

# Quarterly survey of housing associations

April 2009

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Since January 2008 the TSA (and its predecessor, the Housing Corporation) have been undertaking quarterly surveys of housing associations to establish their exposure to the risks faced in the current economic downturn. Initially, this was focused on actively developing associations, but as the downturn has spread, the TSA is now surveying all associations owning more than 1,000 homes.

The latest survey, undertaken in April 2009, indicates a tentative pick up in the housing market. The number of unsold low-cost shared ownership (LCHO) homes fell compared to the previous quarter and asset sales increased. The sector continues to be attractive to funders and associations' access to new debt remains strong.

An improvement in one quarter's figures does not mean the sector is in recovery – it undoubtedly remains impacted by the global recession. These results do show, however, that housing associations are continuing to demonstrate resilience and sales of shared ownership homes are taking place – even in today's difficult housing market.

The TSA believes that the sector overall, and the majority of associations, are well placed to emerge from the downturn able to help address the long-term shortage in affordable housing faced by the

country. However, the continued importance of shared ownership sales and requirement for private finance means that some organisations could be significantly exposed. We will continue to monitor associations' risk exposures and to look at the impact on their business plans of changes in the housing and finance markets.

This note sets out the key messages from the April 2009 survey of housing associations and represents the most up-to-date view of the state of the sector.

### Key findings

- The sector continues to cope with the fall out from the housing market slowdown. In this quarter, unsold LCHO homes have fallen by 16% to 8,742 and those unsold over six months have fallen by 19% to 3,771
- This quarter, unlike in January, the sector sold more homes than it converted to rented social housing. In the last quarter to April 2009, 4,977 homes were sold, 25% more than reported in the January survey. These sales generated £401 million cash, a rise of 42% compared to the previous quarter

- The sector continues to convert some of these unsold shared ownership homes to rent, often with the help of the Homes & Communities Agency (HCA)
- Almost a third of unsold LCHO homes are currently reserved and associations are hopeful that these will be converted to final sales
- The sector is planning asset sales of £1.1 billion over the next 12 months, compared to £1.3 billion in January
- The sector continues to enjoy good access to finance with £5.1 billion of the £5.4 billion debt needed over the next 12 months already in place
- The 2008-09 impairment charge for the sector is expected to be in the region of £125 million, a figure lower than initial estimates suggested
- Sentiment in the sector has picked up from previous quarters, with a majority of Financial Directors believing the housing and finance markets have stabilised

## Detailed information

### Asset sales

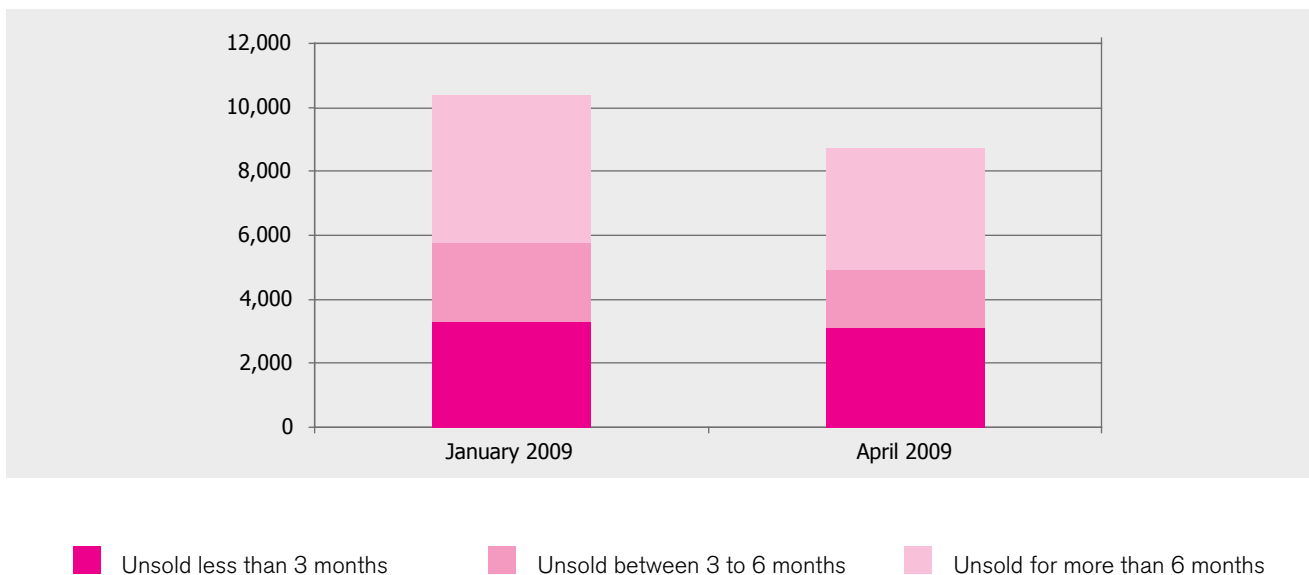
The two most significant risks for associations remain the performance of the housing market and access to debt. A number of associations are exposed to the housing market as they build

