FitchRatings

RATING ACTION COMMENTARY

Fitch Revises Great Places Housing Group Limited's Outlook to Negative; Affirms IDR at 'A+'

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Fitch Ratings - London - 19 Oct 2022: Fitch Ratings has revised the Outlook on Great Places Housing Group Limited's (Great Places) Long-Term Issuer Default Rating (IDR) to Negative from Stable, and affirmed the IDR at 'A+'. The Negative Outlook reflects that on the sovereign (AA-/Negative). A full list of rating actions is below.

Great Places has begun discussions to merge with MSV Housing Group; however, as this is yet to be approved, we have not factored this assumption into our assessment.

Fitch views Great Places as a government-related entity of the UK. Great Places' rating is driven by its 'a' Standalone Credit Profile (SCP), reflecting 'Stronger' revenue defensibility, operating risk and financial profile assessments. Under Fitch's Government-Related Entities Rating Criteria, Great Places' has a score of 12.5 points, and is, therefore, rated on a bottom-up plus-one approach, capped at the sponsor minus-one basis.

KEY RATING DRIVERS

Status, Ownership and Control:

Great Places is a private, not-for-profit, registered provider (RP) of social housing (SH) in the UK, and as such it is not under the ownership of the UK government, due to its structure and status (in strict terms it has no legal owner). We view the regulatory framework for English SH as having a robust legal basis, and the Regulator of Social Housing (RSH) as maintaining sound control and tight monitoring of RPs. The regulator's history of oversight and (non-financial) intervention in (rare) cases of distress is a key factor behind the sector's solidity. In the event of financial distress, we expect a transfer of assets and liabilities to another RP within the sector under the direction of the RSH.

Support Track Record:

Great Places receives financial support through grants from Homes England and local authorities at varying levels for social and affordable development. This is on an ongoing basis to support development, not to finance debt or prevent default. The regulator assesses governance and financial stability every 18-36 months, depending on an RP's size, to assess the need for intervention; Great Places' current regulatory judgement is G1/V1, the highest available in the sector. This was temporarily revised to V2 as a result of their previous merger with Equity Housing Group. Great Places has been approved as a strategic partner of Homes England for the 2021 programme, providing GBP241 million of grant funding to develop 5,000 new homes by 2028.

Socio-Political Implications of Default:

In the unlikely event of financial default, other RPs can act as substitutes with only minor or temporary disruption to the service offered by Great Places. Great Pales' development plans may have to be scaled down to adapt to its new financing capacity, which limits its ability to provide housing in general.

Financial Implications of Default:

Default would have a minimal impact on either the availability or cost of domestic financing of other RPs. Fitch believes that a default would be treated as an isolated case of mismanagement or viability issues and should, therefore, not affect the sector at large.

Standalone Credit Profile

Revenue Defensibility:

Demand for SH remains strong across the country, and any change in the rents that RPs are able to charge is unlikely to materially affect demand. Demand is expected to be exacerbated by inflationary pressures on individual households caused by the current economic environment. The assessment of revenue is somewhat constrained by the lack of control RPs have on rents. A supportive regulatory regime aims to maintain compensation for services at a level that will consistently support the solvency of an essential public service. Fitch believes that the current rent consultation cap will continue to support solvency, and is temporary; therefore, it does not impact Fitch's assessment of revenue defensibility for Great Places at this stage.

Great Places' core SH business has limited revenue flexibility, as the UK government determines social-rent changes allowable year-to-year, with the possible cap in place this year being a slight variation on existing regulation. The existing regulation allows RPs' to increase rents by the consumer price index (CPI) plus 1% for five years from 1 April 2020; we anticipate this will be re-imposed after the expected cap lapses. In addition, Great Places' share of revenue from non-SH lettings activity enables more pricing flexibility to cross-subsidise the core SH business, in particular the shared ownership first tranche sales.

Operating Risk:

Great Places has well-identified cost drivers and low potential volatility in major items, with staff costs the most inflexible item accounting for less than 30% of cash outflow. Great Places has material capex in its development plans in the medium term, but has the flexibility to slow down committed schemes, defer uncommitted schemes as well as switch tenure from sale to market rent or affordable rental, supported by grant funding.

