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CREDIT OPINION
9 November 2022

Update

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RATINGS

Great Places Housing Group

Domicile	United Kingdom
Long Term Rating	A3
Type	LT Issuer Rating - Dom Curr
Outlook	Negative

Please see the ratings section at the end of this report for more information. The ratings and outlook shown reflect information as of the publication date.

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Great Places Housing Group (UK)

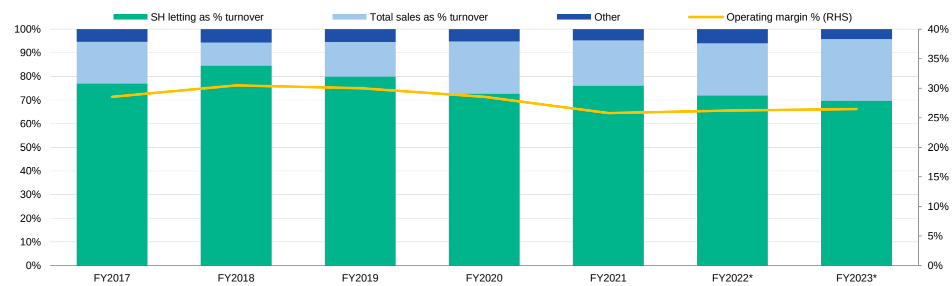
Update following outlook change to negative from stable

Summary

The credit profile of Great Places Housing Group (Great Places, A3 negative) reflects its good liquidity, stable financial performance and debt levels, in addition to increasing exposure to market sales. Great Places' credit profile also benefits from our assessment that there is a strong likelihood that the government of the United Kingdom (UK, Aa3 negative) would intervene in the event that Great Places faces acute liquidity stress.

Exhibit 1

Great Places' operating margin has declined but will remain stable going forward
Great Places' operating margin (%), social housing lettings as a percentage of turnover, sales as a percentage of turnover



*FY2022-23 are forecasts.
Source: Great Places, Moody's

Credit strengths

» Weakening but good liquidity levels and low treasury risk

» Stable financial performance

» Supportive institutional framework

Credit challenges

» Moderate but increasing exposure to market sales

» Increasing debt to fund development programme, but remaining in line with peers

Rating outlook

The negative outlook reflects the high exposure to weaker economic and financial conditions in the UK. A potential ceiling on social rent increases in England combined with high cost inflation will weigh on operating margins over the next 12 to 18 months. At the same time, rising interest rates and tightening financing conditions will further weaken interest coverage ratios. The likelihood of a decline in home prices continues to increase, which affect profitability and surpluses from market sales and further weaken Great Places' credit profile. The challenging economic climate coincides with a low point in operating performance for Great Places, adding further pressure on the rating.

Factors that could lead to an upgrade

A rating upgrade is unlikely due to the negative outlook. The negative outlook could be stabilised if Great Places is able to deliver on planned improvements to operating performance and interest cover ratios over the medium term, with interest coverage maintained above 1.5x. A moderation of its development targets and therefore capital expenditure, in addition to lower market sales exposure, would also be supportive. Finally, a material reduction in debt, with debt to revenues below 4.0x and gearing near 40% would also exert positive pressure on the outlook and rating.

Factors that could lead to a downgrade

The ratings could be downgraded as a result of one or a combination of the following: a failure to adapt strategy to mitigate against weaker economic conditions, weaker than forecasted operating margin and interest coverage ratios, scaling up in market sales exposure or deterioration in market sales performance, weakening in liquidity coverage, or any weakening of the regulatory framework or dilution of the overall level of support from the UK government. A downgrade of the UK sovereign rating would also place downward pressure on the ratings.

Key indicators

Exhibit 2

Great Places Housing Group

	31-Mar-17	31-Mar-18	31-Mar-19	31-Mar-20	31-Mar-21	31-Mar-22 (F)	31-Mar-23 (F)
Units under management (no.)	18,908	19,171	19,141	19,134	24,117	25,032	26,029
Operating margin, before interest (%)	28.6	30.5	30.0	28.6	25.8	26.2	26.5
Net capital expenditure as % turnover	24.3	16.2	16.0	16.4	25.1	58.1	53.0
Social housing letting interest coverage (x times)	1.2	1.3	1.1	1.2	1.0	1.3	1.3
Cash flow volatility interest coverage (x times)	1.9	1.9	2.1	2.4	2.1	1.2	1.3
Debt to revenues (x times)	4.9	5.5	5.0	4.5	5.0	4.0	4.0
Debt to assets at cost (%)	47.8	46.6	46.9	46.3	43.7	45.3	47.2

*FY2022-23 are forecasts.
Source: Great Places, Moody's

Detailed credit considerations

On 25 October 2022, Moody's changed the outlook to negative from stable and affirmed Poplar's ratings. The change in outlook followed Moody's change in outlook of the Government of the United Kingdom's Aa3 rating to negative from stable on 21 October 2022.

