

London & Quadrant Housing Trust Trading Update for the period ending 31 March 2024

London & Quadrant Housing Trust ('L&Q') is today issuing its consolidated unaudited trading update for the twelve months ended 31 March 2024 ('2024'). All statement of comprehensive income comparatives are to L&Q's consolidated audited prior year equivalent period being the twelve months ended 31 March 2023 ('2023').

HIGHLIGHTS

- There are 109,439 homes owned or managed (2023: 108,326)
- L&Q has completed 2,955 new residential homes (2023: 4,047)
- Turnover was £1,119m (2023: £1,176m)
- EBITDA¹ was £349m (2023: £313m)
- EBITDA margin² was 29% (2023: 22%)
- EBITDA margin (excluding sales)³ was 40% (2023: 32%)
- Gross sales EBITDA margin⁴ was 13% (2023: 19%)
- Net sales EBITDA margin⁵ was 6% (2023: 10%)
- EBITDA interest cover⁶ was 144% (2023: 169%)
- EBITDA social housing lettings interest cover⁷ was 129% (2023: 132%)
- Operating surplus was £366m (2023: £162m)
- Debt to assets⁸ was 40% (2023: 40%)
- Gross debt to EBITDA⁹ was 16.1x (2023: 17.4x)
- Sales as a % of turnover¹⁰ was 35% (2023: 48%)

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

"L&Q's preliminary unaudited results continues to 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.

We invested £328m (2022: £378m) in our maintenance programme and began the first year of our c£3bn 15 year Major Works programme. This programme will improve the safety, comfort and environmental performance of our resident's homes, maintaining all our homes to the Decent Homes Standard and bringing up all homes to a minimum Energy Performance Certificate (EPC) C status. As part of our transformation programme, we entered into contracts for new housing and finance management systems which will enhance operational efficiency and the service we offer to our residents.

In the year, L&Q completed almost 3,000 new residential homes of which 68% (2023: 71%) are for social housing tenures. Due to higher mortgage rates, sales were subdued though demand remained stable for shared ownership. First tranche sales were maintained at 31% (2023: 35%). Sales as a percentage of overall turnover continued to fall and was 35% (2023: 48%).

EBITDA was higher year on year at £349m (2023: £313m) but lower than guidance as a result of further development defects and prolonged cost inflation. 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 £25m to £65m which will lower operating surplus but will not impact EBITDA.

We retained a well-capitalised balance sheet with net debt broadly stable at £5.4bn (2022: £5.3bn) and available liquidity of £1bn. We remain committed to lower our risk profile. The projected cost to complete our development pipeline continues to reduce and stands at £2.5bn (2023: £3.1bn). We are also lowering risk

and improving our ability to offer more focussed customer service by divesting of some homes outside our core strategic areas of London and Manchester via our stock rationalisation programme.

FORWARD GUIDANCE FOR THE YEAR ENDING 31 MARCH 2025

We project operating surplus between £410m - £430m and EBITDA in the range of £320m to £340m. We forecast gross capital expenditure¹¹ to be c. £560m, the peak in our medium-term projections. We expect to deliver c. 2,600 new residential homes of which c. 80% is expected to be for social housing tenures.

Financial Metrics	Forward Guidance to 31 March 2025
EBITDA margin ²	29% - 31%
EBITDA margin (excluding sales) ³	20% - 25%
Gross sales EBITDA margin ⁴	c8%
EBITDA interest cover ⁶	145% - 155%
EBTDA Social housing lettings interest Cover ⁷	140% - 150%
Debt to assets ⁸	<38%
Gross debt to EBITDA ⁹	<15x
Sales as a % of turnover ¹⁰	< 25%

HOUSING COMPLETIONS

L&Q, including joint ventures, has completed 2,955 (2023: 4,047) residential homes in the financial year. This comprises of 2,017 (2023: 2,892) completions for social housing tenures (68%) and 938 (2023: 1,155) completions for market tenures (32%). During that same time 813 new build residential homes commenced on site (2023: 2,760) with the majority of starts being later phases of existing developments.

DEVELOPMENT PIPELINE

L&Q, including joint ventures, is operating from 133 (2023: 161) active sites. L&Q has approved an additional 6 (2023: 1,222) homes during the financial year bringing total homes in the approved development pipeline to 21,209 (2023: 25,594), of which 83% are currently on site. Of the homes approved in the development pipeline 59% are for social housing tenures and 41% are for market tenures. L&Q holds a further potential 83,062 (2023: 76,610) 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 £2.5bn (2023: £3.1bn) of which £2.0bn (80%) is currently committed (2023: £2.6bn).

