Research Update:

# U.K. Social Housing Provider Futures Housing Group Ltd. Downgraded To 'A'; Outlook Stable

**October 11, 2024**

PRIMARY CREDIT ANALYST

**Colleen Sheridan**
London
+44-20-7176-0561
colleen.sheridan@spglobal.com

SECONDARY CONTACT

**Karin Erlander**
London
+ 44 20 7176 3584
karin.erlander@spglobal.com

## Overview

- We expect Futures Housing Group's increased investments in existing properties will weaken financial indicators as compared with prior expectations.
- We forecast S&P Global Ratings-adjusted EBITDA margins will remain below 20% through fiscal year 2027.
- We therefore lowered our long-term issuer credit rating on Futures Housing Group to 'A' from 'A+'.
- The outlook on the 'A' long-term rating is stable.

## Rating Action

On Oct. 11, 2024, S&P Global Ratings lowered its long-term issuer credit rating on U.K. social housing provider Futures Housing Group (FHG) to 'A' from 'A+'. The outlook is stable.

We also lowered to 'A' from 'A+' our long-term issue rating on the £270 million bond issued in February 2019 by Futures Treasury PLC, the group's funding vehicle set up for the sole purpose of issuing bonds and lending the proceeds to FHG.

## Outlook

The stable outlook reflects our view that FHG's management team will manage costs and utilize flexibility to limit further pressure from high investments in existing stock.

### Downside scenario

We could lower the rating on FHG if management adopts a more aggressive strategy that leads to financial metrics materially weaker than our projections, such as interest cover below 1.0x on a sustained basis.

### Upside scenario

We could raise the rating if FHG contains costs, such that S&P Global Ratings-adjusted EBITDA margins exceed and remain above 20%, with limited debt buildup and liquidity sustained at very strong levels.

## Rationale

The downgrade reflects our expectation that FHG's increased investments in existing homes will keep S&P Global Ratings-adjusted EBITDA margins from strengthening past 20% over the next two years. We expect an overall weakening across FHG's financial metrics because of the higher-than-anticipated costs and overspend on repairs. That said, we expect management's solid strategic planning and prudent risk management, alongside very strong liquidity, will support a gradual recovery, though not to levels previously forecast.

### Enterprise profile: Supported by predictable earnings, with limited exposure to sales risk and strong management.

FHG benefits from generating most of its earnings in the predictable and countercyclical English social-housing sector, with less than 15% of its adjusted operating income from sales activity related to shared ownership. The group owns and manages about 10,700 homes in the East Midlands in England. FHG continues to see strong demand for its properties, with its social and affordable rents at about 67% of the average market rent in the region. Despite increased costs related to void properties in the last fiscal year (ended March 31, 2024), we consider FHG's three-year average vacancy rate of 1.2% to be at par with the sector average.

We continue to view management as a key rating strength. We think FHG is managing risks and maintaining flexibility in its development plan to contain additional pressure on metrics and limit the need for new debt. We anticipate management will proactively secure grant opportunities, when possible, to support investments in existing and new homes. As of March 31, 2024, 60% of FHG's stock was at or above the Energy Performance Certificate C level. We think FHG is on track to achieve its 2030 decarbonization targets though we expect spend, along with other cost increases, will continue to hamper the group's financial performance.

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: Sizable investments in existing stock will constrain financial metrics.

We expect FHG will not achieve the improvements in S&P Global Ratings-adjusted EBITDA margins that we previously projected. Instead, we forecast the adjusted margin will only near 20% by fiscal 2027. We project costs to increase particularly in fiscal 2025 and remain high. Despite weaker financial performance relative to prior expectations, FHG's adjusted EBITDA margins should still improve after fiscal 2025 supported by our assumptions that rental growth will exceed inflation and that FHG's investments will remain stable, albeit elevated, through to fiscal 2027.

We expect the impact of weaker financial performance on debt metrics to be contained since we project limited debt need and minimal interest rate risk over the next two years. We project S&P Global Ratings-adjusted debt to non-sales adjusted EBITDA and non-sales adjusted EBITDA interest cover to remain above 20x and 1.0x, respectively, through fiscal 2027.

We forecast FHG's liquidity position will remain very strong based on our projection that the group's liquidity sources will cover uses by approximately 2.6x over the next 12 months. We expect the liquidity ratio to trend down slightly as FHG reduces its very high cash balance from 2022 pre-funding to deliver 200-250 new units annually and repay upcoming maturity and interest. We forecast liquidity sources of about £161 million, comprising cash, undrawn and available revolving credit facilities, asset sales, grant receipts, and cash from operations (adding back the noncash cost of sales) to cover liquidity uses of about £61 million (mainly capital expenditure and debt service payments). Also, we assume FHG will continue to have satisfactory access to debt capital markets.

## Government-related entity analysis

We think there is a moderately high likelihood that FHG would receive timely extraordinary government related support in case of financial distress. This provides a one-notch uplift in the stand-alone credit profile (SACP). As one of the key goals of the Regulator of Social Housing (RSH) is to maintain lender confidence and low funding costs across the sector, we believe it is likely that the RSH would step in to try and prevent a default in the sector. 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 FHG.

# Key Statistics

Table 1

### Futures Housing Group--Key Statistics

| | --Year ends March 31-- | | | | |
|---|---|---|---|---|---|
| **Mil. £** | **2023a** | **2024a** | **2025bc** | **2026bc** | **2027bc** |
| Number of units owned or managed | 10,502 | 10,706 | 10,904 | 11,130 | 11,310 |
| Adjusted operating revenue | 58.8 | 64.2 | 71.5 | 75.3 | 76.3 |
| Adjusted EBITDA | 12.3 | 12.2 | 12.7 | 14.2 | 15.1 |
| Non-sales adjusted EBITDA | 12.2 | 11.5 | 11.9 | 13.2 | 14.4 |
| Capital expense | 26.6 | 36.7 | 49.1 | 32.8 | 23.3 |
| Debt | 317.8 | 302.0 | 293.0 | 298.0 | 308.0 |
| Interest expense | 12.7 | 11.6 | 11.0 | 10.8 | 11.2 |
| Adjusted EBITDA/Adjusted operating revenue (%) | 21.0 | 19.0 | 17.8 | 18.8 | 19.8 |
| Debt/Non-sales adjusted EBITDA (x) | 26.0 | 26.2 | 24.7 | 22.5 | 21.3 |
| Non-sales adjusted EBITDA/interest coverage(x) | 1.0 | 1.0 | 1.1 | 1.2 | 1.3 |

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

## Ratings Score Snapshot

Table 2

### Futures Housing Group--Ratings Score Snapshot

| Assessment | Score |
|---|---|
| Enterprise risk profile | 2 |
| Industry risk | 2 |
| Regulatory framework | 3 |
| Market dependencies | 3 |
| Management and Governance | 2 |
| Financial risk profile | 4 |
| Financial performance | 5 |
| Debt profile | 5 |
| Liquidity | 2 |
| Stand-alone credit profile | a- |
| Issuer credit rating | A |

S&P Global Ratings bases its ratings on non-profit social housing providers on the seven main rating factors listed in the table above. S&P Global Ratings' "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

- United Kingdom, April 22, 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
- U.K. Social Housing Providers Set Their Sights On Cyber Risks, Dec. 16, 2022

## Ratings List

**Downgraded**

| | To | From |
|---|---|---|
| **Futures Treasury PLC** | | |
| Senior Secured | A | A+ |

**Downgraded; Outlook Action**

| | To | From |
|---|---|---|
| **Futures Housing Group** | | |
| Issuer Credit Rating | A/Stable/-- | A+/Negative/-- |