Housing 21: Trading update for the six months ended 30 September 2022

Housing 21 is today issuing a trading update for the six months ended 30 September 2022 which includes various financial and operational information. The financial information is unaudited and provided for information purposes only.

Highlights

- We completed 104 properties in the period taking our overall property portfolio to 22,308 owned and/or managed properties (31 March 2022: 22,204 ; 30 September 2021: 21,951) with an expectation to complete 316 units by end of the financial year
- Turnover increased by 9.6% to £119.8 million (September 2021: £109.3 million)
- Operating surplus was up 8.4% to £18.0 million (September 2021: £16.6 million)
- EBITDA-MRI interest cover[(1)] was 179% (September 2021: 128%)
- Gearing as at 30 September 2022 was 41.8% (March 2022: 42.6%)[(2)]
- Liquidity horizon currently extends to March 2024

Notes
1. EBITDA-MRI interest cover is in respect of the 6 months ended 30 September.
2. Gearing calculated using the Regulator of Social Housing's gearing metric; adjusting for the value of private finance initiative and public private partnership assets, primarily within Oldham Retirement Housing Partnership Limited, gearing was 31.4% (31 March 2022: 31.4%).

Operating review

Despite the current challenges the sector is facing, we have delivered a strong performance in the first half of the year and our results are ahead of budget expectations. Whilst some of this is due to timing of cyclical maintenance, new developments have been commissioned sooner than anticipated, voids have improved, and we have been relatively sheltered from inflationary revenue cost increases to date.

Our development programme is performing largely in-line with expectations in our business plan in terms of completions, however, there have been fewer starts on sites due to delays in planning and high inflation in construction prices is making the financial viability of schemes coming forward challenging. First Tranche Sales are behind budget but underlying demand remains strong.

Despite achieving better rate increases than budget, we are experiencing some challenges with our care services, as we are making greater use of more expensive agency employees and recruitment continues to be problematic. We are embarking on one of our largest recruitment drives to date and with the introduction of our Extra Care Academy, which looks to provide a career path for Care Workers with ambitions to one day progress to management level, we are looking to attract more care workers into the sector and significantly reduce the use of agency employees by 31 March 2023.

Void performance continues to improve and at the end of September there were 282 units void (31 March 2022: 284 units). Income lost through voids (re-let and major repairs) was 1.6% of rent and service charge income during the six months ended 30 September 2022. (31 March 2022 : 2.2%).

We continue to be at the forefront of the housing sector for energy efficiency and 99% of our properties achieved at least EPC C at 30 September 2022 (31 March 2022: 99%). With only three schemes left to complete, this is significantly ahead of the government's 2030 target. 25% of our properties are at EPC B level and all new developments from 2020/21 onwards are expected to achieve this higher standard.

Financial review

Turnover, costs and surpluses

A summary of financial performance for the six months ended 30 September 2022 compared to the same period in the prior financial year is set out below.

6 months ended 30 September	**2021 £m**	**2022 £m**	**Change**
Turnover	**108.4**	**119.8**	**10.5%**
Social housing lettings	74.0	82.4	11.4%
Shared ownership first tranche sales	10.6	11.0	3.8%
Outright sales[(1)]	-	0.9	100%
Other social housing activities	2.8	3.3	17.9%
Care services	19.2	20.4	6.3%
Other non-social housing activities	1.8	1.8	0%
Operating costs and costs of sale	**(92.0)**	**(101.9)**	**10.8%**
Gain on disposal of other assets	0.2	0.1	50.0%
Operating surplus	**16.6**	**18.0**	**8.4%**

Notes
(1) Outright sales units still represent older persons housing and have been developed as part of a wider scheme.

Turnover increased 10.5% to £119.8 million (2021: £108.4 million) primarily reflecting increased shared ownership and outright sales, higher care income from contractual price increases, the annual inflationary rent increase and the effect of new schemes coming onboard.

Overall costs increased at a similar rate when compared to turnover, an increase of 10.8% to £101.9 million (2021: £92.0 million) driven particularly by development cost of sales, linked to the increase in activity (shared ownership and outright sales of 85 units versus 81 in the prior year) and higher care costs through the use of agency employees. Service costs have increased but are fully recovered from residents via their service charge. We continue to catch up on cyclical maintenance work that was delayed during the pandemic and much like the rest of the sector we are starting to see increased costs due to high inflation and supply chain disruption. Depreciation has also increased from the on-boarding of new schemes.

Development

In the six months ended 30 September 2022, development spend amounted to £24.8 million offset by grants of £8.5m.

One scheme completed which added 104 properties (34 rent; 46 shared ownership and 24 outright sale) to our property portfolio. A further six schemes are expected to complete by 31 March 2023, bringing total completions for the year to 316. We anticipate a further three schemes to start on site by 31 March 2023.

Acquisitions

The Board recently approved a strategy to also grow through acquisitions. As providers look to rationalise their operations and dispose of non-core activities, this presents an opportunity to acquire further high-quality older persons housing for a lower price compared to new development. We are in discussions with several providers, with the opportunity to on-board 514 properties by the end of the financial year where heads of terms have been agreed.

Treasury and financing

	31 March 2022	**30 September 2022**
Gross debt	£689m	£683m
Cash including short term investments	£225m	£219m
Net debt	£464m	£464m
Housing property value	£1,315m	£1,326m
Gearing	42.6%	41.8%
Cash and undrawn committed facilities(1)	£236.1m	£225.7m
Liquidity horizon	June 2024	June 2024

Notes

(1) Cash for these purposes includes only unrestricted cash

At 30 September 2022, Housing 21 had net debt of £464 million (31 March 2022: £464 million) and gearing, as measured using the Regulator of Social Housing's (RSH) value for money gearing metric, of 41.8% (31 March 2022: 42.6%). However, including short term investments but adjusting for the value of private finance initiative and public private partnership assets, primarily within Oldham Retirement Housing Partnership Limited (debt associated with these projects is included in the RSH gearing calculation), gearing was 31.4% (31 March 2022: 31.4%).

Our liquidity at 30 September 2022 was sufficient to meet all forecast financing needs until June 2024, taking into account projected operating cash flows, forecast investment in new and existing properties, potential acquisitions, debt service costs and maturities and forecast grant receipts.

However, we continue to actively manage our treasury portfolio and our liquidity requirements in the short term will primarily consist of new revolving credit facilities. We anticipate putting additional facilities in place by June 2023 to maintain compliance with our golden rules whilst considering our longer-term funding strategy.

Standard & Poor's credit rating

As a reminder on 25 July 2022, S&P published the updated rating for Housing 21 as 'A-' with a stable outlook.

The Standard and Poor's rating report included the following comments:

"We note positively that 99% of H21's units have an energy performance certificate of C or above, and we think the group is better positioned than many of its peers to achieve the environmental targets that the sector aims to meet."

Outlook

Following an announcement of a mid-year unbudgeted pay award for our employees, anticipated cost increases in the second half of the year and a slowdown in sales, we expect our full year operating outturn to be £29.8m which is behind budget. However, through higher returns on deposits and lower interest costs, this mitigates the above, so the overall outturn of £11.3 million is expected to be largely in-line with budget.