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CREDIT OPINION
5 December 2023

Update

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RATINGS

Yorkshire Housing Limited

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

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Yorkshire Housing Limited (UK)

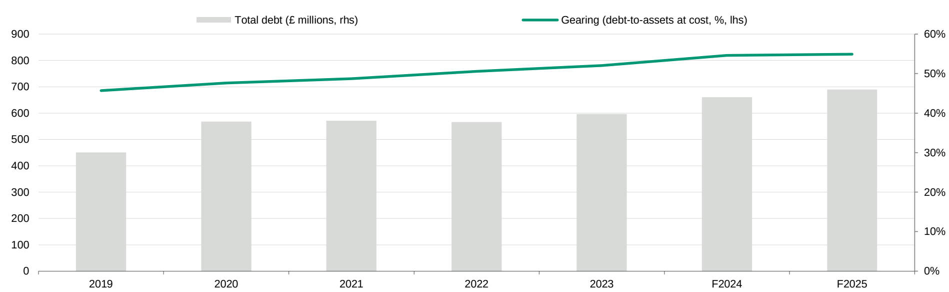
Update to credit analysis

Summary

The credit profile of Yorkshire Housing Limited (Yorkshire, A3 stable) reflects its adequate debt metrics as well as its solid liquidity. The rating also takes into account the deteriorated margins, Yorkshire's significant development programme and a high exposure to market sales relative to peers. Yorkshire benefits from the strong regulatory framework governing English housing associations, and our assessment that there is a strong likelihood of the government of the United Kingdom (Aa3 stable) intervening in the event of Yorkshire facing acute liquidity stress.

Exhibit 1

Debt to increase to fund development plan, weighing negatively on debt metrics



F : Forecast.
Source: Yorkshire, Moody's Investors Service

Credit strengths

» Debt metrics expected to remain in line with peer medians, despite increasing debt

» Sound management underpins good liquidity metrics

» Supportive institutional framework

Credit challenges

» Deteriorated operating performance

» Ambitious development program and high market sales exposure, although both reduced compared to previous forecast

Rating outlook

The stable outlook reflects the expected gradual reduction in inflation and associated cost pressures as well as the proactive actions taken by Yorkshire to mitigate the adverse effects of the weaker operating environment, thereby limiting development risk.

Factors that could lead to an upgrade

Upward pressure on the ratings could result from a significant improvement in operating performance, a material reduction in debt or a significant increase in government support for the sector, especially significantly higher levels of capital grants.

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, weaker liquidity or a failure to adapt strategies and risk appetite to mitigate against weaker economic conditions. Lower government support for the sector or a dilution of the regulatory framework could also lead to downward pressure on the ratings.

Key indicators

Exhibit 2

Yorkshire Housing Limited

	31-Mar-19	31-Mar-20	31-Mar-21	31-Mar-22	31-Mar-23	31-Mar-24 (F)	31-Mar-25 (F)
Units under management (no.)	16,416	16,840	17,173	17,690	18,013	19,481	20,011
Operating margin, before interest (%)	29.1	21.7	20.8	13.1	15.2	19.7	18.9
Net capital expenditure as % turnover	39.6	67.5	31.6	38.9	40.0	54.9	23.0
Social housing letting interest coverage (x times)	1.3	1.0	0.9	0.2	0.6	0.9	1.0
Cash flow volatility interest coverage (x times)	1.0	0.9	1.4	0.5	1.9	1.6	2.1
Debt to revenues (x times)	4.0	4.9	4.0	3.8	4.1	4.4	3.8
Debt to assets at cost (%)	45.7	47.6	48.7	50.6	52.1	54.6	54.9

F: Forecast. Fiscal 2022 was impacted by refinancing costs of £35 million and an impairment of an IT software at £5.2 million, which impacted operating margin, SHLIC and CVIC. Without these costs, operating margin would have been 17%, SHLIC 0.8x and CVIC 1.4x. Fiscal 2023 was impacted by refinancing costs of £1.9 million, which impacted SHLIC and CVIC. Without this, SHLIC would have been 0.7x and CVIC 2.1x.
Source: Yorkshire, Moody's Investors Service

Detailed credit consideration

The credit profile of Yorkshire, as expressed in an A3 rating, combines (1) its Baseline Credit Assessment (BCA) of baa2, and (2) a strong likelihood of extraordinary support coming from the UK government.

