

London & Quadrant Housing Trust Trading Update for the period ending 30 June 2022

London & Quadrant Housing Trust ('L&Q') is today issuing its consolidated unaudited trading update for the three months ended 30 June 2022 ('2022'). All statement of comprehensive income comparatives are to L&Q's consolidated unaudited prior year equivalent period being the three months ended 30 June 2021 ('2021 Q1'). All Statement of Financial Position comparatives are to L&Q's consolidated unaudited Statement of Financial Position as at 31 March 2022 as disclosed in L&Q's Q4 Trading Statement for the period ending 31 March 2022. L&Q expects to publish its consolidated audited financial statement for the year ending 31 March 2022 on or around 1 September 2022.

HIGHLIGHTS

- There are 119,480 units in management (as at 31 March 2022: 118,434)
- L&Q has completed 1,295 new residential homes (2021 Q1: 1,003)
- Turnover was £244m (2021 Q1: £286m)
- EBITDA¹ was £94m (2021 Q1: £121m)
- EBITDA margin² was 26% (2021 Q1: 36%)
- EBITDA margin (excluding sales)³ was 42% (2021 Q1: 59%)
- Gross sales EBITDA margin⁴ was 15% (2021 Q1: 20%)
- Net sales EBITDA margin⁵ was 10% (2021 Q1: 15%)
- EBITDA / interest cover⁶ was 231% (2021 Q1: 327%)
- EBITDA social housing lettings interest cover⁷ was 192% (2021 Q1: 189%)
- Operating surplus was £89m (2021 Q1: £112m)
- Debt to assets⁸ was 39% (2021 Q1: 41%)
- Sales as a % of turnover¹⁰ was 51% (2021 Q1: 51%)

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

"Our focus, as demonstrated by our Q1 trading results, remains on the delivery of our strategic objectives which prioritises investment in safety and the quality of existing homes and services. We continue to make strong progress against our building safety inspection programme and have completed safety inspections on 556 buildings including a full intrusive inspection on all 192 buildings that are above 18 metres in height. Further details can be found at <https://www.lqgroup.org.uk/building-and-fire-safety/fire-safety-building-inspections>

We remain mindful of wider economic uncertainty, supply chain constraints as well as the pressures on cost of living caused by rising energy prices, inflation and interest rates that have the potential to impact our residents and our future forward guidance. We will continue to monitor and manage in accordance with our governance arrangements. L&Q's Q1 trading results are in line with expectations, and we remain on track to deliver against our forward guidance for the year ending 31 March 2023 which is unchanged."

FORWARD GUIDANCE FOR THE YEAR ENDING 31 MARCH 2023

The following assumes that current market conditions continue and remain 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 £950m. Included within our EBITDA projections is a c.30% increase in total maintenance costs including c.£45m of gross costs assigned to conduct fire remedial and safety works. Our projections for surplus after tax are expected to be in the range of £260m to £280m. Net debt is expected to be in the range of £5.6bn to £5.7bn.

Financial Metrics	Forward Guidance to 31 March 2023
EBITDA margin ²	24% - 26%
EBITDA margin (excluding sales) ³	35% - 37%
Gross sales EBITDA margin ⁴	12% - 14%
EBITDA interest cover ⁶	200% - 220%
Social housing lettings EBITDA interest Cover ⁷	120% - 135%
Debt to assets ⁸	41%
Gross debt to EBITDA ⁹	17x - 18x
Sales as a % of turnover ¹⁰	c.47%

HOUSING COMPLETIONS

L&Q, including joint ventures, has completed 1,295 (2021 Q1: 1,003) residential units in the financial year. This comprises of 807 (2021 Q1: 646) completions for social housing tenures and 488 (2021 Q1: 357) completions for market tenures. During that same time 698 new build residential units commenced on site (2021 Q1: 651).

DEVELOPMENT PIPELINE

L&Q, including joint ventures, is operating from 192 (2021 Q1: 196) active sites. L&Q has approved an additional 206 (2021 Q1: 135) residential units during the financial year bringing total units in the approved development pipeline to 28,261 (2021 Q1: 31,888), of which 73% are currently on site, representing a significant investment in new supply and affordable output. Of the units approved in the development pipeline 57% are for social housing tenures and 43% are for market tenures. L&Q holds a further potential 75,780 (2021 Q1: 80,950) 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 £4.0bn (2021 Q1: £4.9bn) of which £3.3bn (82%) is currently committed (2021 Q1: £4.1bn).

UNAUDITED FINANCIALS

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

Statement of Comprehensive Income

	2022 Q1 (£m)	2021 Q1 (£m)	Change
Turnover			
Non-sales	181	171	
Sales	63	115	
	244	286	(15%)
Operating costs and cost of sales			
Non-sales	(127)	(105)	
Sales	(59)	(100)	
	(186)	(205)	9%
Surplus on disposal of fixed assets and investments	16	21	
Share of profits from joint ventures	15	10	
Change in value of investment property	-	-	
Operating surplus	89	112	(21%)
Net interest charge	(30)	(26)	
Other finance income/ (costs)	-	(1)	
Taxation	-	-	
Surplus for the period after tax	59	85	(31%)

