UCL Research launch event: Harnessing the HRA for growth?

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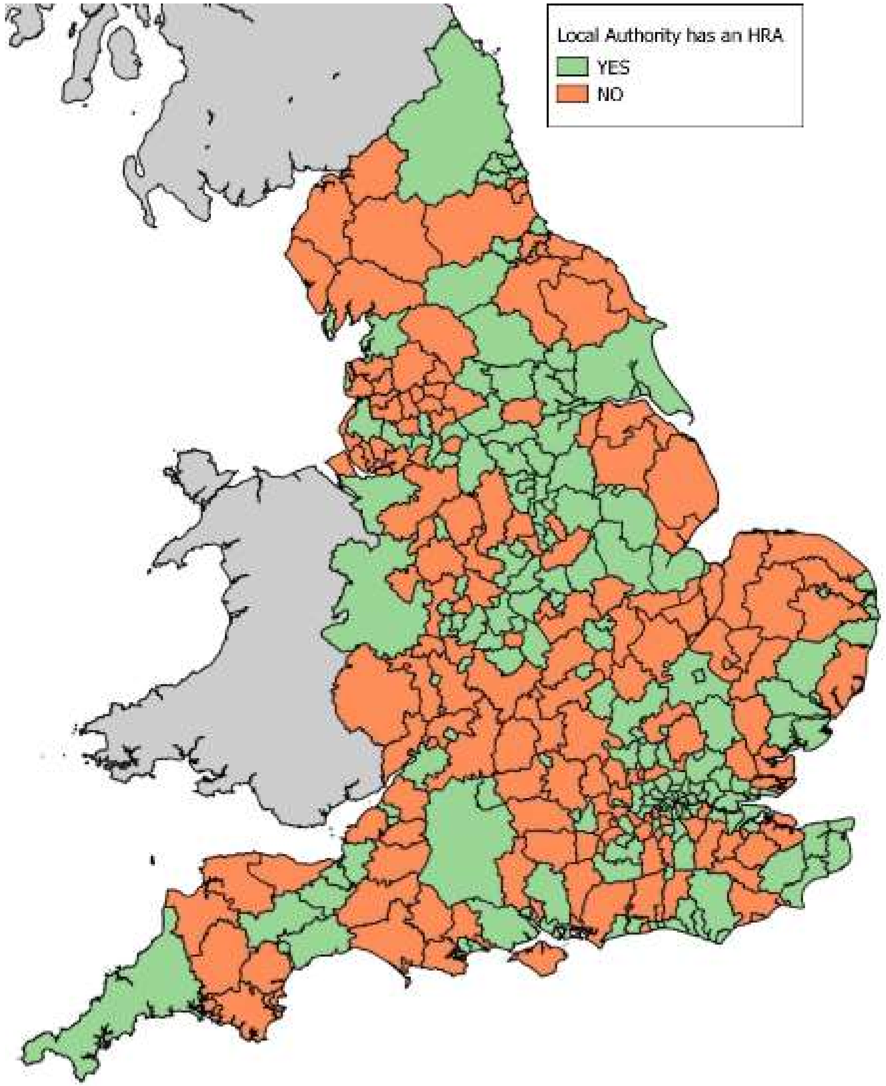
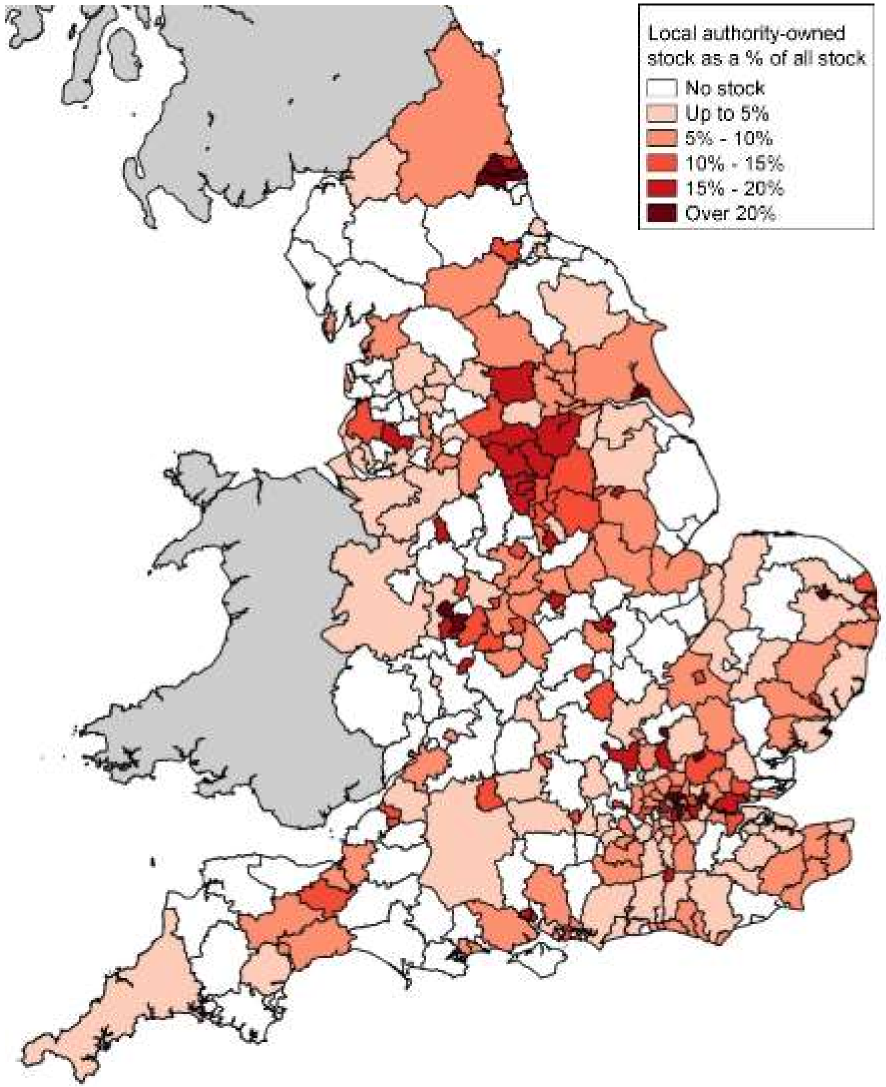
Local authority HRA ownership and delivery

