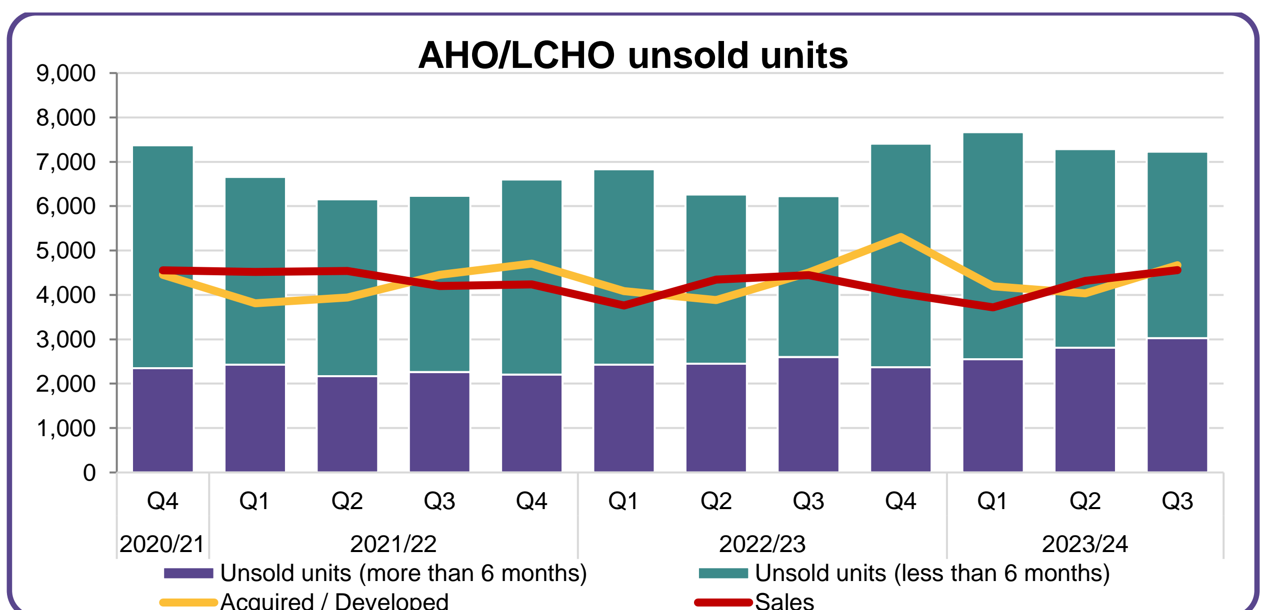
Table 4: AHO units

AHO units	*Previous quarter*	*Current quarter*	*% change*
Completed	4,032	4,671	15.8%
Sold	4,319	4,559	5.6%
Margin	20.7%	20.4%	(1.3%)
Unsold	7,288	7,230	(0.8%)
Unsold for more than 6 months	2,808	3,024	7.7%
18-month pipeline	33,371	32,777	(1.8%)

52. AHO property completions were above the quarterly average of 4,337 units over the last three years, and higher than the 4,506 units completed in the corresponding period of 2022. In the 12 months to December a total of 18,201 AHO units were completed (December 2022: 17,183, December 2021: 16,657).

53. AHO sales were above the three-year average of 4,269 units per quarter, and above the 4,445 units achieved in the same quarter of 2022. Nine providers each reported sales of more than 100 AHO units during the quarter, accounting for 38% of the sector total. Units unsold for over six months are at the highest level in over three years and have increased for three consecutive quarters. These units are concentrated amongst 16 providers, each of which held over 50 units of unsold stock, and together they account for 72% 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.

Figure 10: AHO/LCHO units



54. Sales proceeds from 1st tranche AHO sales amounted to £512 million during the quarter (September: £520 million), with an overall surplus of £105 million being

reported (September: £108 million). This resulted in an average margin of 20.4% (September: 20.7%); above the average of 19.6% achieved over the last three years.

55. The pipeline of AHO completions expected in the next 18 months has reduced by 2% to 32,777 units (September: 33,371), of which 28,937 units are contractually committed (September: 28,682). This is the lowest pipeline figure reported in almost four years, and the fourth consecutive quarter unit levels have decreased. However if achieved, this would still represent a 23% increase in AHO development compared to actual performance in the 18 months to December 2023, when 26,588 units were completed. Seven providers have each reported over 1,000 pipeline units, including two for-profit providers. Together these seven providers account for 27% of the overall total.

