Housing21

Trading update

for the six months ended
30 September 2023

Housing 21 is today issuing a trading update for the six months ended 30 September 2023 which includes various financial and operational information. The financial information is unaudited and provided for information purposes only.

Housing 21 is a leading, not for profit, provider of Retirement Living and Extra Care. Our core purpose and commitment is to provide high quality housing with care or support, enabling older people of modest means to live well with dignity and autonomy.

Highlights

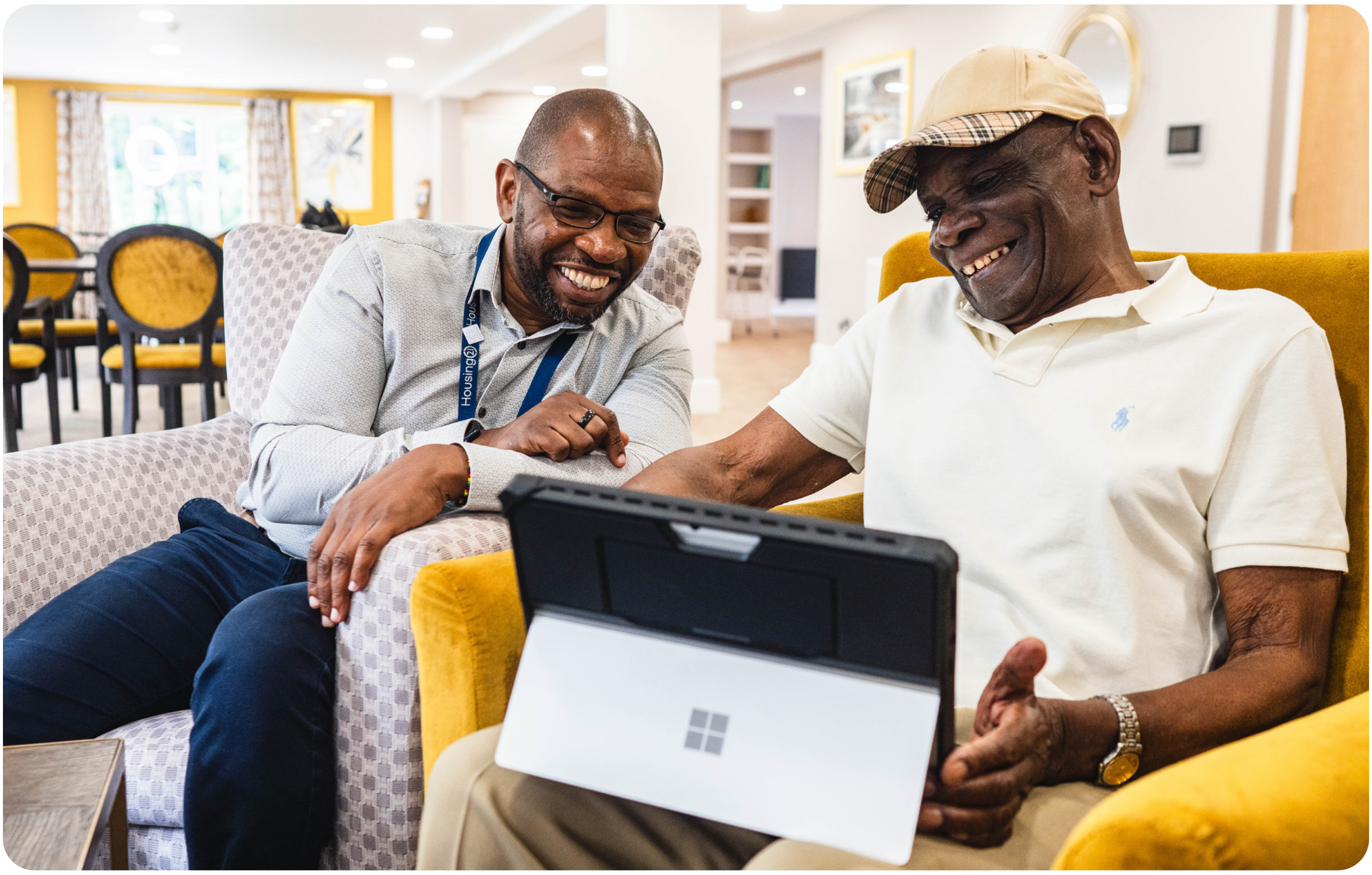
- We completed 12 new properties, acquired 445 Extra Care properties from Clarion Housing Group, 60 properties from Notting Hill Genesis and transferred the management of 42 leasehold properties to a Right to Manage company, giving a net increase of 475 properties in the six months taking our overall property portfolio to 23,360 owned and/or managed properties (31 March 2023: 22,885).
- We expect to deliver a further 120 completions before the end of March 2024. This will result in a total of 132 properties for the year.
- Turnover increased by 15.3 percent to £138.1 million (September 2022: £119.8 million)
- The cost of living crisis has had an impact across the sector. Operating surplus was down 11.7 percent to £15.9 million (September 2022: £18.0 million). This includes a £200 charitable donation we made to all social rent and shared ownership households totalling £3.7 million to help with the economic crisis. Excluding this, operating surplus has increased by £1.6 million.
- EBITDA-MRI interest cover was 163 percent (September 2022: 179 percent) (1)
- Gearing as at 30 September 2023 was 41.0 percent (31 March 2023: 40.7 percent) (2)
- Liquidity horizon currently extends to October 2025.
- S&P re-affirmed our credit rating of A- with a stable outlook. The credit watch was removed following the decision not to merge with Extra Care Charitable Trust.

