CREDIT OPINION
30 September 2024

Update

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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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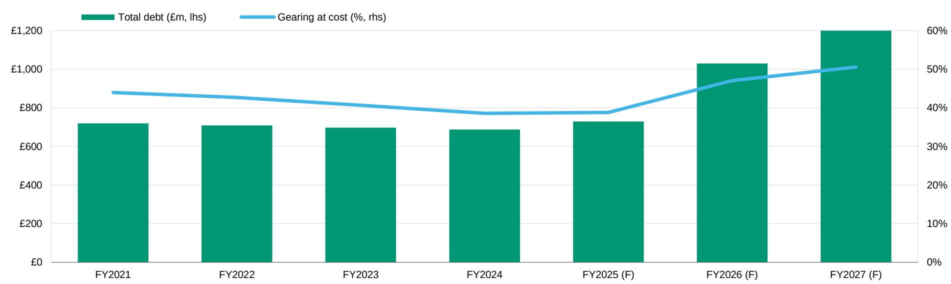
Great Places Housing Group (UK)

Update to credit analysis

Summary

The credit profile of Great Places Housing Group (Great Places, A3 stable) reflects its strong balance sheet, its solid operating margin, an expected 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 stable) would act in a timely manner to prevent a default.

Exhibit 1
Great Places' debt is expected to increase, bringing its low gearing closer to A3 peers
Total debt (£m, lhs), gearing at cost (%, rhs), FY2021-FY2027 (F)



F: Forecast
Source: Great Places and Moody's Ratings

Credit strengths

» Strong balance sheet with relatively low gearing

» Solid financial performance

» Supportive institutional framework

Credit challenges

» Increasing capital expenditure driving lower liquidity coverage

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

Rating outlook

The stable outlook reflects Great Places' solid balance sheet and operating margin, balanced by its high development ambitions, although slightly reduced.

Factors that could lead to an upgrade

Upward pressure on the rating could result from a significant improvement in interest covers, a material reduction in debt projections or a significant increase in government support for the sector. An upgrade of the UK government's rating could also exert positive pressure on the ratings.

Factors that could lead to a downgrade

Downward pressure on the ratings could result from a prolonged weakening in operating performance, a significant increase in leverage and reduction in liquidity. Lower government support for the sector or a dilution of the regulatory framework could also lead to downward pressure on the rating. A downgrade of the UK government's rating could also exert negative pressure on the rating.

Key indicators

Exhibit 2

Great Places Housing Group	31-Mar-20	31-Mar-21	31-Mar-22	31-Mar-23	31-Mar-24	31-Mar-25 (F)	31-Mar-26 (F)
Units under management (no.)	19,134	24,117	24,661	25,229	26,199	27,262	28,499
Operating margin, before interest (%)	28.6	25.8	25.3	23.6	25.0	26.0	25.6
Net capital expenditure as % turnover	16.4	25.1	21.9	27.4	33.2	61.4	138.6
Social housing letting interest coverage (x times)	1.2	1.0	1.1	1.1	1.3	1.3	1.0
Cash flow volatility interest coverage (x times)	1.3	1.4	1.4	1.7	0.6	0.8	0.9
Debt to revenues (x times)	4.5	5.0	4.3	4.2	4.0	3.6	4.6
Debt to assets at cost (%)	46.6	43.9	42.7	40.7	38.6	38.8	47.1

F: Forecast
Source: Great Places and Moody's Ratings

Detailed credit consideration

Great Places' A3 rating combines (1) a baseline credit assessment (BCA) of baa2 and (2) a strong likelihood that the UK government would act in a timely manner to prevent a default.

Baseline credit assessment

Strong balance sheet with relatively low gearing

Great Places retains a strong balance sheet relative to peers, with gearing standing at 39% in fiscal 2024, well below the estimated A3-rated peer median of 51%. Gearing is expected to significantly increase to 51% by fiscal 2027, bringing it closer to rated peers (53% the same year). The increase will be driven by a sharp rise in debt to £1,184 million in fiscal 2027 to its fund development programme, from £688 million in fiscal 2024. While the debt increase is substantial, it follows a period of deleveraging for Great Places between fiscal 2021 and 2024. To fund its development between fiscal 2021 and 2024, Great Places used cash, surplus from fixed asset sales and high levels of capital grants.

The strong balance sheet supports the group's strong headroom against its gearing covenants while headroom on interest cover covenant is tight, despite the removal of the EBITDA-MRI covenant. Performance against its tightest interest cover covenant is expected to stand at 1.53x in fiscal 2026 compared to a 1.4x test. Great Places' golden rules stipulate that gearing should be below 55%, compared to a test at 65%, and interest cover remain above 1.5x.

