Regulator of Social Housing

Quarterly survey for Q1

April to June 2024

September 2024

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Introduction

1. This quarterly survey report is based on regulatory returns from 200 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 2024 to 30 June 2024.

3. From 1 April 2024 the remit of the regulator was extended to allow an integrated approach to social housing regulation, with stronger, proactive regulation of consumer standards. Boards must continue to ensure that economic standards are met as they work towards implementing the new consumer standards.

4. The regulator continues to review each PRP's quarterly survey. It considers a range of indicators and follows up with the PRP where a risk to the 12-month liquidity position is identified, or where there is a risk to loan covenant compliance. Further assurance is also sought where there is increasing exposure to risks from activities carried out within non-registered entities.

5. Providers continue to face pressure to improve the quality and energy efficiency of existing stock, which is increasingly resulting in boards having to make difficult decisions as to how to use cash resources most effectively as well as limiting their ability to further manage additional costs. In general, we have assurance that PRPs are taking action to manage their position, which for a number of providers includes the deferral of uncommitted development and/or the arrangement of loan covenant waivers.

6. We will continue to monitor and engage with individual providers as necessary and reflect findings in regulatory judgements where appropriate. 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.

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Summary

Liquidity

Investment in the sector remains robust - new finance of £2.3 billion arranged in the quarter.

Cash balances reduce to the lowest level in over ten years.

- 26 providers arranged new finance during the quarter, with bank lending accounting for 65% of new facilities.
- Cash balances reduced by £0.5 billion during the quarter, reaching £3.9 billion. Balances are expected to reduce to £2.7 billion by June 2025.
- £131.7 billion total facilities in place at the end of June, up from £129.1 billion at the end of March.
- Total cash and undrawn facilities increased to £34.3 billion; sufficient to cover forecast expenditure on interest costs (£4.3 billion), loan repayments (£3.4 billion) and net development (£13.5 billion) for the next year.
- Gross mark-to-market (MTM) exposure on derivatives reduced to £0.2 billion at the end of the quarter (March: £0.3 billion).

Performance in the quarter

12-month outturn cash interest cover increases marginally, but actual and forecast performance remains below 100%. This results in a shortfall in operating cashflows which is increasingly being met by asset sales.

Repairs expenditure continues at record levels.

- 12-month cash interest cover up to 79% compared to 76% for the year to March. However, forecasts show interest cover remaining restricted for the next 12 months.
- Quarterly interest cover (excluding all sales) stood at 67%; below forecast due to large Q1 prepayments and settlement of year-end accruals, but above the comparable quarter of 2023.
- Revenue repairs spend was £1.3 billion; 3% higher than the previous quarter and 3% above forecast.
- Capitalised repairs and maintenance spend reached £771 million; 21% below the previous quarter, but the highest Q1 spend ever recorded.
- Income collection indicators generally following seasonal trends. Void losses return to the lowest level since March 2020.

Investment in new and existing stock

Capital works to existing stock continue at record levels, with both the 12-month actual spend and 12-month forecast being the highest on record.

12-month projected development spend is £16.2 billion - consistent with the previous quarter (when PRPs submitting a return for the first time are excluded).

- Total repairs and maintenance (capital + revenue) spend stood at £2.1 billion in the quarter. In the year to June a total of £8.2 billion was spent, with a further £9.3 billion forecast for the next 12 months.
- 12-month expenditure on capitalised repairs totalled £3.3 billion, with a further £4.3 billion investment forecast over the next 12 months; both record amounts.
- £3.5 billion invested in new housing properties in the quarter; above both committed development forecast and the three-year quarterly average of £3.4 billion.
- An increase in for-profit development activity within the sector, accounting for 10% of total expenditure in the last 12 months.
- AHO completions (3,790 units) are at the lowest level since September 2020 and substantially below previous quarter. Market sale completions (487 units) are at the lowest level since June 2020.
- Both AHO and market sale pipelines have increased to 33,949 and 5,747 units respectively.

Sales

Total fixed asset sales receipts in the quarter were £0.4 billion, below the forecast of £0.6 billion. In the next 12 months, including both sales to tenants and sales to other organisations, average quarterly receipts of £0.9 billion are included in cash projections.

Market sales achieved are the lowest ever recorded. AHO first tranche sales remain in line with longer term averages.

AHO margin at record lows, however market sales margin is highest level since Q3 2021/22.

- Market sales remain significantly below average and also the lowest level recorded; 472 sales achieved compared to 1,037 three-year average.
- AHO sales of 4,252 units achieved are in line with the average, and above the 3,720 units achieved in the same quarter of 2023.
- Relatively high market sales margin due to a reduction in the number of providers reporting losses, together with a lower proportion of losses in the quarter.
- Total unsold units decreased for both AHO and market sale – AHO stood at 7,424 units and market sale 1,590 units.
- Both AHO and market sale units unsold for over six months remained broadly in line with last quarter.
- Sales to other organisations of £69 million is the second lowest amount achieved since data collection for it began two years ago, due to stock transfer delays and the rephasing of sales.

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Operating environment

8. The quarter to June 2024 saw the sector experience a period of uncertainty due to the announcement of a UK general election on 22 May. This was subsequently held on 4 July, with the Labour Party winning a majority and forming a new Government[1].

9. 12-month Consumer Price Index (CPI) inflation in the UK has further fallen to 2.0% in May and June 2024[2], to the Bank of England target. CPI inflation rose to 2.2% in the 12 months to July 2024, the first increase this year. CPI inflation is projected to rise again later in the year to around 2.75%, mainly due to a smaller expected drag from domestic energy bills. Nevertheless, this increase is expected to be temporary with inflation coming back down in the following year[3].

10. The Bank of England (BoE) base rate was cut from 5.25% to 5% on 1 August[4]. This is the first cut in over four years since March 2020. The restrictive stance is expected to remain until inflation returns sustainably to the 2% target, and the medium-term risks have dissipated further.

11. The average interest rate for a typical 5-year mortgage stood at 4.65% at the end of June 2024[5]. Net mortgage approvals for house purchases decreased to 60,000 in June from March's figures of 61,300[6].

12. Overall construction output decreased by 0.1% in the quarter to June 2024 when compared to the previous quarter. This decline resulted solely from a decrease in new works by 0.5%, as repair and maintenance works grew by 0.4%[7].

13. Annual price growth in the construction industry over the quarter stood at 1.9% in the year to June 2024[8], compared to a growth of 4.6% in the 12 months to June 2023.

14. House prices in England increased by an estimated 2.7% in the 12 months to June 2024[9]. The largest annual growth was experienced in Yorkshire and the Humber, where prices increased by 4.7% over the year. In London prices increased by just 0.6% over the same period.

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[1] General election 2024 results - House of Commons Library (parliament.uk)
[2] Consumer price inflation, UK - Office for National Statistics
[3] Monetary Policy Report - August 2024 | Bank of England
[4] Bank Rate reduced to 5% - August 2024 | Bank of England
[5] Quoted household interest rates - a visual summary of our data | Bank of England
[6] Money and Credit - June 2024 | Bank of England
[7] Construction output in Great Britain - Office for National Statistics
[8] Construction output in Great Britain - Office for National Statistics
[9] UK House Price Index summary: June 2024 - GOV.UK (www.gov.uk)

15. The unemployment rate for the quarter to June 2024 decreased to 4.2%[10] compared to 4.3% in the previous quarter. The number of job vacancies fell by 30,000 to reach 889,000[11], decreasing for the 24th consecutive period although still above pandemic levels. The total number of people claiming Universal Credit in England was around 6.0 million in June 2024 compared to 5.2 million a year ago[12].

