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London & Quadrant Housing Trust
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London & Quadrant Housing Trust Trading Update for the period ending 31 March 2023

London & Quadrant Housing Trust ('L&Q') is today issuing its consolidated unaudited trading update for the twelve months ended 31 March 2023 ('2023'). All statement of comprehensive income comparatives are to L&Q's consolidated audited prior year equivalent period being the twelve months ended 31 March 2022 ('2022').

HIGHLIGHTS

- There are 119,646 homes in management (2022: 118,770)
- L&Q has completed 4,047 new residential homes (2022: 4,157)
- Turnover was £1,176m (2022: £1,112m)
- EBITDA[1] was £326m (2022: £327m)
- EBITDA margin[2] was 23% (2022: 24%)
- EBITDA margin (excluding sales)[3] was 33% (2022: 41%)
- Gross sales EBITDA margin[4] was 18% (2022: 16%)
- Net sales EBITDA margin[5] was 12% (2022: 8%)
- EBITDA interest cover[6] was 176% (2022: 222%)
- EBITDA social housing lettings interest cover[7] was 126% (2022: 125%)
- Operating surplus was £289m (2022: £271m)
- Debt to assets[8] was 40% (2022: 39%)
- Gross debt to EBITDA[9] was 16.5x (2022: 16.9x)
- Sales as a % of turnover[10] was 48% (2022: 50%)

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

"L&Q's preliminary unaudited results reflect our stated objectives to divert a greater level of expenditure towards our resident's existing homes to address our strategic priorities of health & safety, quality of homes and improving services.

Investment of £376m (2022: £262m) in our maintenance programme is a material increase which will improve the quality of our resident's homes. This programme has delivered, and will continue to deliver, major internal and external works inclusive of measures to address damp and mould, fire safety, energy efficiency and wide-ranging estate improvements. In the financial year we have completed intrusive inspections on 954 of the c. 1,800 buildings where this is required by new building safety legislation, secured 393 EWS1 forms, begun remediation works on 61 buildings and have replaced, installed or upgraded fire alarm systems benefiting nearly 3,000 homes.

In progressing against our stated priorities, we have faced strong inflationary pressures and uncovered further development defects resulting in EBITDA at £326m (2022: £327m) which is broadly in line with previous guidance.

L&Q has completed over 4,000 new residential homes of which 71% (2022: 61%) are for social housing tenures. During the final quarter we saw early signs of recovery in sales rates and a pick-up in land sales activity that has contributed to better-than-expected sales margins. Of note, with the end of Help to Buy, we have seen, and continue to expect an uplift in demand for shared ownership as evidenced by higher reservation rates and higher than expected first tranche percentages sold.

However, we remain cautious noting the potential threats of prolonged cost inflation, increased pressure on existing services, market sentiment, government legislation, the identification of further development defects and impairment. Our 2023 unaudited results exclude any provision for impairment that is subject to audit review. Our current estimate suggests that this could be in the range of £80m to £100m which will lower operating surplus but will not impact EBITDA. This estimate is representative of the adverse implications of build programme extensions as we address defects, expected build cost inflation, tenure conversion, our decision to hold back sites and a higher cost of capital.

In the medium term we are committed to lowering our risk profile and are targeting lower debt metrics through a reduction in gross capital expenditure. Our focus remains on our existing development pipeline rather than new approvals meaning we expect to continue to reduce the number of sites that we are operating from and homes in the development pipeline.

This commitment has been demonstrated by a material reduction in the projected cost to complete our development pipeline at £3.1bn (2022: £4.1bn) and stabilised net debt at £5.3bn (2022: £5.3bn) which is below guidance of £5.5bn to £5.6bn. Available liquidity at £1.2bn demonstrates that we have a well-capitalised balance sheet that can absorb risk."

FORWARD GUIDANCE FOR THE YEAR ENDING 31 MARCH 2024

We project EBITDA in the range of £400m to £420m and gross capital expenditure[11] to be c. £850m, the peak in our medium-term projections. Our projections for surplus after tax are expected to be in the range of £300m to £320m. Net debt is expected to be stable at c. £5.3bn. We expect to deliver c. 3,000 new residential homes of which c. 60% is expected to be for social housing tenures.

