

## London & Quadrant Housing Trust Trading Update for the period ending 30 June 2023

London & Quadrant Housing Trust ('L&Q') is today issuing its consolidated unaudited trading update for the three months ended 30 June 2023 ('2023 Q1'). All statement of comprehensive income comparatives are to L&Q's consolidated unaudited prior year equivalent period being the three months ended 30 June 2022 ('2022 Q1').

### HIGHLIGHTS

- There are 108,825 homes owned or managed (as at 31 March 2023: 108,261)
- L&Q has completed 701 new residential homes (2022 Q1: 1,295)
- Turnover was £242m (2022 Q1: £244m)
- EBITDA<sup>1</sup> was £67m (2022 Q1: £94m)
- EBITDA margin<sup>2</sup> was 27% (2022 Q1: 26%)
- EBITDA margin (excluding sales)<sup>3</sup> was 37% (2022 Q1: 42%)
- Gross sales EBITDA margin<sup>4</sup> was 5% (2022 Q1: 15%)
- Net sales EBITDA margin<sup>5</sup> was (7%) (2022 Q1: 10%)
- EBITDA / interest cover<sup>6</sup> was 119% (2022 Q1: 231%)
- EBITDA social housing lettings interest cover<sup>7</sup> was 108% (2022 Q1: 192%)
- Operating surplus was £68m (2022 Q1: £89m)
- Debt to assets<sup>8</sup> was 40% (2022 Q1: 39%)
- Sales as a % of turnover<sup>10</sup> was 23% (2022 Q1: 51%)

### Commenting on the results Waqar Ahmed, Group Director, Finance said:

"L&Q's Q1 trading results continue to reflect our stated objectives to divert a greater level of expenditure towards our resident's existing homes through our £3bn major works investment programme to address our strategic priorities of health & safety, quality of homes and improving services. In the year to date we have invested £77m (2022 Q1: £62m) in our maintenance programme which continues to deliver major internal and external works inclusive of measures to address damp and mould, fire safety, energy efficiency and wide-ranging estate improvements.

Our Healthy Homes Project, has carried out over 20,000 homes visits and installed nearly 14,000 humidity sensors. We have completed inspections on 1,031 of the c. 1,800 buildings where this is required by new building safety legislation, begun remediation works on 74 buildings and have replaced, installed or upgraded fire alarm systems benefiting nearly 3,000 homes.

Our commitment to lower our risk profile and focus on our existing development pipeline is reflected by the continued reduction in homes approved of 24,934 (2022 Q1: 28,261), the projected cost to complete of £3.0bn (2022 Q1: £4.0bn) and declining housing starts and completions. In the year to date we have completed 701 new residential homes (Q1 2022: 1,295) of which 75% (Q1 2022: 62%) are for social housing tenures. For the financial year ending 31 March 2024 we expect c 1,100 starts and c 3,000 handovers.

We continue to remain cautious noting prolonged cost inflation and increasing mortgage rates which is impacting buyer affordability. Reservations for outright sales remain subdued, however, the shared ownership market continues to be resilient despite market headwinds."

### FORWARD GUIDANCE FOR THE YEAR ENDING 31 MARCH 2024

L&Q's forward guidance is unchanged from our last trading statement, but in recognition of prolonged inflation expectations and higher interest rates we expect EBITDA / interest metrics to be at the lower end of guidance. We project EBITDA in the range of £400m to £420m and gross capital expenditure<sup>11</sup> to be c. £850m, the peak in our medium-term projections. Our projections for surplus after tax are expected to be in the range of £300m to £320m. Net debt is expected to be stable at c. £5.3bn. We expect to deliver c. 3,000 new residential homes of which c. 60% is expected to be for social housing tenures.