- 162 authorities – just over 50%
- 1.6million homes
  - Smallest 1,200
  - Largest 60,000+
- Moving landscape
  - Some LSVT LAs reopening their HRA and many considering
  - ALMO management – 27 c20-25% of homes
  - Local government reform leading to some HRA “mergers” and HRA/LSVT LA combinations



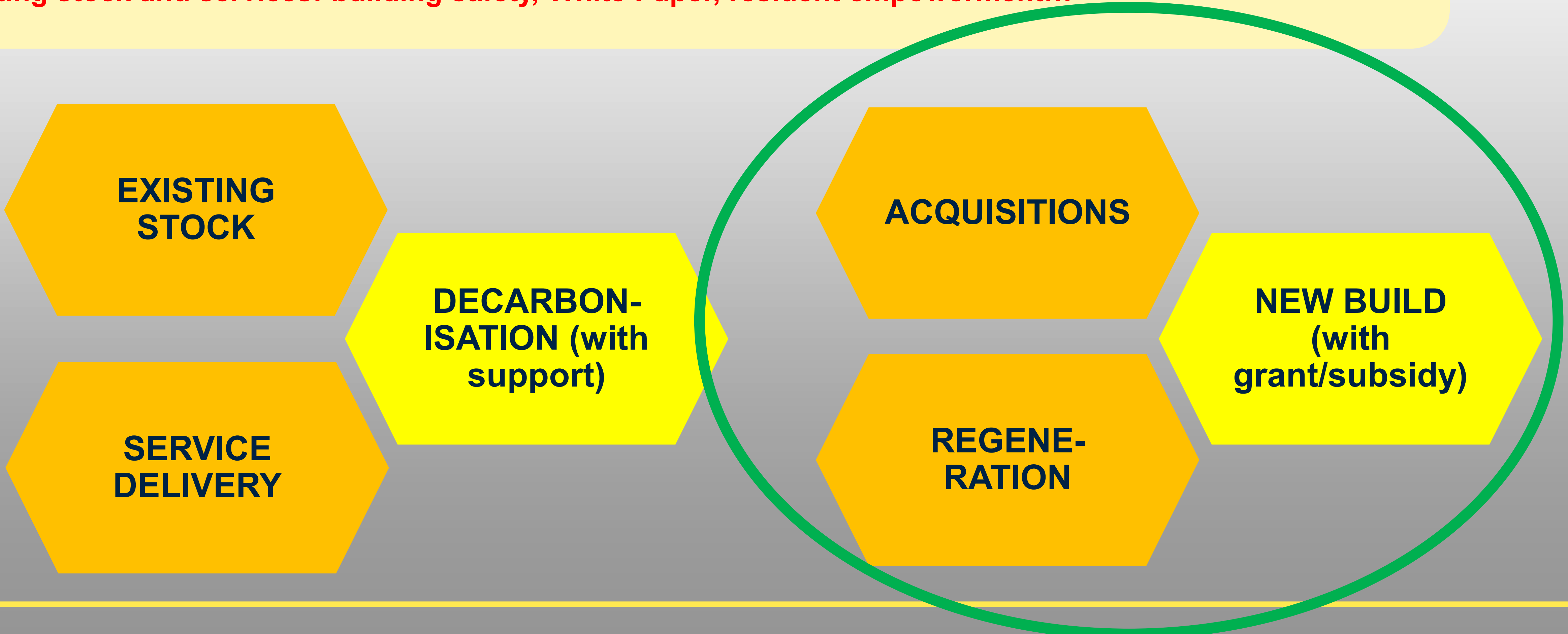


Business planning: investing in balancing priorities