Great Places' A3 rating combines (1) a baseline credit assessment (BCA) for the entity of baa1 and (2) a strong likelihood of extraordinary support coming from the national government in the event that the entity faced acute liquidity stress.

Baseline Credit Assessment

Weakening but good liquidity levels and low treasury risk

Great Places' liquidity position at 1.0x is moderately below the A3 peer median of 1.4x as of fiscal year end 2021. The decrease from last year's 2.0x is due to its updated development programme, which increased after its merger with Equity Housing Group as of 1

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April 2020. A liquidity coverage of 1.0x means that Great Places has enough liquidity to cover two years' cash needs. The group's cash and cash equivalents were equal to £77 million as of 31 August 2021, and immediately available facilities provided an additional £121 million of liquidity. The Group is currently renegotiating the extension of its existing revolving credit facilities, therefore despite its ramped up capital program we expect Great Places' liquidity profile to remain stable around 1.0x.

Great Places' has a strong liquidity policy. Liquid funds must equal gross cash outflow plus a contingency amount of £15 million for a rolling three-month period. Short-term funds must equal to its forecast net cash outflow, excluding any forecast proceeds from the sale of assets, for a rolling twelve-month period. The Group's long-term liquidity must cover its business plan requirements for the following 18 months.

Great Places has a low level of interest rate risk. Less than 7% of its debt is exposed to variable rates, with the remainder on fixed rates or hedged using standalone swaps - 93% of its debt is at fixed rate as of fiscal year end 2021. The latest position is in line with Great Places' treasury policy, which requires a minimum of 75% of total debt at fixed rates.

Great Places hedges a sizeable share of its interest rate risk using standalone swaps. After the expiration of a standalone swap of £20 million in August 2020, the total notional value of its swap position was £107 million and had a negative mark-to-market value of £42 million as of the end of August 2021. It currently has collateral of £21.8 million in form of property and cash. In addition, its debt maturity profile is also low risk, with 93% of debt maturing after five years.

Stable financial performance

Great Places' operating margin was 26% at fiscal year end 2021, somewhat below the average performance over the previous three years (30%). Going forward, the operating margin is expected to remain stable between 26% and 28%, outperforming expected A3-rated peer medians.

Great Places merged with Equity Housing Group on 1 April 2020, and transferred 4,805 new homes into the Group. Operating performance for fiscal 2021 was mainly impacted by one-off costs of the merger, as well as by high fire safety expenditure. Operating performance was also impacted by pandemic-related delays in handover of newly built properties, resulting in lower revenue from market sales.

The Group expects efficiency savings from the merger, however building safety costs are expected to remain high. Great Places is better placed than rated peers regarding decarbonization and retrofitting, with around 83% of its properties already achieved an energy performance certificate (EPC) rating of minimum 'C', one of the highest shares among rated HAs, as its property portfolio is relatively young and modern (60% of its stock was built after 1991, 27% after 2010). Great Places included in its business plan an estimate of £10 million for reaching the net zero carbon objectives.

Great Places stable cash flows are reflected in its strong cash flow volatility interest coverage metric (CVIC) of 2.1x in fiscal 2021, above the A3-rated peer median of 2.0x. We expect CVIC to decrease over the next few years as its development programme ramps up, but to stay in line with expected A3 peer medians.

Supportive institutional framework

The sector's credit quality will continue to benefit from the strong institutional framework governing English housing associations (HAs) reflected in an Operating Environment score of a3 and a Regulatory Framework score of a1. These scores are assigned at a national level and reflect the following credit considerations:

The regulator maintains strong oversight through quarterly returns, long-term business plans, annual reviews, and by undertaking biennial In-Depth Assessments (IDAs) for large and complex HAs. The regulator has a strong track record of intervention in cases of mismanagement or financial stress with powers to provide financial assistance and/or make manager appointments where there has been a breach of regulatory standards.

The operating environment for English HAs remains supportive. Demand for social housing remains very high and the government has committed to increased capital grant on more flexible terms for new social housing. English HAs retain some expenditure flexibility and have a track record of reducing costs to mitigate lower income.

However, due to presently very high rates of inflation, the government has intervened on social rent policy with a consultation on a ceiling on social rent increases to be implemented from April 2023 for a minimum of one year. The proposed ceiling of 5% will likely result in an adverse differential between rental income and cost growth, driving lower margins and interest coverage. The intervention introduces policy volatility to the sector as the ceiling will supersede the allowable increase of consumer price inflation (CPI) plus 1% under the current rent standard, which is in place until March 2025.