Table 5: Market sale units

Market sale units	*Previous quarter*	*Current quarter*	*% change*
Completed	1,095	698	(36.3%)
Sold	785	708	(9.8%)
Margin	16.1%	14.7%	(8.2%)
Unsold	1,584	1,489	(6.0%)
Unsold for more than 6 months	631	729	15.5%
18-month pipeline	7,026	6,177	(12.1%)

56. Completions of market sales were well below the quarterly average of 1,171 units over the last three years, and lower than the 1,210 units achieved in the same period of 2022. This is the lowest level of completions in almost four years, and in the 12 months to December a total of 4,067 market sale units were completed (December 2022: 5,162, December 2021: 4,820).

57. Market sales were significantly below the three-year average of 1,186 units per quarter. However sales were higher than completed units resulting in a drop in unsold units at the end of December. In the 12 months to December a total of 3,664 market sale units were sold (December 2022: 5,224, December 2021: 5,345). Sales were concentrated in London, with over 30% of overall sales achieved in this region in the quarter.

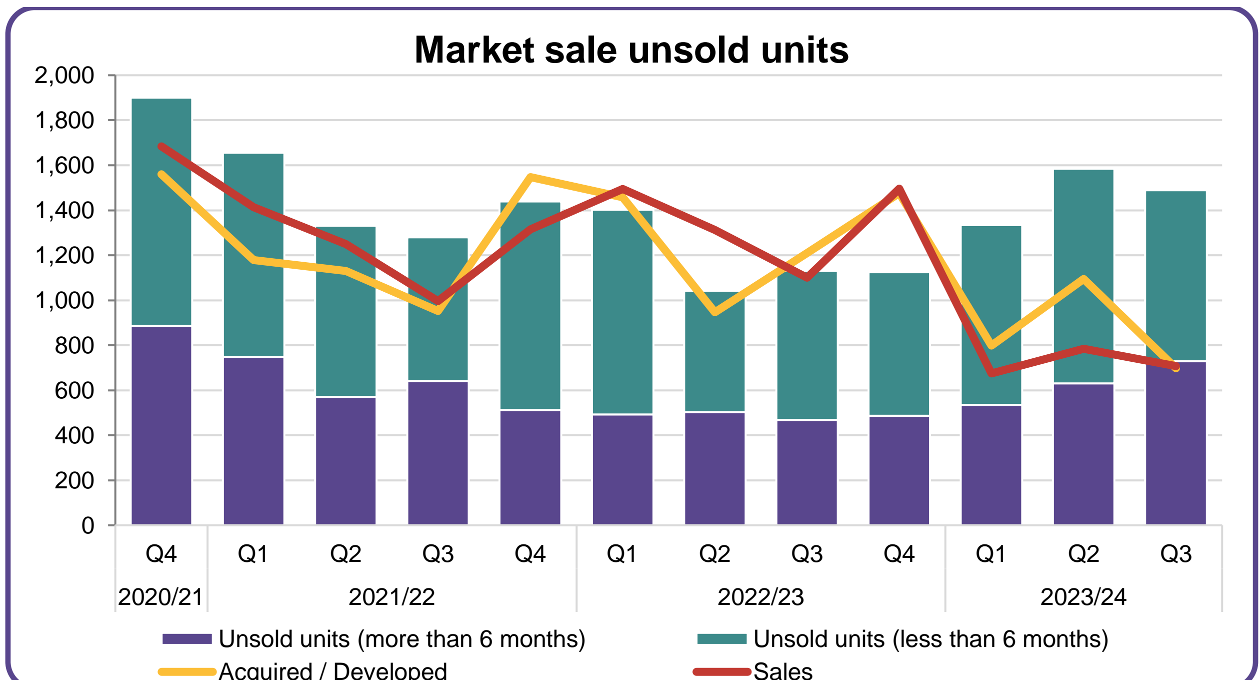
58. Market sale activity continues to be concentrated in relatively few providers; 13 providers each developed over 100 market sale units in the year to December 2023, together accounting for 78% of the sector total. One provider accounted for over a quarter of overall completions over the last 12 months.

59. Although unsold market sales have dropped in the quarter, levels remain elevated and higher than the three-year quarterly average of 1,393. Five providers each held over 100 unsold market sale units at the end of the quarter, accounting for over 60% of the sector total. These providers each had access to between £0.2 billion and £1.4 billion worth of cash and undrawn facilities, ensuring sufficient liquidity if sales receipts are delayed.

60. Units unsold for over six months are at their highest level in almost three years and have increased for four consecutive quarters, reflecting the low market sales. Two providers accounted for a third of the overall unsold units, each holding over 100 units of unsold stock.