<i>Financial Metrics</i>	<b>Forward Guidance to 31 March 2024</b>
EBITDA margin <sup>2</sup>	29% - 31%
EBITDA margin (excluding sales) <sup>3</sup>	45% - 47%
Gross sales EBITDA margin <sup>4</sup>	10% - 12%
EBITDA interest cover <sup>6</sup>	170% - 180%
EBTDA Social housing lettings interest Cover <sup>7</sup>	120% - 130%
Debt to assets <sup>8</sup>	c. 39%
Gross debt to EBITDA <sup>9</sup>	13x - 14x
Sales as a % of turnover <sup>10</sup>	c.40%

## HOUSING COMPLETIONS

L&Q, including joint ventures, has completed 701 (2022 Q1: 1,295) residential units in the financial year to date. This comprises of 523 (2022 Q1: 807) completions for social housing tenures (75%) and 178 (2022 Q1: 488) completions for market tenures. During that same time 10 new build residential units commenced on site (2022 Q1: 698) with the majority of starts being later phases of existing developments.

## DEVELOPMENT PIPELINE

L&Q, including joint ventures, is operating from 160 (2022 Q1: 192) active sites. L&Q has approved an additional 92 (2022 Q1: 206) homes during the financial year bringing total units in the approved development pipeline to 24,934 (2022 Q1: 28,261), of which 85% are currently on site. Of the homes approved in the development pipeline 57% are for social housing tenures and 43% are for market tenures. L&Q holds a further potential 83,050 (2022 Q1: 75,780) strategic land plots.

The future projected cost of the entire development pipeline (including work in progress and developments not yet committed or on site) that extends until the financial year ending 31 March 2040 is estimated at £3.0bn (2022 Q1: £4.0bn) of which £2.5bn (83%) is currently committed (2022 Q1: £3.3bn).

## UNAUDITED FINANCIALS

The unaudited financials exclude further adjustments that are subject to audit review.

### Statement of Comprehensive Income

	<b>2023 Q1 (£m)</b>	<b>2022 Q1 (£m)</b>	<b>Change</b>
<b>Turnover</b>			
Non-sales	199	181	
Sales	43	63	
	<b>242</b>	<b>244</b>	<b>(1%)</b>
<b>Operating costs and cost of sales</b>			
Non-sales	(141)	(127)	
Sales	(46)	(59)	
	<b>(187)</b>	<b>(186)</b>	<b>(1%)</b>
Surplus on disposal of fixed assets and investments	14	16	
Share of profits from joint ventures	(1)	15	
Change in value of investment property	-	-	

<b>Operating surplus</b>	<b>68</b>	<b>89</b>	<b>(24%)</b>
Net interest charge	(49)	(30)	
Other finance income/ (costs)	(4)	-	
Taxation	-	-	
<b>Surplus for the period after tax</b>	<b>15</b>	<b>59</b>	<b>(75%)</b>

#### EBITDA and Net Cash Interest Paid

	<b>2023 Q1</b>	<b>2022 Q1</b>	<b>Change</b>
	<b>(£m)</b>	<b>(£m)</b>	
Operating surplus	68	89	
Change in value of investment property	-	-	
Amortised government grant	(7)	(6)	
Depreciation	26	25	
Impairment	-	-	
Capitalised major repairs	(20)	(14)	
<b>EBITDA</b>	<b>67</b>	<b>94</b>	<b>(29%)</b>
Net interest charge	(49)	(30)	
Capitalised interest	(8)	(11)	
<b>Net cash interest paid</b>	<b>(57)</b>	<b>(41)</b>	<b>(39%)</b>

#### Statement of Financial Position

	<b>2023 Q1</b>	<b>31 March</b>	<b>Change</b>
	<b>(£m)</b>	<b>2023 (£m)</b>	<b>(£m)</b>
Housing properties	11,388	11,350	38
Other fixed assets	80	88	(9)
Investments	1,568	1,559	9
Net current assets	543	165	378
<b>Total assets less current liabilities</b>	<b>13,579</b>	<b>13,163</b>	<b>416</b>
Loans due > one year	5,547	5,124	423
Unamortised grant liabilities	2,057	2,065	(7)
Other long-term liabilities	364	379	(15)
Capital and reserves	5,610	5,595	15
<b>Total non-current liabilities and reserves</b>	<b>13,579</b>	<b>13,163</b>	<b>416</b>