UNAUDITED FINANCIALS

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

Statement of Comprehensive Income

	2024 (£m)	2023 (£m)	Change
Turnover			
Non-sales	825	746	
Sales	294	431	
	1,119	1,176	(5%)
Operating costs and cost of sales			
Non-sales	(589)	(687)	
Sales	(274)	(415)	
	(863)	(1,102)	22%
Surplus on disposal of fixed assets and investments	118	152	
Share of profits from joint ventures	8	19	
Change in value of investment property	(16)	(83)	
Operating surplus	366	162	126%
Net interest charge	(211)	(144)	
Other finance income/ (costs)	(8)	(4)	
Taxation	-	25	
Surplus for the period after tax	147	40	268%

EBITDA and Net Cash Interest Paid

	2024 (£m)	2023 (£m)	Change
Operating surplus	366	162	
Change in value of investment property	16	83	
Amortised government grant	(26)	(26)	
Depreciation	102	99	
Impairment	(9)	111	
Capitalised major repairs	(100)	(117)	
EBITDA	349	313	12%
Net interest charge	(211)	(144)	
Capitalised interest	(32)	(42)	
Net cash interest paid	(243)	(186)	(31%)

Statement of Financial Position

	2024 (£m)	2023 (£m)	Change (£m)
Housing properties	11,581	11,354	227
Other fixed assets	87	88	(1)
Investments	1,652	1,569	83
Net current assets	362	174	188
Total assets less current liabilities	13,682	13,185	497
Loans due > one year	5,516	5,124	392
Unamortised grant liabilities	2,021	2,065	(44)
Other long-term liabilities	383	381	2
Capital and reserves	5,762	5,615	147
Total non-current liabilities and reserves	13,682	13,185	497

Non-Sales Activities

	2024 (£m)	2023 (£m)	Change (£m)
Net rents receivable	754	679	75
Charges for support services	12	12	-
Amortised government grants	26	26	-
Other income	33	28	5
Turnover	825	745	80
Management costs	(80)	(84)	4
Service costs	(123)	(109)	(14)
Maintenance costs	(245)	(257)	12
Support costs	(12)	(13)	1
Depreciation & impairment	(96)	(176)	80
Other costs	(33)	(48)	15
Operating costs	(589)	(687)	98
Surplus on disposal of fixed assets	118	152	(34)
Change in value of investment property	(16)	(83)	67
Operating surplus	338	127	211

Arrears

Current tenant arrears for all tenures are at 5.31% (as at 31 March 2023: 5.67%).

Sales Activities

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

	2024 (£m)	2023 (£m)	Change (£m)
Property sales income	211	303	(92)
Land sales income	83	128	(45)
Turnover from sales (excluding JV's)	294	431	(137)
Cost of property sales	(209)	(248)	39
Cost of land sales	(48)	(94)	46
Operating costs	(20)	(38)	8
Impairment	3	(35)	38
Total costs (excluding JV's)	(274)	(415)	141
Operating Surplus (excluding JV's)	20	16	4
Joint venture turnover	127	243	(116)
Joint venture cost of sales	(110)	(207)	97
Joint venture operating costs	(9)	(18)	9
Impairment of investment in JV's	-	1	1
Share of profits from joint ventures	8	19	(11)

AVERAGE SELLING PRICE

The average selling price, including JVs, for outright market sales during the financial year to date was £530k (2023: £507k). The average selling price of first tranche shared ownership sales during the financial year to date was £412k (2023: £397k) with an average first tranche sale of 32% (2023: 35%).

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)	2024 (£m)	2023 (£m)	Change
Turnover	131	80	83	127	421	674	(253)
Cost of sales	(125)	(84)	(48)	(110)	(367)	(549)	182
Gross profit	6	(4)	35	17	54	125	(71)
Gross EBITDA margin	5%	5%	42%	13%	13%	19%	6%
Operating costs	(9)	(6)	(5)	(9)	(29)	(56)	27
Operating surplus	(3)	(10)	30	8	25	69	(44)
Net EBITDA margin	(2)%	(13)%	36%	6%	6%	10%	4%

UNSOLD STOCK

As at 31 March 2024, L&Q, including joint ventures, held 902 (2023:1,278) completed homes as unsold stock with a projected revenue of £126m. Projected revenue for shared ownership assumes a first tranche sale of 25%.

Of the total unsold stock, 26% has been held as stock for less than one month and 91% 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, L&Q has handed over 966 and sold 1,032 shared ownership homes. 53 stock units are being used as show homes.

L&Q's forward order book excluding joint ventures consists of 44 exchanged homes with projected revenue of £6m and 215 reservations with projected revenue of £30m.

Tenure	Projected Revenue (£m)	No. of Homes	<1 Month	1-3 Months	3-6 Months	6-12 Months	>12 Months
Shared Ownership	103	819	223	109	25	217	245
Outright Sale (non-JV's)	13	39	8	3	3	2	23
Total excluding JV's	116	858	231	112	28	219	268
Outright Sale (JCA's)	-	-	-	-	-	-	-
Outright Sale (JCE's)	10	44	6	6	6	15	11
Total Joint Ventures	10	44	6	6	6	15	11
Total Unsold Stock	126	902	237	118	34	234	279

NET DEBT AND LIQUIDITY

As at 31 March 2024, net debt (excluding derivative financial liabilities) was £5,459m (as at 31 March 2023: £5,294m) and available liquidity within the group in the form of committed un-drawn revolving credit facilities and non-restricted cash was at £1,009m (as at 31 March 2023: £1,222m). Approximately 54% of L&Q's loan facilities and 62% of drawn loan facilities are at a fixed cost. L&Q has £216m of debt maturities within the next 12 months.

UNENCUMBERED ASSETS

	2024	2023
No. of homes owned or managed	109,439	108,326
No. of social housing homes provided as collateral against debt facilities	(55,772)	(56,924)
No. of private rented homes provided as collateral against debt facilities	(1,295)	(1,295)
Total no. of unencumbered homes owned or under management	52,372	50,107
% of homes under management held as collateral against debt facilities	52%	54%
Unencumbered asset ratio ¹²	45%	45%

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/Stable	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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