properties for either shared ownership or outright sale. In total, the sector is planning to raise £1.1 billion from house sales over the next 12 months, with the majority of this money coming from first tranche sales of shared ownership. This is a challenge, but the sector has generated £682 million from asset sales in this past six months (63% of the 12-month forecast figure), suggesting it is a challenge that can be met.

There was a great deal of press coverage in February regarding the 20% rise in shared ownership units unsold for six months or more. The April survey suggests that the backlog of unsold shared ownership properties has begun to fall for the first time since October 2008. In the quarter, the total stock of unsold homes dropped 16%, from 10,359 reported in January to 8,742. Those units unsold for more than six months dropped from 4,629 to 3,771, a fall of 19%. The change in unsold units between the January and April surveys is shown in graph one.

For the first time we asked associations about the number of unsold units that were reserved but had not yet resulted in completed sales. The sector reported that of the 8,742 unsold units, 28% or 2,439 were reserved. Stakeholder feedback in January and February 2009 suggested that

Graph 1 **Change in unsold LCHO homes between January and April surveys**



enquiries were up significantly, not just on the previous quarter, but also on the same period last year. Anecdotally, the conversion rate from reservation to completed sales also seems to be on an upward trend.

Associations also reported improvements in the time taken to sell shared ownership homes. This quarter it took an average of 16 weeks to achieve first tranche sales, compared to 22 weeks reported in January. However, this improvement may be due in part to the fact that this quarter the first tranche

represented 29% of the property's value, compared to 44% in January.

The sector continues to mitigate its exposure to the housing market by converting to rent some of the stock it built for sale. This has often been done with grant assistance from the HCA, but associations have to monitor the impact of changes in tenure type on their businesses closely, because they can have quite different cash flow dynamics. Table one shows the numbers of LCHO homes that have been converted to other rental tenures in the past quarter.

**Table 1 Numbers of LCHO homes converted to rented social housing in the last quarter**

	April 2009
Number of units where use has been changed from LCHO to general needs rent in the last quarter	2,220
Number of units where use has been changed from LCHO to intermediate rent in the last quarter	2,612
<b>Total number of units where use has been changed from LCHO to general needs or intermediate rent in the last quarter</b>	<b>4,832</b>

