S&P Global
Ratings

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Research Update:

U.K. Social Housing Provider Futures Housing Group Ltd. Outlook Revised To Negative; 'A' Rating Affirmed

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Overview

- In fiscal year 2025 (ended March 31), Futures Housing Group (FHG) increased investments in existing homes, driving financial metrics below our expectations.
- We believe management is taking actions to control costs, particularly for void properties; however, we expect high expenditure to maintain and improve existing assets to continue to subdue financial performance.
- We project lower S&P Global Ratings-adjusted EBITDA, combined with higher debt as a result of the reprofile--rather than an increase--of the group's development program will delay improvements in debt metrics.
- We revised the outlook on the long-term issuer credit rating on FHG to negative from stable to reflect the risk that management might not be able to implement its strategy and strengthen metrics as we expect.
- At the same time, we affirmed the 'A' issuer credit rating on FHG.

Rating Action

On Oct. 10, 2025, S&P Global Ratings revised its outlook on the long-term rating on U.K. social housing provider Futures Housing Group to negative from stable. At the same time, we affirmed our 'A' long-term issuer credit rating.

We also affirmed our 'A' 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 negative outlook reflects the risk that management is unable to contain costs and balance investments in new and existing homes so that credit metrics improve.

Downside scenario

We could lower the rating over the next two years if management's efforts to control costs fail or FHG adopts a more aggressive strategy of accelerating investments in existing homes or increasing debt-funded development. Such actions would prevent the financial recovery we currently expect from materializing, with S&P Global Ratings-adjusted nonsales EBITDA interest coverage improving toward 1.2x in the medium term.

Upside scenario

We could revise the outlook to stable if FHG's management successfully executes according to its investment plans and navigates financial pressures such that the group's financial indicators show the clear gradual improvement trend that we project.

Rationale

The outlook revision reflects our view that FHG's management of void properties and acceleration of capitalized repairs hindered the improvement we expected over fiscal 2025. While we think management is taking measures to improve weaker metrics, we expect investment will remain elevated relative to prior projections, which if mismanaged could prevent the recovery we forecast.

Enterprise profile: Underpinned by predictable earnings and limited sales exposure, as management takes steps to improve financial metrics

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 more than 10,900 homes in the East Midlands in England. FHG continues to experience strong demand for its properties, with its social and affordable rents at about 62% of the average market rent in the region. Over the past two years FHG has faced higher costs related to void properties. Despite this, we still consider the group's vacancy rate of 1.4% to be on par with the sector average.

Although investment in existing homes was higher than expected over fiscal 2025 due to accelerated capitalized repairs to address void properties, we believe FHG is taking steps to address these overspends. We believe management is committed to controlling expenditure related to void properties by striving to meet the group's lettable standards. Aiming for higher standards in some cases led to spending pressures in fiscal 2025 that contributed to weaker financial metrics than we expected. Regarding future investments, the group has made provisions within its budget in light of void property trends over the past year and potential updates to building safety standards. We view provisional spend to be conservative, and while we understand roughly 30% of stock has not been surveyed in the last five years, we do not anticipate a spike in investments. As of March 31, 2025, 70% of FHG's stock was at or above the Energy Performance Certificate C level, an increase from 60% in the prior year. We think FHG is on track to achieve its 2030 decarbonization targets. Still, we expect spend, along with other cost increases, will weigh on financial metrics. We think FHG is managing risks and maintaining flexibility in its development plan to contain additional financial pressure, but we still see some execution risk.

We assess the regulatory framework under which registered providers of social housing in England operate as strong (see "Regulatory Framework Assessment: Strong For Social Housing Providers In The U.K.," April 17, 2025, on RatingsDirect).

Financial profile: Sizable investments in existing stock and debt-funded development will delay improvements in financial metrics

We project FHG's adjusted EBITDA margin will improve closer to 20%, but this it will take longer than initially anticipated due to increased investments over fiscal 2025 and in our forecast. Despite weaker financial performance relative to our prior expectations, FHG's adjusted EBITDA margin should still improve supported by our assumptions that rental growth will exceed inflation, management will contain costs, and FHG's investments will be relatively stable, albeit elevated, after fiscal 2026.