61. Total non-social housing sales income amounted to £257 million during the quarter; 20% lower than the £324 million recorded in the quarter to September. The surplus on non-social housing sales decreased to £38 million (September: £52 million), giving an average margin of 14.7% (September: 16.1%). This is in line with the average margin of 15.0% achieved over the last three years.

Figure 11: Market sale units



62. The pipeline of market sale completions expected over the next 18 months has reduced by a further 12% and now stands at 6,177 units (September: 7,026), of which 5,859 units are contractually committed (September: 6,621). The total pipeline remains at the lowest level in over eight years and is now below the 6,224 actual completions recorded over the previous 18 months. 15% of providers had reduced their pipeline units from the previous quarter, and over half of the total pipeline units are reported by just six providers.

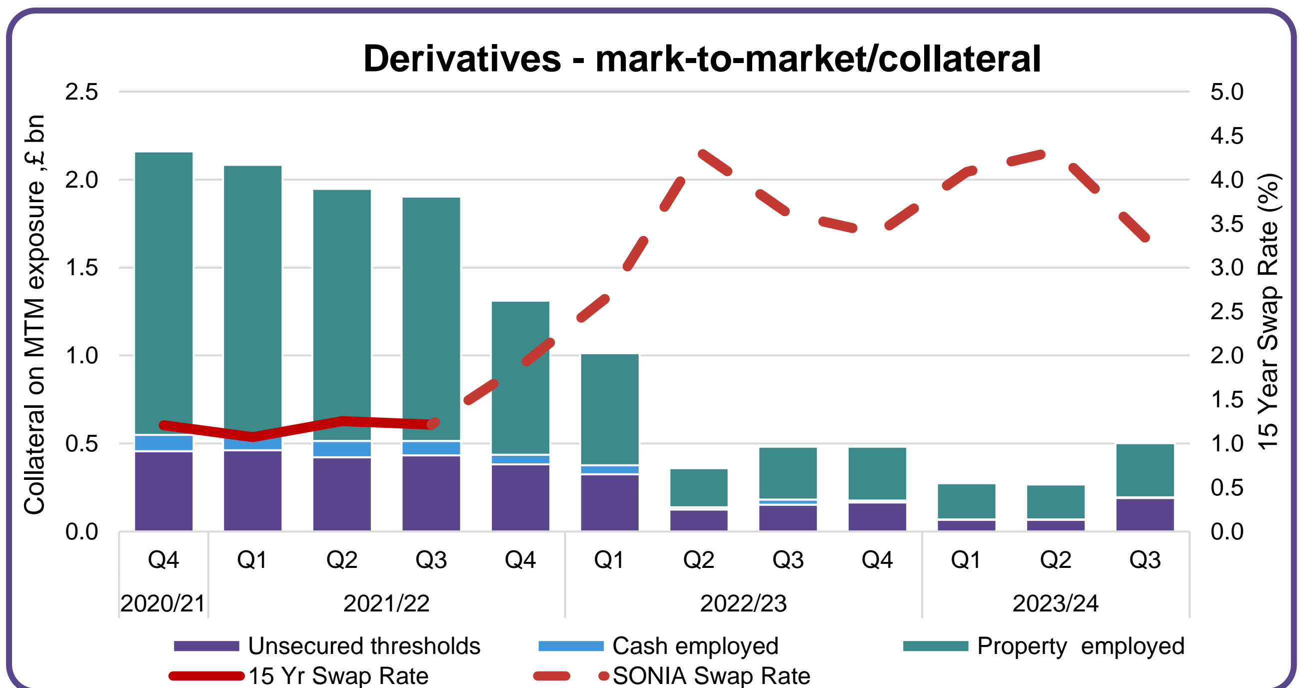
Derivatives

63. At the end of December 45 providers (September: 44) reported making use of free-standing derivatives. The notional value of standalone derivatives decreased to £8.8 billion (September: £9.0 billion) over the quarter as a result of some swap terminations.

64. The 15-year swap rate decreased over the quarter, moving from 4.33% at the end of September to 3.34% at the end of December. Movements in long term interest rates have increased gross MTM exposure to £0.4 billion (September: £0.1 billion).

65. Of the 45 providers that were making use of free-standing derivatives, 40 had collateral pledged that exceeded or equalled their level of gross exposure. The five 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 slightly increased to £2.3 billion at the end of December (September: £2.2 billion).