16. 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%[13]. 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. An extension to the CPI + 1% rent settlement was announced in April[14], confirming that rent increases for the 2025/26 financial year will be linked to CPI in September 2024.

17. Although inflation and interest rates are showing signs of improvement, interest rates are likely to remain elevated compared to historically low levels. Providers must be prepared to handle the impact of increased 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.

[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)

[13] Limit on annual rent increases 2024-25 – from April 2024 - GOV.UK (www.gov.uk)

[14] New regime to deliver decent homes for social housing residents - GOV.UK (www.gov.uk)

Private finance

18. The sector's total agreed borrowing facilities increased by £2.6 billion over the quarter, to reach £131.7 billion at the end of June (March: £129.1 billion). Around £1.0 billion of this increase is attributable to one provider that has been added to the dataset this quarter.

Figure 1: Total facilities (£ billions)

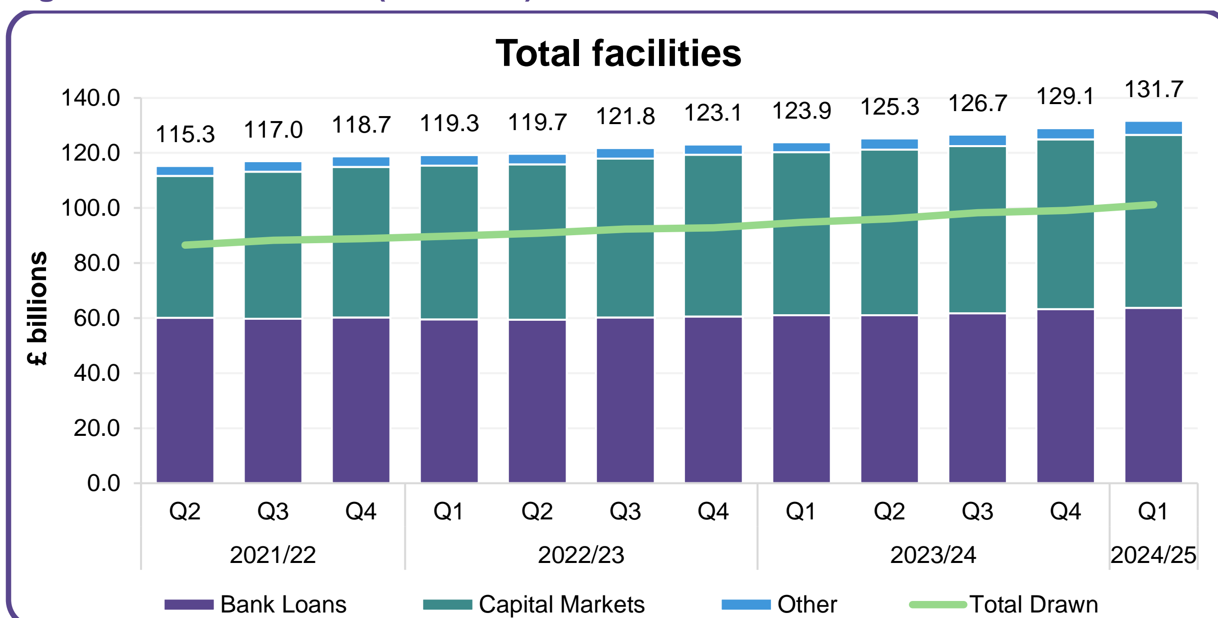


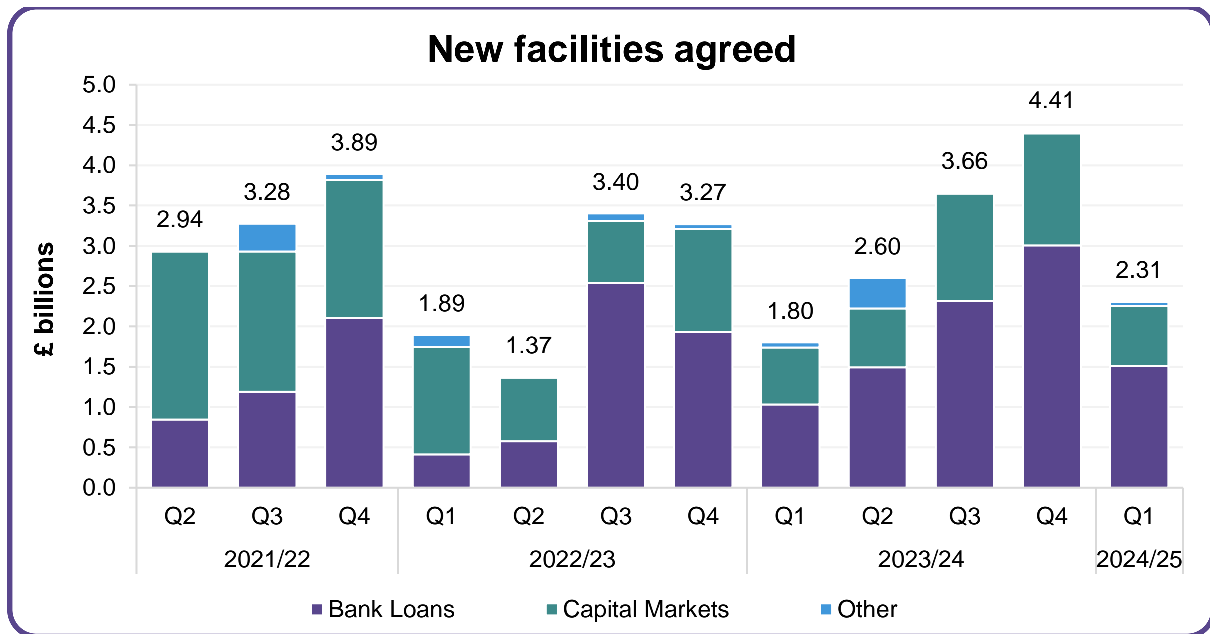
Table 1: Total facilities – drawn and secured

£billons	*Previous quarter*	*Current quarter*	*% change*
Drawn	99.2	101.2	2.1%
Undrawn	29.9	30.4	1.8%
Secured	116.1	118.2	1.8%
Security required	3.3	2.6	(20.2%)
Security not required	9.7	10.8	11.9%

19. At the end of June, 95% of providers (March: 95%) were forecasting that debt facilities would be sufficient for more than 12 months. A total of 26 providers arranged new finance during the quarter (March: 45), with 11 of these arranging facilities worth £100 million or more. The total agreed, including refinancing, amounted to £2.3 billion, compared to an average of £2.9 billion per quarter over the last three years.

20. Bank lending accounted for 65% of new funding in the quarter, with 20 providers arranging facilities worth an average of £75 million each. Capital market funding, including private placements and aggregated bond finance, accounted for 32% (£0.7 billion) of the total. Two providers arranged new Local Authority funding, which accounted for 2% of the overall total.

Figure 2: New facilities agreed (£ billion)



21. At £34.3 billion, current levels of cash and undrawn facilities available within the sector would be sufficient to cover the forecast expenditure on interest costs (£4.3 billion), loan repayments (£3.4 billion) and net development for the next year (£13.5 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	5.1	5.1	(0.6%)
Drawdown from facilities not yet agreed	2.3	2.7	17.5%
Loan repayments	3.2	3.4	7.0%

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.

