

## CREDIT OPINION

27 October 2023

Update

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### RATINGS

#### Places for People Homes Limited

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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# Places for People Homes Limited (UK)

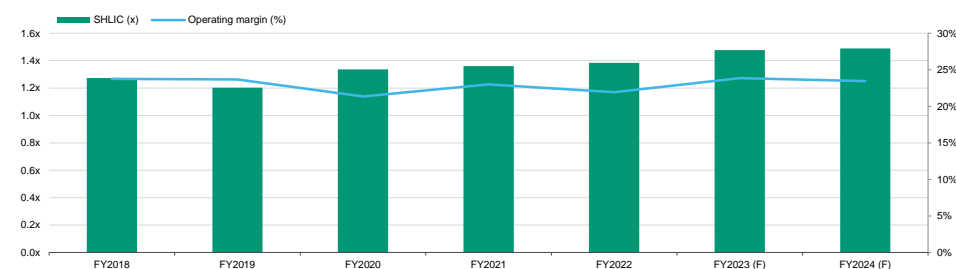
Update following outlook change to stable from negative

## Summary

The credit profile of [Places for People Homes Limited](#) (PpP, A3 stable) reflects its large and diverse operations, strong liquidity and expected reduction in non-core activities. This is counterbalanced by its weaker profitability relative to peers and historically more opportunistic strategy with a high proportion of non-social housing income. The rating further takes into account our assessment that there is a strong likelihood that the government of the [United Kingdom](#) (UK, Aa3 stable) would intervene in the event that the association faced acute liquidity stress. Places for People Homes is the key operating subsidiary of and is fully owned by Places for People Group Limited. Commentary for Places for People Homes relates to consolidated accounts of the entire Places for People Group.

### Exhibit 1

**Places for People's profitability has been historically weaker but has been improving**  
 Social housing letting interest cover (x, LHS), operating margin (%), FY2018-FY2024 (F)



F: Forecast based on 2022 business plan.

Source: Places for People, Moody's Investors Service

## Credit Strengths

- » One of the largest providers of social housing in the country with diverse operations
- » Strong liquidity position and unencumbered assets
- » Supportive institutional framework in England

## Credit Challenges

- » Historically more opportunistic strategy combined with significant exposure to commercial activities
- » Weaker profitability underpinned by non-social housing activities
- » Relatively high gearing

## Rating Outlook

The stable outlook reflects the expected gradual reduction in inflation and associated cost pressures as well as the proactive actions taken by PFP to mitigate the adverse effects of the weaker operating environment, thereby limiting development risk.

## Factors that Could Lead to an Upgrade

Upward pressure on the ratings could result from a significant improvement in operating performance, a material reduction in debt or a significant increase in government support for the sector, especially significantly higher levels of capital grants.

## Factors that Could Lead to a Downgrade

Downward pressure on the ratings could result from a prolonged weakening in operating performance, debt growing more quickly than forecasts, weaker liquidity or a failure to adapt strategies and risk appetite to mitigate against weaker economic conditions. Lower government support for the sector or a dilution of the regulatory framework could also lead to downward pressure on the ratings.

## Key Indicators

Exhibit 2

PfP Homes	31-Mar-18	31-Mar-19	31-Mar-20	31-Mar-21	31-Mar-22	31-Mar-23 (F)	31-Mar-24 (F)
Units under management (no.)	196,904	194,880	206,941	217,297	228,500	228,889	230,235
Operating margin, before interest (%)	23.8	23.7	21.4	23.0	21.9	23.9	23.4
Net capital expenditure as % turnover	32.4	38.5	22.6	12.4	21.6	14.2	15.3
Social housing letting interest coverage (x times)	1.3	1.2	1.3	1.4	1.4	1.5	1.5
Cash flow volatility interest coverage (x times)	1.1	1.0	1.4	1.3	1.6	1.8	1.5
Debt to revenues (x times)	3.7	3.4	3.5	3.6	3.5	3.6	3.2
Debt to assets at cost (%)	60.6	59.5	58.6	58.8	58.5	57.1	55.4

F: Forecast based on 2022 business plan.

Source: Places for People, Moody's Investors Service

## Detailed Rating Considerations

On 25 October 2023, Moody's changed the outlook to stable from negative and affirmed Places for People's ratings. The change in outlook followed Moody's change in outlook of the Government of the United Kingdom's Aa3 rating to stable from negative on 20 October 2023.

Places for People's rating combines (1) its Baseline Credit Assessment (BCA) for the entity of baa2 and (2) a strong likelihood of extraordinary support coming from the UK government in the event that Places for People faced acute liquidity stress.

