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London & Quadrant Housing Trust
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London & Quadrant Housing Trust Trading Update for the period ending 31 December 2022

London & Quadrant Housing Trust ('L&Q') is today issuing its consolidated unaudited trading update for the nine months ended 31 December 2022 ('2022 Q3'). All statement of comprehensive income comparatives are to L&Q's consolidated unaudited prior year equivalent period being the nine months ended 31 December 2021 ('2021 Q3').

HIGHLIGHTS

- There are 120,570 homes in management (as at 31 March 2022: 118,434)
- L&Q has completed 3,007 new residential homes (2021 Q3: 2,852)
- Turnover was £793m (2021 Q3: £828m)
- EBITDA[1] was £215m (2021 Q3: £287m)
- EBITDA margin[2] was 22% (2021 Q3: 29%)
- EBITDA margin (excluding sales)[3] was 33% (2021 Q3: 45%)
- Gross sales EBITDA margin[4] was 14% (2021 Q3: 18%)
- Net sales EBITDA margin[5] was 7% (2021 Q3: 12%)
- EBITDA interest cover[6] was 159% (2021 Q3: 256%)
- EBITDA social housing lettings interest cover[7] was 117% (2021 Q3: 154%)
- Operating surplus was £241m (2021 Q3: £276m)
- Debt to assets[8] was 39% (2021 Q3: 40%)
- Sales as a % of turnover[10] was 47% (2021 Q3: 49%)

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

"The first nine months of the year has seen L&Q face material challenges as we seek to address our strategic priorities of health & safety, quality of homes and improving services. Whilst we have made significant progress to meet the requirements of the Building Safety and Fire Safety Act, through our intrusive inspection programme we continue to uncover defects, therefore increasing development operating costs. In addition, our commitment to major works investment programme, which will improve the quality of our existing homes and address issues including damp and mould, combined with higher inflation is adding pressure to operating costs and higher interest rates have weakened interest coverage ratios.

Whilst in the year-to-date, EBITDA from property sales activities have delivered marginally ahead of expectations, most notably due to higher-than-expected margins and first tranche sales percentages on shared ownership, there is increasing uncertainty on the outlook for the UK economy that has led to negative sentiment on the UK housing market.

The key drivers are the rapid and material change in mortgage rates combined with the rising cost of living that has led to reduced affordability, homebuyer confidence and subdued reservation activity for private sales buyers.

This negative sentiment is evident in the land market with volume housebuilders indicating that land approvals will be substantially below replacement level in the short-term. Turnover from land sales, a low volume, high margin activity conducted by L&Q Estates (a wholly owned subsidiary of L&Q) is 82% lower that the comparative period. However, L&Q Estates has material unconditional and conditional exchanges in place with completions expected before the financial year end. However, if these land sales are not completed, there is a downside risk to meeting our EBITDA projections.

The forthcoming end of Help to Buy ('HTB') brings both risk and opportunity. We have seen a divergence between shared ownership and private sale demand. Sales rates in shared ownership recovered in

November and saw a small seasonal decline in December, whilst sales rates for private sales continue to fall and demand remains subdued. With HTB historically competing with private sales and private rents rising, we anticipate an uplift in demand for shared ownership and private rented sector tenures and are well placed to take advantage.

L&Q has completed over 3,000 new residential homes in the year to date of which 66% are for social housing tenures. To address weaker sentiment and our commitment to lower gross capital expenditure and our risk profile, L&Q continues to focus on its existing development pipeline rather than new approvals as evidenced by our stabilised net debt and strong liquidity position. This means we expect to continue to reduce the number of sites that we are operating from and homes in the development pipeline."

FORWARD GUIDANCE FOR THE YEAR ENDING 31 MARCH 2023

We project EBITDA to be at the lower end of £330m to £350m (unchanged) and gross capital expenditure[11] to be in the range of £850m to £900m (unchanged). 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 (unchanged). Our projections for surplus after tax are expected to be in the range of £240m to £260m (previous guidance of £260m to £280m) and our projections for EBITDA interest cover have been lowered to 170% to 190% (previous guidance 180% - 200%) that corresponds to the lower end of our EBITDA guidance and higher interest costs. Net debt is expected to be in the range of £5.5bn to £5.6bn (unchanged).