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



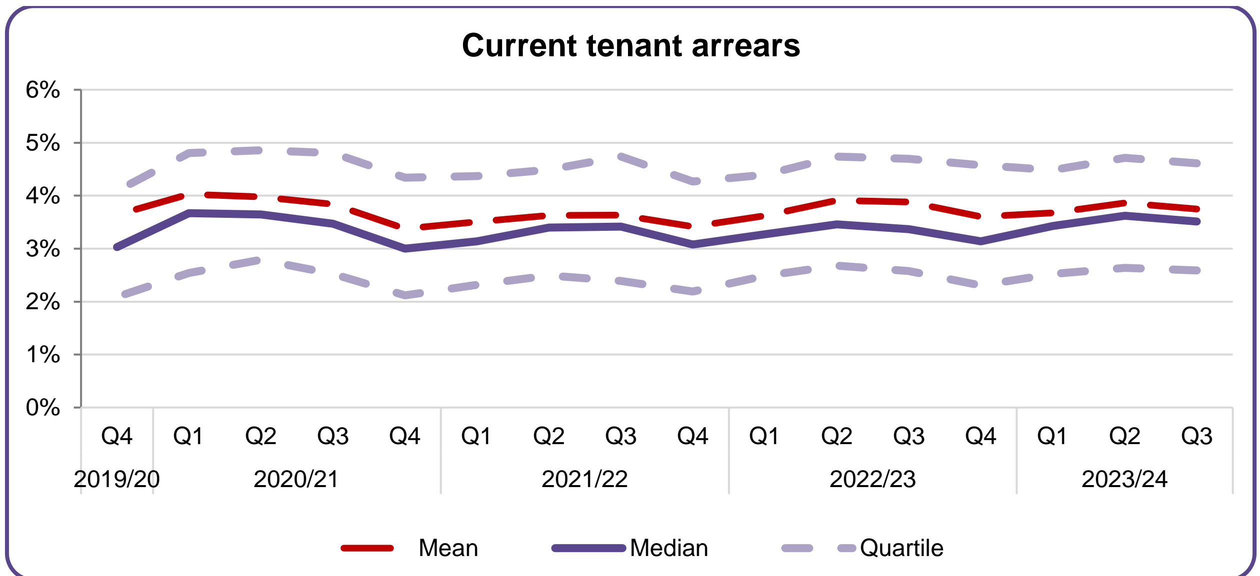
66. The above graph shows MTM exposure excluding excess collateral. Collateral pledged continues to be well above the sector's exposure levels, and at the end of December, the total headroom of collateral and unsecured thresholds available over MTM exposure was £1.9 billion (September: £2.1 billion).

67. 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

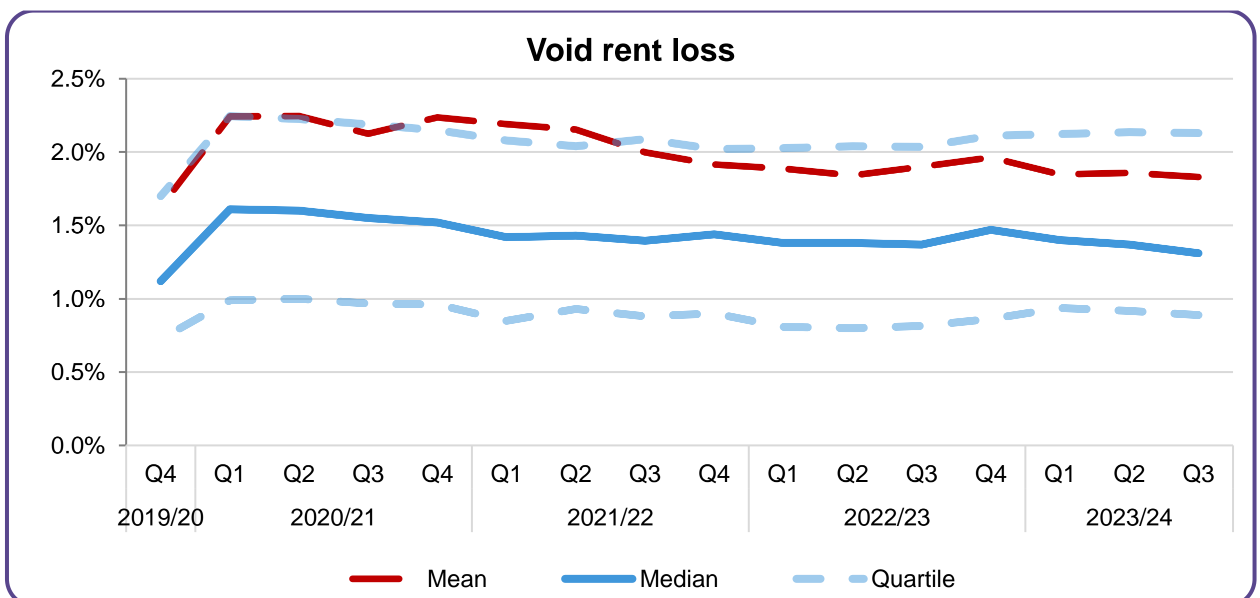
68. At the end of December, 64% of providers reported that their levels of arrears, rent collection and voids were all within, or outperforming, their business plan assumptions (September: 64%).