23. Loan repayments of £0.5 billion were made during the quarter, compared to an average of £1.0 billion per quarter over the last three years. For the next twelve months, seven providers have each forecast over £100 million of loan repayments, together accounting for almost 60% of the £3.4 billion sector total.

Cashflows

24. It is essential that providers have access to sufficient funds at all times. 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 June 2025.

Table 3: Summary cashflow forecast[15]

£billions[16]	3 months to 30 June 2024 (forecast)	3 months to 30 June 2024 (actual)	12 months to 30 June 2025 (forecast)
Operating cashflows excluding sales	3.0	2.8	12.8
Repair & maintenance costs (capital & revenue)	(2.2)	(2.1)	(9.3)
Net operating cashflows excluding sales	**0.8**	**0.7**	**3.5**
Interest cashflows	(1.1)	(1.1)	(4.5)
Payments to acquire and develop housing	(4.2)	(3.5)	(16.2)
Current assets sales receipts	0.8	0.7	3.9
Disposals of housing fixed assets	0.6	0.4	3.8
Other cashflows	0.0	(0.1)	1.2
Cashflows before resources and funding	**(2.9)**	**(2.8)**	**(8.4)**
Financed by:			
Net grants received	0.6	0.5	2.6
Net increase in debt	1.2	1.8	4.4
Use of cash reserves	1.1	0.6	1.3
Total funding cashflows	**2.9**	**2.8**	**8.4**

26. Cash interest cover[17], based on net operating cashflows excluding sales, stood at 67% in the quarter to June 2024 (March: 84%); the seventh consecutive quarter where interest cover on this basis has been below 100%. This was below the forecast of 75%, mainly due to an adverse variance of £0.2 billion against net cashflows from operating activities. It is typical for net operating cashflows to fall in the first quarter of the year, as year-end accruals are settled and large annual invoices, such as insurance premiums and I.T. licence fees, are paid, and just under two-thirds of providers reported an adverse variance against their previous forecast. However,

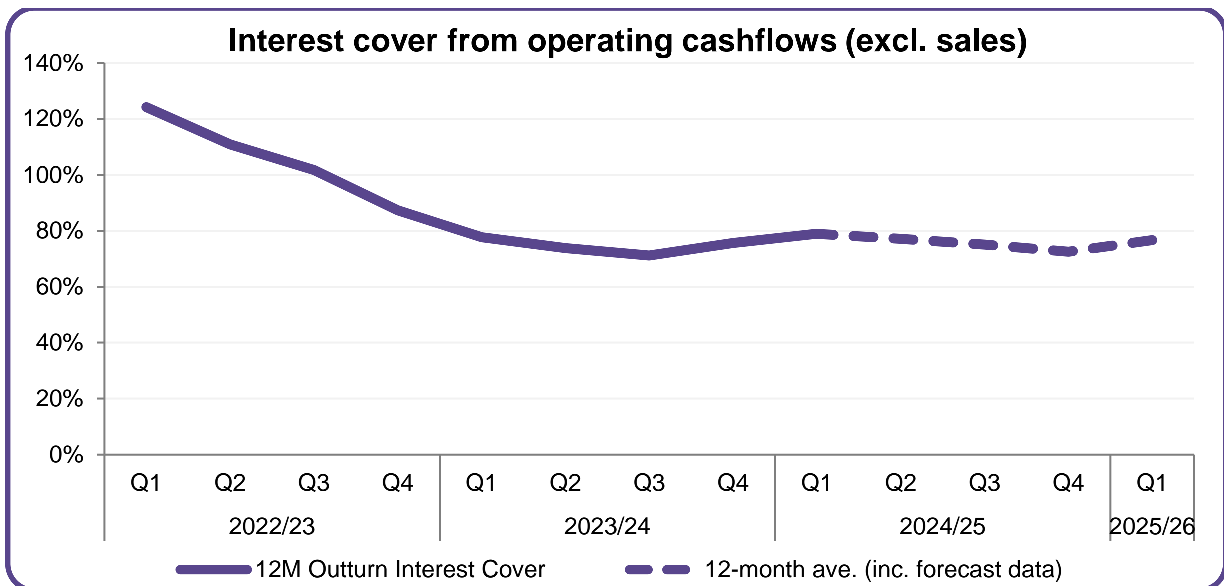
[15] Operating cashflow excludes current asset sales receipts and costs of sales. 'Payments to acquire and develop housing' include payments in respect of both current and fixed assets.

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

[17] 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.

performance was above that reported in the comparable quarter of 2023/24, when interest cover stood at 51%.

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



27. Although quarterly interest cover has declined in the three months to June, 12-month rolling interest cover has increased marginally and equated to 79% for the year to June 2024 (March: 76%, June 2023: 78%). However, cash interest cover is expected to remain restricted, with forecasts for the year to June 2025 giving an estimate of 77% interest cover for the coming year.

28. The continuing downward pressure on interest cover results from the large increases in interest payable and repairs costs that have been experienced in recent years. For example, since the year-ending June 2022, when annual interest cover stood at 124%, net interest payable has increased by £0.8 billion (24%), and capitalised major repairs costs have increased by £0.9 billion (41%). In contrast, net operating cashflows (including revenue repair costs) have increased by only £0.1 billion over the same period (1%).

29. These increasing costs result in net operating cashflows alone being insufficient to fund net interest payments, with an average cash shortfall of £217 million per quarter being experienced in the year to June 2024, and a shortfall of £202 million per quarter in the year to June 2023. In comparison, in the year to June 2022 surplus cash of £201 million per quarter was generated. The measures of interest cover and net operating cashflows referenced above exclude all surpluses from current asset sales, which reduce the shortfall to a more sustainable level. However, the remaining shortfall in operating cash is increasingly being managed by way of fixed asset sales receipts and is reflected by the growing number of providers with a V2 viability rating in the last two years.

30. A total of 43 providers report having one or more loan covenant waivers in place (March: 52). The reduction in waivers since the end of the previous quarter is due to a number of agreements expiring at the year-end, including both those relating to specific one-off events in the year, such as pension cessation costs or exceptional impairment charges, and also those relating to single or multi-year building safety or decarbonisation programmes. The waivers in place at the end of June include 20 agreements to exclude fire or building safety works from loan covenant calculations, and a further 20 in respect of decarbonisation works.

