

London & Quadrant Housing Trust Trading Update for the period ending 31 December 2021

London & Quadrant Housing Trust ('L&Q') is today issuing its consolidated unaudited trading update for the nine months ending 31 December 2021 ('2021 Q3'). All statement of comprehensive income comparatives are to L&Q's consolidated unaudited prior year equivalent period being the nine months ending 31 December 2020 ('2020 Q3').

HIGHLIGHTS

- There are 118,519 units in management (as at 31 March 2021: 117,788)
- L&Q has completed 2,852 new residential homes (2020 Q3: 1,763)
- Turnover was £828m (2020 Q3: £689m)
- EBITDA¹ was £287m (2020 Q3: £301m)
- EBITDA margin² was 29% (2020 Q3: 37%)
- EBITDA margin (excluding sales)³ was 45% (2020 Q3: 56%)
- Gross sales margin⁴ was 18% (2020 Q3: 15%)
- Net sales margin⁵ was 12% (2020 Q3: 7%)
- EBITDA / interest cover⁶ was 256% (2020 Q3: 271%)
- EBITDA social housing lettings interest cover⁷ was 154% (2020 Q3: 206%)
- Operating surplus was £276m (2020 Q3: £270m)
- Debt to assets⁸ was 40% (2020 Q3: 42%)
- Sales as a % of turnover¹⁰ was 49% (2020 Q3: 38%)

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

"L&Q's unaudited Q3 trading results are in line with expectations and previous guidance for the financial year ending 31 March 2022 is unchanged.

Financial performance on non-sales activities continues to reflect our stated objectives to increase investment in residents' homes and services as we deliver against our priorities of safety and quality and gross and net sales margins continue to show improvement.

Whilst, as expected, operating expenditure has increased, L&Q continues to deliver against its commitment to tackle the UK housing crisis through investment in new homes. In the nine months to 31 December 2021, L&Q has completed 2,852 new residential homes of which 59% are for social tenure. Completions continue to exceed pre-Covid levels, and the tenure mix continues to demonstrate our commitment to our social purpose and lowering our risk profile.

In January 2022, L&Q followed up on its commitment to sustainability and the wider ESG agenda through the issue of a £300m Sustainability Linked Bond, a first from the social housing sector. On 25 January 2022, L&Q published its first Sustainability Report to complement our Sustainability Finance Framework. The Sustainability Report outlines our comprehensive approach to measure and manage impact, with transparency at the forefront."

The Sustainability Report can be found at the following link <https://www.lqgroup.org.uk/media-centre/news/lq-publishes-sustainability-report>

FORWARD GUIDANCE FOR THE YEAR ENDING 31 MARCH 2022

The following assumes that current market conditions continue and are unchanged from the guidance issued in our last trading statement.

We project EBITDA to be in the range of £330m to £350m and gross capital expenditure¹¹ to be in the range of £900m to £1bn. Included within our EBITDA projections are c.£30m of costs assigned to conduct fire remedial and safety works. Our projections for surplus after tax are expected to be in the range of £220m to £240m. Net debt is expected to be in the range of £5.6bn to £5.7bn.

Financial Metrics	Forward Guidance to 31 March 2022
EBITDA margin ²	23% - 25%
EBITDA margin (excluding sales) ³	38% - 40%
Net sales margin ⁵	9% - 11%
EBITDA interest cover ⁶	210% - 225%
Social housing lettings EBITDA interest Cover ⁷	120% - 135%
Debt to assets ⁸	43%
Gross debt to EBITDA ⁹	17x - 18x
Sales as a % of turnover ¹⁰	c.50%

HOUSING COMPLETIONS

L&Q, including joint ventures, has completed 2,852 (2020 Q3: 1,763) residential units in the financial year to date. This comprises of 2,057 (2020 Q3: 988) completions for social housing tenures and 795 (2020 Q3: 775) completions for market tenures. During that same time 1,405 new build residential units commenced on site (2020 Q3: 2,159).

DEVELOPMENT PIPELINE

L&Q, including joint ventures, is operating from 197 (2020 Q3: 178) active sites. L&Q has approved an additional 634 (2020 Q3: 1,774) residential units during the financial year bringing total units in the approved development pipeline to 31,274 (2020 Q3: 31,916), of which 69% are currently on site, representing a significant investment in new supply and affordable output. Of the units approved in the development pipeline 59% are for social housing tenures and 41% are for market tenures. L&Q holds a further potential 74,864 (2020 Q3: 72,799) 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 £4.7bn (2020 Q3: £5.4bn) of which £3.8bn (81%) is currently committed (2020 Q3: £4.2bn).

UNAUDITED FINANCIALS

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

Statement of Comprehensive Income

	2021 Q3 (£m)	2020 Q3 (£m)	Change
Turnover			
Non-sales	522	515	
Sales	306	174	
	828	689	20%
Operating costs and cost of sales			
Non-sales	(357)	(304)	
Sales	(272)	(173)	

	(629)	(477)	(31%)
Surplus on disposal of fixed assets and investments	51	37	
Share of profits from joint ventures	26	21	
Change in value of investment property	-	-	
Operating surplus	276	270	2%
Net interest charge	(76)	(75)	
Other finance income/ (costs)	-	-	
Taxation	1	-	
Surplus for the period after tax	201	195	3%

EBITDA and Net Cash Interest Paid

	2021 Q3	2020 Q3	Change
	(£m)	(£m)	
Operating surplus	276	270	
Change in value of investment property	-	-	
Amortised government grant	(19)	(18)	
Depreciation	71	69	
Impairment	-	-	
Capitalised major repairs	(41)	(20)	
EBITDA	287	301	(5%)
Net interest charge	(76)	(75)	
Capitalised interest	(36)	(36)	
Net cash interest paid	(112)	(111)	(1%)