Financial Metrics	Forward Guidance to 31 March 2024
EBITDA margin[2]	29% - 31%
EBITDA margin (excluding sales)[3]	45% - 47%
Gross sales EBITDA margin[4]	10% - 12%
EBITDA interest cover[6]	170% - 180%
EBTDA Social housing lettings interest Cover[7]	120% - 130%
Debt to assets[8]	c. 39%
Gross debt to EBITDA[9]	13x - 14x
Sales as a % of turnover[10]	c.40%

HOUSING COMPLETIONS

L&Q, including joint ventures, has completed 4,047 (2022: 4,157) residential homes in the financial year. This comprises of 2,892 (2022: 2,532) completions for social housing tenures (71%) and 1,155 (2022: 1,625) completions for market tenures. During that same time 2,760 new build residential homes commenced on site (2022: 2,103) with the majority of starts being later phases of existing developments.

DEVELOPMENT PIPELINE

L&Q, including joint ventures, is operating from 161 (2022: 185) active sites. L&Q has approved an additional 1,222 (2022: 676) homes during the financial year bringing total homes in the approved development pipeline to 25,594 (2022: 29,795), of which 85% 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 76,610 (2022: 75,484) 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 £3.1bn (2022: £4.1bn) of which £2.6bn (84%) is currently committed (2022: £3.3bn).

UNAUDITED FINANCIALS

The 2023 unaudited financials exclude further adjustments that are subject to audit review including but not limited to impairment reviews and pension revaluation adjustments.

Statement of Comprehensive Income

	2023 (£m)	2022 (£m)	Change
Turnover			
Non-sales	745	699	
Sales	431	413	
	1,176	**1,112**	**6%**
Operating costs and cost of sales			
Non-sales	(608)	(573)	
Sales	(376)	(435)	
	(984)	**(1,008)**	**2%**
Surplus on disposal of fixed assets and investments	152	95	
Share of profits from joint ventures	28	37	
Change in value of investment property	(83)	35	
Operating surplus	**289**	**271**	**7%**
Net interest charge	(144)	(102)	
Other finance income/ (costs)	(3)	3	
Taxation	22	(18)	
Surplus for the period after tax	**164**	**154**	**6%**

EBITDA and Net Cash Interest Paid

	2023 (£m)	2022 (£m)	Change
Operating surplus	289	271	
Change in value of investment property	83	(35)	
Amortised government grant	(26)	(26)	
Depreciation	99	97	
Impairment	-	90	
Capitalised major repairs	(119)	(70)	
EBITDA	**326**	**327**	**-**
Net interest charge	(144)	(102)	
Capitalised interest	(42)	(45)	
Net cash interest paid	**(186)**	**(147)**	**(27%)**

Statement of Financial Position

	2023 (£m)	2022 (£m)	Change (£m)
Housing properties	11,468	11,026	442
Other fixed assets	88	85	3
Investments	1,593	1,729	(136)
Net current assets	173	746	(573)
Total assets less current liabilities	**13,322**	**13,586**	**(264)**
Loans due > one year	5,124	5,521	(397)
Unamortised grant liabilities	2,082	2,083	(1)
Other long-term liabilities	365	395	(30)
Capital and reserves	5,751	5,587	164

Total non-current liabilities and reserves	**13,322**	**13,586**	**264**

Non-Sales Activities

	2023 (£m)	**2022 (£m)**	**Change (£m)**
Net rents receivable	679	640	39
Charges for support services	12	9	3
Amortised government grants	26	26	-
Other income	28	24	4
Turnover	**745**	**699**	**46**
Management costs	(84)	(65)	(19)
Service costs	(109)	(94)	(15)
Maintenance costs	(257)	(205)	(52)
Support costs	(13)	(10)	(3)
Depreciation & impairment	(99)	(149)	50
Other costs	(46)	(50)	4
Operating costs	**(608)**	**(573)**	**(35)**
Surplus on disposal of fixed assets	152	95	57
Change in value of investment property	(83)	35	(118)
Operating surplus	**206**	**256**	**(50)**

Arrears

Current tenant arrears for all tenures are at 5.67% (as at 31 March 2022: 5.61%).