Capacity for investment post debt-cap remains significant and will probably grow as rents increase in the period to 2025, despite cost pressures

However…

Initial thinking towards development and regeneration moderated by the need to protect and enhance existing stock and services: building safety, White Paper, resident empowerment…



A word on the Right to Buy – a barrier to growth?

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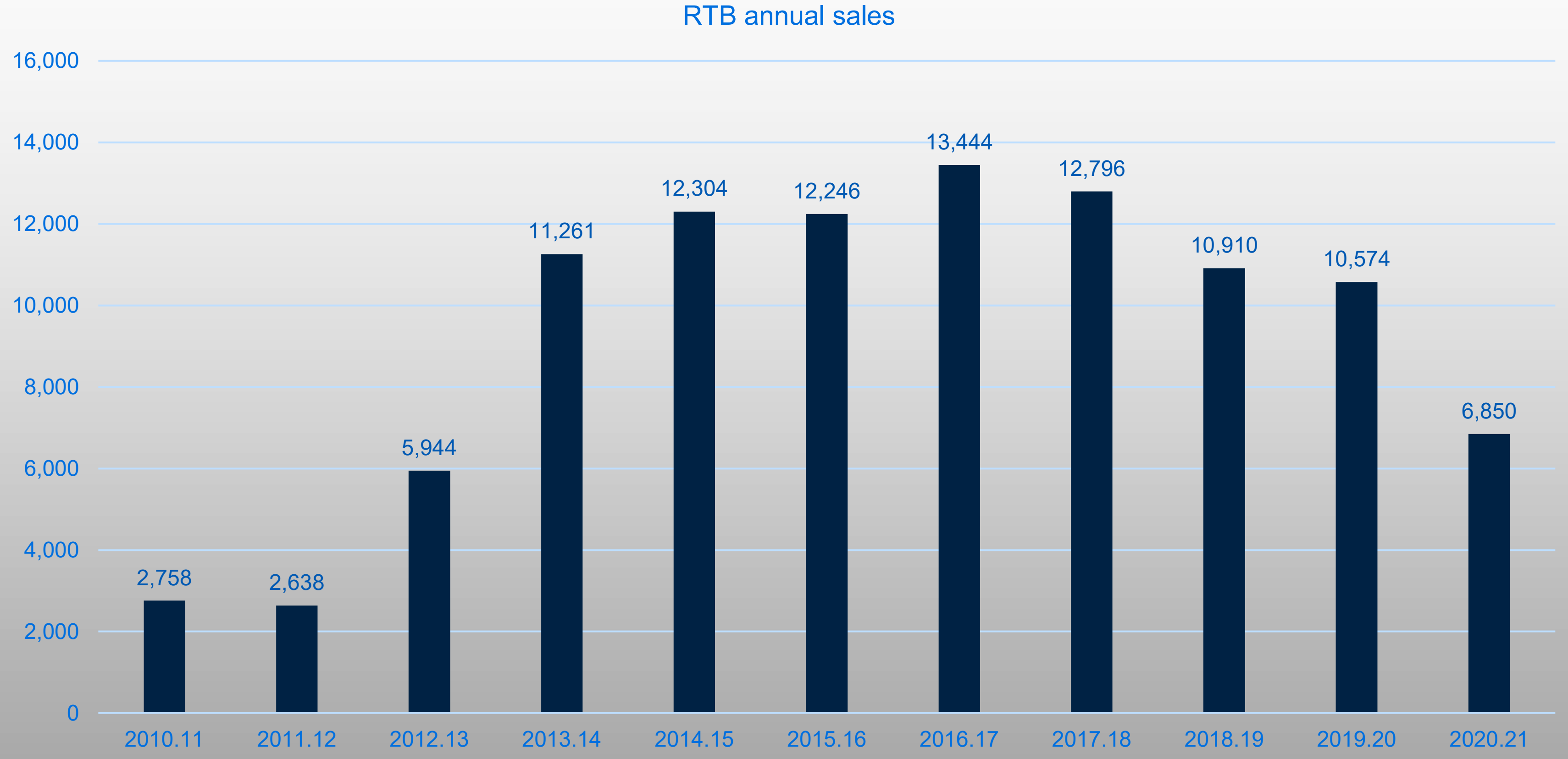