Solid financial performance

Great Places expects its operating margin to average 26% over the next three years, from 25% in fiscal 2024. Whilst the HA will face increased spending on energy efficiency with its target to bring its stock to EPC-C by 2028 and stock quality with increased volumes of repairs and a commitment to tackle damp and mould, Great Places benefits from disinflation and a return to CPI+1 in fiscal 2025 and 2026 for social housing rents. Besides, Great Places expects to build more than 1,000 units a year over fiscal 2025-2029, boosting social housing lettings and market sales income. Delays on the development programme, as observed in fiscal 2024, would negatively impact its operating margin.

Great Places' social housing lettings interest coverage (SHLIC) will average 1.1x over the next three years from 1.3x in fiscal 2024, as interest costs increase with higher debt levels. Interest coverage ratios are supported by low interest rate risk, with 96% (including interest rate swaps) of its drawn debt at fixed rates as of fiscal year end 2024.

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 regular programmed inspections for HAs with more than 1,000 units. The regulator has a strong track record of intervention in cases of mismanagement or financial stress.

The operating environment for English housing associations remains supportive. Demand for social housing is very high and English housing associations retain some expenditure flexibility, with a track record of controlling costs to mitigate lower income. The UK government confirmed that for fiscal 2026, rent increases within the English sector will be pegged at the September Consumer Price Index (CPI) plus 1%. The one-year extension of the rent settlement is positive, although it does not provide clarity over the medium-term.

Increasing capital expenditure driving lower liquidity coverage

Great Places' capital expenditure (capex) will rise significantly over the next few years, driving lower liquidity coverage and higher debt. Gross capex is set to double to £321 million by fiscal 2026 from £165 million in fiscal 2024. Great Places' net capex to turnover ratio will average 92% over the next three years compared to 33% in fiscal 2024, and the estimated A3-rated peer median of 50% in fiscal 2024.

The primary driver for rising capex is a planned increase in development; completions will peak near 1,730 units in fiscal 2027, up from less than 500 units in fiscal 2024. This remains high, although we note that Great Places decreased its development target to 8,881 new units from the previous 10,000 by 2030. The development programme is weighted towards affordable and social rent, with some supported housing, representing 61% of the developed units over fiscal 2025-2029. Shared ownership will represent a high 34%. Only a small proportion of new units will be for market rent (28 units, less than 1%) and outright sales (4%). These completions include units delivered as part of the Great Places' Strategic Partnership with Homes England.

Carbon transition risk is low for Great Places, with retrofit costs being a very low proportion of total capex. As of fiscal 2024, 83% 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 £28 million by fiscal 2029.

Great Places' liquidity coverage ratio will be materially reduced going forward, driven by weaker liquidity and rising capex. The available liquidity is expected to weaken drastically going forward with the amount falling to £23 million in fiscal 2026 from £460 million in fiscal 2024. Great Places' liquidity policy states that the HA needs to secure funding 18 months before the required need. Whilst the HA has a plan to secure funding before the end of fiscal 2025, it will likely breach its policy. The weak adherence of internal rules is also reflected in Great Places' ba score for financial management.

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

Market sales exposure will remain high (>20% of turnover) over the next three years although fluctuating due to phasing, with Great Places' first-tranche shared ownership (FTSO) sales increasing to around 650 units in fiscal 2027 from about 170 in fiscal 2025.

Whilst this is a risk, Great Places has a relatively solid track record of performance on its market sales, with operating margins between 10-17% over the last five years. The group expects its margin on market sales to average 13% over the next three years compared to 10% in fiscal 2024.

Operating cash flows are expected to remain weak due to market sales cash outflows, in line with Great Places' development plan. Cash flow volatility interest cover dropped to 0.6x in fiscal 2024 from 1.3x the year before and it is expected to average 0.7x over the next three years.