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]	170% - 190%
EBTDA Social housing lettings interest Cover[7]	120% - 135%
Debt to assets[8]	40%
Gross debt to EBITDA[9]	16x - 17x
Sales as a % of turnover[10]	c.48%

HOUSING COMPLETIONS

L&Q, including joint ventures, has completed 3,007 (2021 Q3: 2,852) residential homes in the financial year to date. This comprises of 1,980 (2021 Q3: 2,057) completions for social housing tenures (66%) and 1,027 (2021 Q3: 795) completions for market tenures. During that same time 1,974 new build residential homes commenced on site (2021 Q3: 1,405) with the majority of starts being later phases of existing developments.

DEVELOPMENT PIPELINE

L&Q, including joint ventures, is operating from 182 (2021 Q3: 197) active sites. L&Q has approved an additional 1,045 (2021 Q3: 634) homes during the financial year bringing total homes in the approved development pipeline to 28,345 (2021 Q3: 31,274), of which 74% are currently on site. Of the homes approved in the development pipeline 55% are for social housing tenures and 45% are for market tenures. L&Q holds a further potential 76,337 (2021 Q3: 74,864) 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 Q3: £4.7bn) of which £3.4bn (85%) is currently committed (2021 Q3: £3.8bn).

UNAUDITED FINANCIALS

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

Statement of Comprehensive Income

	2022 Q3 (£m)	2021 Q3 (£m)	Change
Turnover			
Non-sales	553	522	
Sales	240	306	
	793	**828**	**(4%)**
Operating costs and cost of sales			
Non-sales	(425)	(357)	
Sales	(222)	(272)	
	(647)	**(629)**	**(3%)**
Surplus on disposal of fixed assets and investments	73	51	
Share of profits from joint ventures	24	26	
Change in value of investment property	(2)	-	
Operating surplus	**241**	**276**	**(13%)**
Net interest charge	(103)	(76)	
Other finance income/ (costs)	-	-	
Taxation	-	1	
Surplus for the period after tax	**138**	**201**	**(31%)**

EBITDA and Net Cash Interest Paid

	2022 Q3 (£m)	2021 Q3 (£m)	Change
Operating surplus	241	276	
Change in value of investment property	2	-	
Amortised government grant	(19)	(19)	
Depreciation	76	71	
Impairment	(7)	-	
Capitalised major repairs	(78)	(41)	
EBITDA	**215**	**287**	**(25%)**
Net interest charge	(103)	(76)	
Capitalised interest	(32)	(36)	
Net cash interest paid	**(135)**	**(112)**	**(21%)**

Statement of Financial Position

	2022 Q3 (£m)	31 March 2022 (£m)	Change (£m)
Housing properties	11,332	11,026	306
Other fixed assets	86	85	1
Investments	1,674	1,728	(54)
Net current assets	587	747	(160)
Total assets less current liabilities	**13,679**	**13,586**	**93**
Loans due > one year	5,493	5,521	(28)
Unamortised grant liabilities	2,069	2,083	(14)
Other long-term liabilities	392	395	(3)
Capital and reserves	5,725	5,587	138
Total non-current liabilities and reserves	**13,679**	**13,586**	**93**

Non-Sales Activities

	2022 Q3 (£m)	2021 Q3 (£m)	Change (£m)
Net rents receivable	509	482	27
Charges for support services	9	9	-
Amortised government grants	19	19	-
Other income	16	12	4
Turnover	**553**	**522**	**31**
Management costs	(61)	(48)	(13)
Service costs	(78)	(68)	(10)
Maintenance costs	(173)	(138)	(35)
Support costs	(10)	(10)	-
Depreciation & impairment	(77)	(71)	(6)
Other costs	(26)	(22)	(4)
Operating costs	**(425)**	**(357)**	**(68)**
Surplus on disposal of fixed assets	73	51	22
Change in value of investment property	(2)	-	(2)
Operating surplus	**199**	**216**	**(17)**

Arrears

Current tenant arrears for all tenures are at 5.70% (as at 31 March 2022: 5.61%).