National trends towards “slowing down”: partly Covid, but underlying value growth

Stabilisation and small growth 2021.22 to date… but longer term trend downwards

- “Traditional” view that RTB inhibits growth - experiences recently?
- Regional variation
- Use of receipts gradually become more flexible but challenges remains
- RTB sales were c0.44% of the stock
- LAs putting some back – through build or buy-back
- RTB remains a massive issue for regeneration and better land use

Financial capacity: intro note

savills

- HRA prudential indicators
- Requirement to publish – experience rather “patchy”
- Readily comparable metrics
  - Between HRAs
  - Between HRAs and RPs
  - Between England and other jurisdictions

Savills annual analysis of HRA accounts published shortly

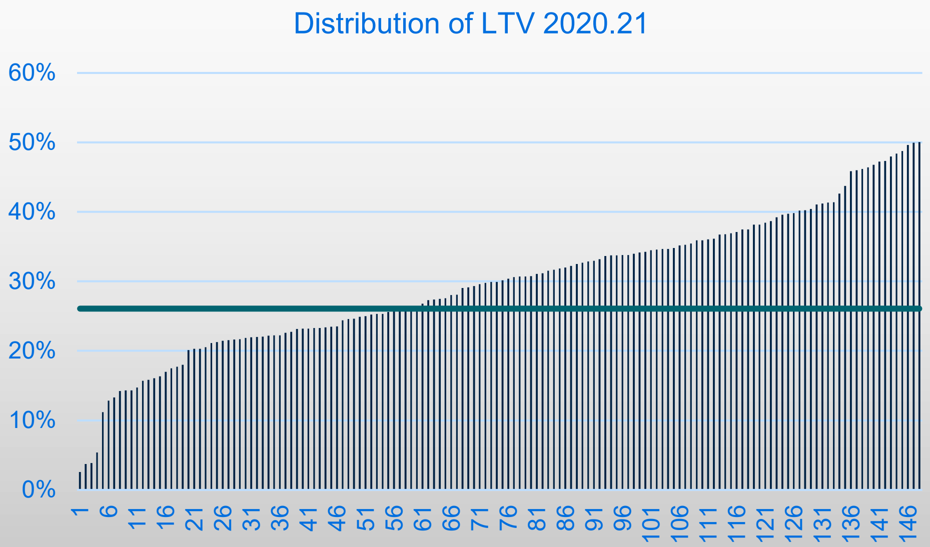
- Number of authorities yet to publish accounts
- Analysis covers 94% of stock – trends are clear

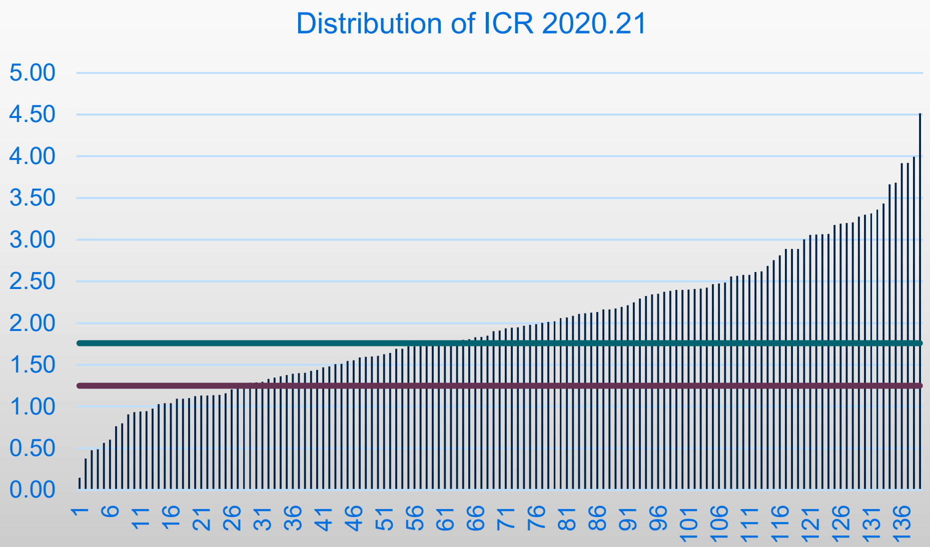
INTEREST COVER
(EBITDA-MRI)