#### Non-Sales Activities

	<b>2023 Q1</b>	<b>2022 Q1</b>	<b>Change</b>
	<b>(£m)</b>	<b>(£m)</b>	<b>(£m)</b>
Net rents receivable	183	167	16
Charges for support services	3	3	-
Amortised government grants	6	6	-
Other income	7	5	2
<b>Turnover</b>	<b>199</b>	<b>181</b>	<b>18</b>
Management costs	(20)	(19)	(1)
Service costs	(28)	(24)	(4)
Maintenance costs	(58)	(48)	(10)
Support costs	(3)	(3)	-
Depreciation & impairment	(26)	(25)	(1)
Other costs	(6)	(8)	2

<b>Operating costs</b>	<b>(141)</b>	<b>(127)</b>	<b>(14)</b>
Surplus on disposal of fixed assets	14	16	(3)
Change in value of investment property	-	-	-
<b>Operating surplus</b>	<b>72</b>	<b>70</b>	<b>(1)</b>

## Arrears

Current tenant arrears for all tenures are at 5.26% (as at 31 March 2023: 5.67%)

## Sales Activities

The cost of sales is inclusive of capitalised interest and overhead costs:

	<b>2023 Q1</b>	<b>2022 Q1</b>	<b>Change (£m)</b>
	<b>(£m)</b>	<b>(£m)</b>	
Property sales income	43	61	(18)
Land sales income	-	2	(2)
<b>Turnover from sales (excluding JV's)</b>	<b>43</b>	<b>63</b>	<b>(20)</b>
Cost of property sales	(41)	(52)	11
Cost of land sales	-	-	-
Operating costs	(5)	(7)	2
Impairment	-	-	-
<b>Total costs (excluding JV's)</b>	<b>(46)</b>	<b>(59)</b>	<b>13</b>
<b>Operating Surplus (excluding JV's)</b>	<b>(3)</b>	<b>4</b>	<b>(7)</b>
Joint venture turnover	14	118	(104)
Joint venture cost of sales	(13)	(101)	88
Joint venture operating costs	(2)	(2)	-
Impairment of investment in JV's	-	-	-
<b>Share of profits from joint ventures</b>	<b>(1)</b>	<b>15</b>	<b>(16)</b>

## AVERAGE SELLING PRICE

The average selling price for outright market sales during the financial year to date was £414k (2022 Q1: £565k). The average selling price of first tranche shared ownership sales during the financial year to date was £401k (2022 Q1: £393k) with an average first tranche sale of 32% (2022 Q1: 37%).

## SALES MARGINS

The cost of sales is inclusive of capitalised interest and overhead costs but excludes impairment:

	Shared Owner- ship (£m)	Outright Sales (Non-JV) (£m)	Land Sales (£m)	Outright Sales (JV's) (£m)	<b>2023 Q1</b>	<b>2022 Q1</b>	<b>Change</b>
					<b>(£m)</b>	<b>(£m)</b>	
Turnover	34	9	-	14	<b>57</b>	181	(124)
Cost of sales	(32)	(9)	-	(13)	<b>(54)</b>	(153)	99
Gross profit	<b>2</b>	-	-	<b>1</b>	<b>3</b>	<b>28</b>	<b>(25)</b>
<b>Gross EBITDA margin</b>	6%	-	-	7%	<b>5%</b>	<b>15%</b>	<b>(10%)</b>
Operating costs	(2)	(1)	(2)	(2)	<b>(7)</b>	(9)	3
Operating surplus	-	<b>(1)</b>	<b>(2)</b>	<b>(1)</b>	<b>(4)</b>	<b>19</b>	<b>(23)</b>
<b>Net EBITDA margin</b>	-	(11%)	-	(7%)	<b>(7%)</b>	<b>10%</b>	<b>(27%)</b>

## UNSOLD STOCK

As at 30 June 2023, L&Q, including joint ventures, held 1,382 completed homes as unsold stock with a projected revenue of £216m. Projected revenue for shared ownership assumes a first tranche sale of 25%.

