

Sovereign Housing Association's Quarterly Performance Update covering the 9-month period to 31 December 2020

2021 Q3 Trading update 31 December 2020

We continue to prioritise our commitment to keeping residents safe whilst still delivering services as closely as possible to normal. Following the increase in cases after Christmas we took the decision to protect our residents and staff by only providing emergency services.

We have however been able to make considerable progress against our corporate plan objectives. Our land-lead strategy continues at pace; we've finalised our Homes and Place Standard, co-created with our customers, and a guide to how a Sovereign home and place should look and feel; our customer satisfaction STAR rating has improved, even during these most challenging times, to 83.2%. And we've continued to build. We expect to achieve over 1,000 new homes this year.

Highlights

- Sovereign has received the highest ratings for its Governance and Viability from the Regulator of Social Housing's stability check published on the 15th January
- Sovereign has retained credit ratings from both S&P (A+) with upgrade to stable outlook and Moody's (A2) with stable outlook
- Sovereign completed 802 homes, 776 of which were affordable, in the nine months to December 2020 (2019/20 Q3: 1355) -40.8%
- We have 60,210 homes owned or managed, excluding commercial premises
- Turnover for the year to date was £306.0m (2019/20 Q3: £330.1m), -7.3%
- Operating surplus for the year to date was £102.0m (2019/20 Q3: £111.5m), -8.5%
- Net margin on sales excluding fixed assets was 17.1% (2019/20 Q3: 25.9%)
- Overall surplus for the year to date was £56.6m (2019/20 Q3: £68.9m), -17.9%
- During Q3 two development partnerships were approved;
 - Aldens Farm - 35 affordable units and 82 private units,
 - Coley Farm – 30 affordable units and 90 private units
- During Q3 five land banking developments were approved for purchase of land and pre-development spend (143 affordable units)
- In addition, five land led schemes were fully approved, delivering 354 Affordable units and 87 Open Market sales.
- We held our first Virtual Investor Update on the 11th November, with slides from the presentation available on our Investor website

Performance update

Sovereign's operational and financial performance has improved from Q2, with an additional 346 new homes completed during this quarter compared to 325 in the previous quarter, combining for a total of 802 new homes completed for the 9-month period.

Sales performance improved in Q3, as we delivered 183 sales completions, compared to 138 in Q2 bringing our total for the 9 months to 378 sales completions. This was split between 354 (2019/20: 494) shared ownership first tranche sales, 20 open market sales (vs 2020/21 budget 19) and 4 IMR sales in the nine months to December. We achieved a net margin on these sales of 17.1% and an overall sales margin of 18.9%, when including fixed asset sales.

Buyer demand remains strong demonstrated by high levels of reservations. Of the 96 units of unsold stock, 85% are reserved.

Fixed asset sales YTD generated a surplus of £3.7m (2019/20 Q3: £8.5m).

Note: Figures quoted in the update are based on unaudited management accounts which are subject to review and further adjustments, for example in the areas of pensions, investment property valuation and taxation.

The surplus increased from £43.4m to £56.6m in the quarter. Turnover and operating surplus are lower than last year primarily due to lower unit handovers reducing unit sales.

Housing fixed assets stand at £4.0bn. The net interest expense for the period was £45.9m. Sovereign remains in a strong financial position with net debt of £1.9bn and available cash and committed liquidity facilities of £888m at the end of December 2020, which provide sufficient liquidity to support our short-to-medium term development plans.

Development update

We are taking a more land-led approach to our development and over the last few months we have exchanged or completed the purchase of five land-led sites capable of providing over 400 homes, of which 319 are for affordable tenures. These sites are a mixture of developments with the benefit of a detailed planning consent and those on which we will be progressing through the planning system to deliver homes in line with our new Homes and Place Standard.

In addition to this we have offers accepted on a further ten land-led sites with over 600 units, that we're progressing towards an exchange of contracts and subsequently will be submitting planning applications, either working with developer partners or as standalone Sovereign-led schemes.

Credit Rating and Annual Investor update

We received re-affirmation from both S&P and Moody's credit rating agencies during Q3, with both reports available on our Investor page. S&P Global Ratings has affirmed Sovereign's 'A+' rating and upgraded its outlook to "stable", while Moody's also re-affirmed their rating of A2, outlook 'stable'.

On the 11th November 2020, we held our first Annual Investor update online with our CEO, CFO and Executive Director – Development and Commercial providing an update to our investors. We wish to thank everyone that attended the session, if you were unable to attend, the slides presented on the day are available on our Investor webpage.

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