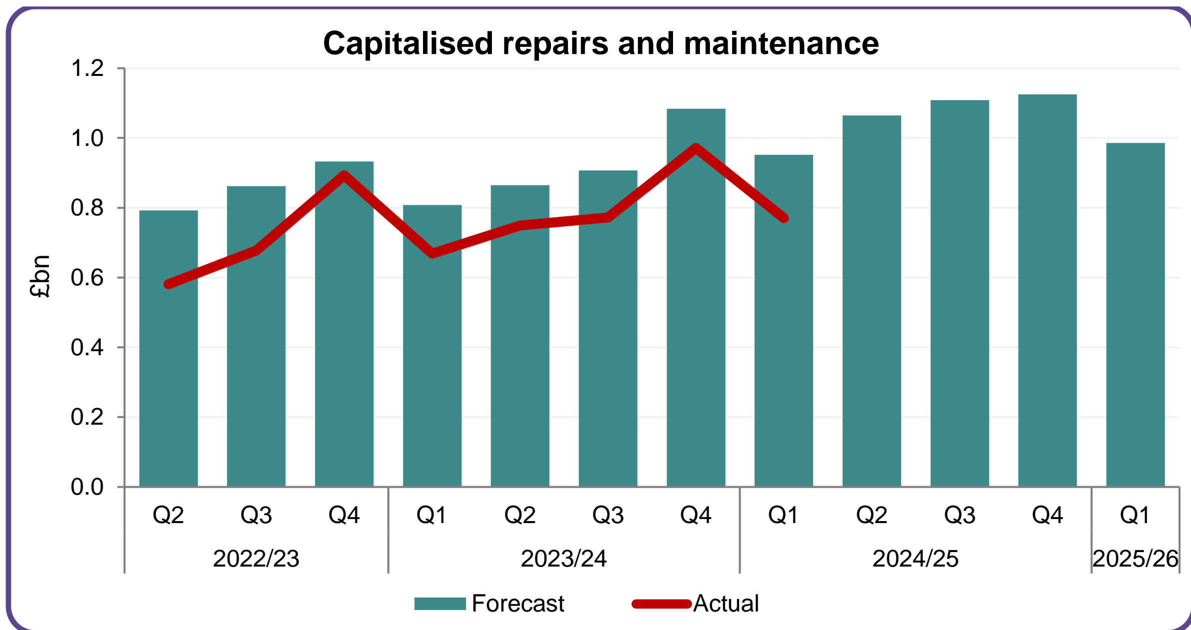
31. Total repairs and maintenance spend in the quarter amounted to £2.1 billion (March: £2.2 billion); of which £1.3 billion related to revenue works and £0.8 billion related to capital works. In the 12 months to June 2024 total repairs and maintenance spend was £8.2 billion, and for the 12 months to June 2025 the sector has forecast expenditure of £9.3 billion; a 3% increase on the 12-month forecast made in March.

32. Revenue repairs have increased by 3% since the previous quarter and were 3% higher than the amount previously forecast, resulting in a third consecutive quarter of record expenditure. In the 12 months to June 2024, a total of £4.9 billion has been spent on revenue repairs and maintenance, and a further £5.0 billion is forecast to be incurred in the year to June 2025.

33. Actual expenditure on the capitalised element of repairs and maintenance amounted to £771 million during the quarter. This is 21% less than the amount spent in the previous quarter and 19% below forecast, but is the highest quarter one spend recorded since cashflow data was first collected in 2015. Capital expenditure is typically below forecast in the first quarter of a new financial year, as annual budgets are often initially profiled on a straight-line basis, however the initial tendering process and preliminary survey work that is undertaken often results in a delay to costs being incurred. The overall forecast outturn for the 2024/25 financial year remains in line with the previous quarter's forecast, reflecting providers' intentions to utilise planned works budgets over the course of the year.

34. In the year to June 2024 capitalised expenditure on repairs and maintenance was £3.3 billion, compared to a total of £2.8 billion in the year to June 2023. For the 12 months to June 2025, a further £4.3 billion worth of expenditure has been forecast. Nine providers have each forecast capitalised expenditure of £100 million or more over the next 12 months, together accounting for 30% of the sector total. Both the 12-month actual and 12-month forecast expenditure continue to be the highest ever recorded.

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



35. The proportion of providers reporting delays or changes to repairs and maintenance programmes during the quarter stood at 43% (March: 47%). Although the impact of inflation and resource shortages has lessened in recent months, providers continue to report difficulties in recruiting trades operatives in certain specialist areas, and demand for damp and mould work remains high. A small number of providers have reported delays to major works programmes following the awarding of Social Housing Decarbonisation Fund (SHDF) grant, as additional work is undertaken to ensure that all qualifying conditions are met.

36. Current asset sales of £3.1 billion were achieved in the 12 months to June 2024; 26% less than the £4.1 billion that was forecast in June 2023 and 21% below the £3.9 billion worth of sales that were achieved in the year to June 2023. For the 12 months to June 2025 the sector has forecast a further £3.9 billion worth of current asset sales (March: £3.5 billion), of which £3.4 billion relates to properties for which development is contractually committed (March: £3.2 billion). Around £0.2 billion of the increase in forecast current asset sales is attributable to one provider that has been added to the dataset for the first time this quarter. Nine providers have each forecast current asset sales of £100 million or more over the next twelve months, together accounting for 45% of the sector total.

37. In the 12 months to June 2024 fixed asset sales totalled £2.9 billion. For the 12 months to June 2025 the sector has forecast a further £3.8 billion worth of fixed asset sales (March 12-month forecast: £3.5 billion); equivalent to an average of £0.9 billion per quarter. Of the total, £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 £1.7 billion relates to other fixed asset sales, including bulk sales to other registered

providers. Around two-thirds of forecast fixed asset sales have been reported by 11 providers, each of which is forecasting sales of £100 million or more.

38. Available cash, excluding amounts held in secured accounts, reduced by £0.5 billion during the quarter to reach £3.9 billion (March: £4.3 billion); the lowest amount in over ten years. Available cash is forecast to reduce to £2.7 billion over the next 12 months. At sector level, the greatest consumption of cash reserves continues to be the funding of development programmes, but for individual providers there may be other more significant factors such as major works programmes or loan repayments.

39. Cash held in secured accounts or otherwise unavailable for use by providers totalled £0.9 billion (March: £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.

40. In aggregate, liquidity within the sector remains robust, and the sector continues to attract high levels of new financing from lenders and investors. The regulator will continue to monitor the financial viability of providers that are forecasting low liquidity levels or restricted interest cover and will engage with providers as necessary, in particular if there is reliance on fixed asset sales to support cashflows. Findings will be reflected in regulatory judgements where appropriate.

Development

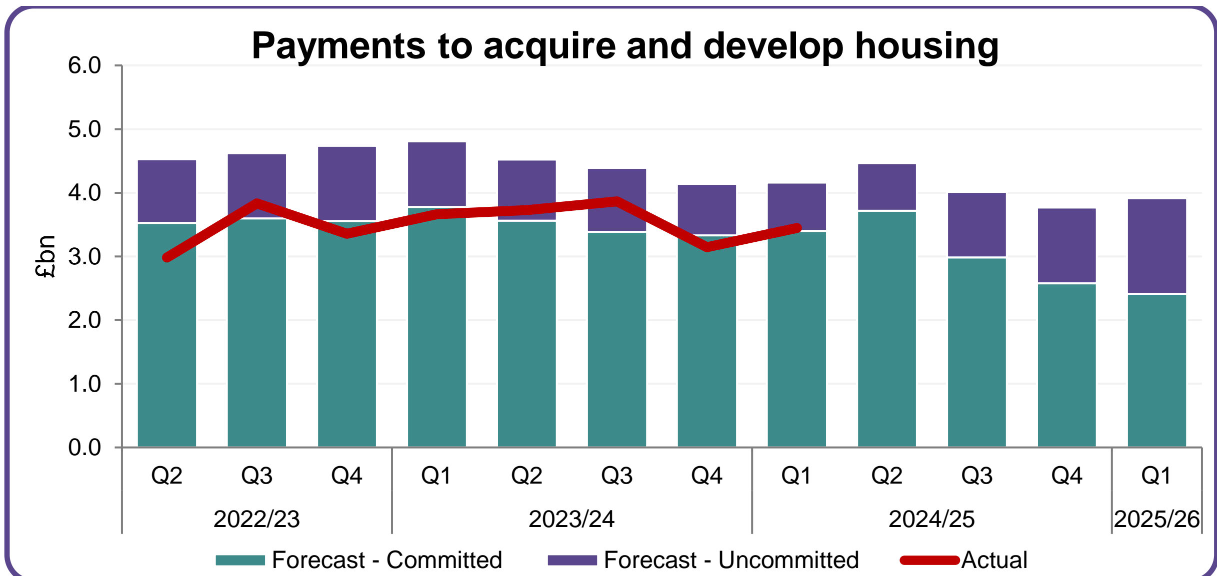
41. In the 12 months to June 2024, £14.2 billion was invested in the acquisition and development of housing properties. This compares to £13.8 billion in the year to June 2023, and £12.4 billion in the year to June 2022.