Figure 13: Current tenant arrears



69. Median current tenant arrears reduced to 3.5% at the end of December (September: 3.6%); slightly higher than the median of 3.4% recorded in December 2022. The mean average reduced to 3.7%, compared to 3.9% in both the previous quarter and in December 2022. Providers continue to report tenants being affected by cost-of-living pressures, although overall arrears are remaining consistent with cyclical trends.

Figure 14: Void losses

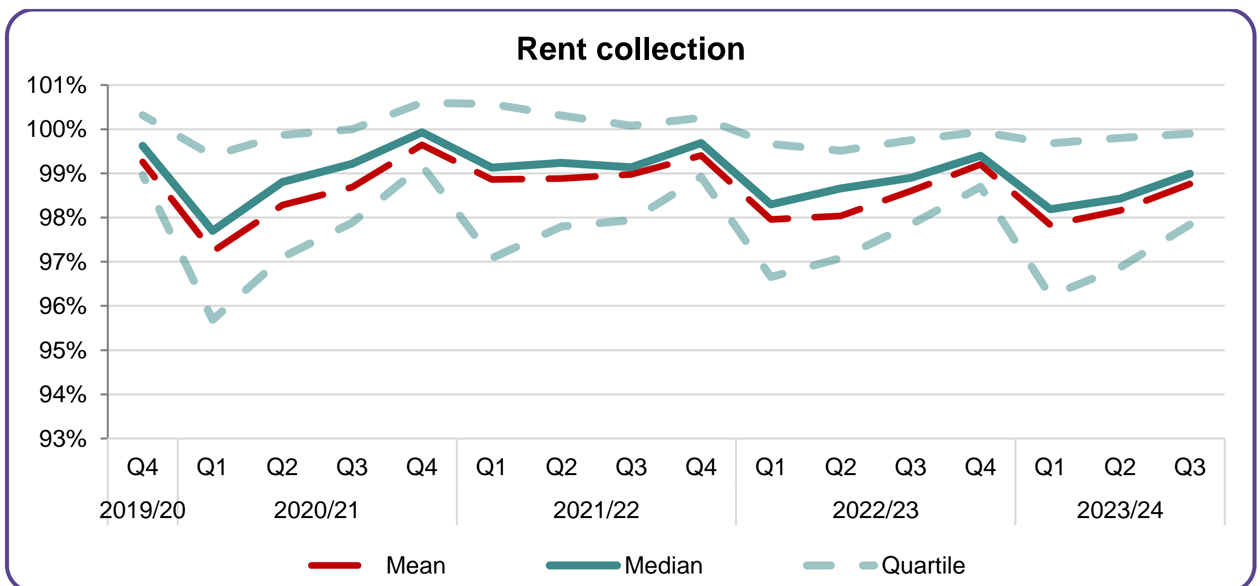


70. Median void losses reduced to 1.3% at the end of December (September 1.4%); the lowest level since March 2020. Mean void losses stood at 1.8% (September: 1.9%), compared to an average of 2.0% over the last three years.

71. Although there has been an improvement in void losses during the quarter, around a quarter of providers have reported being outside of their business plan assumptions for this measure. Providers have referred to both high volumes of properties becoming empty and longer void turnaround times; factors for which include delays in referrals from partner agencies and enhanced void standards being implemented, including the completion of damp and mould works and component replacements during the void period.

72. The highest void rent losses continue to be reported by providers with a large proportion of supported housing units, care home units or Housing for Older People. A total of eight providers reported void losses in excess of 5%, and of these, seven hold over 50% of their stock within these specialist categories.

Figure 15: Rent collection



73. Mean average rent collection rates increased from 98.2% at the end of September to 98.8% at the end of December, and the median increased from 98.4% to 99.0%. The number of providers reporting rent collection rates of less than 95% stood at eight at the end of December (September: 24). A number of providers have reported that rent collection rates were adversely affected by the Christmas period, either due to Housing Benefit payment processing delays or through tenants falling behind with payments. However, these adverse factors are offset by the impact of rent-free weeks that many providers apply in December, and which typically have a positive impact on rent collection rates.

© RSH copyright 2024

This publication is licensed under the terms of the Open Government Licence v3.0 except where otherwise stated. To view this licence, visit nationalarchives.gov.uk/doc/open-government-licence/version/3

Where we have identified any third-party copyright information you will need to obtain permission from the copyright holders concerned.

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.