FitchRatings

RATING ACTION COMMENTARY

Fitch Affirms Great Places Housing at 'A+'; Outlooks Stable

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Fitch Ratings - London - 02 Nov 2021: Fitch Ratings has affirmed Great Places Housing Group Limited's (Great Places) Long-Term Issuer Default Rating (IDR) at 'A+', with Stable Outlook. A full list of rating actions is below.

KEY RATING DRIVERS

Status, Ownership and Control: 'Strong'

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: 'Moderate'

Great Places receives financial support through grants from Homes England (HE) 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, dependent on an RP's size, to assess need for intervention, and Great Places' current regulatory judgement is G1/V1, the highest available in the sector. Great Places has been approved as a strategic partner of HE for the 2021 programme, providing GBP241 million of grant funding to develop 5,000 new homes by 2028.

Socio-Political Implications of Default: 'Moderate'

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.

Financial Implications of Default: 'Weak'

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 (SCP)

Great Places' SCP is assessed at 'a', driven by a 'Stronger' assessment on revenue defensibility, operating risk and financial profile.

Revenue Defensibility: 'Stronger'

Demand for social housing remains strong across the country and any change in the rents that RPs are able to charge is unlikely to materially affect demand. Nevertheless, 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. Between April 2016 and April 2020 rents have were reduced by 1% a year, then returned to consumer price index (CPI) plus 1% for five years from 1 April 2020.

Operating Risk: 'Stronger'

The sector has well-identified cost drivers and low potential volatility in major items. RPs have material capex in their development plans in the medium term but have flexibility to slow down committed schemes, defer uncommitted schemes as well as switch tenure from sale to market rent.

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 anticipate all homes to be EPC C-compliant by 2028 at a cost of GBP10 million. Great Places, similar to peers in the sector, has not yet budgeted for the full costs of decarbonisation as guidance from the UK government is limited and the costs largely unknown.

RPs have fared well in light of the coronavirus outbreak as they were well-prepared by the uncertainty around Brexit causing additional liquidity facilities to be sought. Isolation measures affected the UK property market initially, with prospective tenants and buyers unable to view properties during the first lockdown. However, with the lifting of lockdowns, we have seen a major resurgence in the market with prices and demand returning to high levels across the country.

Financial Profile: 'Stronger'

Great Places has maintained strong performance, which we expect will improve on continued but conservative development plans. Profits from the sale of private units will be re-invested to continue to build and provide affordable social units. About 75% of total cashflow continues to come from social activities, despite increases in sale and other non-SH activity. Debt will continue to increase to fund development programmes, alongside significant grant funding.

A transfer of engagements (or merger) with Equity Housing Group was completed on 1 April 2020, increasing the dwellings under management by roughly 5,000 units. Great Places manages just under 25,000 units in northern England and the Midlands. It reported operating revenue of GBP134 million in financial year to March 2021 and EBITDA of GBP49 million.

Debt increased to GBP716 million at FYE21 and is forecast to rise to about GBP1 billion over the next five years as per the group's 2021 business plan. Operating revenue is forecast to continue rising to just over GBP220 million in FY26 and EBITDA to around GBP90 million. Net adjusted debt/EBITDA was 11x at FYE21 and Fitch expect this to decrease below 10x in its rating case over the next five years. Great Places has developed about 5,500 units over the last decade and, as part of the equity merger, has committed to building 11,000 homes over a 10-year period from April 2020.

Under our Revenue-Supported Debt Criteria a combined 'Stronger' assessment of revenue defensibility operating risk and financial profile leads to a combined assessment of a standalone credit profile of 'a' for Great Places.

DERIVATION SUMMARY

The 'a' standalone credit profile assessment for Great Places under our Revenue-Supported Debt Criteria (up to three notches away from the UK sovereign's AA-/Stable/F1+ ratings), and a 12.5 point support score under the Government-Related Entities (GRE) Criteria lead to a bottom-up plus one rating under the Notching Guideline Table. Great Places' rating is capped at the sovereign's rating minus one. As such its Outlook reflects that of the sovereign.

RATING SENSITIVITIES

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

-A sovereign upgrade combined with a net debt / EBITDA below 9x in our rating case could lead to an upgrade

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

-A sovereign downgrade, deterioration of net debt/ EBITDA towards 12x on a sustained basis or an adverse change to the assessment of the key rating factors could result in a downgrade

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 OF RATING

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

PUBLIC RATINGS WITH CREDIT LINKAGE TO OTHER RATINGS

Great Places' ratings are currently capped at the UK sovereign ratings minus one.

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

RATING ACTIONS

ENTITY/DEBT	RATING			PRIOR
Great Places Housing Group Limited	LT IDR	A+ Rating Outlook Stable	Affirmed	A+ Rating Outlook Stable
•	ST IDR	F1+	Affirmed	F1+
•	LC LT IDR	A+ Rating Outlook Stable	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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