S&P Global
Ratings

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Research Update:

U.K.-Based Places for People Group Ltd. Outlook Revised To Negative; 'A-' Ratings Affirmed

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Overview

- In our view, U.K.-based social housing provider Places for People's (PfP's) performance would improve gradually on the back of moderation of investments in existing homes and rent increases outpacing cost growth.
- Furthermore, we anticipate that the integration of Origin Housing into the group will not materially impact PfP's financials.
- Nevertheless, we see risks that PfP's cost base will remain high, which, combined with large debt-funded development aspirations, could result in weaker credit metrics.
- We therefore revised our outlook on PfP to negative from stable and at the same time, affirmed our 'A-' ratings PfP and the group's issued debt.

Rating Action

On Oct. 30, 2024, S&P Global Ratings revised its outlook on U.K.-based social housing provider Places for People Group Ltd. (PfP) to negative from stable. At the same time, we affirmed the 'A-' long-term issuer credit rating on PfP.

We also revised our outlook on Places for People Treasury PLC, a finance vehicle that we consider a core subsidiary of the group, to negative from stable, and affirmed the 'A-' long-term issuer credit rating.

We further affirmed our 'A-' issue ratings on the group's senior secured and unsecured debt and the senior unsecured medium-term note program issued by Places for People Treasury and Places for People Homes. We consider Places for People Homes to also be a core subsidiary of the group, as an issuer of the group's medium-term note program and the main asset-holding subsidiary.

Outlook

The negative outlook reflects the risks that higher costs, related for example to investments in existing stock, in combination with ambitious development and absorption of weaker entities aspirations, may weaken the group's credit metrics on a sustained basis.

We could lower the rating in the next 24 months if we see S&P Global Ratings adjusted EBITDA margins remaining around 15% and interest cover substantially below 1x on a sustained basis.

Upside scenario

We could revise the outlook to stable if management's actions to contain costs are effective, such that the group performs in line, or better, than our base-case scenario.

Rationale

The outlook revision reflects heightened risks that PfP's financial metrics will be weaker than we currently project, due to higher costs on existing stock or development of new homes. PfP is one of the largest social housing providers in the U.K., with a strong track record of successfully absorbing weaker entities. We project that PfP's management will recover its financials indicators after two fairly weak years. This is underpinned by balancing cost pressures, delivering efficiencies in its repairs model, cost controls, and rents growth outpacing costs inflation. That said, we consider that the group's financial headroom had tightened, such that our projected recovery may be delayed and credit metrics will remain at current levels.

Enterprise profile: Economies of scale from a large asset base spread across England and Scotland support the rating on PfP

PfP is one of the largest housing associations in the U.K., supporting its financial capacity and operational performance. Following the merger with Origin, we project the group will own about 80,000 social, affordable, and shared-ownership rental units. Including managed units, the number of units PfP oversees to about 250,000, spread over England and Scotland. The group's activities are more diversified than many peers', including management of leisure facilities, property management, development, and construction services. Although we think these could bring more volatility to financial results and carry operational challenges, we consider them less risky than sales activities, and that PfP has adequately managed these in the past. In our forecast, we expect the group's exposure to sales activity will increase, but remain below one-third of total revenue.

We expect that demand for the group's properties and services will remain sound. PfP's social and affordable rent and service charges, compared with average market rent, remains under 60%, and its average vacancy rates stood at 1.6% over the past three years, and we consider this to be in line with the sector average.

We think that PfP's management has sound experience with managing its diversified operations and accommodating for complex business combinations. Its large asset base also offers more flexibility in making development decisions compared with smaller providers, and we think it is not over-reliant on sales of fixed assets to achieve its financial targets. Nevertheless, PfP is set to maintain high levels of investments in existing homes, while ramping up an ambitious development program and incorporating Origin into the group. We think these tighten the group's financial headroom.

We assess the regulatory framework under which registered providers of social housing in England operate as strong (see "Regulatory Framework Assessment: Social Housing Providers In The U.K. Benefit From Strong Regulatory Frameworks," published Oct. 23, 2023, on RatingsDirect).

Financial profile: We expect PfP's financial metrics will recover, but remain weaker than historical ones due to continued high investments in existing homes and debt funding of new homes

We project PfP's adjusted EBITDA margins will gradually improve from a weak fiscal 2024 (ended March 31, 2024) but remain below a modest 20% through fiscal 2027. In our view, the weaker-than-historical performance over the past two years reflects high cost inflation, enhanced regulatory requirements, and significantly increased demand for repairs services, while rents growth was well below inflation. Our base-case assumes that some of these pressures will persist in the current fiscal year, before recovery as the group shifts focus from reactive to proactive investments in homes, and rent increases outpace cost inflation. The group's large share of non-traditional activities, including sales, will nonetheless constrain further improvement in margins, in our view.

Debt metrics are expected to stay weak through our forecast horizon, as PfP ramps up debt-funded development spend. Beyond the additional units from mergers, we expect gross development of new units to be quite ambitious, at about 3% per year. This will be funded by a combination of sales proceeds, from newly developed and existing assets, as well as grant funding, PfP will increase its debt faster than we previously projected. The group usually holds 20%-25% of its debt at variable rates, which additionally weakened its interest coverage over the past two years because of elevated interest rates. We expect that a gradual decline in rates will alleviate some of these pressures in the coming two to three years.

