Sub-Sovereign

CREDIT OPINION
27 November 2024

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RATINGS

Hastoe Housing Association

Domicile	United Kingdom
Long Term Rating	A3
Type	LT Issuer Rating - Fgn 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.

Contacts

Lenaic Couderc +44.20.7772.1799
Analyst
lenaic.couderc@moodys.com

Sinan Li +44.20.7772.8652
Ratings Associate
sinan.li@moodys.com

Sebastien Hay +34.91.768.8222
Associate Managing Director
sebastien.hay@moodys.com

Hastoe Housing Association (UK)

Update to credit analysis

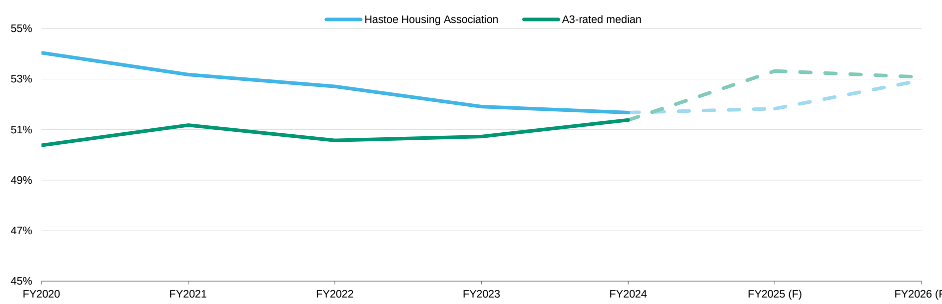
Summary

The credit profile of Hastoe Housing Association (Hastoe, A3 stable) reflects its very high operating margins, focus on social housing lettings and its moderate development ambitions. It also reflects its weaker debt metrics compared to peers, which also result in modest interest cover metrics despite its very high margins. In addition, it benefits from the strong regulatory framework governing English housing associations and our assessment that there is a strong likelihood that the government of the UK (Aa3 stable) would intervene in a timely manner to prevent a default.

Exhibit 1

Hastoe's gearing is decreasing towards the median of rating peers

Debt to assets (x times)



Source: Hastoe and Moody's Ratings

Credit strengths

» Rural housing specialist with a strong focus on social housing lettings

» Very strong operating performance

» Supportive institutional framework in England

Credit challenges

» High debt levels and modest interest cover metrics

Rating outlook

The stable outlook reflects our expectations that the actions taken by Hastoe will be effective at reversing the recent decline in operating margin and maintain stronger margins than peers. It also reflects our expectation that debt metrics will remain broadly stable, supported by its small development programme and lower capital expenditure needs than peers.

Factors that could lead to an upgrade

Upward pressure on the ratings could result from a material reduction in debt or a significant increase in government support for the sector, especially significantly higher levels of capital grants. An upgrade of the UK government's rating could also exert positive pressure on the ratings.

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 or weaker liquidity. Lower government support for the sector or a dilution of the regulatory framework could also lead to downward pressure on the ratings. A downgrade of the UK government's rating would also be negative for the ratings.

Key Indicators

Exhibit 2

Hastoe Housing Association	31-Mar-20	31-Mar-21	31-Mar-22	31-Mar-23	31-Mar-24	31-Mar-25 (F)	31-Mar-26 (F)
Units under management (no.)	7,669	7,681	7,737	7,769	7,808	7,892	7,975
Operating margin, before interest (%)	33.6	41.9	37.5	40.5	33.5	32.1	31.3
Net capital expenditure as % turnover	(1.4)	(5.0)	20.5	12.3	18.5	50.3	61.5
Social housing letting interest coverage (x times)	0.9	1.1	1.1	1.2	1.0	1.1	1.0
Cash flow volatility interest coverage (x times)	1.4	1.3	1.4	1.4	1.4	1.4	1.3
Debt to revenues (x times)	6.9	7.3	6.7	6.3	6.0	5.6	6.0
Debt to assets at cost (%)	54.0	53.2	52.7	51.9	51.7	51.8	53.0

Source: Hastoe and Moody's Ratings

Detailed Credit Considerations

Hastoe's A3 rating combines (1) its baseline credit assessment (BCA) of baa2, and (2) a strong likelihood that the UK government would intervene in a timely manner to prevent a default.

Baseline Credit Assessment

Rural housing specialist with a strong focus on social housing lettings

Hastoe is a small housing association managing around 7,800 units. It has a simple group structure comprising the parent and three subsidiaries: a financing vehicle, a building company and a company managing open market sales.

Its stock is mostly rural and very dispersed relative to its size, covering over 70 local authorities across London, the south and east of England. As a result, repairs and maintenance are fully outsourced to contractors. Its focus on rural social housing is associated with strong demand both from local authorities looking to increase social housing supply but also for its market sales. Small scale developments limit concentration risks.

