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CREDIT OPINION
13 October 2023

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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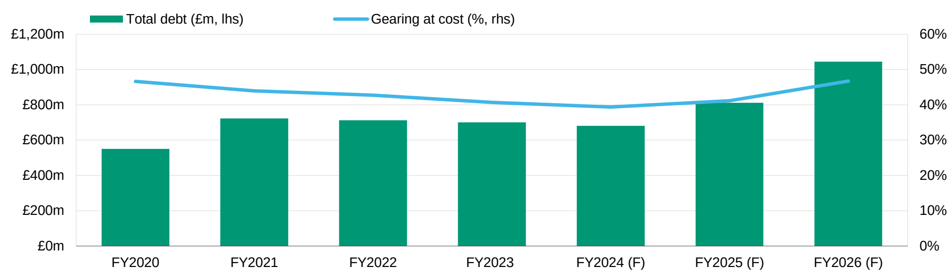
Great Places Housing Group (United Kingdom)

Update to credit analysis

Summary

The credit profile of Great Places Housing Group (Great Places, A3 negative) reflects its strong balance sheet, its solid operating margin - although weakened, the sharp increase in capital expenditure and its volatile 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' debt is expected to increase, weakening its debt ratios
Total debt (£m, lhs), gearing at cost (%, rhs), FY2020-FY2026(F)



F: Forecast
Source: Great Places and Moody's Investors Service

Credit strengths

» Strong balance sheet with relatively low gearing

» Solid financial performance, although recently weakened

» Supportive institutional framework

Credit challenges

» Increasing capital expenditure driving lower liquidity coverage

» High exposure to market sales and weakening cash flow volatility interest cover

Rating outlook

The negative outlook reflects the high exposure to weaker economic and financial conditions in the UK. A 7% ceiling on social rent increases in England combined with high cost inflation and sizeable levels of mandatory expenses (quality, fire and building safety, decarbonisation) will weigh on operating margins over the next 12 to 18 months. This could be worsened by additional below-inflation caps on social rent increases. At the same time, higher interest rates and tightening financing conditions will further weaken interest coverage ratios. Further declines in home prices and sale volumes in the UK could affect HAs' profitability and surpluses from market sales and further weaken their credit profile.

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 maintain relatively stable financial metrics over the medium term. This could be driven by operating performance improving more than presently anticipated, including the ability to contain cost pressures, and reductions in development plans leading to lower debt levels than currently anticipated.

Factors that could lead to a downgrade

Great Places' rating could be downgraded as a result of one or a combination of the following: failure to adapt strategies to mitigate against weaker economic conditions; a further weakening in operating margins and interest coverage ratios; increases in debt beyond levels that are currently anticipated; significant deteriorations in liquidity; significant scaling up in market sales exposure or material deterioration in market sales performance; 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 Great Places' rating.

Key indicators

Exhibit 2

Great Places Housing Group	31-Mar-19	31-Mar-20	31-Mar-21	31-Mar-22	31-Mar-23	31-Mar-24 (F)	31-Mar-25 (F)
Units under management (no.)	19,141	19,134	24,117	24,661	25,229	25,934	26,765
Operating margin, before interest (%)	30.0	28.6	25.8	25.3	23.6	29.0	29.1
Net capital expenditure as % turnover	16.0	16.4	25.1	21.9	27.4	59.1	79.9
Social housing letting interest coverage (x times)	1.1	1.2	1.0	1.1	1.1	1.5	1.4
Cash flow volatility interest coverage (x times)	0.9	1.3	1.4	1.4	1.7	0.8	1.2
Debt to revenues (x times)	5.1	4.5	5.0	4.3	4.2	3.8	4.0
Debt to assets at cost (%)	47.2	46.6	43.9	42.7	40.7	39.5	41.3

F: Forecast. Note: Forecasts for fiscal 2024 and 2025 are from Great Places' 2023 Business Plan.
Source: Great Places and Moody's Investors Service

Detailed credit consideration

Great Places' A3 rating combines (1) a baseline credit assessment (BCA) for the entity of baa2 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

Strong balance sheet with relatively low gearing

Great Places will retain a strong balance sheet relative to peers, with comparatively low gearing despite a sharp rise in development and capital expenditure (capex).