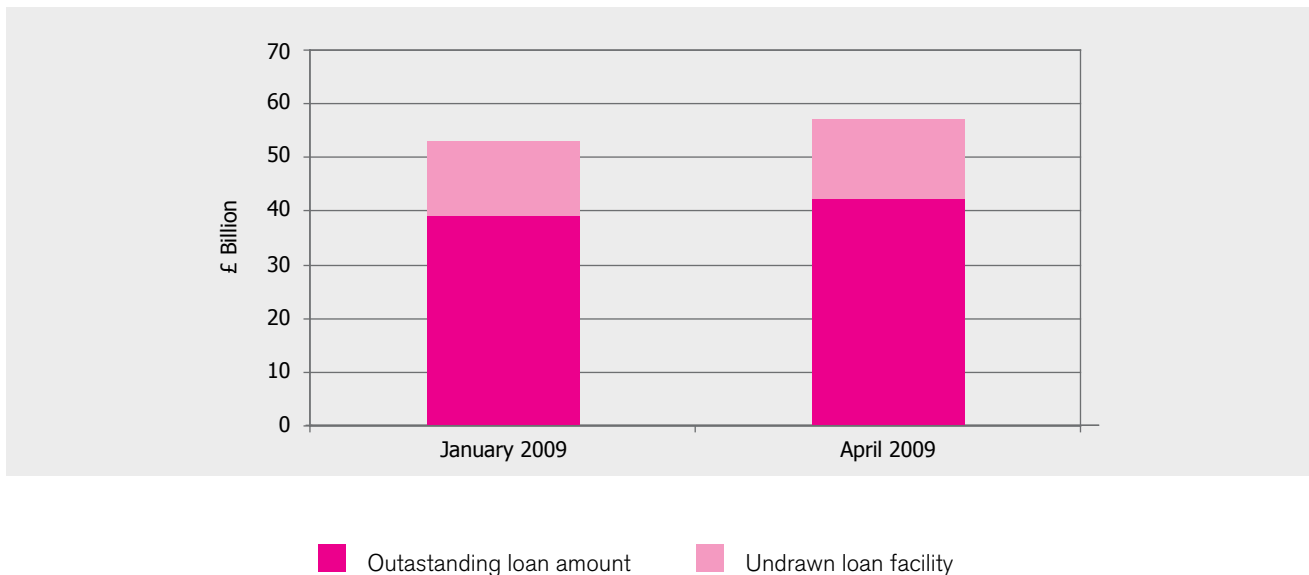
## **New finance**

Whilst the majority of associations do not need to raise new finance in the very near future, the price of new debt continues to be a concern. Margins on new debt continue to increase, with LIBOR + 150 bps being reported by the sector as the norm and some reported instances of margins above 300 bps. The TSA's own discussions with lenders indicate that current margins are in the range of 150-300 bps. In addition, there is evidence that fees for arranging new facilities, overdrafts and non-utilisation fees for committed facilities have increased.

Although the sector is now paying more for its new debt than 12 months ago, the quarterly surveys confirm the depth and strength of associations' existing credit lines. Only 6% (£330 million) of the planned drawdowns of £5.4 billion over the next 12 months will be from new facilities. The total loan facilities and undrawn loans arranged to date by the sector are shown in graph two.

There are a small number of associations whose facilities are not expected to cover their debt requirements over the next 12 months, but most of these are already at an advanced stage of negotiation with their funders and the TSA continues to be actively engaged with these organisations.

Graph 2 **Total loan facilities and undrawn loans in the sector to date**



## Margin calls

There was a great deal of press coverage towards the end of 2008 regarding the margin calls faced by some associations on interest rate swaps as a result of the movements in the yield curve. The April survey shows that in general this issue has now diminished, with minimal additional margin calls being made in the quarter. Although the margin calls placed additional pressures on associations' cash flows, no association was made unviable. In a number of cases, organisations have now provided

security rather than cash, or have negotiated with their counterparties to 'collapse' the swap into the underlying loan agreement, mitigating any remaining risk.

## Land banking and impairment

Another issue that has been generating significant interest over the past quarter is landbanking and potential impairment charges disclosed in the 2008-09 accounts. Impairment of an asset occurs

when the book value is in excess of its value in use. However, rental property (which makes up the vast majority of associations' stock) is valued on a basis of existing use as social housing and will not be affected by an impairment write down.

In the April survey, 100 housing associations reported they held landbanks, with a total value of £1.2 billion. There are 77 associations expecting to make an impairment charge in their 2008-09 accounts, with the current value disclosed likely to be in the region of £125 million. This figure is significantly less than initially expected and no association has stated its financial position will be adversely affected by an impairment charge.