Its focus on low-risk social housing lettings, which accounted for 88% of turnover in fiscal 2024, provides stable and reliable cash flows. This results in good cash flow volatility interest coverage (CVIC) relative to peers given its elevated debt. CVIC was in line with the median of A3-rated peers in fiscal 2024 at 1.4x. The Board made a strategic decision to pull back from outright sales in 2020. Hastoe will maintain some exposure to market sales with around a third of its development programme planned for shared ownership in the next five years. Risks are partially mitigated by Hastoe's track record of development delivery and experience in rural areas where competition from private developers is limited and demand for social housing is high.

Very strong operating performance

Hastoe has one of the highest operating margins among rated housing associations. In fiscal 2024, it stood at 33%, well above the median for A3-rated peers of 20%. Its strong margins are a reflection of its stock with around half of its units built after 2000, resulting in lower maintenance requirements. Most of its stock is rural and comprises houses and low-rise flats, thereby limiting fire safety expenditures and retrofitting needs relative to peers. As of fiscal 2024, 78% of its stock was at EPC-C and Hastoe plans to increase this share by 5pp each year.

Hastoe was able to preserve very strong margins after the pandemic despite government interventions on rents, very high cost inflation and higher tenant demand for repairs and maintenance. Its margins on social housing lettings improved by 4pp between 2020 and 2023 compared to a decline of 8pp for the median of rated HAs though they remain well above peers. While margins in the sector started to recover in fiscal 2024, Hastoe's margins dropped by 7pp due to a significant increase in damp and mould remediation works.

Hastoe has provisioned a £1.6 million overspend in fiscal 2025 on damp and mould and a further £600,000 in fiscal 2026. Management has taken strong action to manage repairs volumes and bring them back to historical levels. As a result, we expect margins to recover back to around 40% by fiscal 2027 and remain well above peers.

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 housing associations remains supportive. Demand for social housing is very high and English housing associations retain some expenditure flexibility, with a track record of controlling costs to mitigate lower income. The UK government confirmed that for fiscal 2026, rent increases within the English sector will be pegged at the September Consumer Price Index (CPI) plus 1%. A consultation is currently ongoing to extend the policy out to at least fiscal 2031, which would provide more certainty to the sector.

High debt levels and modest interest cover metrics

Hastoe has higher debt than peers with debt to revenue of 6.0x (A3 peer median: 4.7x) and gearing of 52% (A3 peer median: 51%). Debt has been trending down since the board made the strategic decision in 2020 to pull back on development and consolidate its financial position after a period of sustained growth. Hastoe's debt structure is simple with limited refinancing and interest rate risk. As of fiscal 2024, 3% of its debt was at variable rates after swaps and 7% was due within the next five years.

We forecast debt metrics to remain around current levels over the next five years, supported by Hastoe's modest development targets with plans to build around 500 units in the next five years (6% of its current stock). Debt to revenue will fluctuate with receipts from first-tranche shared ownership sales and fixed asset disposals. Current slippages in its development programme will likely result in lower debt increase than forecast, allowing instead for a continued gradual deleveraging.

Despite its very strong margins, Hastoe's interest cover metrics are broadly in line with peers due to its elevated debt burden. As of fiscal 2024, its social housing letting interest coverage (SHLIC) stood at 1.0x, in line with the median of A3-rated peers. We expect SHLIC to average 1.1x over the next three years and remain broadly in line with peers. Hastoe has sufficient headroom of 0.5x over its tightest interest coverage covenant of 1.2x although it is forecast to reduce to 0.3x in fiscal 2026 due to planned concrete remediation works.

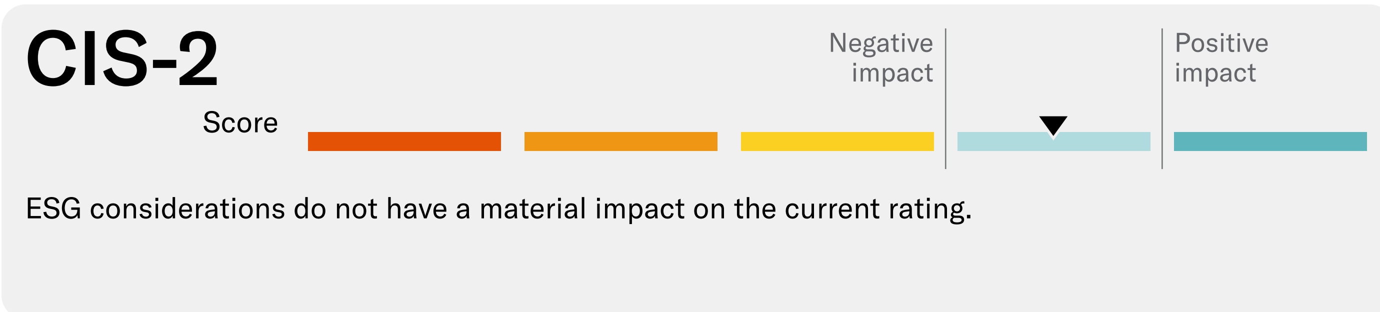
Extraordinary support considerations

The strong level of extraordinary support factored into the rating reflects our view of the UK government's support for the housing association sector due to its political, economic and social importance. Extraordinary support for the sector is predominantly exercised through sector regulators whose wide-ranging powers in cases of financial distress include facilitating mergers. However, this process can be protracted and is reliant on HAs agreeing to merge, which is more challenging in a weakened operating environment, with high expenditure pressures and high borrowing costs. In addition, our assessment that there is a very high default dependence between Hastoe and the UK government reflects their strong financial and operational linkages.