Notes
1. EBITDA-MRI interest cover is in respect of the six 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, and including cash held in deposits maturing greater than three months, gearing was 35.8 percent (31 March 2023: 35.1 percent).

Operating review

Against a backdrop of continued high inflation and increasing regulatory requirements we have delivered a strong performance in the first half of the year. Our results are ahead of budget expectations by £2.6 million and £1.6 million ahead when compared against the same time frame last year, excluding our charitable donation.

We were exempt from the seven percent rent cap announced at the start of the year, so we were able to increase our rents by 11.1 percent in accordance with the Rent Standard. We have also seen large increases in our variable service charges, particularly from energy costs where, alongside the communal areas, we are also the energy provider for around 40 percent of our properties. These are all pass through costs to our residents.



We continue to operate our Helping Hands Fund, which offers residents a one-off grant for emergencies or unexpected bills. Our Tenancy Gurus work with residents to ensure they are aware of, and claim, the benefits available to them. In addition, in May this year, we made a charitable donation of £200 to each household with an active tenancy (social rent and shared ownership), to help ease the financial pressure on residents caused by the cost of living crisis. The gesture totalled £3.7 million.

We are also committed to helping our employees through the cost-of-living crisis and gave a seven percent pay award at the start of the year.

Void performance continues to improve and at the end of September there were 258 properties void (31 March 2023: 304 properties; 30 September 2022: 282 properties) so despite the increase in our charges, demand remains strong. Income lost through voids (re-let and major works) was 1.6 percent of rent and service charge income during the six months ended 30 September 2023. (31 March 2023: 1.7 percent).

Our care business made a loss last year as recruitment was challenging and we had to use more expensive agency employees. In April we successfully negotiated, on average, rate increases with our local authority partners of more than nine percent. We pay our Care Workers above National Minimum Wage and continue to invest in their careers through our Extra Care Academy to ensure we attract and retain the best people. Voluntary turnover for the period was 19 percent, compared to 23 percent during the same time last year. 91 percent of our care services were rated 'Good' or 'Outstanding' by the Care Quality Commission.

We have a modest sales programme and have sold an equity stake in 43 properties (85 properties sold in the six months up to September 2022), with an average equity purchase of 62 percent (September 2022: 61 percent). At the period end, we have 93 unsold properties, of which 21 have been reserved. The majority of unsold properties (57) are on schemes which have been developed or acquired in last 12 months. Our sales pipeline will diminish further over the next few years as most new schemes being developed are for social rent.

We continue to be at the forefront of the housing sector for energy efficiency with 99.4 percent of our properties achieving at least EPC C at 30 September 2023 (31 March 2023: 99.4 percent). 27.8 percent of our properties are at EPC B level and all new developments from 2020/21 onwards are expected to achieve this higher standard.

In September we said goodbye to our long serving Chair of the Board, Stephen Hughes (pictured right), who stepped down from the role after nine years on the Board and five as Chair. Michael McDonagh, Deputy Chair, has replaced Stephen on an interim basis while we recruit a new Chair. We hope to conclude this process by end of the financial year.

During the period we have been shortlisted for several awards including Best Older People's Landlord in the Affordable Housing Awards, Best Flexible Working Policy in the Investors in People Awards and we won Client of Year in the Offsite Construction Awards for Patent Walk, our trailblazing net zero carbon scheme in Doncaster.

Financial review

Turnover, costs and surpluses

A summary of financial performance for the six months ended 30 September 2023 compared to the same period in the prior financial year is set out below.