Statement of Financial Position

	2021 Q3	31 March	Change
	(£m)	2021 (£m)	(£m)
Housing properties	11,032	10,906	126
Other fixed assets	81	78	3
Investments	1,678	1,592	86
Net current assets	632	484	148
Total assets less current liabilities	13,423	13,060	372
Loans due > one year	5,326	5,152	174
Unamortised grant liabilities	2,125	2,123	2
Other long-term liabilities	358	372	(14)
Capital and reserves	5,614	5,413	201
Total non-current liabilities and reserves	13,423	13,060	363

Non-Sales Activities

	2021 Q3	2020 Q3	Change
	(£m)	(£m)	(£m)
Net rents receivable	482	475	7
Charges for support services	9	8	1
Amortised government grants	19	18	1
Other income	12	14	(2)
Turnover	522	515	7
Management costs	(48)	(43)	(5)
Service costs	(68)	(66)	(2)
Maintenance costs	(138)	(97)	(41)

Support costs	(10)	(10)	-
Depreciation & impairment	(71)	(69)	(2)
Other costs	(22)	(19)	(3)
Operating costs	(357)	(304)	(53)
Surplus on disposal of fixed assets	51	37	14
Operating surplus	216	248	(32)

Sales Activities

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

	2021 Q3 (£m)	2020 Q3 (£m)	Change (£m)
Property sales income	198	143	55
Land sales income	108	31	77
Turnover from sales (excluding JV's)	306	174	132
Cost of property sales	(177)	(131)	(46)
Cost of land sales	(71)	(22)	(49)
Operating costs	(24)	(20)	(4)
Total costs (excluding JV's)	(272)	(173)	(99)
Operating Surplus (excluding JV's)	34	1	33
Joint venture turnover	179	138	41
Joint venture cost of sales	(148)	(112)	(36)
Joint venture operating costs	(5)	(5)	-
Share of profits from joint ventures	26	21	5

AVERAGE SELLING PRICE

The average selling price, including JV's, for outright market sales during the financial year to date was £488k (2020 Q3: £488k) of which 57% were conducted under Help to Buy (2020 Q3: 50%). The average selling price of first tranche shared ownership sales during the financial year to date was £412k (2020 Q3: £435k) with an average first tranche sale of 34% (2020 Q3: 36%). The year-on-year movements in average selling prices reflect a higher proportion of sales conducted in our Trafford and Counties regions.

SALES MARGINS

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

	Shared Owner- ship (£m)	Outright Sales (Non-JV) (£m)	Land Sales (£m)	Outright Sales (JV's) (£m)	Q3 2021 (£m)	Q3 2020 (£m)	Change
Turnover	85	113	108	179	485	312	173
Cost of sales	(70)	(107)	(71)	(148)	(396)	(265)	(131)
Gross profit	15	6	37	31	89	47	42
Gross margin	18%	5%	34%	17%	18%	15%	3%
Operating costs	(6)	(8)	(10)	(5)	(29)	(25)	(4)
Operating surplus	9	(2)	27	26	60	22	38
Net margin	11%	(2%)	25%	15%	12%	7%	5%

UNSOLD STOCK

As at 31 December 2021, L&Q, including joint ventures, held 855 completed homes as unsold stock with a projected revenue of £148m. Projected revenue for shared ownership assumes a first tranche sale of 25%. Of the total unsold stock 21% has been held as stock for less than one month. The increase in unsold stock reflects a high quantity of handovers in short periods due to previous construction delays caused by Covid-19 and in certain locations, particularly in London, there is strong competition from Help to Buy for shared ownership sales.

L&Q's forward order book excluding joint ventures consists of 50 exchanged homes with projected revenue of £9m and 262 reservations with projected revenue of £42m.

Tenure	Projected Revenue (£m)	No. of Homes	<1 Month	1-3 Months	3-6 Months	6-12 Months	>12 Months
Shared Ownership	72	620	131	203	63	176	47
Outright Sale (non-JV's)	47	125	18	25	28	10	44
Total excluding JV's	118	745	149	228	91	186	91
Outright Sale (JCA's)	0	0	0	0	0	0	0
Outright Sale (JCE's)	29	110	33	44	0	11	22
Total Joint Ventures	34	110	33	44	0	11	22
Total Unsold Stock	148	855	182	272	91	197	113

NET DEBT AND LIQUIDITY

As at 31 December 2021, net debt (excluding derivative financial liabilities) was £5,421m (as at 31 March 2021: £5,385m) and available liquidity within the group in the form of committed un-drawn revolving credit facilities and non-restricted cash was at £1,083m (as at 31 March 2021: £1,159m). Approximately 54% of L&Q's loan facilities and 63% of drawn loan facilities are at a fixed cost.

UNENCUMBERED ASSETS

	Q3 2021	31 March 2021
No. of units under management	118,519	117,788
No. of social housing homes provided as collateral against debt facilities	(56,358)	(60,085)
No. of private rented homes provided as collateral against debt facilities	(1,107)	(1,107)
Total no. of unencumbered units under management	61,054	56,596
% of units under management held as collateral against debt facilities	48%	52%
Unencumbered asset ratio ¹²	44%	44%

L&Q CREDIT RATINGS

As at date of trading statement release:

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

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 / turnover from sales including joint ventures

⁵ Operating surplus from sales / 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.

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