

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

London & Quadrant Housing Trust ('L&Q') is today issuing its consolidated unaudited trading update for the six months ended 30 September 2023 ('2023 Q2'). All statement of comprehensive income comparatives are to L&Q's consolidated unaudited prior year equivalent period being the six months ended 30 September 2022 ('2022 Q2').

HIGHLIGHTS

- There are 109,276 units in management (as at 31 March 2023: 108,326)
- L&Q has completed 1,350 new residential homes (2022 Q2: 2,151)
- Turnover was £506m (2022 Q2: £533m)
- EBITDA¹ was £150m (2022 Q2: £164m)
- EBITDA margin² was 27% (2022 Q2: 23%)
- EBITDA margin (excluding sales)³ was 35% (2022 Q2: 36%)
- Gross sales EBITDA margin⁴ was 11% (2022 Q2: 15%)
- Net sales EBITDA margin⁵ was 6% (2022 Q2: 9%)
- EBITDA interest cover⁶ was 127% (2022 Q2: 194%)
- EBITDA social housing lettings interest cover⁷ was 116% (2022 Q2: 140%)
- Operating surplus was £158m (2022 Q2: £172m)
- Debt to assets⁸ was 40% (2022 Q2: 39%)
- Sales as a % of turnover¹⁰ was 30% (2022 Q2: 51%)

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

"L&Q's Q2 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 £156m (2022 Q2: £149m) 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. We have also made significant progress on our transformation programme to deliver a simplified target operating model.

Our commitment to lower our financial risk profile and reduce earnings volatility is reflected by the declining approved development pipeline, lower year-on-year housing starts and completions, and the rationalisation of stock outside our geographical core.

Through management action, we have implemented deleveraging plans and have lowered guidance on gross capital expenditure to c. £725m from c. £850m. On a look-forward basis, capital expenditure is expected to peak this financial year and fall by c. 50% by the financial year ending 31st March 2026. This means that risk within the development pipeline, including inflation, has already been substantially absorbed. Whilst the outright sales market remains subdued, our exposure continues to decline. We remain confident in the shared ownership market that is competitive, well-positioned and resilient despite the ongoing uncertainty in the housing market."

SUSTAINABILITY

During Q2 2023, L&Q published its progress against specific sustainability objectives in accordance with the Sustainability Reporting Standard for Social Housing, a key part of our strategy to build transparency and collaboration. L&Q's Sustainability Report can be found at the following link: www.lqgroup.org.uk/about-landq/sustainability-at-lq

FORWARD GUIDANCE FOR THE YEAR ENDING 31 MARCH 2024

L&Q has lowered its guidance on key financial metrics due to c. £10m projected accelerated investment in our resident's existing homes, a c. £20m deferral of expected profits on the sale of fixed assets that are outside our geographical focus and a c. £10m increase in interest in recognition of prolonged and higher interest rate expectations.

We project EBITDA in the range of £370m to £390m (previous guidance £400m to £420m) that has a corresponding impact on EBITDA metrics. Gross capital expenditure¹¹ is expected to be c. £725m (previous guidance at c. £850m), being the peak in our medium-term projections. Net debt is expected to be stable at c. £5.3bn (unchanged). We expect c. 700 starts (previous guidance of c. 1,100) and to deliver c. 3,000 new residential homes (unchanged) of which c. 60% is expected to be for social housing tenures. Guidance on sales as a % of turnover has been lowered to c. 36% (previous guidance at c. 40%).

<i>Financial Metrics</i>	Forward Guidance to 31 March 2024
EBITDA margin ²	29% - 31%
EBITDA margin (excluding sales) ³	41% - 43%
Gross sales EBITDA margin ⁴	12% - 14%
EBITDA interest cover ⁶	155% - 165%
EBTDA Social housing lettings interest Cover ⁷	120% - 130%
Debt to assets ⁸	c. 38%
Gross debt to EBITDA ⁹	14x - 15x
Sales as a % of turnover ¹⁰	c.36%

HOUSING COMPLETIONS

L&Q, including joint ventures, has completed 1,350 (2022 Q2: 2,151) residential homes in the financial year to date. This comprises of 904 (2022 Q2: 1,474) completions for social housing tenures (67%) and 446 (2022 Q2: 677) completions for market tenures (33%). During that same time 228 new build residential units commenced on site (2022 Q2: 1,173) with the majority of starts being later phases of existing developments.