## Baseline Credit Assessment

### One of the largest providers of social housing with diverse operations

Places for People is one of the UK's largest social housing landlords and operates throughout Great Britain. At year end 2022, Places for People managed more than 200,000 units across a wide range of housing tenures across the UK. Of these, approximately one-third are social housing, with two-thirds other tenures including market rent and student housing.

Places for People's operations are more wide-ranging than most of its rated peers. The group operates more than 20 different companies and has a substantial portion of non-housing income; the largest contributors to non-social housing income in fiscal 2022 were outright sales (£170 million) and leisure facilities (£120 million), which together accounted for 32% of turnover. This is down from pre-pandemic levels when these sources contributed 40% of turnover in fiscal 2020 as income from both fell due to the impact of the pandemic on operations. Lockdown measures depressed leisure income which declined significantly in fiscal 2021 to £88 million, partly offset by support received from local authorities and through the government's furlough scheme. Whilst the leisure income increased in fiscal 2022, it remains below the pre-pandemic level of £154 million in fiscal 2020.

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While the group's diversification does provide some counterbalance to any weaknesses in particular markets and can strengthen relationships with local authorities, some of its activities are less profitable than traditional social housing and therefore weigh on the group's profitability and interest cover ratios. Places for People are aiming to reduce its exposure to some of its non-core business on the non-regulated side of the group and is aiming to focus more on its traditional social housing activities. In January 2023, PfP sold Millwood Designer Homes as part of its strategy to move away from non-core activities. Places for People's development strategy is focused on placemaking and regeneration with an aim to develop mixed-tenure communities and serve a wide range of tenants and tenant needs. Places for People employs a varied strategy across regions, working closely with local governments to meet housing need.

The group's strategy incorporates continued growth primarily through new development, but the group is open to additional acquisitions. The five-year 2022 development plan includes nearly 10,700 new homes to be delivered, with 59% from socially rented homes, 18% shared ownership, 17% outright sales, 5% supported housing and 1% care homes. This is a moderate increase from last year where Pfp were targeting 9,700 new homes over a five-year period. Nonetheless, Pfp has significant flexibility over its programme with 13% committed spend between fiscals 2023 and 2027.

Despite a significant development pipeline, Places for People's net capital expenditure (capex) to turnover ratio will be below peers. Net capex to turnover will average 17% over the next three years compared to a rated peer median of 28% (fiscal 2022).

### **Strong liquidity position and unencumbered assets**

Places for People maintains a strong liquidity position which strengthened in fiscal 2022 due to management's decision to continue to hold higher liquidity to mitigate elevated economic and political risk in the UK. Pfp has previously been proactive in its management of liquidity in response to the pandemic and associated economic challenges, where it increased its liquidity position.

As of October 2022, immediately available liquidity, represented by cash and facilities ready for immediate drawdown, stood at over £1.1 billion. Immediately available liquidity covered 3.5x the forward looking two-year cash need, up from 2.9x in fiscal 2021. This strengthening was driven by a combination of improved liquidity holdings and a decline in anticipated net capital expenditure relative to the previous year. Liquidity coverage considerably exceeds the rated peer median of 1.5x (fiscal 2022). In addition, Places for People has approximately £984 million of unencumbered assets it could utilise for additional secured borrowing.

Places for People strengthened its liquidity policy in fiscal 2021 to be in line with peers, now requiring 18 months of cash. Although the group's liquidity position has historically been stronger than peers, its old policy was weaker than peers, requiring liquidity to cover a minimum 12 months of cash. Additionally, due to the uncertainty in the markets at the start of the pandemic, the Group had held sufficient liquidity for over 30 months, a conservative approach. Given the group's modest capex forecasts, we expect liquidity coverage to remain relatively strong over the next couple of years.

### **Supportive institutional framework in England**

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 and implemented a 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 was in place until March 2025.

### Historically more opportunistic strategy combined with significant exposure to commercial activities

Historically, Places for People has pursued a more opportunistic strategy, which has led to the organisation engaging in a very diverse range of businesses across six key areas: 1) affordable housing; 2) property management; 3) leisure facilities management; 4) development; 5) placemaking and regeneration; and 6) fund management. While some of its commercial activities do provide relatively stable cash flows for the group, particularly the long-dated contract-based income from local authorities, overall the strategic unpredictability and low profitability of non-core activities hinder the credit quality of the association.