Baseline Credit Assessment

Debt metrics expected to remain in line with A3 peer medians, despite increasing debt levels

Total debt will increase to £708 million by fiscal 2026, up from £596 million in fiscal 2023. The debt increase is driven by Yorkshire's development programme, with net capital spending to remain high, averaging 32% of turnover over the next three years, compared to 40% in fiscal 2023.

Gearing is expected to be around 55% over the next three years (from 52% in fiscal 2023), just above the anticipated A3 peer median of 54% over the same period.

Subject to completion of market sales, we expect the increase in debt to remain in line with the increase in revenues. Debt to revenues is expected to average 4.1x over fiscal 2024-26, in line with fiscal 2023, and stronger than the expected A3 peer median of 4.3x over the same period. Current difficulties with outright sales as of September 2023 could worsen debt-to-revenue to 4.7x instead of the projected 4.4x in fiscal 2024.

Yorkshire's debt structure is sound, with sufficient headroom on its covenants, limited refinancing risk (14% of drawn debt due within five years) and limited exposure to variable rates (19% of drawn debt as of September 2023). Yorkshire's main refinancing peak is in fiscal 2045, with its £255 million bond maturing in October 2044, representing 43% of drawn debt. Yorkshire issued 10-year £74 million bonds under the Affordable Housing Guarantee Scheme (AHGS) in November 2023, which will reduce exposure to variable rate and short-term refinancing risk.

Sound management underpins good liquidity metrics

Yorkshire has four golden rules, with two aligned with its banking covenants (minimum interest cover of 1.75x and maximum gearing of 55%) and two focusing on liquidity to reflect the HA's development focus (minimum liquidity of 18 months and minimum liquidity, excluding sales, of 12 months), mitigation triggers have also been set on those metrics to add a buffer. Besides, Yorkshire only enters into new developing commitments once funding has been made available. As of September 2023, immediately available liquidity consisted of £13 million of cash and £134 million of undrawn secured facilities available within 48 hours. This provides around 1.2x liquidity coverage in terms of net capital commitments for the next two years. This is in line with the A3 peer median of 1.3x. Yorkshire's liquidity is well above its golden rules (18 months and 12 months, excluding sales), representing +36 months, as Yorkshire includes the £145 million retained bonds in its calculation.

In fiscal 2022 and 2023, Yorkshire simplified its debt portfolio to 1/ reduce the number of lenders, 2/ reduce its interest charge, 3/ align covenants and 4/ improve its security position. The refinancing exercises have decreased its interest charge forward and have improved covenant headroom, a credit positive.

Compared to rated peers, Yorkshire has a simple corporate structure, with one dormant and two active subsidiaries that facilitates strong management and control of the organisation's strategy and business plan.

Supportive institutional framework

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 HAs remains supportive. Demand for social housing remains very high and the government has committed to increased capital grant on more flexible terms for new social housing. English HAs retain some expenditure flexibility and have a track record of reducing costs to mitigate lower income.

However, due to presently very high rates of inflation, the government has intervened on social rent policy with a 7% ceiling on social rent increases to implemented from April 2023 for one year. The ceiling of 7% will likely result in an adverse differential between rental income and cost growth, driving lower margins and interest coverage. The intervention introduces policy volatility to the sector as the ceiling will supersede the allowable increase of consumer price inflation (CPI) plus 1% under the current rent standard, which is in place until March 2025.

Deteriorated operating performance

Yorkshire's operating margin is expected to remain low, averaging 21% over the next three years, driven by increased costs in Yorkshire's programme to improve customer service experience and tenant safety, as well as the impact of inflation and higher energy costs. The operating margin for social housing lettings (SHL) is expected to remain low at around 23% over the next two years, because of increased spending on the quality of existing stock. In fiscal 2026, Yorkshire expects to achieve significant savings thanks to its new housing and asset management system, lifting SHL operating margin to 29%.

Yorkshire's 2023 operating margin was hit by inflation, decreasing to 15% from 17% the year (excluding the write off of a software intangible asset). This compares poorly to peers, median of 21%. The deteriorated performance is linked to increased management costs, increased service charge due electricity costs, pressures on repair and maintenance and component write-offs.