We expect more subdued EBITDA expansion alongside higher debt will slow improvements in debt metrics. While the timing of capital expenditure has shifted with a reprofile of some of the group's development, the overall program has not increased across the next three years. The reprofile, however, has pulled funding needs forward, leading to higher debt in our current projections compared to previously for fiscals 2026 and 2027. We expect capital expenditure to peak in fiscal 2026 and result in the greatest debt increase over the forecast as development starts on units that will handover in two to three years. Since FHG already deployed the funds raised in fiscal 2022's bond tap, we project FHG to use the recently secured Affordable Homes Guarantee Scheme loan as well as revolver borrowings to fund its capital expenditure. These shifts result in interest cover not strengthening to 1.3x as we previously expected, though we still expect it to remain above 1.0x before improving.

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 2.3x over the next 12 months. We forecast liquidity sources of about £137 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 £60 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 the event of financial distress. This provides a one-notch uplift to the 'a-' stand-alone credit profile, leading to a long-term issuer credit rating of ‘A'. Since one of the Regulator of Social Housing's (RSH's) key goals 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 the RSH's track record of mediating mergers and arranging liquidity support from other registered providers in cases of financial distress and think this would also apply to FHG.

Key Statistics

Futures Housing Group--Key statistics

	--Year ended March 31--				
Mil. £	**2024a**	**2025a**	**2026bc**	**2027bc**	**2028bc**
Number of units owned or managed	10,706	10,928	11,129	11,393	11,599
Adjusted operating revenue	64.2	75.7	76.2	77.3	82.1
Adjusted EBITDA	12.2	11.9	12.1	15.1	17.3
Non-sales adjusted EBITDA	11.5	10.9	11.5	14.4	16.6
Capital expense	36.7	53.6	57.5	37.3	39.4
Debt	302.0	292.9	335.9	350.9	365.9
Interest expense	11.6	11.4	12.0	13.3	14.1
Adjusted EBITDA/Adjusted operating revenue (%)	19.0	15.7	15.9	19.5	21.1
Debt/Nonsales adjusted EBITDA (x)	26.2	26.9	29.3	24.3	22.1
Non-sales adjusted EBITDA/interest coverage(x)	1.0	1.0	1.0	1.1	1.2

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

Rating Component Scores

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: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- European Housing Markets: Strong Demand And Weak Supply Will Keep Prices High, July 10, 2025,
- U.K. Social Housing Providers: Extra Development Grants Won't Improve Financial Headroom, June 26, 2025
- Non-U.S. Social Housing Providers Ratings Risk Indicators: Stabilization At Lower Levels, May 12, 2025
- Non-U.S. Social Housing Providers Ratings History: April 2025, May 12, 2025
- U.K. Social Housing Borrowing 2025: Focused On Containing Debt, April 24, 2025
- Regulatory Framework Assessment: Strong For Social Housing Providers In The U.K., April 17, 2025
- United Kingdom, April 14, 2025
- European Housing Markets: Better Housing Affordability Supports Recovery, Jan. 27, 2025
- Non-U.S. Social Housing Sector Outlook 2025: Quality Maintenance Constrains Recovery, Jan. 14, 2025
- The Autumn Budget Kicks Off A Funding Regime Revision For U.K. Public Sector Entities, Nov. 5, 2024
- U.K. Social Housing Providers' Financial Capacity Shrinks On Investment Needs, Nov. 4, 2024
- Cyber Risk Brief: U.K. Public Sector Is Increasingly Under Threat, Oct. 24, 2024

Ratings List

Ratings List		
Ratings Affirmed; Outlook Action		
	To	**From**
Futures Housing Group		
Issuer Credit Rating	A/Negative/--	A/Stable/--
Foreign Currency	A/Negative/--	A/Stable/--
Ratings Affirmed		
Futures Treasury PLC		
Senior Secured	A	