Places for People's percentage of turnover from low-risk social housing lettings was only 43% in fiscal 2022, the lowest of all Moody's-rated housing associations, and is expected to remain low averaging 43% over the next three years compared to a rated peer median of 76% (fiscal 2022). Market sales exposure is expected to remain a level we deem high (23% in fiscal 2022), averaging 26% over the next three years. This brings risks to Places for People in a weakening macroeconomic environment and housing market downturn.

### Weaker profitability underpinned by non-social housing activities

Places for People's overall profitability for the group has historically been weaker than peers due to a significant focus on non-social housing activities despite strong performance on its social housing lettings business. The group's operating margin rose to 22% in fiscal 2022 from a low of 18% in fiscal 2015 and is in line with the rated peer median; the metric is projected to average 24% over the next three years. However, elevated levels of inflation and rising costs for maintenance, staff and materials may lead to lower margins than projected in Places for People's 2022 business plan. PfP's social housing margin was a very strong 48% in fiscal 2022, significantly above the rated peer median of 27%. On the other hand, the margin on its non-social housing activities was -0.2% in fiscal 2022, despite contributing 52% of revenues; the weak profitability on non-social housing activities dampens PfP's overall profitability.

Places for People has aimed to improve its profitability over recent years and has achieved group-wide cost reductions through digitisation of customer services, lower headcount, procurement savings, and efficiencies from enhanced technologies. The additional savings are expected to come from further procurement savings in addition to higher margins on its affordable and supported housing businesses.

Social housing letting interest coverage (SHLIC) is an important metric particularly for very diverse organisations like Places for People since it measures the ability of core, low-risk activities to cover interest costs. In fiscal 2022, SHLIC was 1.4x, the same as in fiscal 2021, and above the A3-rated peer median of 1.1x. According to its 2022 business plan, SHLIC is expected to average 1.5x over the next three years as the group delivers on its planned savings, balanced with rising interest costs. Given cost pressures, however, these savings could be difficult to achieve, combined with the 7% cap on social rent increases in April 2023.

Places for People's high market sales exposure increases the potential for cash flow volatility. Cash flow volatility interest cover (CVIC), which adjusts for volatility in pre-interest cash flow from operations, was 1.6x in fiscal 2022 compared to the A3-rated peer median of 1.7x. CVIC is expected to remain broadly stable over the next three years, averaging 1.8x.

### Relatively high gearing combined with some complexity in debt portfolio

Places for People will retain a relatively high level of indebtedness relative to peers, a credit challenge. The group's debt (net of cash) stood at £3.1 billion in fiscal 2022, a slight increase from the previous year. While debt to revenues is relatively low compared to rated peer median, gearing remains high at 58% in fiscal 2022 compared to rated peer median of 49%.

Debt will continue to grow with net debt projected to reach £3.7 billion by fiscal 2027. Nonetheless, growth in reserves will lead to an improvement in gearing over the next few years. Gearing is expected to decrease to 55% by fiscal 2024. Due to its sizeable turnover generation across different business streams, debt to revenues will remain strong compared to peers, averaging 3.3x over the next three years, compared to a rated peer median of 4.1x in fiscal 2022. Places for People issued their first £300 million sustainability bond in January 2022, due in January 2036, in line with their Sustainable Finance Framework, with the proceeds expected to be used to fund its decarbonisation works and development of affordable housing.

Places for People has some complexity in its debt structure including foreign currency-denominated debt, mark-to-market exposure, and unsecured borrowing. In order to mitigate the risk of fluctuations in its foreign currency borrowing (USD, JPY, HKD, AUD and EUR), the group uses standalone currency interest rate swaps, which had a manageable mark-to-market value of £69 million as of September

2022. While the debt portfolio is more complex than some of its peers, the diversification of its investor base does widen its access to capital.

Places for People established a medium-term objective to borrow 60% of its debt on an unsecured basis. In fiscal 2022, unsecured borrowings constituted 69% of total borrowings, an increase from 66% in fiscal 2021. The strategy to borrow unsecured is relatively unique for the sector as most peers borrow on a secured basis. The unsecured debt is subject to an unencumbered assets test of 1.1x.