The reduction in profitability has decreased to social housing lettings interest coverage (SHLIC) to 0.7x in fiscal 2023 (excluding the impact of the refinancing), well below peers (A3 peer median of 1.1x). Over the next three years, SHLIC is projected to improve slightly around 1x, thanks to rent increases and new units developed. However the improvement could be limited due to increased volumes of responsive repairs, including due to damp and mould, as well as volatile interest rates.

Cash flow volatility interest coverage increased to 2.1x in fiscal 2023 from 1.4x in fiscal 2022 (excluding the refinancing costs for both fiscal years), supported by the HA's successful market sales to date. It is expected to average 1.9x over the next three years, supported by strong cash generations, slightly above the expected A3 peer median of 1.6x over the same period. However, the higher number of unsold units than expected as of September 2023 could weaken fiscal 2024 performance.

Ambitious development program and high market sales exposure, although both reduced compared to previous forecast

Yorkshire plans to develop 8,000 homes by 2033, with around 2,600 units already delivered, 850 on site, 400 in contract and 300 in the pipeline. The plan is ambitious as the remaining units to develop represent 30% of Yorkshire's existing units. However, around 3,800 units remain aspirational and uncommitted at this stage. Yorkshire has already reduced its ambitions in light of the weakened operating environment, the previous target was to develop 8,000 units by 2030; the plan is dependent on future economic circumstances, providing flexibility and mitigating the development risk.

Yorkshire's capital spending also includes an environment programme to reduce its units' carbon footprint and reach an energy performance criteria (EPC) of C by 2030 on all social housing units. 4,000 units require investment to reach EPC C by 2030, a decreased number from the initial 6,000 estimated last year. Yorkshire has front loaded the works, expecting to spend £4 million in fiscal 2024. Yorkshire benefits from low exposure to fire and building safety risk, allowing to focus on decarbonisation and decent homes.

Yorkshire's exposure to market sales risk is high (that we define as in between 20-30% of turnover) as of fiscal 2023, with market sales representing 28% of turnover (18% shared ownership, 10% outright sale). The exposure will remain high, with market sales averaging at 24% of turnover (12% shared ownership, 12% outright sale) over the next three years.

Most of the units, 54%, Yorkshire plans to develop over the next 5 years are social and affordable rental properties, including rent to buy. 45% will be for market sales (38% shared ownership, 7% outright market sales). The remaining 1% will be for intermediate rent. Yorkshire has removed uncommitted outright sales from its plan, because of the weakened operating environment. We note that tenure split is indicative and will vary depending on opportunities that are available, a mitigant against a potential housing market downturn.

Whilst demand for Yorkshire's shared ownership units remained strong (only 7 unreserved units available for more than 3 months), the HA faces difficulties with open market sales (35 unreserved units available for more than 3 months) as of September 2023. Yorkshire sold 114 shared ownership units as of September 2023, with a margin of 25% and a strong first tranche of 38%, outperforming its budget for the period of 102 units, at 20% margin and 34% first tranche. Regarding outright sales, Yorkshire only sold 1 units compared to 21 units budgeted, as mortgages and inflation continue to be high, limiting demand. Yorkshire is looking into switching tenure for some of these units, to mitigate the risk, we will monitor the negative impact on cash-flows and turnover.