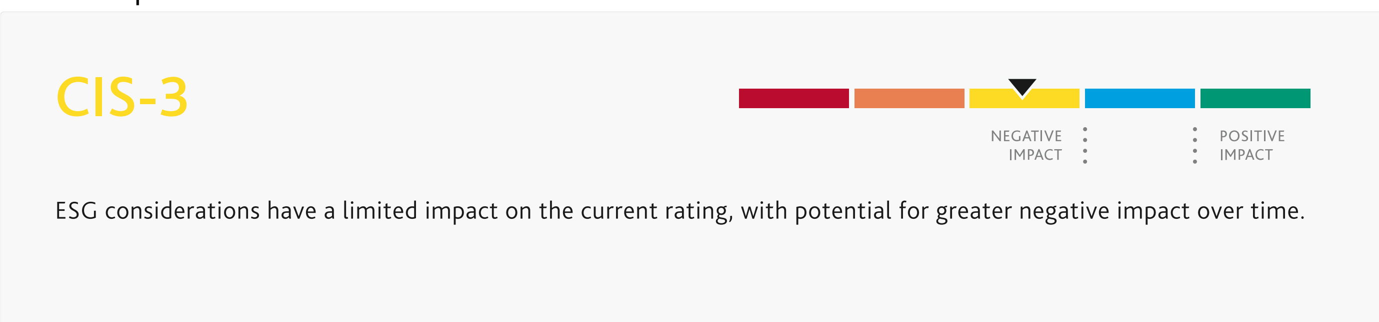
Extraordinary support assumptions

The strong level of extraordinary support factored into the ratings reflects our view of the UK government's support for the housing association sector due to its political, economic and social importance. Extraordinary support for the sector is predominantly exercised through sector regulators whose wide-ranging powers in cases of financial distress include facilitating mergers. However, this process can be protracted and is reliant on housing associations agreeing to merge, which is more challenging in a weakened operating environment, with high expenditure pressures and high borrowing costs. 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 CIS-3

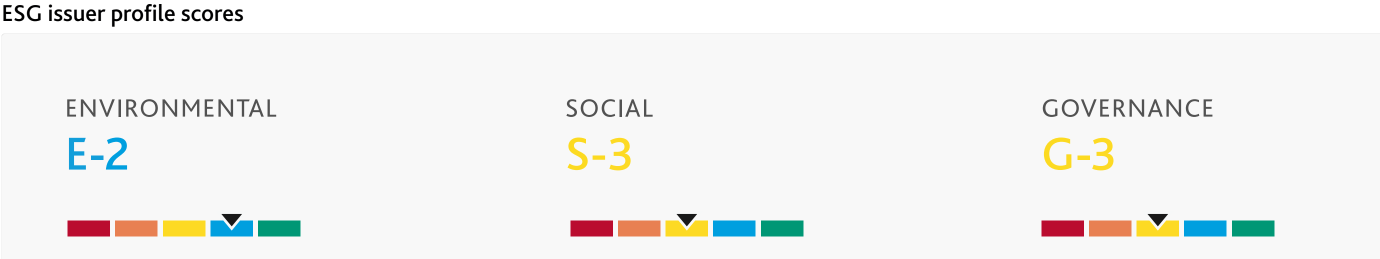
Exhibit 3
ESG credit impact score



Source: Moody's Ratings

Great Places' **CIS-3** reflects our view that ESG risks have a materially negative impact on its rating. Higher risk appetite than peers will weaken credit quality. Increased spending around quality, safety and decarbonisation will weaken margins and increase financing needs.

Exhibit 4
ESG issuer profile scores



Source: Moody's Ratings

Environmental

Great Places has limited exposure to environmental risks (**E-2**). English housing associations have the legislative requirement to improve the energy efficiency of their existing housing stock by 2035 (carbon transition risks), 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, 83% as of fiscal 2024, already meets the required efficiency standards.

Social

Great Places has a material exposure to social risks (**S-3**) through sector-wide legislative requirements to improve the safety of existing housing stock (responsible production risks) which weighs on expenditure and operating margins, and the impacts of cost of living or affordability pressures on social tenants (demographic and societal trends) which led to the UK government capping social rent increases below inflation in fiscal 2024 in England, which will also have a negative impact on margins.

Governance

Great Places has higher governance risks than most of the sector (**G-3**) due to somewhat weaker risk management practices including higher risk appetite in terms of development and market sales exposure and also 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 BCA of baa2 is the same as the scorecard-suggested BCA.

The methodologies used in this rating were European Social Housing Providers rating methodology, published in July 2024, and Government Related Issuers rating methodology, published in January 2024.

Exhibit 5
Great Places' 2024 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%	26,199	a
Factor 3: Financial Performance			
Operating Margin	5%	25.0%	a
Social Housing Letting Interest Coverage	10%	1.3x	baa
Cash-Flow Volatility Interest Coverage	10%	0.6x	b
Factor 4: Debt and Liquidity			
Debt to Revenue	5%	4.0x	ba
Debt to Assets	10%	38.6%	baa
Liquidity Coverage	10%	0.6x	baa
Factor 5: Management and Governance			
Financial Management	10%	ba	ba
Investment and Debt Management	10%	baa	baa
Scorecard - Indicated BCA Outcome			**baa2**
Assigned BCA			**baa2**

Source: Great Places and Moody's Ratings

Ratings

Exhibit 6

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

Source: Moody's Ratings

REPORT NUMBER 1420826

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