### Extraordinary Support Considerations

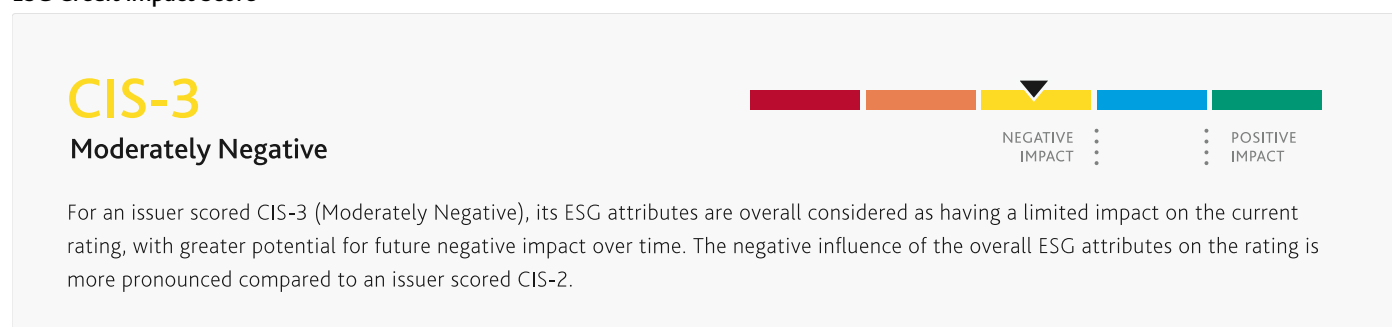
The strong level of extraordinary support factored into the rating reflects the wide-ranging powers available to the regulator in cases of financial distress, with the possibility of a facilitated merger or a transfer of engagements. However, the process can be protracted and is reliant on HAs agreeing 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 Places for People and the UK government reflects their strong financial and operational linkages.

## ESG considerations

### Places for People Homes Limited's ESG Credit Impact Score is Moderately Negative CIS-3

Exhibit 3

#### ESG Credit Impact Score



Source: Moody's Investors Service

PfP's **CIS-3** reflects our view that ESG risks have a materially negative impact on its rating. In particular, expenditure requirements related to the carbon transition and building safety will weaken margins and increase financing needs, as well as affordability constraints for low-income tenants which have led to government-imposed sub-inflationary rent caps. Higher risk appetite than peers will weaken credit quality.

Exhibit 4

#### ESG Issuer Profile Scores



Source: Moody's Investors Service

### Environmental

PfP has a material exposure to environmental risks (**E-3**) relating to a significant proportion of its stock requiring retrofit to meet energy efficiency standards by 2035 (carbon transition risks), leading to increased expenditure.

### Social

PfP 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

PfP has higher governance risks than most of the sector (**G-3**) due to somewhat weaker management track record than peers, with historically more opportunistic strategies than peers, which has led the organisation to engage in a very diverse range of businesses, a relatively more complex debt structure and more complex organisational structure.

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 below the scorecard-suggested BCA for fiscal 2022, but we expect the suggested BCA to move closer to the assigned one due to challenging operating environment. The assigned BCA reflects the complexity of PfP's business and its historically more opportunistic strategic.

The methodologies used in this rating were [European Social Housing Providers](#), published in April 2018, and [Government Related Issuers](#), published in February 2020.

Exhibit 5

#### Places for People's 2022 scorecard

PfP Homes			
Baseline Credit Assessment	Sub-factor Weighting	Value	Score
<b>Factor 1: Institutional Framework</b>			
Operating Environment	10%	a	a
Regulatory Framework	10%	a	a
<b>Factor 2: Market Position</b>			
Units Under Management	10%	228,500	aaa
<b>Factor 3: Financial Performance</b>			
Operating Margin	5%	21.9%	baa
Social Housing Letting Interest Coverage	10%	1.4x	baa
Cash-Flow Volatility Interest Coverage	10%	1.6x	baa
<b>Factor 4: Debt and Liquidity</b>			
Debt to Revenue	5%	3.5x	baa
Debt to Assets	10%	58.5%	b
Liquidity Coverage	10%	3.5x	aa
<b>Factor 5: Management and Governance</b>			
Financial Management	10%	ba	ba
Investment and Debt Management	10%	baa	baa
<b>Scorecard - Indicated BCA Outcome</b>			<b>a3</b>
<b>Assigned BCA</b>			<b>baa2</b>

Source: Moody's Investors Service, Places for People

## Ratings

Exhibit 6

<b>Category</b>	<b>Moody's Rating</b>
<b>PLACES FOR PEOPLE HOMES LIMITED</b>	
Outlook	Stable
Baseline Credit Assessment	baa2
Issuer Rating -Dom Curr	A3
Senior Unsecured	A3
Bkd Other Short Term -Dom Curr	(P)P-2
<b>PLACES FOR PEOPLE TREASURY PLC</b>	
Outlook	Stable
Bkd Senior Unsecured	A3
<b>PLACES FOR PEOPLE CAPITAL MARKETS PLC</b>	
Outlook	Stable
Bkd Sr Unsec MTN -Dom Curr	(P)A3
Bkd Other Short Term -Dom Curr	(P)P-2

Source: Moody's Investors Service

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