42. Although the majority of PRPs undertake some form of development activity, expenditure continues to be relatively concentrated in a small number of providers. A total of 23 providers each reported expenditure in excess of £200 million over the year, together accounting for 56% of the sector total. There is also an increase in for-profit activity within the sector, with five providers accounting for almost 10% of total development spend in the year.

43. Actual expenditure in the three months to June 2024 increased to £3.5 billion (March: £3.1 billion). This is slightly above the three-year quarterly average and committed development forecast; both of which were £3.4 billion, although the favourable outturn was driven by a provider who has submitted data for the first time. Expenditure was mainly concentrated amongst eight providers who accounted for a third of total spend in the quarter. However, expenditure was 17% below the £4.2 billion total forecast for the quarter, where 78% of providers have reported an underspend.

44. The majority of providers have cited delays due to a number of factors including land acquisitions not progressing and general site delays, causing the deferral of schemes into future periods. Some providers have also reported re-profiling expenditure to be in line with their business plans, and contractor failures continue to impact schemes whilst new contractors are appointed.

Figure 5: Payments to acquire and develop housing

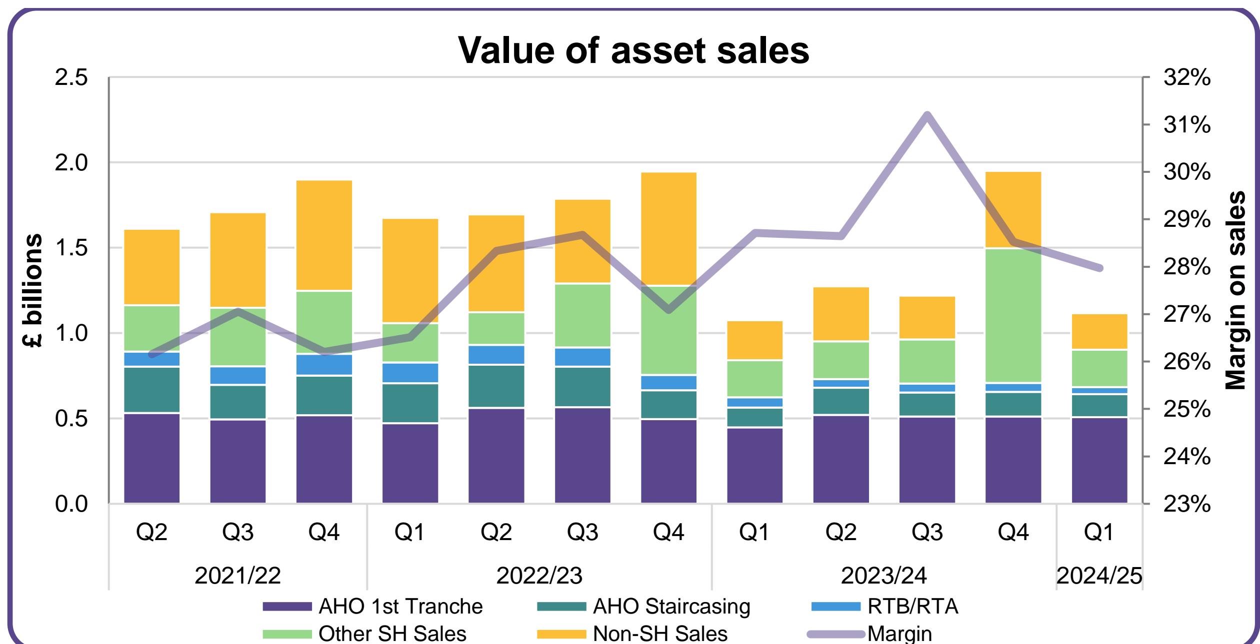


45. For the next 12 months a further £16.2 billion (March: £15.2 billion) worth of investment has been forecast, of which £11.7 billion (March: £11.0 billion) is contractually committed. Forecasts have risen by 6% since the previous quarter and the increase is almost entirely attributable to one provider who has submitted data for the first time this quarter and accounted for almost 95% of the overall increase. Of the £16.2 billion of projected spend, this was mainly concentrated amongst five providers accounting for over 20% of the total, and £1.1 billion was attributable to for-profit entities equivalent to 7% of the total.

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 £1.1 billion in the quarter to June (March: £2.0 billion).

Figure 6: Value of asset sales



47. The overall surplus from asset sales stood at £312 million for the quarter (March: £556 million), giving a margin of 28% (March: 29%); in line with the average margin achieved over the last three years.

48. Total fixed asset sales amounted to £0.4 billion, compared to a forecast of £0.6 billion (March: £1.0 billion), and are at the lowest level in four years. This follows the highest level achieved in the previous quarter and in comparison, fixed asset sales have averaged £0.7 billion per quarter over the last three years. Fixed asset sales are categorised as either sales to tenants/open market sales, or other sales (bulk disposals to other organisations, including stock transfers and rationalisation).

- Sales to tenants and other open market sales (including staircasing, RTB/RTA and voluntary sales) amounted to £356 million (March: £479 million), 24% below the amount previously forecast. This was mainly driven by three providers reporting over a £10 million reduction each due to the deferral of disposals, the rephasing of sales, and uncertain market conditions impacting performance.

- Fixed asset sales to other organisations amounted to £69 million (March: £560 million), the second lowest amount achieved since data collection for it began two years ago. Sales were 58% below the amount previously forecast, mainly due to

three providers who have reported stock transfer delays and the rephasing of sales.

49. Total cash receipts in respect of current asset sales (market sales and first tranche AHO sales) amounted to £0.7 billion in the quarter; 22% lower than the £0.9 billion recorded in the previous quarter, and 20% below forecast. Over half of the sector reported adverse variances with the majority citing development delays being a factor, resulting in handovers being pushed back.