DEVELOPMENT PIPELINE

L&Q, including joint ventures, is operating from 149 (2022 Q2: 185) active sites. L&Q has approved an additional 2 homes (2022 Q2: 952) during the financial year to date, bringing total homes in the approved development pipeline to 23,948 (2022 Q2: 28,341), of which 84% are currently on site. Of the homes approved in the development pipeline 56% are for social housing tenures and 44% are for market tenures. L&Q holds a further potential 84,519 (2022 Q2: 75,551) 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 £2.8bn (2022 Q2: £4bn) of which £2.3bn (82%) is currently committed (2022 Q2: £3.4bn).

UNAUDITED FINANCIALS

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

Statement of Comprehensive Income

	2023 Q2	2022 Q2	Change
	(£m)	(£m)	
Turnover			
Non-sales	405	368	
Sales	101	165	

Operating costs and cost of sales	506	533	(5%)
Non-sales	(288)	(272)	
Sales	(94)	(152)	
	(382)	(424)	10%
Surplus on disposal of fixed assets and investments	30	39	
Share of profits from joint ventures	4	26	
Change in value of investment property	-	(2)	
Operating surplus	158	172	(8%)
Net interest charge	(103)	(62)	
Other finance income/ (costs)	(4)	-	
Taxation	-	-	
Surplus for the period after tax	51	110	(54%)

EBITDA and Net Cash Interest Paid

	2023 Q2	2022 Q2	Change
	(£m)	(£m)	
Operating surplus	158	172	
Change in value of investment property	-	2	
Amortised government grant	(13)	(13)	
Depreciation	51	51	
Impairment	(4)	(7)	
Capitalised major repairs	(42)	(41)	
EBITDA	150	164	(9%)
Net interest charge	(103)	(62)	
Capitalised interest	(15)	(22)	
Net cash interest paid	(118)	(84)	(40%)

Statement of Financial Position

	2023 Q2	31 March	Change
	(£m)	2023	
		(£m)	(£m)
Housing properties	11,521	11,354	167
Other fixed assets	81	88	(7)
Investments	1,612	1,569	43
Net current assets	561	174	387
Total assets less current liabilities	13,775	13,185	590
Loans due > one year	5,683	5,124	559
Unamortised grant liabilities	2,049	2,065	(16)
Other long-term liabilities	377	381	(4)
Capital and reserves	5,666	5,615	51
Total non-current liabilities and reserves	13,775	13,185	590

Non-Sales Activities

	2023 Q2	2022 Q2	Change
	(£m)	(£m)	(£m)
Net rents receivable	371	337	34
Charges for support services	6	6	-
Amortised government grants	13	13	-

Other income	15	12	3
Turnover	405	368	37
Management costs	(40)	(40)	-
Service costs	(57)	(50)	(7)
Maintenance costs	(121)	(107)	(14)
Support costs	(6)	(6)	-
Depreciation & impairment	(47)	(51)	4
Other costs	(17)	(18)	1
Operating costs	(288)	(272)	(16)
Surplus on disposal of fixed assets	30	39	(9)
Change in value of investment property	-	(2)	2
Operating surplus	147	133	14

Arrears

Current tenant arrears for all tenures are at 5.91% (as at 31 March 2023: 5.67%).

