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PUBLIC SECTOR EUROPE

CREDIT OPINION
1 February 2022

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RATINGS

Great Places Housing Group

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

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 to credit analysis

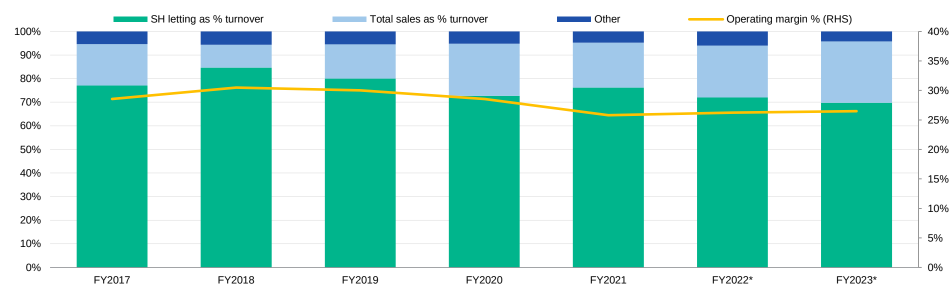
Summary

The credit profile of Great Places Housing Group (Great Places, A3 stable) 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 (Aa3 stable) would intervene in the event that Great Places faces acute liquidity stress.

Exhibit 1

Great Places' operating margin is expected to be stable at around 26% over the next two years, alongside a moderate exposure to market sales at an average 24% of turnover over this period

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 stable outlook on Great Places reflects its stable financial performance and gearing ratio offset by its planned increase in debt and market sales activity. It also reflects the stable policy environment including multi-year agreements for rent increases and capital grant.

Factors that could lead to an upgrade

We would consider upgrading Great Places' rating from one or a combination of the following: a material improvement in interest coverage and operating margin; a significant reduction in debt levels, with debt to revenues below 4.0x and gearing at 40%.

Factors that could lead to a downgrade

Negative pressure on the rating could result from one or a combination of the following: (1) a weakening in financial performance, with social housing letting interest coverage falling below 1.0x on a structural basis, (2) a sustained increase in debt to above 5.5x revenue, (3) a significant increase in exposure to market sales beyond what is planned. In addition, a weaker regulatory framework or a dilution of the overall level of support from the UK government could also exert downward pressure on the rating.

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

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 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 a2 and a Regulatory Framework score of a1. These scores are assigned at a national level and reflect the following credit considerations:

The English 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. In response to the pandemic, the regulator adapted some aspects of its oversight temporarily, for example, extending its liquidity monitoring, briefly pausing the programme of IDAs and delaying regulatory submissions to reduce the operational burden on 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 has improved under more supportive policies for social rent increases and capital grant. Following four years of social rent reductions, HAs now benefit from a return to inflation-linked rent increases from April 2020 for five years. In addition, the government has committed to increased capital grant on more flexible terms for new social housing. Counterbalancing the improvements, we expect policy to drive increased borrowing and development risk in the sector as it responds to the government's objective to deliver a significant increase in the construction of new homes.

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 of redress available to the regulator in cases of financial distress, with the possibility of a facilitated merger or a transfer of engagements. 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 in the increasing exposure to non-core social housing letting activities in the sector that add complexity to housing association 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 links.

ESG considerations

How environmental, social and governance risks inform our credit analysis of Great Places

Moody's takes account of the impact of environmental (E), social (S) and governance (G) factors when assessing sub-sovereign issuers' economic and financial strength. In the case of Great Places, the materiality of ESG to its credit profile is as follows:

Environmental considerations are significant to Great Places' credit profile. Although the impact of physical climate risks such as water shortages and flood risk are unlikely to be significant to HAs' credit profiles as they are managed by government authorities, energy efficiency and decarbonisation are becoming an increasingly acute priority for HAs with a target of all homes in England obtaining an energy performance certificate (EPC) of C or above by 2035. We expect this effort to require significant levels of capital spending, which would either divert cash flow away from development programmes or increase debt. An estimated 83% of Great Places' stock has already an EPC rating of minimum C, a better position than peers. Great Places included in its business plan an estimate of £10 million for reaching the net zero carbon objectives.

Social risks are significant to HAs' credit profiles. In particular, the sector is exposed to risks stemming from socially driven policy agendas affecting social rents, benefits and capital grants in addition to the impact of demographic trends on demand which are captured in our assessment of the operating environment. We view the coronavirus pandemic as a social risk under our ESG framework because of its impact on health and safety. HAs are also affected by customer relations and product quality. The Grenfell fire tragedy in June 2017 encouraged higher health and safety standards, with many HAs planning to increase spending on the quality of their existing stock.

Governance considerations are also important for HAs' credit profiles and are captured in our assessment of governance and management. In general, HA governance is strong with multiyear strategies supported by detailed forecasts, conservative liquidity policies and robust risk management (including stress testing).

Further details are provided in the "Baseline credit assessment" section above. Our approach to ESG is explained in our cross-sector methodology General Principles for Assessing ESG Risks.

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.

31 March 2021

Exhibit 3

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 4

Category	Moody's Rating
GREAT PLACES HOUSING GROUP	
Outlook	Stable
Issuer Rating -Dom Curr	A3
Senior Secured -Dom Curr	A3

Source: Moody's Investors Service

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CLIENT SERVICES

Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454

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PUBLIC SECTOR EUROPE