6 months ended 30 September	2022 £m	2023 £m	Change %
Turnover	**119.8**	**138.1**	**15.3**
Social housing lettings	82.4	99.8	21.1
Shared ownership first tranche sales	11.0	4.7	(57.3)
Outright sales(1)	0.9	2.3	155.6
Other social housing activities	3.3	3.6	9.1
Care services	20.4	26.0	27.5
Other non-social housing activities	1.8	1.7	(5.6)
Operating costs and costs of sale	**(101.9)**	**(118.7)**	**16.5**
Gain on disposal of other assets	**0.1**	**0.2**	**100.0**
Operating surplus (pre charitable donation)	**18.0**	**19.6**	**8.9**
Charitable donation	**-**	**(3.7)**	**100.0**
Operating surplus	**18.0**	**15.9**	**(11.7)**

Notes

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

Turnover increased 15.3 percent to £138.1 million (2022: £119.8 million) primarily reflecting the 11.1 percent annual inflationary rent increase, higher care income from contractual price increases and higher service charge income. We operate a variable service charge, so we only collect income for communal services provided to our residents.

Overall costs increased by 16.5 percent to £118.7 million (2022: £101.9 million) driven by higher service charge costs (£6.3 million higher), mainly due to increase in energy prices, fully recovered from residents, and higher repairs and maintenance costs (£3.7 million higher) as inflation has increased the cost of day-to-day repairs.

We have also undertaken a significant number of repairs on the schemes we have recently acquired, higher lifecycle works on our PFI schemes, which will vary year-on-year, and the phasing of communal makeovers. In addition, our employee costs are higher (£3.4 million) due to the pay increase awarded at the start of the year and increase in headcount arising from recent new developments and acquisitions.

We previously announced we were in the process of disposing of a small portfolio of market rent properties and had expected the sale to complete in the period. However, despite negotiations reaching an advanced stage, the sale fell through. We still intend to dispose of these properties, but this will be done on a piecemeal basis. 60 properties are currently void and will be put on the market straight away, with the remaining 145 properties sold as and when they become void. Alongside this, we are in negotiations regarding the disposal of our pure leasehold schemes with a sale expected in the next financial year.

Growth and investment

Development

In the six months ended 30 September 2023, development spend amounted to £19 million. We continue to benefit from grant funding from Homes England under their Continuous Market Engagement and have received £2 million in the first half of the year.

Pictured: Patent Walk in Doncaster was our first net zero carbon scheme

Twelve properties at Patent Walk and House in Doncaster, our first net zero carbon scheme, were handed over in May to complement the eight bungalows that were completed in March. A further three schemes are expected to complete by 31 March 2024, bringing total completions for the year to 132. We had anticipated delivering 169 properties by the end of the financial year; however one scheme (37 properties) has been delayed due to contractor insolvency. We are in the final stages of procuring a new contractor and this scheme is now expected to be delivered by July 2024.

We are onsite across a further six schemes consisting of 313 properties (251 properties for rent: 62 properties for shared ownership) and we anticipate a further five schemes consisting of 263 properties to start on site by 31 March 2024. This includes Chain Walk in Birmingham, our first cohousing scheme.

Case Study: Chain Walk

Pictured: Lozells in Birmingham will be home to our first cohousing initiative

We will work with future residents to transform the derelict site in Lozells, Birmingham into 25 one- and two-bedroom properties which will be available for social rent. The cohousing project will focus on creating an integrated community by involving residents in the design and layout of the site to ensure a purpose-built scheme that will encourage social interaction and wellbeing.

We continue to pursue the development of up to 400 properties per annum and have an active pipeline of over 1,000 properties across 24 locations.

Acquisitions

Pictured: Minterne Apartments in London, one of the new schemes that Housing 21 has acquired

Over the past 12 months, we have seen an increase in acquisition opportunities. By the end of September, we acquired 445 properties from Clarion Housing Group and a further 60 properties from Notting Hill Genesis.

This is in addition to the 427 properties we acquired last year from Notting Hill Genesis. We are in discussions with other providers, with the opportunity to on-board further properties in the next financial year.

Investment and compliance

Alongside growing our estate, we continue to invest in our existing properties to ensure they remain attractive to live in and exceed regulatory compliance. We have invested £15.3 million in replacing major components, improving the energy performance and enhancing our schemes and a further £2.4 million in communal makeovers. 99 percent of our kitchens and bathrooms are less than 20 years old and over 75 percent of our schemes have had a digital call system installed.

Our focus continues to be on compliance first and we demonstrate strong performance across our key compliance metrics. Our performance on asbestos re-inspection has deteriorated slightly due to sickness within the team. By the end of October this has improved to 96.18 percent.