Gearing stood at 41% in fiscal 2023, well below the estimated A3-rated peer median of 50%, but is expected to increase to 49% by fiscal 2028, brining its closer to rated peers. The increase in gearing is driven by a sharp rise in debt to £1,236 million in fiscal 2028 to fund development programme, from a £701 million in fiscal 2023. We note that sector wide development delays could slowdown the debt increase. While the debt increase is substantial, it follows a period of deleveraging for Great Places between fiscal 2020 and 2023 when assets and turnover grew. To fund the increased development between fiscal 2020 and 2023, Great Places used cash, surplus from fixed asset sales and high levels of capital grant.

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Debt to revenues will be volatile, ranging from 3.8x to 4.8x over the next five years compared to the A3-rated peer median of 4.4x in fiscal 2023. The volatility is linked to the debt movements, with a debt decrease expected for fiscal 2024, before increasing again, and to the high market sales exposure.

Great Places will receive capital grant of £270 million through its Strategic Partnership to fund development of new homes. This represents an increase compared to the £243 million originally contracted, thanks to negotiations with Homes England to reflect the inflationary pressures. The profiling of capital grant with a significant proportion received prior to completion reduces the group's debt requirement, supporting its strong balance sheet.

The strong balance sheet supports group's strong headroom against its gearing covenants while interest cover covenant has a tight headroom. In fiscal 2023, the performance against its tightest interest cover covenant stood at 1.4x compared to a 1.1x test. Golden rules stipulate that gearing remains below 55% and interest cover remains above 1.25x. Great Places is in the process of changing its interest cover covenant to EBITDA only, from EBITDA MRI which will increase headroom.

Solid financial performance, although recently weakened

Great Places' operating margin stood at 24% in fiscal 2023, slightly down from 25% the year before. The metric has been on a downward trend for several years from 30% in fiscal 2019, although it remains higher than the A3-rated peer median of 22% in fiscal 2023. The operating margin was supposed to increase back to 28% in fiscal 2023, but Great Places faced completion delays, inflationary pressures, increased volume of repairs and increased investment programme to tackle damp & mould.

Great Places expects its operating margin to increase to 29% in fiscal 2024. This improvement is unrealistic in our view due to the continued completion delays, inflationary pressures and high volumes of repairs and maintenance. We expect the operating margin to remain above peers, although not increasing as quickly as Great Places projects.

Great Places' social housing lettings interest coverage (SHLIC) is relatively slim at 1.1x in fiscal 2023, but slightly above the estimated peer median (1.0x). Similarly, whilst Great Places projects an improvement, we expect that SHLIC will remain at 1.1x, also hindered by the issues highlighted above.

On the positive side, Great Places has low interest rate risk, with around 95% (including interest rate swaps) of its drawn debt at fixed rates as of fiscal year end 2023. This will limit interest payment volatility.

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 7% ceiling on social rent increases to be implemented from April 2023 for one year. The ceiling of 7% 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 capital expenditure driving lower liquidity coverage

Great Places' capex will rise significantly over the next few years, driving lower liquidity coverage and higher debt. Gross capex is set to double over the next three years, rising to £280 million in fiscal 2026 from £115 million in fiscal 2023. Great Places' combined net capex to turnover ratio will average 82% over the next three years compared to 27% in fiscal 2023, and the estimated A3-rated peer median of 34% in fiscal 2023.

The primary driver for rising capex is a planned increase in development; completions will peak near 1,900 units in fiscal 2027 from 672 in fiscal 2023. The development programme is weighted towards affordable and social rent, with some supported housing, those representing 58% of developed units over fiscal 2024-2028. Shared ownership will represent a high 38%. Only a small proportion of new homes will be for market rent (20 units, less than 1%) and outright sales (4%). Inclusive in these completions are homes delivered as part of the group's Strategic Partnership with Homes England.

Great Places scaled back its previous ambition of developing 11,000 homes in the period 2020-2030 to 10,000 homes over that same period. However, it remains higher than peers that have decreased their own development plans more drastically reflecting the more challenging operating environment. We capture this higher risk appetite in Great Places' ba score for financial management.

Carbon transition risk is low for Great Places with retrofit costs a very low proportion of total capex. As of fiscal 2023, 80% of Great Places' social housing units were rated EPC C or higher, leaving a minority of properties to retrofit to reach EPC C at an estimated cost of £18 million by 2028 which is lower than many of its peers.