LOAN TO VALUE
(HRACFR – EUV)

DEBT to TURNOVER

Distribution of capacity across HRAs





- "National"
  - LTV 26%

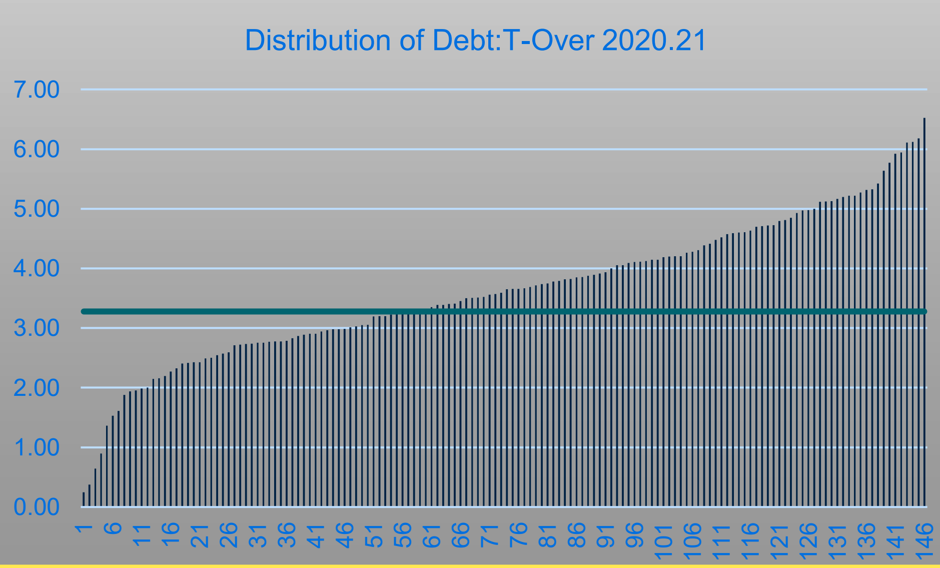
Reduced

  - D:T/O 3.4

Stable-increase

  - ICR 1.8

Stable-increase



- Similar patterns of capacity distribution
- Sector average capacity estimates: there is *much* more capacity relatively in some LAs than others

- ICR shown vs average and "golden rule" of 1.25
  - 27 LAs below 1.25 (temporary and longer-term reasons)
  - 116 with capacity above the "golden rule"
  - Less than 20 below 1.10 (typical RP covenant)

Sector capacity trends: key stats (1)

