

L&Q Housing Trust SLB 'builds' in a coupon step-up

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London & Quadrant Housing Trust (ticker LONQUA), a UK-based residential developer and housing association, issued a £300mm Sustainability-Linked Bond (SLB) in Jan 2022. The bond had three Sustainability Performance Targets (SPTs) for Mar 2024; to reduce Scope 1 + 2 emissions by 20%, to achieve a minimum average energy efficiency, and to build new affordable homes.[1]

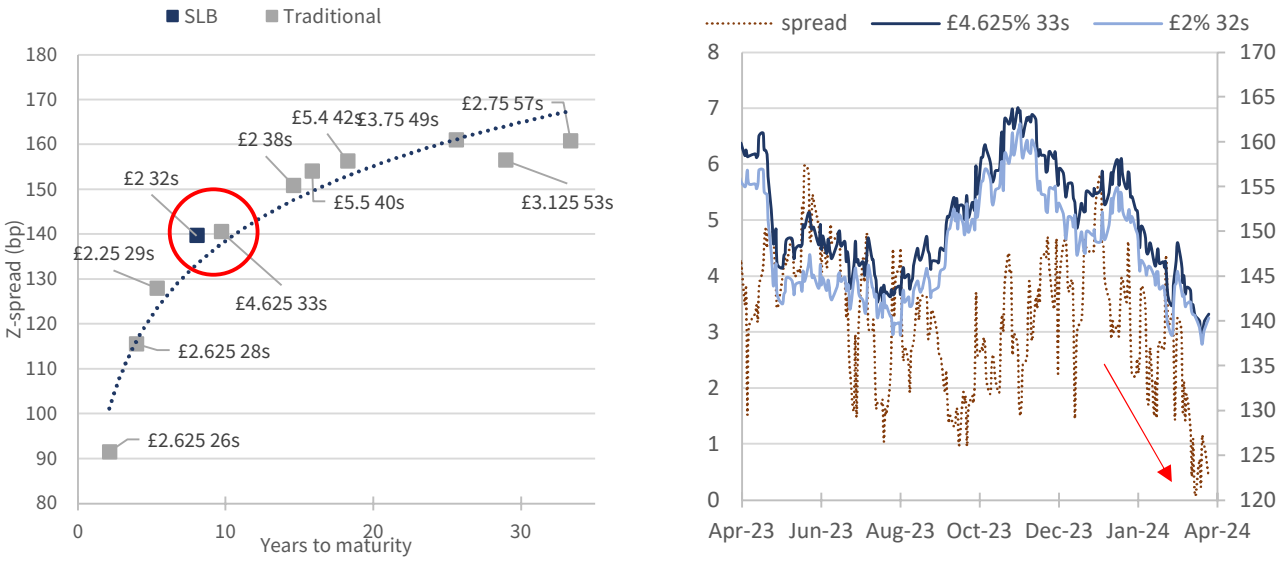
On 20 Mar 2024 it announced that the first SPT would likely be missed, leading to a 12.5bps step-up in the bond coupon, effective Sep 2024.[1]

The SLB in question (ISIN XS2430702105) matures in Mar 2032, so would pay the increased coupon for 7.5 years, making this relatively material. The increased 12.5bps applies for 7.5 of the remaining 8 years of the bond, and so should translate into a spread tightening of nearly 12bps.

Figure 1 shows current market pricing on LONQUA's bonds, showing the SLB is flat to a longer dated vanilla bond. Historical pricing shows this flattening has occurred in the past quarter, despite a 21-month maturity difference. **The increased coupon, coming from the SPT miss, does not yet seem to have been digested by the bond market.**

As the SLB market continues to mature, investors will become more aware of sustainability announcements that have the potential to impact bond coupons and pricing.[2,3]

Figure 1. LONQUA bond spreads. Spot pricing LHS, historic pricing RHS. Source: Bloomberg, accessed 26 Mar 2024.



[1] "SLB update", London & Quadrant Housing Trust, 20 Mar 2024.
[2] "Less than one-fifth of SLBs meet CBI standards in 'make or break' year for label", Responsible Investor, 26 Mar 2024.
[3] For other interesting case studies in the SLB market please see "Here we go Orlen", AFII, 28 Feb 2024, "PPC: Coal decommissioning success impacts SLBs", AFII, 19 Feb 2024 and "Enel SLBs: FY 2023 generation figures released", AFII, 22 Mar 2024.

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