Table 4: AHO units

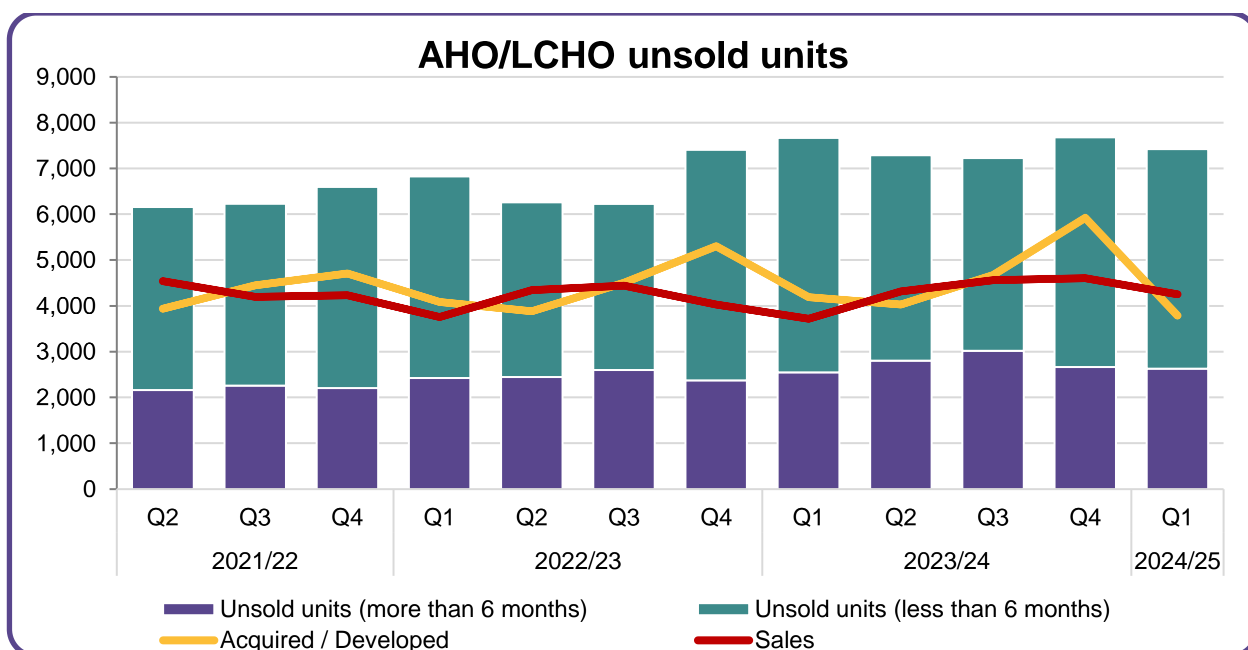
AHO units	Previous quarter	Current quarter	% change
Completed	5,923	3,790	(36.0%)
Sold	4,606	4,252	(7.7%)
Margin	17.1%	17.0%	(0.6%)
Unsold	7,680	7,424	(3.3%)
Unsold for more than 6 months	2,667	2,632	(1.3%)
18-month pipeline	29,425	33,949	15.4%

50. 3,790 AHO property unit completions in the quarter are at the lowest level since September 2020 and substantially below the previous quarter. In comparison, the average number of completions achieved over the last three years has been 4,457 units per quarter. However there has been an upward trajectory in units developed over the last few years, with a total of 18,416 units completed in the last 12 months, compared to 17,885 units in the year to June 2023, and 17,188 units in the year to June 2022.

51. AHO sales were in line with the three-year average, and above the 3,720 units achieved in the same quarter of 2023. Six providers each reported sales of 100 AHO units or more in the quarter, together accounting for a third of the sector total. A total of 17,736 AHO sales were recorded during the year, compared to 16,543 in the year to June 2023 and 16,736 in the year to June 2022.

52. The high number of unit sales in the quarter, compared to handovers, has resulted in a decrease in unsold units. This has also led to a slight decrease in unsold units for over six months, which is concentrated amongst five providers. This group held over 100 unsold units each, accounting for almost 40% of the sector total. Where sales income has been delayed, the regulator will monitor the provider’s liquidity and test business plans to ensure they are robust enough to cope with a range of adverse scenarios.

Figure 7: AHO/LCHO units



53. Sales proceeds from 1st tranche AHO sales amounted to £507 million during the quarter (March £511 million), with an overall surplus of £86 million being reported (March: £87 million). This resulted in an average margin of 17.0% (March: 17.1%), the lowest level recorded, and compares to an average margin of 19.1% over the last three years. This is mainly driven by one provider reporting a large deficit due to marketing and selling expenses.

54. The pipeline of AHO completions expected in the next 18 months has increased by 15% to 33,949 units (March: 29,425), of which 29,567 units are contractually committed (March: 25,794). Over half of the increase is attributable to one provider who has become the sole developer of LCHO units for its entire group. The remaining variance in pipeline units are concentrated amongst eight providers, accounting for 40% of the increase; each reporting additional pipeline of over 100 units.

Table 5: Market sale units

Market sale units	*Previous quarter*	*Current quarter*	*% change*
Completed	1,146	487	(57.5%)
Sold	841	472	(43.9%)
Margin	10.7%	17.1%	60.4%
Unsold	1,627	1,590	(2.3%)
Unsold for more than 6 months	793	791	(0.3%)
18-month pipeline	5,572	5,747	3.1%

55. Market sale property completions in the quarter are at the lowest level since the pandemic in quarter one of 2020/21. The number of completed units significantly decreased compared to the previous quarter and remained substantially below the average of 1,079 units per quarter over the last three years. A total of 3,426 units were completed in the year to June 2024, compared to 4,431 units in the year to June 2023, and 5,087 units in the year to June 2022. In contrast to AHO unit completions, the development of market sale units has steadily declined over recent years.

56. Market sales achieved in the quarter are also at the lowest level ever recorded, with almost half the amount less compared to previous quarter, and well below the three-year average of 1,037 sales per quarter. Market sale activity continues to be concentrated in a small number of providers; 12 providers each developed over 100 market sale units in the year to June 2024, together accounting for 73% of the sector total.

57. The total number of unsold market sale units decreased compared to previous quarter, although remains at elevated levels relative to recent years. Four providers each held over 100 unsold market sale units at the end of the quarter, and together accounted for 58% of the sector total. Units unsold for over six months remained in line with last quarter at 791 units (March: 793 units).

58. Total non-social housing sales income amounted to £213 million during the quarter (March: £453 million), compared to an average of £458 million per quarter over the last three years. This is the lowest amount achieved in nine years and coincides with the record low unit sales. The surplus on non-social housing sales stood at £36.5 million (March: £48.3 million), giving an average margin of 17.1% (March: 10.7%). This is the highest margin achieved since quarter three 2021/22 and compares to an average of 14.2% over the last three years. The relatively high sales margin is due to the reduction in the number of providers reporting losses, together with a lower proportion of losses in the quarter.

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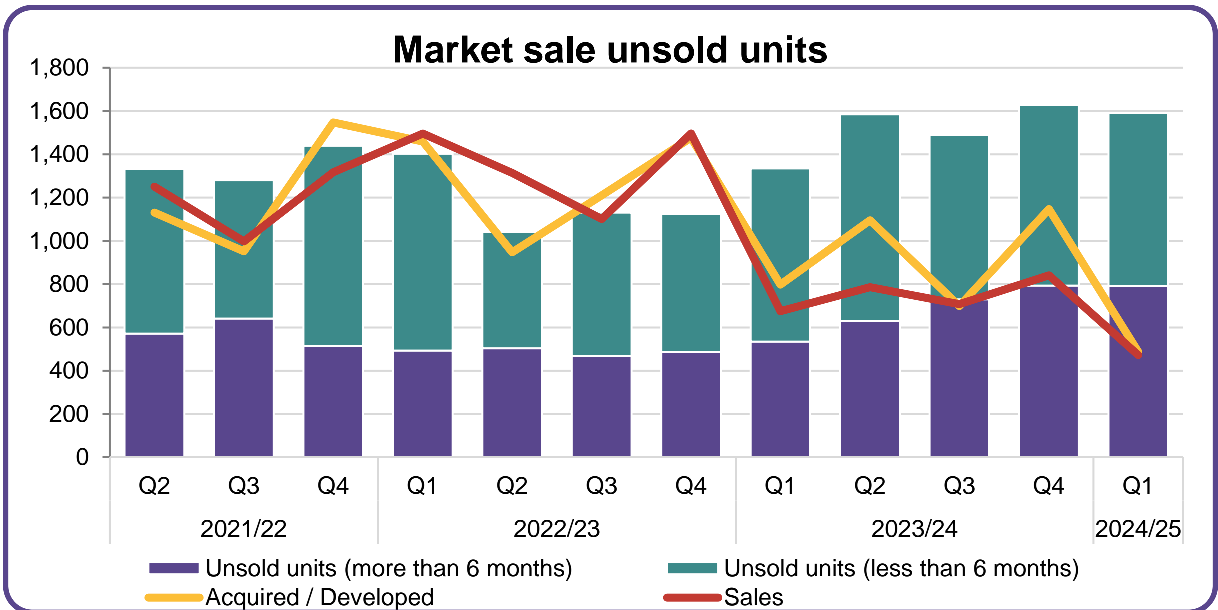
Figure 8: Market sale units



59. The pipeline of market sale completions expected over the next 18 months has increased for the first time in almost two years by 3% and now stands at 5,747 units (March: 5,572), of which 5,405 units are contractually committed (March: 5,167). The entire increase is attributable to three providers who reported an increase of over 50 units each compared to previous quarter. Although total pipeline remains at record low levels, it is in line with the 5,700 actual completions achieved over the previous 18 months. Over three-quarters of the total pipeline figure is attributable to 14 providers; each of which has reported 100 or more pipeline units.