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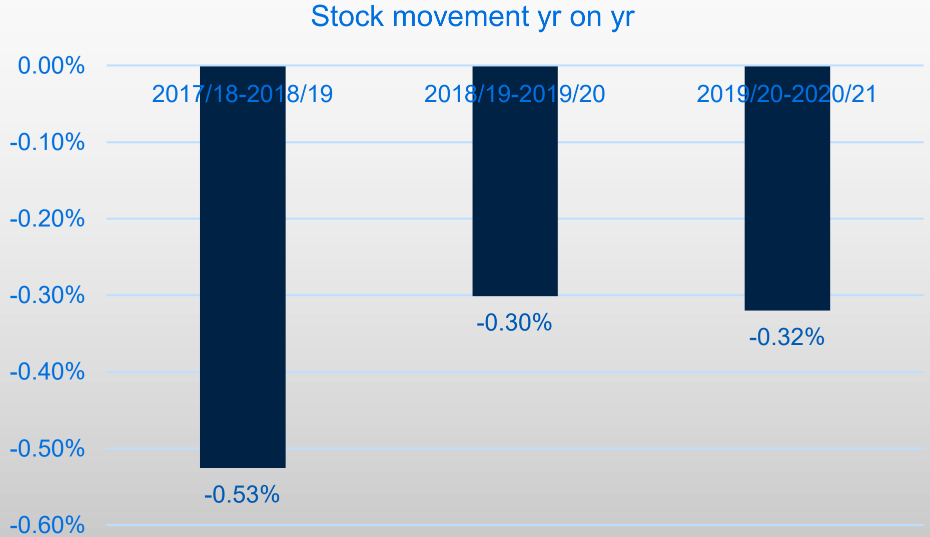
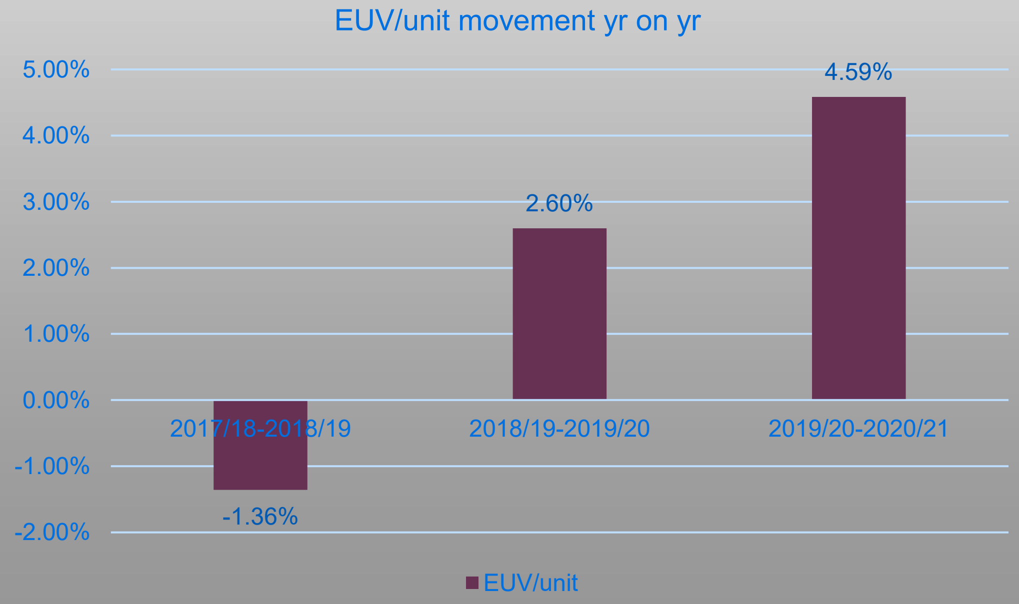


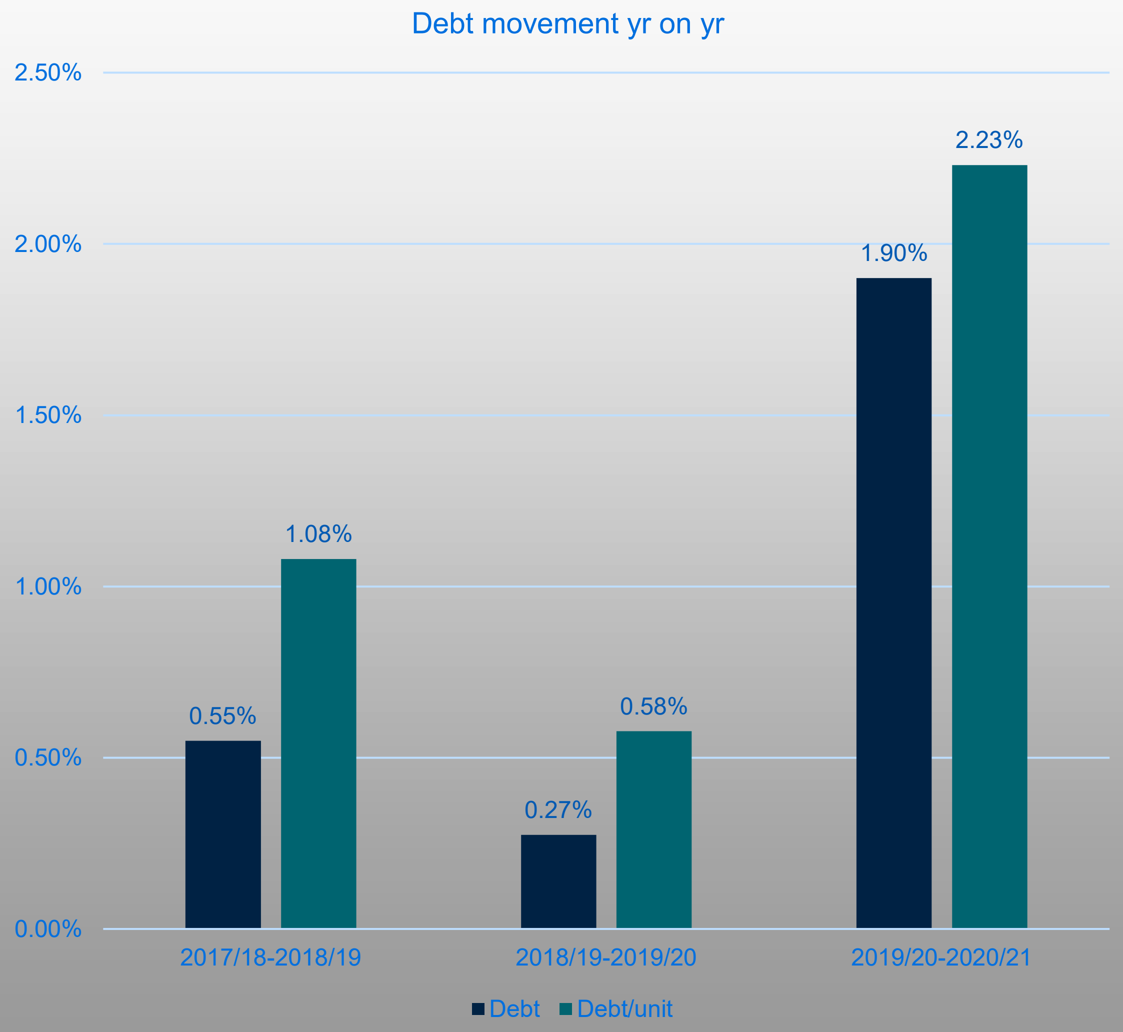
- Net stock reduction stable c0.3% year on year
- Reduced from previous years

