



Tagging Info

## **Fitch Affirms Great Places Housing Group Limited at 'AA-'; Outlook Negative**

Ratings Endorsement Policy  
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Fitch Ratings-Barcelona/London-29 May 2014: Fitch Ratings has affirmed Great Places Housing Group Limited's (GPHG) Long-term foreign and local currency Issuer Default Ratings (IDR) at 'AA-' and Short-term IDR at 'F1+'. The Outlooks are Negative. The rating of the GBP150m secured bond has also been affirmed at 'AA-'.

### KEY RATING DRIVERS

GPHG benefits from social housing grants from the central government as well as government subsidies through housing benefits. The ratings factor in on-going supervision from the regulator, the Homes and Communities Agency (HCA), continuing cash flow from rented properties, and high demand for social housing in the areas where it operates.

Fitch revised its outlook for the social housing sector in England to negative in May 2013. Fitch assesses registered provider's (RP) standalone credit profiles and then applies a two-notch uplift to reflect the control, oversight and monitoring of RPs through the HCA. However, in recent years the sector has seen an increase in its exposure to business risks, following an expansion into non-social housing and increasing development activities. While public funding and regulatory oversight are still strong factors supporting the ratings, this is not as robust as it once was.

Due to welfare reforms and the national roll-out of the universal credit system (expected to be completed by October 2017) rental flows are changing. RPs that traditionally received a high level of turnover from social housing have seen their revenue streams become more volatile. Fitch is still assessing the impact on arrears of the direct payment of housing benefits to tenants and changes to the regulatory role of the HCA.

GPHG operates in Northern England and the Midlands where demand for affordable housing is still strong. The group's average rents are still 72% of equivalent market rents. GPHG compares well with other RPs on void loss and re-letting times, which are good identifiers of demand. Voids have fluctuated between 1.4% and 1.7% over the past five years. GPHG has recorded surpluses for the past six years and has generated efficiencies and value for money. Surpluses come from core social housing activities rather than from property development. Its business plan projects that performance should continue improving.

The group currently has a significant development programme of over 2,000 units in the 2011-15 and in 2015-17 HCA programmes, which are supported by cGBP50m of grant allocations. Due to the development programme in which the group is involved, debt grew to GBP415m at FYE14 from GBP384m at FYE13. In October 2012 the group issued a GBP150m secured bond and in December 2013 the group raised GBP31.8m of the GBP50m retained bonds. The debt repayment profile is long, extended by the 30-year bond issuance. Over the life of the business plan, debt will increase in line with the group's development plan. Interest cover and gearing are the key financial covenants. These were comfortably met in the past and are projected to be met over the next five years of the business plan.

### RATING SENSITIVITIES

Fitch is currently reviewing its negative outlook on the sector. The following risk factors that may, individually or collectively, lead to a downgrade:

- The current two-notch uplift for control, oversight and monitoring on behalf of the HCA could be narrowed to one notch if Fitch considers that the changes to the sector's regulation would result in weaker oversight or any change in the UK government's propensity to provide support
- GPHG's standalone credit profile may be downgraded if the direct payment of housing benefit to tenants results in a significant increase in arrears or if there is increased volatility of operating revenue, significant increase in gearing and worsening of interest cover ratios reducing headroom on internal covenants.

Conversely, the Fitch may revise its outlook on the sector to stable if we believe this is a more accurate reflection of the current sector operating environment.

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Additional information is available on [www.fitchratings.com](http://www.fitchratings.com)

Applicable criteria, "Ratings of Public Sector Entities Outside the US" dated 4 March 2014 and "Revenue-Supported Rating Criteria" dated 3 June 2013 are available on [www.fitchratings.com](http://www.fitchratings.com).

**Applicable Criteria and Related Research:**

Rating of Public-Sector Entities - Outside the United States  
Revenue-Supported Rating Criteria

**Additional Disclosure**

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