Great Places' liquidity coverage ratio will reduce materially going forward driven by simultaneously reducing liquidity and rising capex. The ratio assesses immediately available liquidity compared to two years' forward-looking cash need. Cash is expected to decrease drastically going forward, as capex increases, with combined cash balance falling to below £20 million by fiscal 2026, from £96 million in fiscal 2023.

Whilst the HA's liquidity policy states that Great Places needs to secure funding 18 months before the required need, Great Places decided to delay securing funding until merger's completion. This weaker adherence of internal rules is also reflected in Great Places' ba score for financial management. As the merger talks ended, Great Places is currently negotiating new funding. Securing this funding would boost liquidity, a mitigant.

High exposure to market sales and weakening cash flow volatility interest cover

Market sales exposure will remain high (>20% of turnover) although fluctuating due to phasing, with Great Places' outright sales dropping to 9 units in fiscal 2024 from 42 the year before. Given the current risks we see in the housing market, a smaller exposure to outright sales is a good mitigant.

Great Places has a solid track record of performance on its market sales, with operating margins between 14-17% over the last five years. The group expects a moderation in market sales performance, with a margin averaging 12% over the next three years. Demand continues to be strong with only 2 FTSO units unreserved for greater than 6 months and 0 unsold outright sales units.

Operating cash flows is expected to decrease due to market sales cash outflows, in line with Great Places' development plan. Cash flow volatility interest cover will drop accordingly to 0.8x in fiscal 2024, from 1.7x the year before.

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 Moderately Negative CIS-3

Exhibit 3
ESG Credit Impact Score

CIS-3
Moderately Negative

NEGATIVE IMPACT POSITIVE IMPACT

For an issuer scored CIS-3 (Moderately Negative), its ESG attributes are overall considered as having a limited impact on the current rating, with greater potential for future negative impact over time. The negative influence of the overall ESG attributes on the rating is more pronounced compared to an issuer scored CIS-2.

Source: Moody's Investors Service

Great Places' **CIS-3** indicates that ESG considerations have a limited impact on the current rating with potential for greater negative impact over time. Demographic and societal trends, responsible production risks and somewhat weaker risk management practices could weaken credit quality.

Exhibit 4
ESG Issuer Profile Scores

ENVIRONMENTAL	SOCIAL	GOVERNANCE
E-2	**S-3**	**G-3**
Neutral-to-Low	Moderately Negative	Moderately Negative

Source: Moody's Investors Service

Environmental
Great Places has limited exposure to environmental risks. English housing associations have the legislative requirement to improve the energy efficiency of their existing housing stock by 2035, leading to increased expenditure. However, we assess that Great Places has a low exposure to this risk as the vast majority of its housing stock already meets the required efficiency standards.

Social
Great Places is highly exposed to risks from demographic and societal trends and moderately exposed to responsible production risks. Responsible production risks include the legislative requirement to improve the safety of its existing housing stock, which continue to weigh on cost bases and margins. Demographic and societal trend risks reflect the vulnerability of the sector to tenant affordability challenges and to government policy, which controls rent setting in England and weighs on revenue. The government's intervention on social rent policy, imposing a sub-inflationary cap on social rent increases in order to improve tenant affordability amid substantial cost of living pressures, will have a negative impact on financial performance.

Governance
Great Places has somewhat weaker management track record than peers. The HA has a higher risk appetite in terms of development and market sales exposure and also displays a weaker adherence to internal rules than peers.

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 baa2 is one notch below the scorecard-indicated BCA of baa1. 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

Great Places' 2023 scorecard

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%	25,229	a
Factor 3: Financial Performance			
Operating Margin	5%	23.6%	baa
Social Housing Letting Interest Coverage	10%	1.1x	baa
Cash-Flow Volatility Interest Coverage	10%	1.7x	baa
Factor 4: Debt and Liquidity			
Debt to Revenue	5%	4.2x	ba
Debt to Assets	10%	40.7%	ba
Liquidity Coverage	10%	0.9x	baa
Factor 5: Management and Governance			
Financial Management	10%	ba	ba
Investment and Debt Management	10%	baa	baa
Scorecard - Indicated BCA Outcome			**baa1**
Assigned BCA			**baa2**

Source: Great Places and Moody's Investors Service

Ratings

Exhibit 6

Category	Moody's Rating
GREAT PLACES HOUSING GROUP	
Outlook	Negative
Baseline Credit Assessment	baa2
Issuer Rating -Dom Curr	A3
Senior Secured -Dom Curr	A3

Source: Moody's Investors Service

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