FitchRatings

Fitch Affirms 3 English Social Housing Registered Providers; Outlooks Stable

Fitch Ratings-Barcelona/London-08 July 2016: Fitch Ratings has affirmed A2Dominion Housing Group and Great Places Housing Association's Long-Term Issuer Default Ratings (IDR) at 'A+' and Origin Housing Limited's Long-Term IDR at 'A' with Stable Outlooks. A full list of rating actions is below.

There is still a two notch gap between the UK sovereign and the higher rated Social Housing Registered Providers (RPs). The affirmation of the RPs is based on the assumption that any potential negative rating action on the UK sovereign would be limited to one notch.

The more challenging operating environment and increased pressure on public finances as reflected by the downgrade of the UK sovereign, will not necessarily impact the predictability of the cash flow in the form of housing benefit funding and capital grants from the government.

KEY RATING DRIVERS
On 27 June 2016 Fitch downgraded the UK sovereign (see 'Fitch Downgrades the United Kingdom to 'AA'; Outlook Negative' at www.fitchratings.com). This primarily reflected the UK vote to leave the European Union in the referendum on 23 June, which will have a negative impact on the UK economy, public finances and political continuity.

Fitch rates UK Social Housing RPs under its public-sector entities criteria and adopts a bottom-up approach. The standalone assessment of each RP takes into account factors such as demand, operational efficiency, debt dynamics and management. It also incorporates public support factors, notably the strong predictability of the RPs' cash flow through direct and indirect government funding and capital grants. Fitch applies a one-notch uplift to the standalone assessment of the RP reflecting the strong regulatory oversight and likelihood of extraordinary support from the government, although this is not certain. Therefore, the ratings of the RPs do not automatically move in line with those of the UK sovereign.

Nevertheless, the Outlook on the UK sovereign is now Negative and in the event of further downgrade Fitch may re-assess the impact that the sovereign credit metrics weakening would have on the RPs standalone credit profiles, notching uplift and ratings relativity.

The implications of the Brexit vote for the sector will primarily be continued uncertainty and short to medium-term turbulence in the financial markets, which may lead RPs to further delay any planned bond issuances, and put pressure on refinancing. Nevertheless, the RPs we rate already have funding in place for at least the next couple of years.

Other implications could include falls in house prices and deflated volumes transactions, which will impact development programmes; decline in rental costs which may narrow the difference between social housing and market rents; a reduction in the value of the housing (as a result of a slowdown in the housing market); potential development risk with a negative effect on the loan-to-value ratio and on the need for additional assets to be pledged for existing and future debt; rising funding costs (higher interest rates leading to higher borrowing costs in GBP) which could hamper existing development plans; and the negative impact on the UK economy resulting in a deterioration of the overall tenants' solvency leading to increased arrears.

Fitch-rated RPs have already stress tested and ran multi-variable scenarios for their business plans in order to compensate for a significant reduction in turnover over the next four years as a result of the rent cut announced in the 2015 summer budget. In many cases, initial actions were taken to compensate for the rent cut, primarily focusing on cost reductions and operational and efficiency savings as well as increases in other (commercial) activities in order to continue reporting a steady performance. As such, RPs are now in a stronger position, overall, to face negative market impacts.

Scenarios included increases in bad debts, loan portfolios being repriced at higher lending margins, sales prices falling by up to 10%, delays in sales and reductions in proceeds. For most RPs, loan covenant headroom diminished under the multi-variable combined stress testing. To mitigate these effects and to be able to comfortably meet covenants, the RPs put forward corrective measures, including pre-emptive and responsive actions. In our view, many of the possible implications connected with the Brexit vote uncertainty have already been broadly incorporated in the RPs' stress tests.

Fitch will continue to monitor the resilience of its rated RPs and will assess their ability to overcome possible further turmoil. We will also be closely reviewing the robustness of the stress testing of the RPs relative to their ratings, including the impact of the Brexit vote on their business plans, and we will assess the flexibility the rated RPs have to adapt to new market conditions and funding options. RPs may find it more difficult to obtain long-term borrowing from the capital markets. However, we will review this as we discuss borrowing options, credit metrics and funding arrangements with each RP.

RATING SENSITIVITIES
The standalone ratings may be downgraded if there is further pressure on the sector or on individual RPs as a result of the negative operating environment in the UK.

They may also be downgraded in the event of:
- Greater pressure on headroom on existing interest cover and gearing covenants.
- Further reliance on sales receipts than those currently expected.
- Increased volatility in operating revenue as a result of higher exposure to development activities and a significant increase in gearing.
- Further changes passed by government affecting the revenues of RPs.

Any further UK sovereign rating downgrade may lead Fitch to re-assess RPs' standalone credit profiles as well as the one-notch uplift to the standalone assessment of RPs.

The rating actions are as follows:

A2Dominion Housing Group Limited:
Long-Term Foreign and Local Currency IDRs affirmed at 'A+'; Outlooks Stable
Short-Term IDR affirmed at 'F1'
A2D Funding plc and A2D Funding II plc's Long-Term local currency unsecured bonds affirmed at 'A+'

Great Places Housing Association Limited:
Long-Term Foreign and Local Currency IDRs affirmed at 'A+'; Outlooks Stable
Short-Term IDR affirmed at 'F1'
Long-Term local currency secured bonds affirmed at 'A+'

Origin Housing Limited:
Long-Term foreign and local currency IDRs affirmed at 'A'; Outlooks Stable
Short-Term IDR affirmed at 'F1'

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Additional information is available on www.fitchratings.com

Applicable Criteria
Rating of Public-Sector Entities – Outside the United States (pub. 22 Feb 2016) (https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=877128&cft=eyJ0eXAiOiJKV1QiLCJhbGciOiJIUzI1NiJ9.eyJleHAiOjE0NjgwMDI2NzAsInNlc3Npb25LZXkiOiJaQ1M3RzVaVVZJVkZYVUVQMkVOVVZMVERMWEoxQlIzVExST05ZTUNOIn0.tHHdwEcnE9f0dVDsM53UQI_d4MrosPC4bahmorkju0Q)
Revenue-Supported Rating Criteria (pub. 16 Jun 2014) (https://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=750012&cft=eyJ0eXAiOiJKV1QiLCJhbGciOiJIUzI1NiJ9.eyJleHAiOjE0NjgwMDI2NzAsInNlc3Npb25LZXkiOiJaQ1M3RzVaVVZJVkZYVUVQMkVOVVZMVERMWEoxQlIzVExST05ZTUNOIn0.tHHdwEcnE9f0dVDsM53UQI_d4MrosPC4bahmorkju0Q)

Additional Disclosures
Dodd-Frank Rating Information Disclosure Form (https://www.fitchratings.com/creditdesk/press_releases/content/ridf_frame.cfm?pr_id=1008612&cft=eyJ0eXAiOiJKV1QiLCJhbGciOiJIUzI1NiJ9.eyJleHAiOjE0NjgwMDI2NzAsInNlc3Npb25LZXkiOiJaQ1M3RzVaVVZJVkZYVUVQMkVOVVZMVERMWEoxQlIzVExST05ZTUNOIn0.tHHdwEcnE9f0dVDsM53UQI_d4MrosPC4bahmorkju0Q)
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