

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

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

HIGHLIGHTS

- There are 118,770 units in management (2021: 117,788)
- L&Q has completed 4,157 new residential homes (2021: 2,699)
- Turnover was £1,113m (2021: £1,052m)
- EBITDA¹ was £354m (2021: £374m)
- EBITDA margin² was 26% (2021: 30%)
- EBITDA margin (excluding sales)³ was 43% (2021: 48%)
- Gross sales EBITDA margin⁴ was 15% (2021: 18%)
- Net sales EBITDA margin⁵ was 10% (2021: 11%)
- EBITDA / interest cover⁶ was 235% (2021: 254%)
- EBITDA social housing lettings interest cover⁷ was 128% (2021: 175%)
- Operating surplus was £315m (2021: £307m)
- Debt to assets⁸ was 39% (2021: 41%)
- Gross Debt / EBITDA⁹ was 15.6x (2021: 14.7x)
- Sales as a % of turnover¹⁰ was 50% (2021: 46%)

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

"L&Q's preliminary unaudited results are in line with expectations and previous guidance for the financial year ending 31 March 2022 driven by EBITDA at £354m (previous guidance of £330m-£350m) and a reduction in net debt which is £66m lower year-on-year at £5.3bn (previous guidance of £5.6bn-£5.7bn).

Financial performance on non-sales activities continues to reflect our stated objectives of more focus on and investment in the safety of our residents and colleagues, to increase investment in residents' homes and to focus on delivering reliable, repeatable and consistent services. A clear illustration of this is the material increased investment that we have made in our residents' homes with major repair spend at £71m (2021: £34m) and total maintenance spend of £273m (2021: £192m).

In the last year we have completed over 400 building safety inspections and have previously announced that we would cover the costs of any remediation works needed to homes built by our in-house construction arm, protecting over 1,100 leaseholders from being charged for this work. We have launched the largest major works investment programme in the history of L&Q. This will support us to deliver major internal and external works to tens of thousands of homes, as well as wide-ranging estate improvements, fire safety works and activity to reduce carbon emissions. We have put residents front and centre of what we do and where necessary have restructured our teams to provide more locally responsive and visible support to our residents and partners.

Whilst, as expected, operating expenditure has increased, the past year has ended with the largest number of home completions in L&Q's history. Of the 4,157 completions, 61% are for social tenures, which demonstrates our continued commitment to social purpose, and lowering our risk profile. Quality is paramount to us, and customers are reporting 90% satisfaction with the quality of their new homes,

showing that our rigorous approach is paying off. During the year, we also started building an additional 2,100 homes.

The expectation, as reflected in our forward guidance for the year ending 31 March 2023 is that we will continue to divert a greater level of expenditure towards our resident's existing homes. Whilst we expect to deliver a marginally higher number of home completions and start work on c 3,600 new homes in the year ending 31 March 2023, thereafter annual development levels are expected to fall to c.3,000 as we plan to build out our 30,000-home pipeline over the next decade.

We will also continue to proactively support residents impacted by the higher cost of living. Specialist teams have been recruited as part of our housing management restructure to support the most vulnerable residents, and the L&Q Foundation will continue to invest in a range of far-reaching initiatives that tackle fuel and food poverty, educational programmes and opportunities for young people.”

The publication of L&Q's audited financial statements and its externally assured sustainability report will be released via RNS and placed on our website by 30 September 2022.

FORWARD GUIDANCE FOR THE YEAR ENDING 31 MARCH 2023

The following assumes that current market conditions continue.

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 EBITDA sales 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 4,157 (2021: 2,699) residential units in the financial year. This comprises of 2,532 (2021: 1,556) completions for social housing tenures and 1,625 (2021: 1,143) completions for market tenures. During that same time 2,103 new build residential units commenced on site (2021: 3,818).

DEVELOPMENT PIPELINE

L&Q, including joint ventures, is operating from 185 (2021: 185) active sites. L&Q has approved an additional 676 (2021: 1,994) residential units during the financial year bringing total units in the approved development pipeline to 29,795 (2021: 32,482), 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 75,484 (2021: 81,568) 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 £4.1bn (2021: £5.2bn) of which £3.3bn (80%) is currently committed (2021: £4.5bn).

UNAUDITED FINANCIALS

The unaudited financials exclude further adjustments that are subject to audit review. Included within the unaudited financials is a £76m provision for impairment (£36m in relation to fixed assets that we intend to hold for lettings and £40m in relation to current assets that we intend to sell) of which c. 80% is attributable to three schemes or 2% of the 185 sites that L&Q is operating from. The provision for fixed asset impairment is due to build cost inflation and L&Q's strategic decision to change the deliverable tenure at one scheme whilst current asset impairment reflects increased build costs, programme delays, known defects and known offers for land values where schemes are being transferred to joint ventures. There has been no provision for impairment against land schemes held within L&Q Estates.