We forecast PfP's liquidity position will remain very strong over the next 12 months, underpinned by a sources to uses ratio of about 1.6x and our view of the group's strong access to external liquidity. Over the coming year, we forecast the group's liquidity sources will stand at about £1.65 billion, comprising cash, large amount of undrawn and available revolving credit facilities, asset sales, grant receipts, and cash from operations (adding back the noncash cost of sales), while we forecast liquidity uses will stand at about £1.05 billion (mainly capital expenditure and debt service payments). The group has a diversified pool of lenders and a proven strong track record of accessing the debt capital markets, which we consider positively in our assessment.

Government-related entity analysis

We believe there is a moderately high likelihood that PfP would receive timely extraordinary government support in case of financial distress. This leads to a two-notch uplift from the stand-alone credit profile. As one of the Regulator of Social Housing's (RSH's) key goals is to maintain lender confidence and low funding costs across the sector, it is likely that the RSH would step in to try and prevent a default in the sector, in our opinion. We base this view on previous records of the RSH mediating mergers or arranging liquidity support from other registered providers in cases of financial distress and think this would also apply to PfP.

Selected Indicators

Table 1

Places for People Group Limited--Financial statistics

	--Year ended March 31--				
Mil. £	**2023a**	**2024a**	**2025bc**	**2026bc**	**2027bc**
Number of units owned or managed	240,129	245,272	254,276	255,617	257,310
Adjusted operating revenue	827	809	1,102	1,149	1,241
Adjusted EBITDA	135	99	172	208	239
Nonsales adjusted EBITDA	120	87	141	177	199
Capital expense	386	395	758	704	728
Debt	3,374	3,684	4,461	4,838	5,115
Interest expense	136	186	221	218	229
Adjusted EBITDA/Adjusted operating revenue (%)	16.3	12.2	15.6	18.1	19.3
Debt/Nonsales adjusted EBITDA (x)	28.2	42.5	31.6	27.3	25.7
Nonsales adjusted EBITDA/interest coverage(x)	0.9	0.5	0.6	0.8	0.9

a--Actual. e--Estimate. bc--Base case reflects S&P Global Ratings' expectations of the most likely scenario.

Ratings Score Snapshot

Table 2

Places for People Group Limited--Ratings Score Snapshot

	Assessment
Enterprise risk profile	**3**
Industry risk	2
Regulatory framework	3
Market dependencies	2
Management and governance	3
Financial risk profile	**4**
Financial performance	5
Debt profile	6
Liquidity	2
Stand-alone credit profile	bbb
Issuer credit rating	**A-**

S&P Global Ratings bases its ratings on nonprofit social housing providers on the seven main rating factors listed in the table above. Our "Methodology For Rating Public And Nonprofit Social Housing Providers," published on June 1, 2021, summarizes how the seven factors are combined to derive each social housing provider's stand-alone credit profile and issuer credit rating.

Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- Criteria | Governments | General: Methodology For Rating Public And Nonprofit Social Housing Providers, June 1, 2021
- General Criteria: Group Rating Methodology, July 1, 2019
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Cyber Risk Brief: U.K. Public Sector Is Increasingly Under Threat, Oct. 24, 2024
- United Kingdom 'AA/A-1+' Ratings Affirmed; Outlook Stable, Oct. 18, 2024
- Non-U.S. Social Housing Providers Ratings Score Snapshot: March 2024, March 11, 2024
- Non-U.S. Social Housing Providers Ratings Risk Indicators: March 2024, March 11, 2024
- Non-U.S. Social Housing Providers Ratings History: March 2024, March 11, 2024
- U.K. Social Housing Borrowing 2024: Borrowing capacity remains constrained, March 6, 2024
- European Housing Markets: Forecast Brightens Amid Ongoing Correction, Jan. 25, 2024
- Non-U.S. Social Housing Sector Outlook 2024: At A Turning Point?, Nov. 29 2023
- Regulatory Framework Assessment: Social Housing Providers In The U.K. Benefit From Strong Regulatory Frameworks, Oct. 23, 2023
- U.K. Social Housing Providers' Credit Headroom Could Tighten If The Operating Environment Deteriorates, Oct. 4, 2023

Ratings List

Ratings Affirmed	
Places For People Treasury PLC	
Senior Unsecured	A-
Places for People Homes Ltd.	
Senior Secured	A-
Senior Unsecured	A-

Ratings Affirmed; Outlook Action

	To	From
Places for People Group Ltd.		
Places For People Treasury PLC		
Issuer Credit Rating	A-/Negative/--	A-/Stable/--

Certain terms used in this report, particularly certain adjectives used to express our view on rating relevant factors, have specific meanings ascribed to them in our criteria, and should therefore be read in conjunction with such criteria. Please see Ratings Criteria at www.spglobal.com/ratings for further information. A description of each of S&P Global Ratings' rating categories is contained in "S&P Global Ratings Definitions" at https://disclosure.spglobal.com/ratings/en/regulatory/article/-/view/sourceId/504352. Complete ratings information is available to RatingsDirect subscribers at www.capitaliq.com. All ratings affected by this rating action can be found on S&P Global Ratings' public website at www.spglobal.com/ratings. Alternatively, call S&P Global Ratings' Global Client Support line (44) 20-7176-7176.