Derivatives

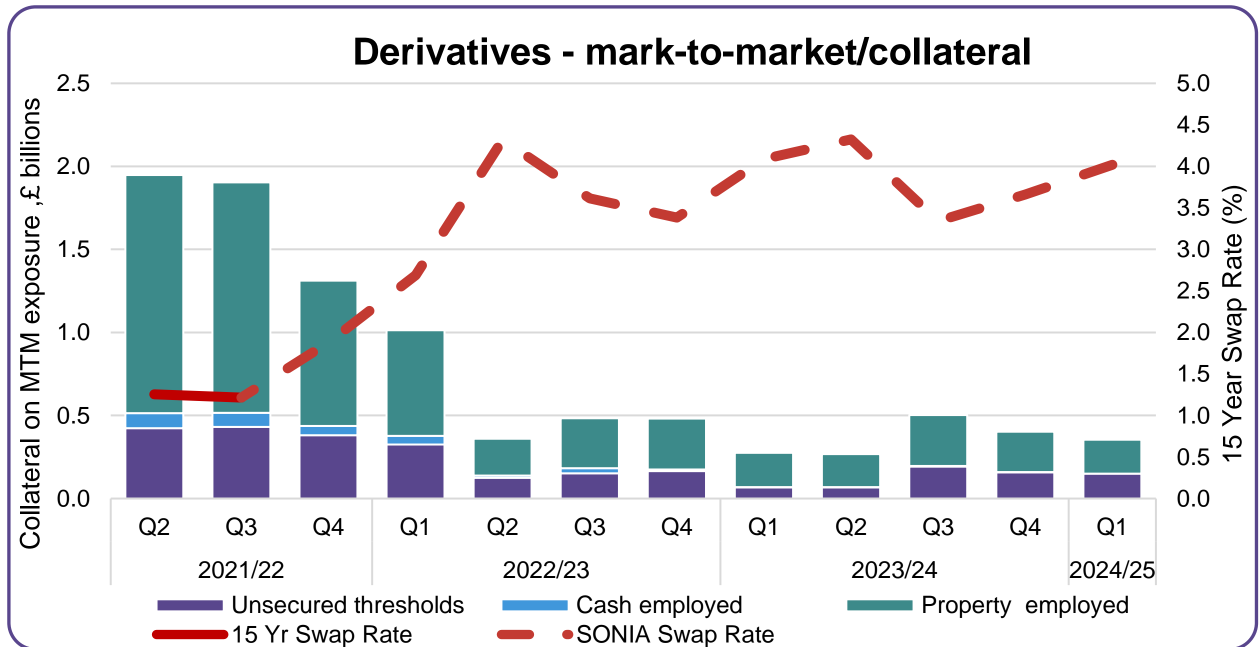
60. At the end of June 47 providers (March: 45) reported making use of free-standing derivatives. The notional value of standalone derivatives increased from £8.1 billion to £9.4 billion over the quarter, with the difference being largely attributable to one provider that has submitted data for the first time this quarter accounting for 75% of the increase.

61. The 15-year swap rate increased from 3.66% at the end of March up to 4.02% at the end of June and is the second quarterly consecutive increase. This resulted in a reduction in MTM exposure, which stood at £0.2 billion at the end of June (March: £0.3 billion). For the majority of providers, MTM exposure decreases as swap rates rise.

62. Of the 47 providers that were making use of free-standing derivatives, 44 had collateral pledged that exceeded or equalled their level of gross exposure, and three providers were not required to provide security to cover their position. At sector level, unsecured

thresholds and available security pledged to swap counterparties stood at £2.2 billion at the end of June (March: £2.3 billion).

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

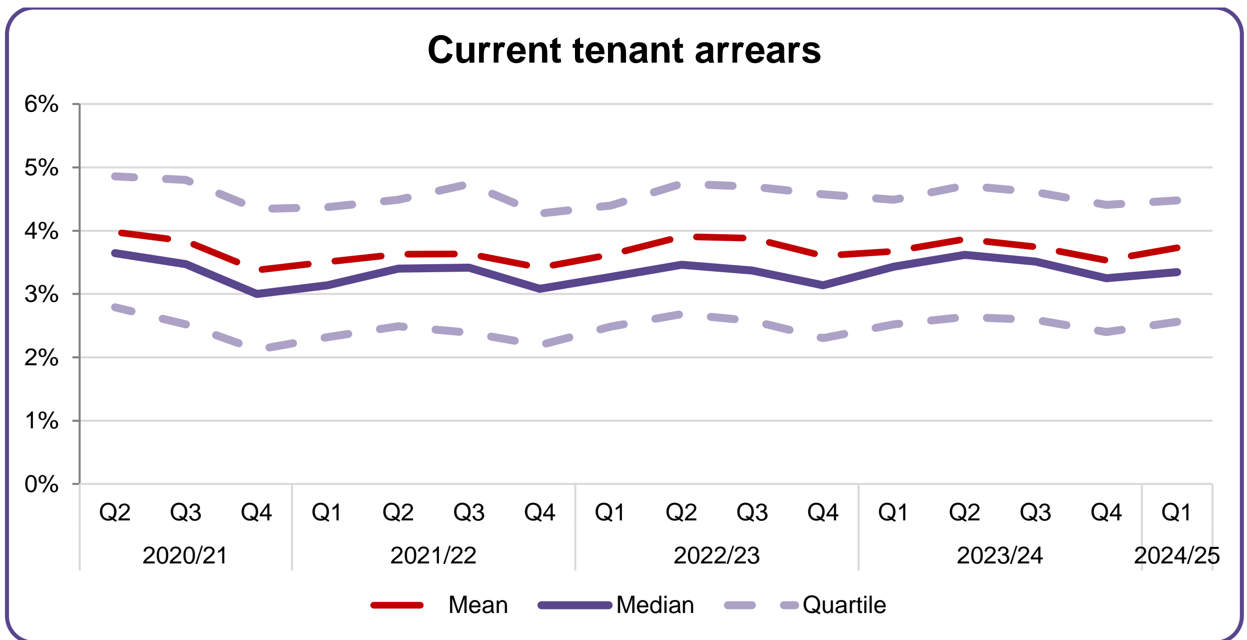


63. The above graph shows MTM exposure excluding excess collateral. Collateral pledged continues to be well above the sector's exposure levels, and at the end of June, the total headroom of collateral and unsecured thresholds available over MTM exposure was £2.0 billion (March: £2.0 billion). With swap rates continuing to fluctuate, providers must retain the ability to respond to increases in exposure and understand the sensitivity to changes in underlying rates.