Sales Activities

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

	2022 Q3 (£m)	2021 Q3 (£m)	Change (£m)
Property sales income	221	198	23
Land sales income	19	108	(89)
Turnover from sales (excluding JV's)	**240**	**306**	**(66)**
Cost of property sales	(180)	(177)	(3)
Cost of land sales	(26)	(71)	45
Operating costs	(23)	(24)	1
Impairment	7	-	7
Total costs (excluding JV's)	**(222)**	**(272)**	**50**
Operating Surplus (excluding JV's)	**18**	**34**	**(16)**
Joint venture turnover	228	179	49
Joint venture cost of sales	(197)	(148)	(49)
Joint venture operating costs	(7)	(5)	(2)
Impairment of investment in JV's	-	-	-
Share of profits from joint ventures	**24**	**26**	**(2)**

AVERAGE SELLING PRICE

The average selling price, including JVs, for outright market sales during the financial year to date was £528k (2021 Q3: £488k). 43% of outright market sales, excluding JVs, were conducted under Help to Buy (2021 Q3: 57%). The average selling price of first tranche shared ownership sales during the financial year to date was £393k (2021 Q3: £412k) that reflects increasing activity in the North-West with an average first tranche sale of 36% (2021 Q3: 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 Q3** (£m)	**2021 Q3** (£m)	**Change**
Turnover	111	110	19	228	**468**	485	(17)
Cost of sales	(97)	(83)	(26)	(197)	**(403)**	(396)	(7)
Gross profit	**14**	**27**	**(7)**	**31**	**65**	**89**	**(24)**
Gross EBITDA margin	13%	25%	-	11%	**14%**	**18%**	**(4%)**
Operating costs	(8)	(8)	(8)	(6)	**(30)**	**(29)**	**(1)**
Operating surplus	**6**	**19**	**(15)**	**25**	**35**	**60**	**(25)**
Net EBITDA margin	5%	17%	-	11%	**7%**	**12%**	**(5%)**

UNSOLD STOCK

As at 31 December 2022, L&Q, including joint ventures, held 1,318 completed homes as unsold stock with a projected revenue of £190m. Projected revenue for shared ownership assumes a first tranche sale of 25%.

Of the total unsold stock, 16% has been held as stock for less than one month and 80% 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 1,157 and sold 802 shared ownership homes.

L&Q's forward order book excluding joint ventures consists of 64 exchanged homes with projected revenue of £18m and 205 reservations with projected revenue of £35m.

Tenure	**Projected Revenue (£m)**	**No. of Homes**	<1 Month	1-3 Months	3-6 Months	6-12 Months	>12 Months
Shared Ownership	114	1,058	137	136	181	390	214
Outright Sale (non-JV's)	50	119	12	23	32	13	39
Total excluding JV's	**164**	**1,177**	**149**	**159**	**213**	**403**	**253**
Outright Sale (JCA's)	5	55	54	-	-	-	1
Outright Sale (JCE's)	20	86	2	6	48	9	21
Total Joint Ventures	**25**	**141**	**56**	**6**	**48**	**9**	**22**
Total Unsold Stock	**190**	**1,318**	**205**	**165**	**261**	**412**	**275**

NET DEBT AND LIQUIDITY

As at 31 December 2022, net debt (excluding derivative financial liabilities) was £5,377m (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 £1,154m (as at 31 March 2022: £1,179m). Approximately 54% of L&Q's loan facilities and 65% of drawn loan facilities are at a fixed cost. L&Q has £571m of debt maturities within the next 12 months (£376m drawn) with indicative terms agreed to extend £550m of debt facilities for a weighted duration of 5-years.

UNENCUMBERED ASSETS

	2022 Q3	31 March 2022
No. of homes under management	120,570	118,434
No. of social housing homes provided as collateral against debt facilities	(57,220)	(59,258)
No. of private rented homes provided as collateral against debt facilities	(1,295)	(1,107)
Total no. of unencumbered homes under management	**58,515**	**58,069**
% of homes under management held as collateral against debt facilities	49%	51%
Unencumbered asset ratio[12]	45%	44%

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

On 30th January 2023, Moody's lowered its Base Case Assessment of L&Q from Baa1 to Baa2 and affirmed the final rating at A3/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.

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