Sales Activities

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

	2023 Q2 (£m)	2022 Q2 (£m)	Change (£m)
Property sales income	90	146	(56)
Land sales income	11	19	(8)
Turnover from sales (excluding JV's)	101	165	(64)
Cost of property sales	(82)	(116)	34
Cost of land sales	(7)	(26)	19
Operating costs	(5)	(17)	12
Impairment	-	7	7
Total costs (excluding JV's)	(94)	(152)	58
Operating Surplus (excluding JV's)	7	13	6
Joint venture turnover	68	198	130
Joint venture cost of sales	(61)	(168)	107
Joint venture operating costs	(3)	(4)	1
Impairment of investment in JV's	-	-	-
Share of profits from joint ventures	4	26	(22)

AVERAGE SELLING PRICE

The average selling price, including JVs, for outright market sales during the financial year to date was £516k (2022 Q2: £538k). The average selling price of first tranche shared ownership sales during the financial year to date was £403k (2022 Q2: £393k) with an average first tranche sale of 32% (2022 Q2: 36%).

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)	2023 Q2 (£m)	2022 Q2 (£m)	Change
Turnover	67	23	11	68	169	363	(194)
Cost of sales	(62)	(20)	(7)	(61)	(150)	(310)	160

Gross profit	5	3	4	7	19	53	(34)
Gross EBITDA margin	7%	13%	36%	10%	11%	15%	(4%)
Operating costs	(4)	(1)	-	(3)	(8)	(21)	13
Operating surplus	1	2	4	4	11	32	(21)
Net EBITDA margin	1%	9%	36%	6%	7%	9%	(2%)

UNSOLD STOCK

As at 30 September 2023, L&Q, including joint ventures, held 1,166 completed homes as unsold stock (2022 Q2: 1,339) with a projected revenue of £176m (2022 Q2: £211m). Projected revenue for shared ownership assumes a first tranche sale of 25%.

Of the total unsold stock, 6% has been held as stock for less than one month and 89% 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 442 and sold 523 shared ownership homes.

L&Q's forward order book excluding joint ventures consists of 45 exchanged homes with projected revenue of £6m and 261 reservations with projected revenue of £37m.

Tenure	Projected Revenue (£m)	No. of Homes	<1 Month	1-3 Months	3-6 Months	6-12 Months	>12 Months
Shared Ownership	138	1,040	54	5	290	285	406
Outright Sale (non-JV's)	30	83	10	6	3	21	43
Total excluding JV's	168	1,123	64	11	293	306	449
Outright Sale (JCA's)	-	-	-	-	-	-	-
Outright Sale (JCE's)	8	43	2	6	6	5	24
Total Joint Ventures	8	43	2	6	6	5	24
Total Unsold Stock	176	1,166	66	17	299	311	473

NET DEBT AND LIQUIDITY

As at 30 September 2023, net debt (excluding derivative financial liabilities) was £5.5bn (as at 31 March 2023: £5.3bn) and available liquidity within the group in the form of committed un-drawn revolving credit facilities and non-restricted cash was £0.9bn (as at 31 March 2023: £1.2bn). Approximately 54% of L&Q's loan facilities and 62% of drawn loan facilities are at a fixed cost. L&Q has £26m of refinancing risk within the next 12 months.

UNENCUMBERED ASSETS

	2023 Q2	31 March 2023
No. of homes owned or managed	109,276	108,326
No. of social housing homes provided as collateral against debt facilities	(57,120)	(56,924)
No. of private rented homes provided as collateral against debt facilities	(1,295)	(1,295)
Total no. of unencumbered homes owned or under management	50,861	50,107
% of units under management held as collateral against debt facilities	53%	54%
Unencumbered asset ratio ¹²	44%	45%

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:

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

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

³ EBITDA from non-sales activities / turnover from non-sales activities

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

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

⁶ EBITDA / net cash interest paid

⁷ EBITDA from social housing lettings / net cash interest paid

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

⁹ Gross debt / EBITDA

¹⁰ Sales turnover (including joint ventures) / (turnover plus turnover from joint ventures)

¹¹ Capitalised development expenditure + acquisition of investment property + purchase of other fixed assets

¹² 100% 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.

For further information, please contact:

investors@lqgroup.org.uk

James Howell, Head of External Affairs

020 8189 1596

www.lqgroup.org.uk

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