## Sentiment

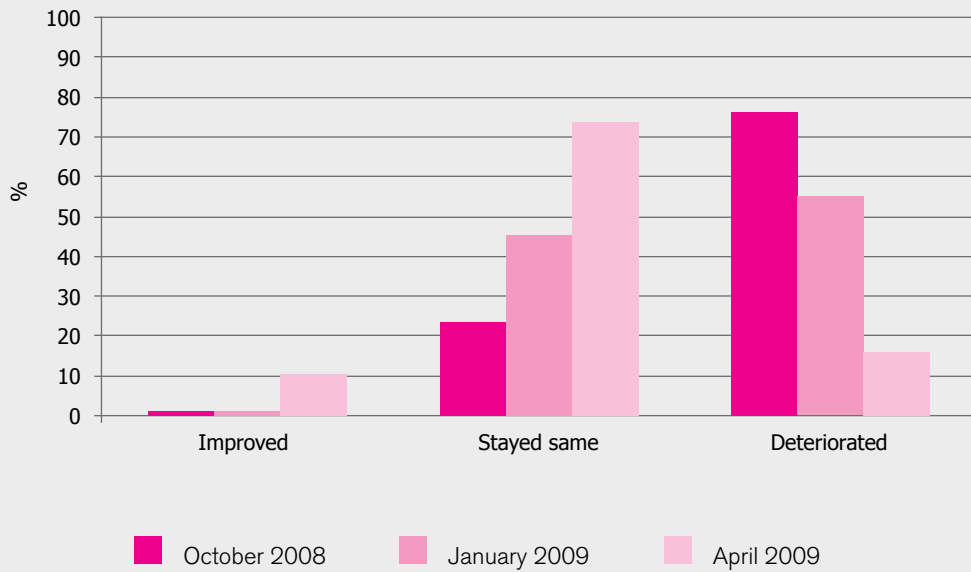
In each survey we ask housing associations for their views of the finance and housing market over the past quarter. The April survey indicates that many associations believe both markets are stabilising, with 70-75% of respondents saying they have stayed the same, compared to 60% saying both markets continued to deteriorate in January. Graphs three and four (overleaf) show how associations' opinion has changed between the October 2008 and April 2009 surveys.

Although this view is more positive than in previous surveys, the performance of the housing market, access to finance and potential repricing of debt remain issues for many associations. However, the view of a stabilising situation expressed by the majority of associations needs to be read with caution. Whilst the rate of deterioration of sentiment has slowed down, very few see the situation as actually improving. Whilst this shift in emphasis is welcome, the TSA will continue to monitor the situation closely to ensure that any optimism is not misplaced.

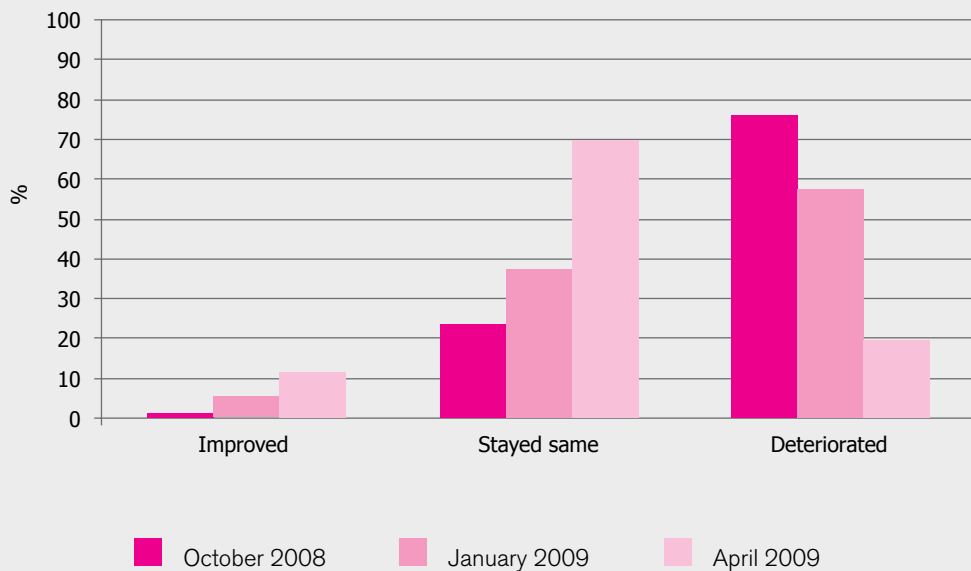
## Further information

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Graph 3 Associations' view of the housing market



Graph 4 Associations' view of the finance market



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This quarterly survey assesses the risks faced by housing associations that own more than 1,000 homes. Undertaken in April 2009, it indicates a tentative pick up in the housing market.