Income collection

64. At the end of June, 70% of providers reported that their levels of arrears, rent collection and voids were all within, or outperforming, their business plan assumptions (March: 68%).

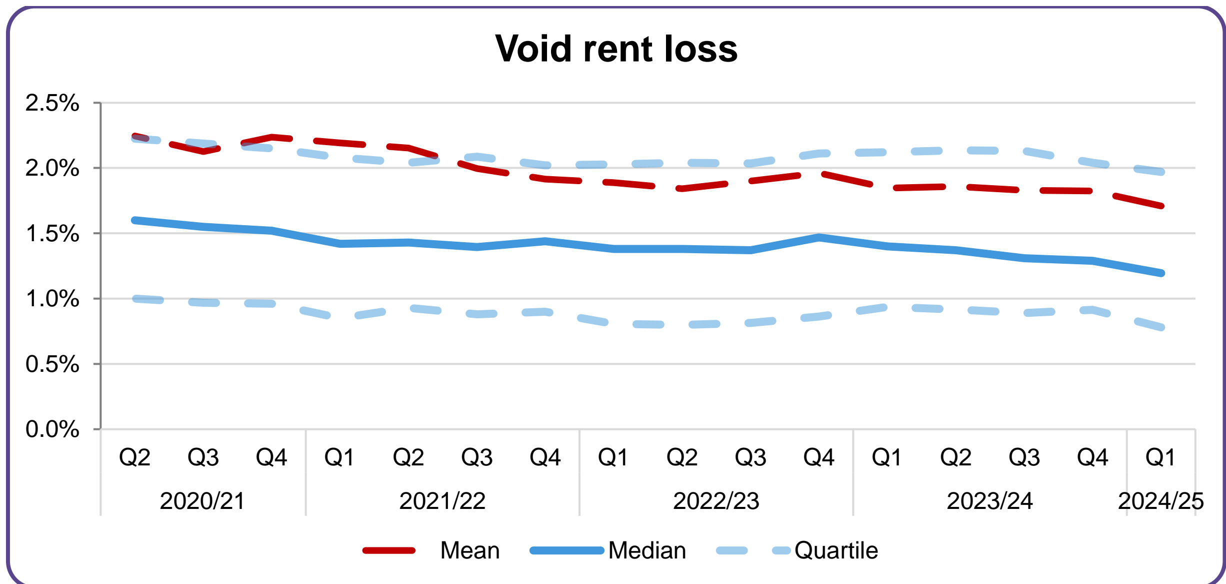
Figure 10: Current tenant arrears



65. Median current tenant arrears stood at 3.3% at the end of June, consistent with performance in the previous quarter and a slight improvement on the 3.4% reported in the same quarter of 2023. The mean average increased to 3.7% (March 3.5%), in line with the 3.7% reported in June 2023.

66. For the first time this quarter, providers have reported separately the arrears relating to social housing and non-social housing, in addition to their overall arrears percentage. Mean average social housing arrears were reported as 3.7%, consistent with the overall sector average. For providers reporting non-social housing arrears, such as those relating to student accommodation and market rent tenures, the average stands at 6.5%. Non-social housing arrears can also include leaseholder charges, which are often applied as an annual charge and then paid monthly over the course of the year.

Figure 11: Void losses

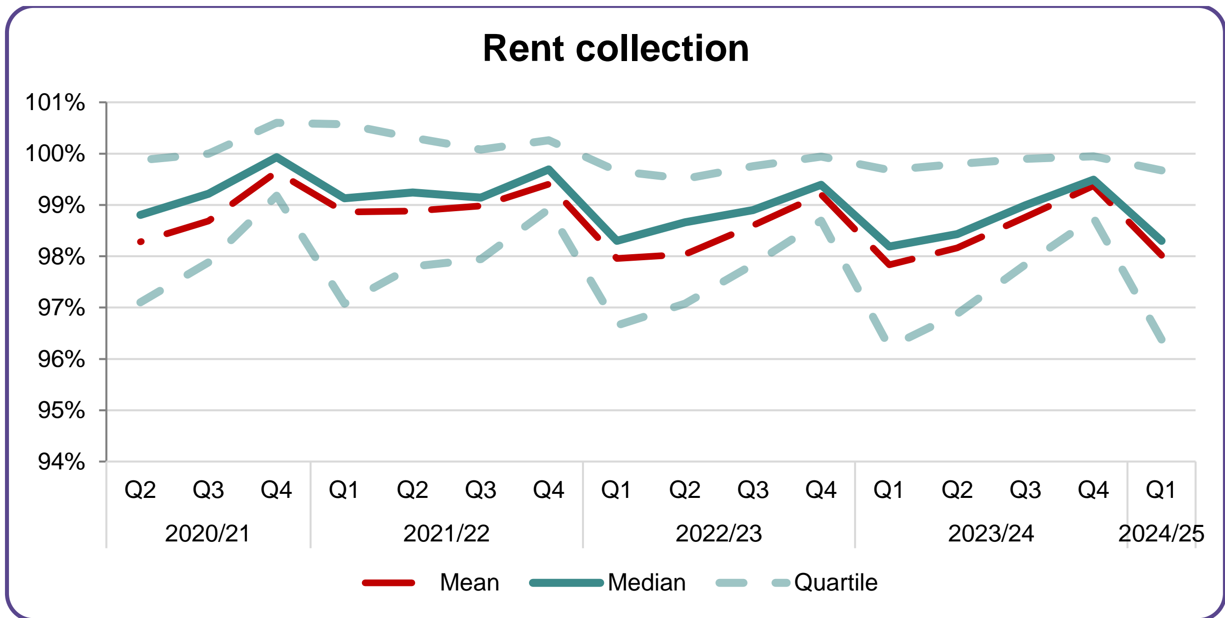


67. Median void losses reduced to 1.2% at the end of June (March: 1.3%), with the mean standing at 1.7% (March: 1.8%). Void levels increased significantly at the start of the Coronavirus pandemic (Q1 2020/21) and have been at elevated levels since then; however, this quarter's results are the lowest achieved since that point and have now returned almost to pre-covid levels, which for the 2019/20 financial year equated to a median of 1.1% and mean of 1.6%.

68. 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 ten providers reported void losses in excess of 5% (March: eight), and of these, nine hold over 50% of their stock within these specialist categories.

69. Although overall performance has improved in comparison to recent quarters, around 20% of providers have reported being outside of their business plan assumptions for void rent losses. Reported factors include holding high levels of strategic voids, that are either being held for regeneration or refurbishment or where they are being considered for disposal, an enhanced voids standard being applied, and in a minority of cases, a lack of contractor capacity.

Figure 12: Rent collection



70. Rent collection rates have reduced since the end of March, in line with seasonal trends, but are slightly above the figures reported in the same period of the previous year. Mean average rent collection rates stood at 98.0%, compared to 99.4% at the end of March and 97.8% in June 2023. The median rent collection rate stood at 98.3% (March 2024: 99.5%, June 2023: 98.2%).

71. The number of providers reporting rent collection rates of less than 95% stood at 28 at the end of June (March 2024: 7, June 2023: 30). Income collection rates typically increase over the course of a financial year as Housing Benefit and Universal Credit receipts fall in line with rent charges, and for some providers, as rent-free weeks are applied. There can also be a delay in the uplift of Housing Benefit payments in the first quarter of the financial year after rent increases are applied in April.

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