Of the total unsold stock, 23% has been held as stock for less than one month and 88% is for shared ownership, a tenure where we would expect to continue to show a higher comparative level of unsold stock due to bulk handovers in short time periods and limitations to pre-sale meaning gradual sales rates. In the year to date, L&Q has handed over 360 and sold 268 shared ownership homes.

L&Q's forward order book excluding joint ventures consists of 50 exchanged homes with projected revenue of £7m and 265 reservations with projected revenue of £34m.

Tenure	Projected Revenue (£m)	No. of Homes	<1 Month	1-3 Months	3-6 Months	6-12 Months	>12 Months
Shared Ownership	159	1,211	259	112	250	194	396
Outright Sale (non-JV's)	47	119	55	1	-	31	32
<b>Total excluding JV's</b>	<b>206</b>	<b>1,330</b>	<b>314</b>	<b>113</b>	<b>250</b>	<b>225</b>	<b>428</b>
Outright Sale (JCA's)	-	-	-	-	-	-	-
Outright Sale (JCE's)	10	52	4	7	1	28	12
<b>Total Joint Ventures</b>	<b>10</b>	<b>52</b>	<b>4</b>	<b>7</b>	<b>1</b>	<b>28</b>	<b>12</b>
<b>Total Unsold Stock</b>	<b>216</b>	<b>1,382</b>	<b>318</b>	<b>120</b>	<b>251</b>	<b>253</b>	<b>440</b>

## NET DEBT AND LIQUIDITY

As at 30 June 2023, net debt (excluding derivative financial liabilities) was £5,449m (as at 31 March 2023: £5,294m) and available liquidity within the group in the form of committed un-drawn revolving credit facilities and non-restricted cash was at £1,044m (as at 31 March 2023: £1,222m). Approximately 54% of L&Q's loan facilities and 63% of drawn loan facilities are at a fixed cost.

## UNENCUMBERED ASSETS

	2023 Q1	31 March 2023
No. of homes owned or managed	108,825	108,261
No. of social housing homes provided as collateral against debt facilities	(55,775)	(56,927)
No. of private rented homes provided as collateral against debt facilities	(1,295)	(1,295)
<b>Total no. of unencumbered homes owned or under management</b>	<b>51,755</b>	<b>50,039</b>
% held as collateral against debt facilities	52%	54%
<b>Unencumbered asset ratio<sup>12</sup></b>	<b>44%</b>	<b>45%</b>

## L&Q CREDIT RATINGS

As at date of trading statement release:

Rating Agency	S&P	Moody's	Fitch
Long-term credit ratings	A-/Negative	A3/Negative	A+/Negative

### Notes:

<sup>1</sup> Operating surplus – change in value of investment properties – amortised government grant + depreciation + impairment – capitalised major repairs +/- actuarial losses/gains in pension schemes

<sup>2</sup> EBITDA / (turnover + turnover from joint ventures – amortised government grant)

<sup>3</sup> EBITDA from non-sales activities / turnover from non-sales activities

<sup>4</sup> Gross profit from sales + impairment / turnover from sales including joint ventures

<sup>5</sup> Operating surplus from sales + impairment / turnover from sales including joint ventures

<sup>6</sup> EBITDA / net cash interest paid

<sup>7</sup> EBITDA from social housing lettings / net cash interest paid

<sup>8</sup> Net debt (excluding derivative financial liabilities) / total assets less current liabilities

<sup>9</sup> Gross debt / EBITDA

<sup>10</sup> Sales turnover (including joint ventures) / (turnover plus turnover from joint ventures)

<sup>11</sup> Capitalised development expenditure + acquisition of investment property + purchase of other fixed assets

<sup>12</sup> 100% less (loans due after more than 1 year + derivative liabilities + unamortised grant liability) / total assets less current liabilities

**This trading update contains certain forward-looking statements about the future outlook for L&Q. Although the Directors believe that these statements are based upon reasonable assumptions, any such statements should be treated with caution as the future outlook may be influenced by factors that could cause actual outcomes and results to be materially different.**

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