EBITDA and Net Cash Interest Paid

	2022 Q1 (£m)	2021 Q1 (£m)	Change
Operating surplus	89	112	
Change in value of investment property	-	-	
Amortised government grant	(6)	(6)	
Depreciation	25	23	
Impairment	-	-	
Capitalised major repairs	(14)	(8)	
EBITDA	94	121	(22%)
Net interest charge	(30)	(26)	
Capitalised interest	(11)	(11)	
Net cash interest paid	(41)	(37)	(11%)

Statement of Financial Position

	2022 Q1 (£m)	31 March 2022 (£m)	Change (£m)
Housing properties	11,146	11,043	103
Other fixed assets	84	85	(1)
Investments	1,708	1,692	16
Net current assets	723	784	(61)
Total assets less current liabilities	13,661	13,604	57
Total loans measured at amortised cost	5,542	5,521	21
Deferred social housing grant	2,077	2,083	(6)
Other long-term liabilities	368	380	(12)
Capital and reserves	5,674	5,620	54
Total non-current liabilities and reserves	13,661	13,604	57

Non-Sales Activities

	2022 Q1 (£m)	2021 Q1 (£m)	Change (£m)
Net rents receivable	167	159	8
Charges for support services	3	3	-
Amortised government grants	6	6	-
Other income	5	3	2
Turnover	181	171	10
Management costs	(19)	(15)	(4)
Service costs	(24)	(21)	(3)
Maintenance costs	(48)	(40)	(8)
Support costs	(3)	(3)	-
Depreciation & impairment	(25)	(23)	(2)
Other costs	(8)	(3)	(5)
Operating costs	(127)	(105)	(22)
Surplus on disposal of fixed assets	16	21	(5)
Change in value of investment property	-	-	-
Operating surplus	70	87	(17)

Sales Activities

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

	2022 Q1 (£m)	2021 Q1 (£m)	Change (£m)
Property sales income	61	90	(29)
Land sales income	2	25	(23)
Turnover from sales (excluding JV's)	63	115	(52)
Cost of property sales	(52)	(75)	23
Cost of land sales	-	(18)	18
Operating costs	(7)	(7)	-
Impairment	-	-	-
Total costs (excluding JV's)	(59)	(100)	41
Operating Surplus (excluding JV's)	4	15	(11)
Joint venture turnover	118	54	64
Joint venture cost of sales	(101)	(43)	(58)
Joint venture operating costs	(2)	(1)	(1)
Impairment of investment in JV's	-	-	-
Share of profits from joint ventures	15	10	5

AVERAGE SELLING PRICE

The average selling price, including JV's, for outright market sales during the financial year to date was £565k (2021 Q1: £461k) of which 34% were conducted under Help to Buy (2021 Q1: 83%). The average selling price of first tranche shared ownership sales during the financial year to date was £393k (2021 Q1: £470k) with an average first tranche sale of 37% (2021 Q1: 34%).

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)	2022 Q1 (£m)	2021 Q1 (£m)	Change
Turnover	34	27	2	118	181	169	12
Cost of sales	(30)	(22)	-	(101)	(153)	(136)	(17)
Gross profit	4	5	2	17	28	33	(5)
Gross sales EBITDA margin	12%	19%	-	14%	15%	20%	(5%)
Operating costs	(3)	(2)	(2)	(2)	(9)	(8)	(1)
Operating surplus	1	3	-	15	19	25	(6)
Net sales EBITDA margin	3%	11%	-	13%	10%	15%	(5%)

UNSOLD STOCK

As at 30 June 2022, L&Q, including joint ventures, held 1,503 completed homes as unsold stock with a projected revenue of £246m. Projected revenue for shared ownership assumes a first tranche sale of 25%. Of the total unsold stock 30% has been held as stock for less than one month.

The increase in completed homes held as unsold stock compared to L&Q's last trading statement reflects a high quantity of handovers of shared ownership properties on specific schemes.

L&Q's forward order book excluding joint ventures consists of 71 exchanged homes with projected revenue of £15m and 359 reservations with projected revenue of £69m. Of the 236 completed homes held as unsold stock in joint ventures, 62% are either reserved or exchanged.

Tenure	Projected Revenue (£m)	No. of Homes	<1 Month	1-3 Months	3-6 Months	6-12 Months	>12 Months
Shared Ownership	117	1,068	283	304	138	236	107
Outright Sale (non-JV's)	86	199	96	7	34	45	17
Total excluding JV's	203	1,267	379	311	172	281	124
Outright Sale (JCA's)	5	88	22	-	64	1	1
Outright Sale (JCE's)	39	148	43	31	28	21	25
Total Joint Ventures	44	236	65	31	92	22	26
Total Unsold Stock	246	1,503	444	342	264	303	150

NET DEBT AND LIQUIDITY

As at 30 June 2022, net debt (excluding derivative financial liabilities) was £5,354m (as at 31 March 2022: £5,314m) and available liquidity within the group in the form of committed un-drawn revolving credit facilities and non-restricted cash was at £1,130m (as at 31 March 2022: £1,179m). Approximately 54% of L&Q's loan facilities and 64% of drawn loan facilities are at a fixed cost.

UNENCUMBERED ASSETS

	2022 Q1	31 March 2022
No. of units under management	119,480	118,434
No. of social housing homes provided as collateral against debt facilities	(59,380)	(59,258)
No. of private rented homes provided as collateral against debt facilities	(1,295)	(1,107)
Total no. of unencumbered units under management	58,805	58,069
% of units under management held as collateral against debt facilities	51%	51%
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 + 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 (total loans measured at amortised cost + 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

END