ESG considerations

Hastoe Housing Association's ESG credit impact score is CIS-2

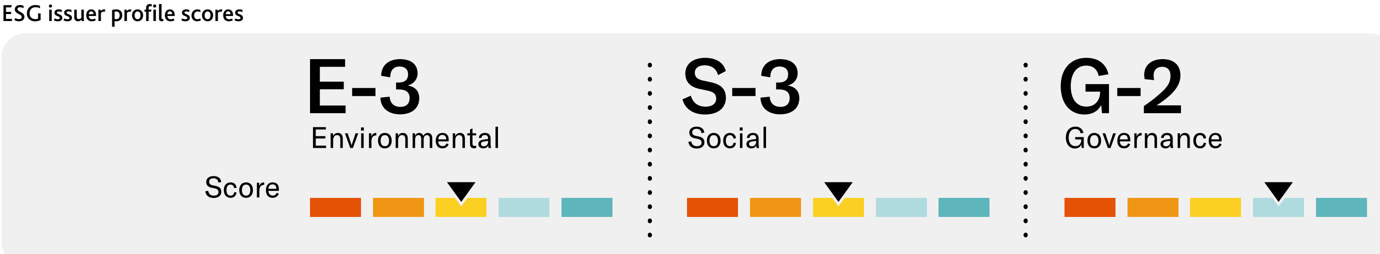
Exhibit 3
ESG credit impact score



Source: Moody's Ratings

Hastoe's **CIS-2** indicates that ESG risks have a limited impact on its rating. Although social risks and carbon transition risks are prevalent, we consider that Hastoe has the ability to effectively mitigate them through its strong governance and management practices. We also consider that the supportive regulatory framework for the sector offsets some ESG risks.

Exhibit 4
ESG issuer profile scores



Source: Moody's Ratings

Environmental

Hastoe has a material exposure to environmental risks (**E-3**) related to retrofitting needs to meet the government's requirement to bring social housing stock to EPC-C by 2035. Hastoe still needs to retrofit 22% of its housing stock to meet the required energy efficiency standards.

Social

Hastoe has a material exposure to social risks (**S-3**) through sector-wide legislative requirements to improve the safety and quality of existing stock (responsible production risks) and the vulnerability of the sector to tenant affordability considerations through the government's social rent policy. Those risks can materialise in the form of reduced operating margin and interest cover metrics.

Governance

Hastoe has limited governance risks (**G-2**) given its sound and prudent risk management framework and practices in line with sector best practices including detailed reporting and a simple organisational structure. The regulatory framework also supports good governance in the sector.

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 BCA of baa2 is in line with the scorecard-indicated BCA.

The methodologies used in this rating were European Social Housing Providers, published in July 2024 and Government Related Issuers, published in January 2024.

Exhibit 5

Hastoe Housing Association
Fiscal 2024

Hastoe Housing Association			
Baseline Credit Assessment	**Sub-factor Weighting**	**Value**	**Score**
Factor 1: Institutional Framework			
Operating Environment	10%	a	a
Regulatory Framework	10%	a	a
Factor 2: Market Position			
Units Under Management	10%	7,808	baa
Factor 3: Financial Performance			
Operating Margin	5%	33.5%	a
Social Housing Letting Interest Coverage	10%	1.0x	baa
Cash-Flow Volatility Interest Coverage	10%	1.4x	baa
Factor 4: Debt and Liquidity			
Debt to Revenue	5%	6.0x	b
Debt to Assets	10%	52%	b
Liquidity Coverage	10%	0.9x	baa
Factor 5: Management and Governance			
Financial Management	10%	baa	baa
Investment and Debt Management	10%	baa	baa
Scorecard - Indicated BCA Outcome			**baa2**
Assigned BCA			**baa2**

Source: Hastoe and Moody's Ratings.

Ratings

Exhibit 6

Category	Moody's Rating
HASTOE HOUSING ASSOCIATION	
Outlook	Stable
Baseline Credit Assessment	baa2
Issuer Rating	A3
HASTOE CAPITAL PLC	
Outlook	Stable
Senior Secured -Dom Curr	A3

Source: Moody's Ratings

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Americas	1-212-553-1653
Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454