100%
Fire risk assessments

100%
Gas safety

94.7%
Asbestos re-inspections

100%
Water hygiene

100%
Fire alarms

99.0%
LOLER lift inspection

99.2%
Hardwire testing

100%
Emergency lighting

We've have registered our high-rise buildings with the Building Safety Regulator. We have six schemes which are over 11 meters in height where we are the principle accountable person and two schemes where we are the accountable person as we occupy the building on a head lease.

We have also assessed our estate to identify any buildings that may have used Reinforced Autoclaved Aerated Concrete ('RAAC') in their construction. We have identified 33 buildings where we have been unable to confirm the absence of RAAC and as such have commissioned surveys to provide assurance of materials used. However, we believe the risk of RAAC being present in our buildings is low.

Buy backs

We have acknowledged that in the current climate residents may struggle to sell their property. As such the Board have approved a discretionary buy back policy, where we may buy a shared ownership or leasehold property back at the lower of 80 percent of the initial purchase price, or the current market value if the resident is struggling to sell their property on the open market. At the end of September, we have bought back 11 properties, with a total investment of £0.9 million. These properties have subsequently been converted to social rent properties.

Treasury and financing

	31 March 2023	30 September 2023
Gross debt	£680m	£671.2m
Cash including short term investments	£129m	£100m
Net debt	£551m	£571.2m
Percentage of drawn debt on a fixed basis	100%	100%
Housing property value	£1,434m	£1,475m
Gearing	40.7%	41.0%
Cash and undrawn committed facilities(1)	£132.5m	£154.1m
Liquidity horizon	April 2025	October 2025(2)

Notes
(1) Cash for these purposes includes only unrestricted cash
(2) Excluding non-committed acquisitions from other registered providers

We continue to utilise the proceeds from the bond tap to fund our growth and at the period end we had £100 million in cash and cash equivalents, of which £54.1 million is unrestricted. This is enhanced by a £50 million bond which is unsold and fully secured and a £50 million revolving credit facility ('RCF') agreed with Barclays in May 2023 giving total liquidity of £154.1 million.

Our liquidity at 30 September 2023 was sufficient to meet all forecast financing needs until October 2025, excluding non-committed acquisitions from other registered providers. However, we recognise to achieve our growth ambitions and realise the acquisition opportunities, further facilities will be required. We are in advanced negotiations on a further £30 million RCF with a bank and have received indicative terms with a further two banks on a further £200 million worth of revolvers. This will increase our RCF portfolio across four banks to £280 million.

At 30 September 2023, Housing 21 had net debt of £571.2 million (31 March 2023: £551 million) and gearing, as measured using the Regulator of Social Housing's (RSH) value for money gearing metric, of 41.0 percent (31 March 2023: 40.7 percent). 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 35.8 percent (31 March 2023: 35.1 percent).

Standard & Poor’s credit rating

Following the resolution of the CreditWatch, on 15 August 2023, Standards & Poor’s reaffirmed the long-term issuer rating of Housing 21 as ‘A-’ with a stable outlook. They commented that Housing 21 will continue to see strong and increasing demand for its services in retirement and Extra Care housing which will drive stable and predictable rental revenue and support financial performance.

Disclaimer

Housing 21 is a Community Benefit Society (registration number 16791R) with exempt charitable status. As a Registered Provider of Social Housing, Housing 21 provides care and housing with associated amenities. It is registered with the Financial Conduct Authority (FCA), (registration number 16791R), its housing activities are regulated by the Regulator of Social Housing (registration number L0055) and its care activities are regulated by the Care Quality Commission (CQC).

These materials have been prepared by Housing 21 solely for use in publishing and presenting its results for the six months ending 30 September 2023.

These materials do not constitute or form part of and should not be construed as, an offer to sell or issue, or the solicitation of an offer to buy or acquire securities of Housing 21 in any jurisdiction or an inducement to enter into investment activity. No part of these materials, nor the fact of their distribution, should form the basis of, or be relied on or in connection with, any contract or commitment or investment decision whatsoever. Neither should the materials be construed as legal, tax, financial, investment or accounting advice.

These materials contain statements with respect to the financial condition, results of operations, business and future prospects of Housing 21 that are forward-looking statements. By their nature, forward-looking statements involve risk and uncertainty because they relate to events and depend on circumstances that will occur in the future. There are a number of factors that could cause actual results and developments to differ materially from those expressed or implied by these forward-looking statements, including many factors outside Housing 21’s control.