Increasing exposure to market sales

Great Places' exposure to market sales is expected to increase from an average of 18% from fiscal 2019 to fiscal 2021, to 31% by fiscal 2024, a level we consider high. Market sales exposure is somewhat more concentrated on shared ownership sales than on outright sales (an average 62%-38% split over the next three years, including fiscal 2022). Margins on market sales activity have been decent over the past three years, with an average 15% margin. Great Places expects performance on these tenures to remain solid over the medium term, with an average margin of 12% to fiscal 2024.

Great Places' development programme has increased after the merger with Equity Housing Group. It aims to build on the additional borrowing capacity of the merged group and to deliver 11,000 new homes over the next 10 years, with 5,400 units between fiscal 2022 and fiscal 2026. The development programme also includes the properties to be delivered through the new Strategic Partnership with Homes England, as part of which Great Places has been awarded a grant of £241 million.

The development pipeline has a projected tenure mix that includes 57% affordable housing, 36% shared ownership, 1% market rent and 6% outright sales. Great Places has achieved strong performance on its market sales development in recent years and, despite the disruption to the housing market caused by the coronavirus pandemic, does not envisage a significant reduction in demand or pricing for these tenures over the next two years.

Net capital spending was 25% of turnover in FY2021, however it is expected to average around 55% in the next 5 years, due to the ramp up in development expenditure over this time and as development catches up with delays due to the coronavirus pandemic.

Increasing debt to fund development programme, but remaining in line with peers

Great Places' total debt was £716 million as of fiscal year end 2021, an increase of £173 million compared to the previous year. The increase includes the transfer of debts from Equity Housing, the sale of £70 million retained bond and a drawdown of a £38 million loan. Its debt to revenue metric hence increased to 5.0x, above the A3-rated peer median of 4.5x. Total debt is expected to reach £1 billion by fiscal 2026, to fund its development programme. The increase in debt is however offset by the higher revenue generated due to the additional units and higher market sales. As a result, debt to revenues is expected to significantly improve to 4.0x by fiscal 2022 and to remain at this level through fiscal 2024, outperforming the similarly rated peers in the same period.

The group's gearing (debt to assets) metric was 44% as of fiscal year end 2021, well below the peer median of 53%. It is projected to increase to 49% by fiscal 2025. Debt metric stability is contingent on the successful implementation of the group's development programme, in which assets are forecast to grow proportionally with total debt.

Great Places' social housing lettings interest coverage (SHLIC) is relatively slim at 1.0x in fiscal 2021, compared to the A3 peer median of 1.3x. However, performance on this metric has been stable for a number of years, and we expect this to improve in fiscal 2022 due to its delivery of stable operating performance on its social housing lettings portfolio, which consistently achieves margins around 30%.

In fiscal 2018, Great Places issued a £145 million tap issue on its bond, taking its total bond facility amount to £345 million. Its retained element of £70 million was issued in January 2021, with a premium of £33 million. At the end of August 2021, Great Places had additional £120 million committed, undrawn facilities. Its total unencumbered assets position provides additional borrowing capacity of £288 million.

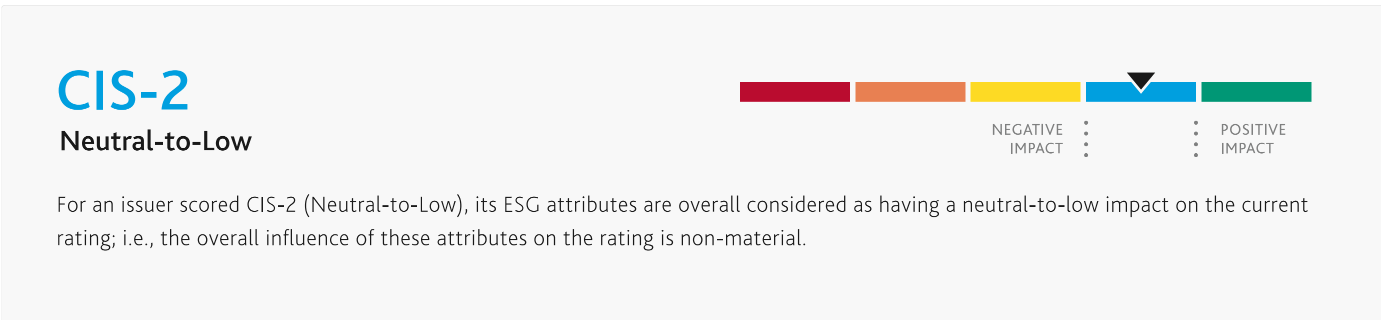
Extraordinary support assumptions

The strong level of extraordinary support factored into the rating reflects the wide-ranging powers available to the regulator in cases of financial distress, with the possibility of a facilitated merger or a transfer of engagements. However, the process can be protracted and is reliant on HAs agreeing to merge, which could be more challenging in a weakening operating environment. Recent history has shown that the UK government is willing to support the sector, as housing remains a politically and economically sensitive issue. The strong support assumption also factors increasing exposure to non-core social housing activities in the sector, that add complexity to HA operations, and the weakening of the sovereign's financial resilience, making an extraordinary intervention slightly more challenging. In addition, our assessment that there is a very high default dependence between Great Places and the UK government reflects their strong financial and operational linkages.