Great Places has a fairly young stock portfolio for the sector, with 60% of homes less than 30 years old as well as limited high-rise exposure, avoiding the higher costs its peers are seeing. Great Places anticipates all homes to be EPC C-compliant by 2028 at a cost of GBP10 million.

Regarding resource-management risk, Great Places has no specific supply constraints on labour or resources in amount, cost or timing. Brexit has had an impact on the sector, as a whole, with fewer maintenance workers available, and shortages and price increases of materials, but this has been coupled with a general inflationary environment caused by world events that has affected all sectors. We expect this to lead to higher operating costs across the sector, which has been factored into our financial assessment. However, Great Places has some leeway, given that staff costs usually increase below inflation.

Financial Profile:

Great Places has maintained its strong performance despite sector challenges in recent years. Continued high demand for social and affordable housing, cost-efficiency measures and diversification into the non-core business should allow Great Places to maintain sufficient revenue to service debts and cross-subsidise its core business.

Fitch expects Great Places' solid performance to continue, with net leverage peaking at just below 11x in financial year to March 2027 (FY27) having remained stable throughout the rating case. Fitch's conservative rating-case forecasts net debt/EBITDA to average about 10x through five years to FY27, in line with 'A' category peers'. In FY22, Great Places had an operating revenue of GBP166 million (FY21: GBP134 million), excluding asset disposals.

Fitch expects the share of non-SH activity over the medium term to average 10% of turnover, with 90% from SH lettings and shared ownership first tranche sales.

Great Places' underlying credit strength is supported by a strong, high-value asset base with a market value of just under GBP1 billion, and strong EBITDA/cash interest coverage at above 2x throughout the rating case.

Derivation Summary

The 'a' SCP is driven by our assessment of 'Stronger' revenue defensibility, operating risk and financial profile, and a comparison with peers in the sector.

We view Great Places as a government-related entity in the UK, with a support score of 12.5 points, based on our above-mentioned assessments. This results in a bottom-up approach, with a one-notch uplift to the SCP to arrive at the Long-Term 'A+' IDR, reflecting modest links with the government, capped at the sovereign rating minus one notch, leading to a Negative Outlook.

Great Places' Short-Term 'F1+' IDR reflects the combination of a 'Stronger' revenue defensibility and a strong liquidity cushion and liquidity coverage ratio.

Short-Term Ratings

Great Places' 'F1+' Short-Term IDR is in line with its 'A+' IDR and takes into account the neutral liquidity assessment.

Issuer Profile

Great places is a mid-sized RP based in the north-west of the UK, primarily Manchester and the surrounding regions. On 1st April 2020 Great places merged with Equity Housing Group, who owned around 5,000 homes across a similar geography, bringing the group to around 25,000 homes.

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to negative rating action/downgrade:

A sovereign downgrade, deterioration of net debt/EBITDA to above 11x on a sustained basis or an adverse change to the assessment of the key rating factors could result in a downgrade.

Factors that could, individually or collectively, lead to positive rating action/upgrade:

A revision of the sovereign Outlook, or an upgrade of the SCP could result in a revision of Great Places' Outlook. An upgrade of the sovereign combined with net debt/EBITDA below 9x in our rating case could lead to an upgrade of Great Places' IDRs.

ESG Considerations

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg

Best/Worst Case Rating Scenario

International scale credit ratings of Sovereigns, Public Finance and Infrastructure issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of three notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit https://www.fitchratings.com/site/re/10111579.

References for Substantially Material Source Cited as Key Driver Rating

The principal sources of information used in the analysis are described in the Applicable Criteria.

RATING ACTIONS

ENTITY / DEBT ⬍	RATING ⬍	PRIOR ⬍

Great Places Housing Group Limited	LT IDR A+ Rating Outlook Negative Affirmed	A+ Rating Outlook Stable
	ST IDR F1+ Affirmed	F1+
	LC LT IDR A+ Rating Outlook Negative Affirmed	A+ Rating Outlook Stable
	LC ST IDR F1+ Affirmed	F1+
senior secured	LT A+ Affirmed	A+

VIEW ADDITIONAL RATING DETAILS

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APPLICABLE CRITERIA

Government-Related Entities Rating Criteria (pub. 30 Sep 2020)

Public Sector, Revenue-Supported Entities Rating Criteria (pub. 01 Sep 2021) (including rating assumption sensitivity)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

Great Places Housing Group Limited	UK Issued, EU Endorsed

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