Sales Activities

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

	2023 (£m)	**2022 (£m)**	**Change (£m)**
Property sales income	303	256	47
Land sales income	128	157	(29)
Turnover from sales (excluding JV's)	**431**	**413**	**18**
Cost of property sales	(248)	(227)	(21)
Cost of land sales	(94)	(111)	17
Operating costs	(34)	(44)	10
Impairment	-	(53)	53
Total costs (excluding JV's)	**(376)**	**(435)**	**58**
Operating Surplus (excluding JV's)	**55**	**(22)**	**69**
Joint venture turnover	243	253	(10)
Joint venture cost of sales	(209)	(225)	16
Joint venture operating costs	(6)	(7)	1
Impairment of investment in JV's	-	16	(16)
Share of profits from joint ventures	**28**	**37**	**(9)**

AVERAGE SELLING PRICE

The average selling price, including JVs, for outright market sales during the financial year to date was £507k (2022: £492k). 43% of outright market sales, excluding JVs, were conducted under Help to Buy (2022: 64%). The average selling price of first tranche shared ownership sales during the financial year to date was £397k (2022: £404k) that reflects increasing activity in the North-West with an average first tranche sale of 35% (2022: 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)	**2023** (£m)	**2022** (£m)	**Change**
Turnover	147	156	128	243	**674**	666	8
Cost of sales	(126)	(122)	(94)	(209)	**(551)**	(563)	12
Gross profit	**21**	**34**	**34**	**34**	**123**	**103**	**20**
Gross EBITDA margin	14%	22%	27%	14%	**18%**	**15%**	**3%**
Operating costs	(12)	(12)	(10)	(6)	**(40)**	**(51)**	**11**
Operating surplus	**9**	**22**	**24**	**28**	**83**	**52**	**31**
Net EBITDA margin	6%	14%	19%	12%	**12%**	**8%**	**6%**

UNSOLD STOCK

As at 31 March 2023, L&Q, including joint ventures, held 1,278 completed homes as unsold stock with a projected revenue of £194m. Projected revenue for shared ownership assumes a first tranche sale of 25%.

Of the total unsold stock, 13% 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 financial year, L&Q has handed over 1,506 and sold 1,071 shared ownership homes.

L&Q's forward order book excluding joint ventures consists of 25 exchanged homes with projected revenue of £3m and 249 reservations with projected revenue of £31m.

Tenure	**Projected Revenue (£m)**	**No. of Homes**	<1 Month	1-3 Months	3-6 Months	6-12 Months	>12 Months
Shared Ownership	149	1,136	154	209	121	414	238
Outright Sale (non-JV's)	30	78	4	6	9	27	32
Total excluding JV's	**179**	**1,214**	**158**	**215**	**130**	**441**	**270**
Outright Sale (JCA's)	1	4	-	-	-	-	4
Outright Sale (JCE's)	14	60	6	-	4	38	12
Total Joint Ventures	**15**	**64**	**6**	**-**	**4**	**38**	**16**
Total Unsold Stock	**194**	**1,278**	**164**	**215**	**134**	**479**	**286**

NET DEBT AND LIQUIDITY

As at 31 March 2023, net debt (excluding derivative financial liabilities) was £5,294m (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 £1,222m (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 £576m of debt maturities within the next 12 months (£316m drawn) with heads of terms agreed to extend £550m of debt facilities for a weighted duration of c. 5-years.

UNENCUMBERED ASSETS

	2023	2022
No. of homes under management	119,646	118,434
No. of social housing homes provided as collateral against debt facilities	(56,927)	(59,258)
No. of private rented homes provided as collateral against debt facilities	(1,295)	(1,107)
Total no. of unencumbered homes under management	**61,424**	**58,069**
% of homes under management held as collateral against debt facilities	49%	51%
Unencumbered asset ratio[12]	46%	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

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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