ESG considerations

Great Places Housing Group's ESG Credit Impact Score is Neutral-to-Low CIS-2

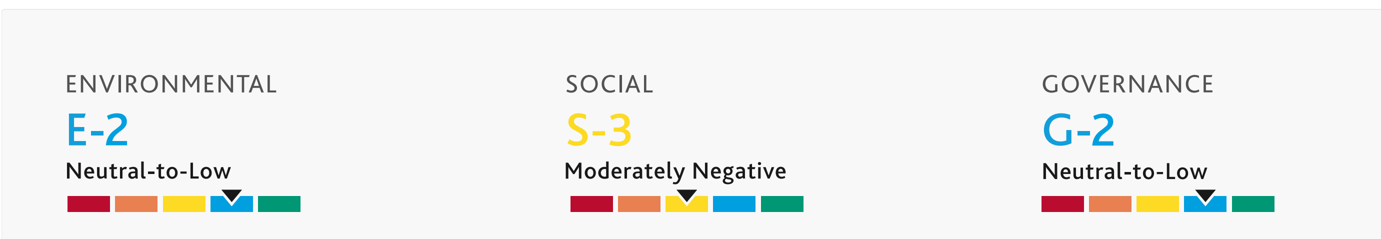
Exhibit 3
ESG Credit Impact Score



Source: Moody's Investors Service

Great Places' CIS is neutral-to-low reflecting moderate exposure to social risks, limited exposure to environmental risks and a low-neutral governance profile, as well as a supportive regulatory framework and support from the UK government.

Exhibit 4
ESG Issuer Profile Scores



Source: Moody's Investors Service

Environmental

Its overall E issuer profile score is neutral to low (**E-2**), reflecting low exposure to environmental risks across most categories. Great Places faces limited carbon transition risk from the legislative requirement for English housing associations to improve the energy efficiency of their existing housing stock by 2035, because a high proportion of its stock is already at the required standard, leaving limited expenditure remaining.

Social

We assess its S issuer profile score as moderately negative (**S-3**), reflecting exposure to risks from responsible production and demographic and societal trends. Responsible production risks include the legislative requirement to improve the safety of its existing housing stock which will increase expenditure over the medium term. Demographic and societal trends risks reflect the vulnerability of the sector to tenant affordability challenges and to government policy which controls rent setting in England and Wales, which weighs on revenue. The government's recent intervention on social rent policy with a consultation on a ceiling on social rent increases introduces policy volatility to the sector and will have a negative impact on financial performance.

Governance

We assess its G issuer profile score as neutral to low (**G-2**). Governance in the sector is generally fit for purpose, with good oversight of business risks, strong financial planning and risk management processes, detailed reporting and simple organisational structures. The regulatory framework also supports good governance in the sector.

ESG Issuer Profile Scores and Credit Impact Scores for the rated entity/transaction are available on Moodys.com. In order to view the latest scores, please click here to go to the landing page for the entity/transaction on MDC and view the ESG Scores section.

Rating methodology and scorecard factors

The assigned Baseline Credit Assessment (BCA) of baa1 is the same as the scorecard-indicated BCA. The methodologies used in this rating were European Social Housing Providers rating methodology, published in April 2018, and Government Related Issuers rating methodology, published in February 2020.

Exhibit 5
31 March 2021

Great Places Housing Group			
Baseline Credit Assessment	**Sub-factor Weighting**	**Value**	**Score**
Factor 1: Institutional Framework			
Operating Environment	10%	a	a
Regulatory Framework	10%	a	a
Factor 2: Market Position			
Units Under Management	10%	24,117	a
Factor 3: Financial Performance			
Operating Margin	5%	25.8%	a
Social Housing Letting Interest Coverage	10%	1.0x	baa
Cash-Flow Volatility Interest Coverage	10%	2.1x	a
Factor 4: Debt and Liquidity			
Debt to Revenue	5%	5.0x	ba
Debt to Assets	10%	43.7%	ba
Liquidity Coverage	10%	1.0x	a
Factor 5: Management and Governance			
Financial Management	10%	baa	baa
Investment and Debt Management	10%	baa	baa
Suggested BCA			**baa1**

Source: Great Places, Moody's

Ratings

Exhibit 6

Category	Moody's Rating
GREAT PLACES HOUSING GROUP	
Outlook	Negative
Baseline Credit Assessment	baa1
Issuer Rating -Dom Curr	A3
Senior Secured -Dom Curr	A3

Source: Moody's Investors Service

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