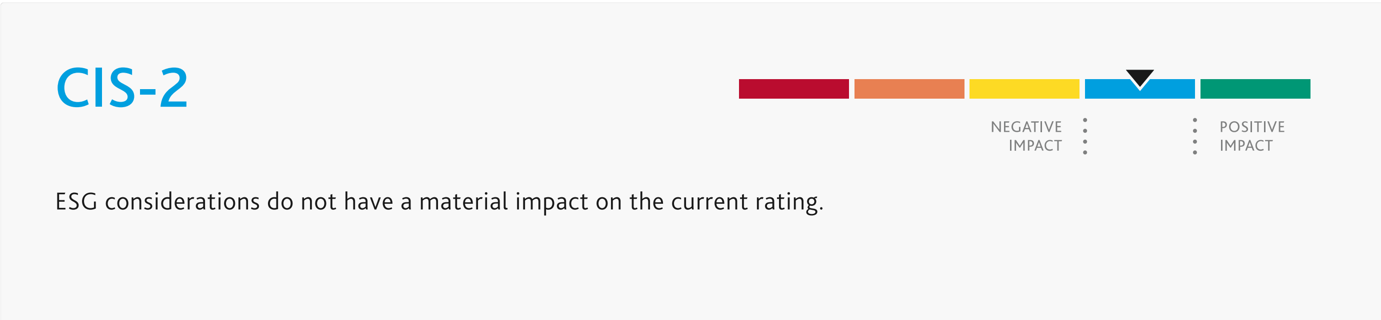
Extraordinary support considerations

The strong level of extraordinary support factored into the rating reflects the wide-ranging powers available to the regulator in cases of financial distress, with the possibility of a facilitated merger or a transfer of engagements. However, the process can be protracted and is reliant on HAs agreeing to merge, which could be more challenging in a weakening operating environment. Recent history has shown that the UK government is willing to support the sector, as housing remains a politically and economically sensitive issue. The strong support assumption also factors increasing exposure to non-core social housing activities in the sector, that add complexity to HA operations, and the weakening of the sovereign's financial resilience, making an extraordinary intervention slightly more challenging. In addition, our assessment that there is a very high default dependence between Yorkshire and the UK government reflects their strong financial and operational linkages.

ESG considerations

Yorkshire Housing Limited's ESG credit impact score is CIS-2

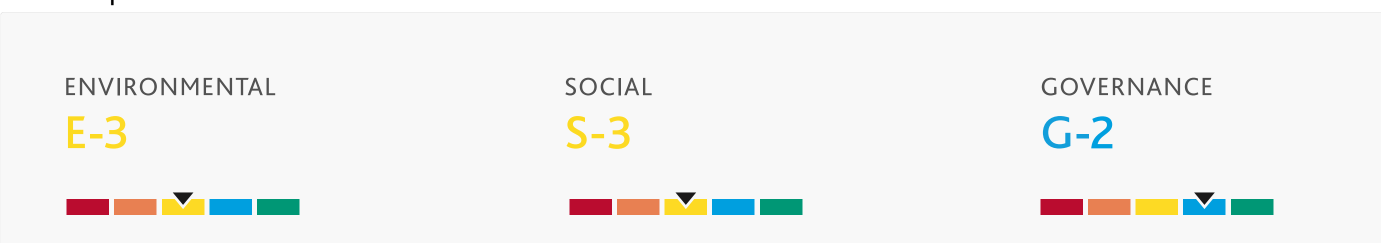
Exhibit 3
ESG credit impact score



Source: Moody's Investors Service

Yorkshire's **CIS-2** indicates that ESG risks have a limited impact on its rating. Although carbon transition risks and social risks are prevalent we consider that Yorkshire 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 Investors Service

Environmental

Yorkshire has a material exposure to environmental risks (**E-3**) relating to a significant proportion of its stock requiring retrofit to meet energy efficiency standards by 2035 (carbon transition risks), leading to increased expenditure. Yorkshire now reports an improved position, with 78% of its stock at EPC C compared 64% last year, thanks to retrofit upgrade works and through improving data quality via property surveys and data cleansing. This is now better than our rated median, but still represents significant spending for Yorkshire.

Social

Yorkshire has a material exposure to social risks (**S-3**) through sector-wide legislative requirements to improve the safety of existing housing stock (responsible production risks) which weighs on expenditure and operating margins, and the impacts of cost of living or affordability pressures on social tenants (demographic and societal trends) which led to the UK government capping social rent increases below inflation in fiscal 2024 in England, which will also have a negative impact on margins.

Governance

Yorkshire has limited governance risks (**G-2**). Its governance is fit for purpose, with strong financial management policies and processes, 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 for fiscal 2023.

The methodologies used in this rating are the European Social Housing Providers rating methodology, published in April 2018, and the Government Related Issuers rating methodology, published in February 2020.

Exhibit 5
Yorkshire fiscal 2023 scorecard

Yorkshire Housing Limited			
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%	18,013	baa
Factor 3: Financial Performance			
Operating Margin	5%	15.2%	baa
Social Housing Letting Interest Coverage	10%	0.6x	b
Cash-Flow Volatility Interest Coverage	10%	1.9x	baa
Factor 4: Debt and Liquidity			
Debt to Revenue	5%	4.1x	ba
Debt to Assets	10%	52.1%	b
Liquidity Coverage	10%	1.2x	a
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**

Fiscal 2023 was impacted by refinancing costs of £1.9 million, which impacted SHLIC and CVIC. Without this, SHLIC would have been 0.7x and CVIC 2.1x.
Source: Yorkshire, Moody's Investors Service

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