Statement of Comprehensive Income

	2022 (£m)	2021 (£m)	Change
Turnover			
Non-sales	700	684	
Sales	413	368	
	1,113	1,052	6%
Operating costs and cost of sales			
Non-sales	(542)	(494)	
Sales	(422)	(350)	
	(964)	(844)	(14%)
Surplus on disposal of fixed assets and investments	96	59	
Share of profits from joint ventures	33	37	
Change in value of investment property	37	3	
Operating surplus	315	307	3%
Net interest charge	(102)	(100)	
Other finance income/ (costs)	3	(2)	
Taxation	(9)	3	
Surplus for the period after tax	207	208	-

EBITDA and Net Cash Interest Paid

	2022 (£m)	2021 (£m)	Change
Operating surplus	315	307	
Change in value of investment property	(37)	(3)	
Amortised government grant	(26)	(25)	
Depreciation	97	99	
Impairment	76	30	
Capitalised major repairs	(71)	(34)	
EBITDA	354	374	(5%)
Net interest charge	(102)	(100)	
Capitalised interest	(49)	(48)	
Net cash interest paid	(151)	(148)	(2%)

Statement of Financial Position

	2022 (£m)	2021 (£m)	Change (£m)
Housing properties	11,043	10,906	137
Other fixed assets	85	78	7
Investments	1,692	1,592	100
Net current assets	784	484	300
Total assets less current liabilities	13,604	13,060	544
Loans due > one year	5,521	5,152	369
Unamortised grant liabilities	2,083	2,123	(40)
Other long-term liabilities	380	372	8
Capital and reserves	5,620	5,413	207
Total non-current liabilities and reserves	13,604	13,060	544

Non-Sales Activities

	2022 (£m)	2021 (£m)	Change (£m)
Net rents receivable	642	630	12
Charges for support services	12	9	3
Amortised government grants	26	25	1
Other income	20	20	-
Turnover	700	684	16
Management costs	(64)	(62)	(2)
Service costs	(94)	(90)	(4)
Maintenance costs	(202)	(158)	(44)
Support costs	(13)	(10)	(3)
Depreciation & impairment	(132)	(121)	(11)
Other costs	(37)	(53)	16
Operating costs	(542)	(494)	(48)
Surplus on disposal of fixed assets	96	59	37
Change in value of investment property	37	3	34
Operating surplus	291	252	39

Sales Activities

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

	2022 (£m)	2021 (£m)	Change (£m)
Property sales income	268	277	(9)
Land sales income	145	91	54
Turnover from sales (excluding JV's)	413	368	45
Cost of property sales	(239)	(240)	1
Cost of land sales	(99)	(64)	(35)
Operating costs	(32)	(39)	7
Impairment	(52)	(7)	(45)
Total costs (excluding JV's)	(422)	(350)	(72)
Operating Surplus (excluding JV's)	(9)	18	(27)
Joint venture turnover	253	218	35
Joint venture cost of sales	(225)	(178)	(47)
Joint venture operating costs	(7)	(3)	(4)
Impairment of investment in JV's	12	-	12
Share of profits from joint ventures	33	37	(4)

AVERAGE SELLING PRICE

The average selling price, including JV's, for outright market sales during the financial year to date was £492k (2021: £495k) of which 64% were conducted under Help to Buy (2021: 63%). The average selling price of first tranche shared ownership sales during the financial year to date was £404k (2021: £427k) with an average first tranche sale of 34% (2021: 33%). The year-on-year movements in average selling prices reflect a higher proportion of sales conducted in our North-West and Suburban regions.

SALES MARGINS

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

	Shared Ownership (£m)	Outright Sales (Non-JV) (£m)	Land Sales (£m)	Outright Sales (JV's) (£m)	2022 (£m)	2021 (£m)	Change
Turnover	117	151	145	253	666	586	80
Cost of sales	(98)	(141)	(99)	(225)	(563)	(482)	(81)
Gross profit	19	10	46	28	103	104	(1)
Gross EBITDA margin	16%	7%	32%	11%	15%	18%	(3%)
Operating costs	(8)	(10)	(14)	(7)	(39)	(42)	3
Operating surplus	11	-	32	21	64	62	2
Net EBITDA margin	9%	-	22%	8%	10%	11%	(1%)

UNSOLD STOCK

As at 31 March 2022, L&Q, including joint ventures, held 1,102 completed homes as unsold stock with a projected revenue of £213m. Projected revenue for shared ownership assumes a first tranche sale of 25%. Of the total unsold stock 29% has been held as stock for less than one month and during the quarter unsold stock for greater than six months reduced by 20%.

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 69 exchanged homes with projected revenue of £13m and 283 reservations with projected revenue of £47m. Of the 331 of unsold stock in joint ventures, 71% 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	81	684	106	147	231	167	33
Outright Sale (non-JV's)	34	87	8	29	28	20	2
Total excluding JV's	115	771	114	176	259	187	35
Outright Sale (JCA's)	3	19	6	11	1	1	0
Outright Sale (JCE's)	95	312	196	50	40	2	24
Total Joint Ventures	98	331	202	61	41	3	24
Total Unsold Stock	213	1,102	316	237	300	190	59

NET DEBT AND LIQUIDITY

As at 31 March 2022, net debt (excluding derivative financial liabilities) was £5,314m (2021: £5,380m) and available liquidity within the group in the form of committed un-drawn revolving credit facilities and non-restricted cash was at £1,179m (2021: £1,159m). Approximately 54% of L&Q's loan facilities and 63% of drawn loan facilities are at a fixed cost.

UNENCUMBERED ASSETS

	2022	2021
No. of units under management	118,770	117,788
No. of social housing homes provided as collateral against debt facilities	(59,258)	(60,085)
No. of private rented homes provided as collateral against debt facilities	(1,107)	(1,107)
Total no. of unencumbered units under management	58,405	56,596
% of units under management held as collateral against debt facilities	51%	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 + current asset impairment) / turnover from sales including joint ventures

⁵ (Operating surplus from sales + current asset 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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