  BUT given drop in RTB sales, implication is that new build and additions were lower in 2020.21



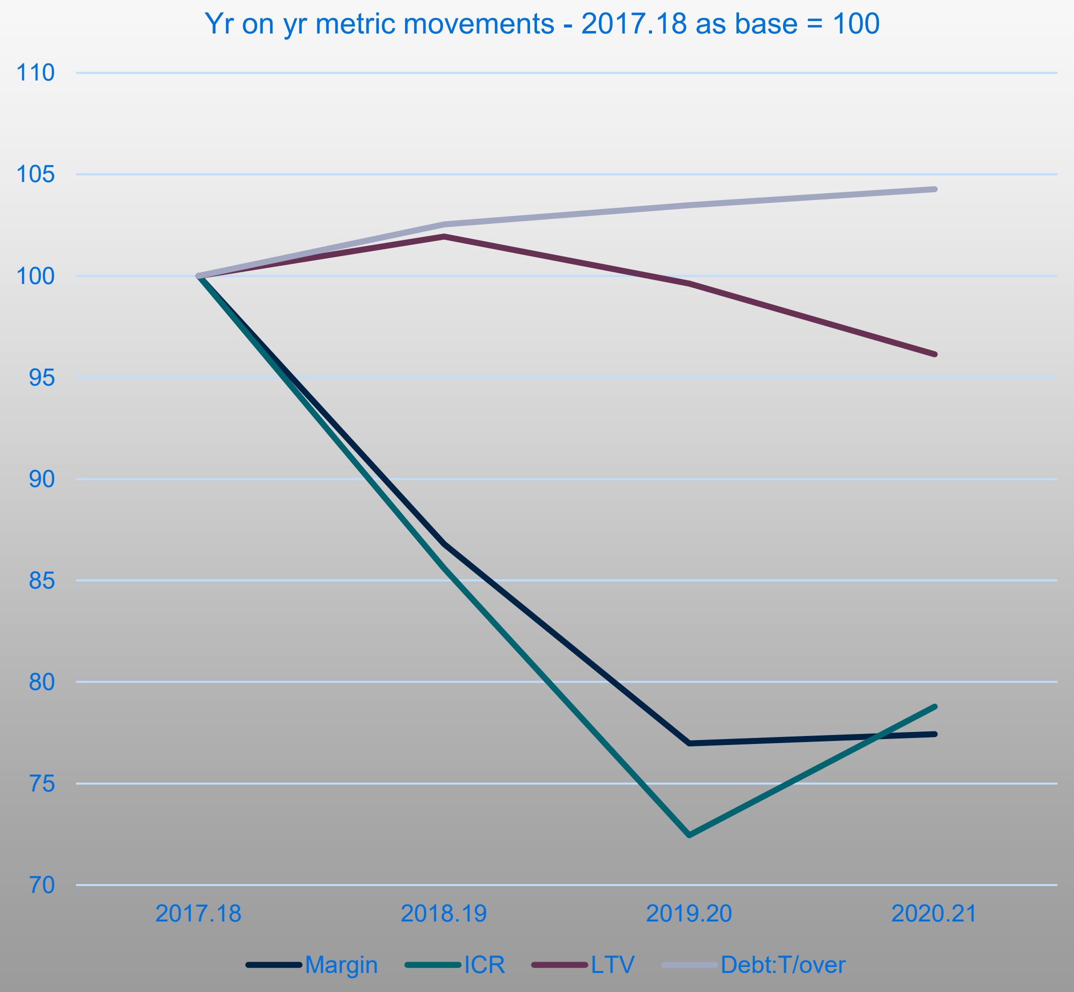
- Stock valuations increases - in line with wider housing market
- Over 4.5% unit increase in EUV(SH) between years
- Whilst debt not linked to value in HRAs, values growing faster than debt indicates underlying net asset strength

Sector capacity trends: key stats (2)



- Net debt has increased for the third year in a row…
- Growth in 2019.20 – first year post debt cap, authorities beginning to bring forward programmes for development and regeneration
- Growth in 2020.21 increased
- Questions…
  - Does this still feel quite low?
  - Or is this an indication of the time it takes to bed in new programmes?
- Overall: clear trend continuing

Changing capacity: from 2017 to date…



- Chart shows movement in key metrics
- Having reduced significantly in the years towards the end of the rent cut period, Operating Margins have stabilised at c22% in 2020.21
- LTV reduced in 2020.21 – debt increased but valuations increased more
- Debt:Turnover slightly increased but generally stable between years
- Interest cover strengthened in 2020/21
  - Rent increases
  - Lower operating cost increases
  - Lower interest rates

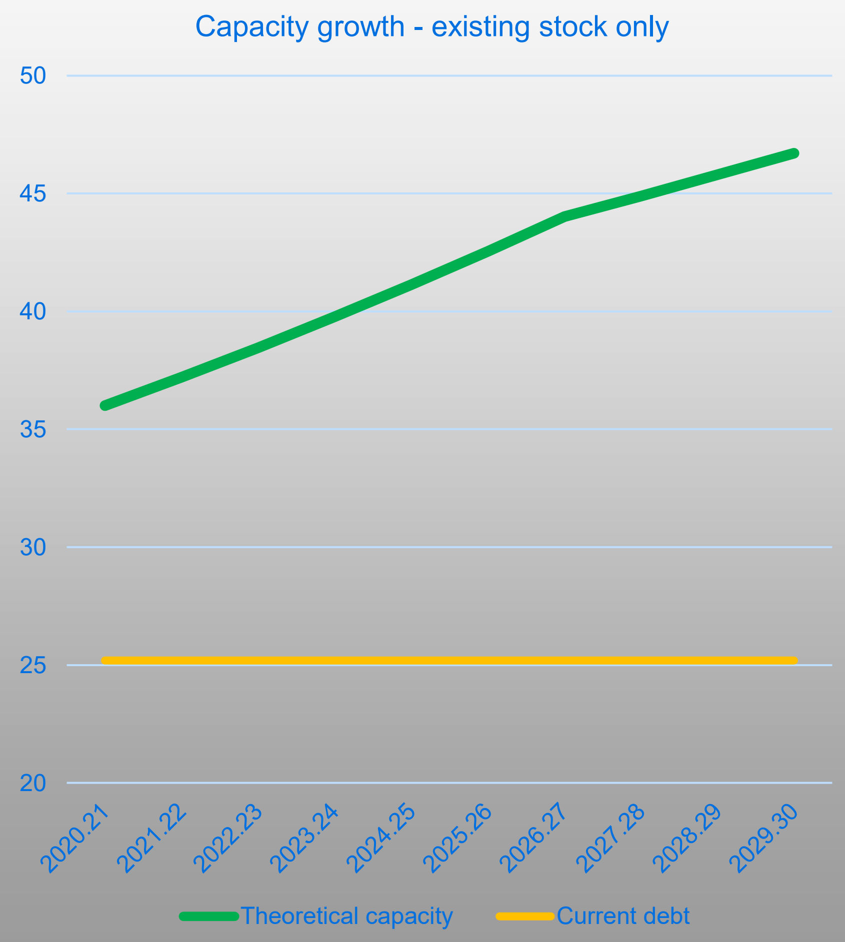
Sector capacity: summary

- The first year of rent increases post-rent cuts coincided with Covid and pressures on service delivery and operating expenditure

- BUT some clear summary trends…
  - **Borrowing is increasing** – clear signs of investment
  - **Operating surpluses remain strong** and all key metrics have either stabilised or improved in 2020.21

- The sector is c45% above our "Golden Rule" for interest cover of 1.25 – **capacity now c£10-11billion**

- If operating surpluses can maintain growth year-on-year of 2% (it's an IF but new stock added…) -> **capacity by 2030 of c£45billion**



Thank you

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