MOODY'S RATINGS

CREDIT OPINION
29 August 2025

Update

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RATINGS

Southern Housing

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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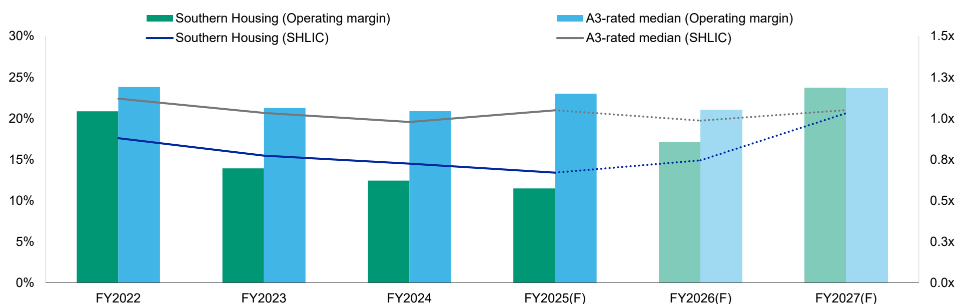
Southern Housing (United Kingdom)

Update to credit analysis

Summary

The credit profile of Southern Housing (Southern, A3 stable) reflects its large size and strong balance sheet, including very strong liquidity, in addition to its weak financial performance and substantial development programme in the short term. Southern benefits from the strong regulatory framework governing English housing associations (HAs) and our assessment that there is a strong likelihood that the government of the United Kingdom (UK, Aa3 stable) would act in a timely manner to prevent a default.

Exhibit 1
Southern's profitability and interest cover remain weak compared to A3 peers
Operating margin (% - LHS), social housing lettings interest coverage (SHLIC, x times - RHS)



Source: Southern Housing, Moody's Ratings

Credit strengths

» Large housing association with very strong balance sheet

» Very strong liquidity

» Supportive institutional framework in England

Credit challenges

» High capital expenditure in near term

» Weak margin and interest cover metrics

Rating outlook

The stable outlook balances Southern's weak financial performance with its declining debt levels and strong liquidity.

Factors that could lead to an upgrade

Upward pressure on the rating could result from a significant improvement in operating performance or a material and sustained reduction in debt levels.

Factors that could lead to a downgrade

Downward pressure on the rating could result from a further weakening in operating performance, a significant increase in leverage and reduction in liquidity.

Key indicators

Exhibit 2

Southern Housing

	31-Mar-22	31-Mar-23	31-Mar-24	31-Mar-25	31-Mar-26 (F)	31-Mar-27 (F)
Units under management (no.)	70,400	72,058	73,041	73,651	73,552	73,552
Operating margin, before interest (%)	20.8	13.9	12.4	11.5	17.1	23.7
Net capital expenditure as % turnover	40.5	44.1	52.0	48.6	38.6	13.3
Social housing letting interest coverage (x times)	0.9	0.8	0.7	0.7	0.7	1.0
Cash flow volatility interest coverage (x times)	1.7	1.6	0.9	0.4	1.4	1.6
Debt to revenues (x times)	4.7	4.6	5.2	5.0	4.6	4.5
Debt to assets at cost (%)	43.5	44.6	47.4	49.3	49.7	48.6

Source: Southern Housing, Moody's Ratings

Profile

Southern Housing is a large housing association operating across London, the South East, the Isle of Wight and the Midlands. It manages approximately 74,000 units. It focuses predominantly on low-risk social housing lettings with a moderate exposure to market sales and some activity in student housing and market rent.

Detailed credit considerations

Southern Housing's A3 rating combines: (1) a baseline credit assessment (BCA) of baa2 and (2) a strong likelihood that the UK government would intervene to prevent a default.

Baseline credit assessment

Large housing association with very strong balance sheet

Southern's financial profile is underpinned by moderate gearing of 50% of assets at historical cost as of fiscal year end 2025, as well as a large portfolio of unencumbered assets valued at around £3.8 billion. Once sales complete on the remaining development projects in its pipeline, its total debt will begin to reduce from its peak of £3.4 billion in fiscal 2026.

Southern has a relatively complex structure; with a large number of subsidiaries including development vehicles, project companies, other registered providers and charities, market rent and a financing vehicle. Southern now has 9 registered providers, although a significant majority of the social housing stock is held in Southern Housing, the parent company.

Very strong liquidity and low risk debt structure

Southern has maintained a very strong liquidity position over multiple years, in place to mitigate some of the risk of its historically large development programme. Its liquidity policy for 18 months of net cash reserves effectively manages sales risk through excluding sales income in its calculation. Southern continues to maintain decent levels of covenant performance, with a minimum interest cover of 216% projected at FYE2026 vs. a covenant of 125%.

Approximately 90% of Southern's drawn debt is at fixed, or hedged to fixed, interest rates and around 20% is due for refinancing within 5 years: a low-risk debt structure.

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

The UK government has announced recently some measures that are credit positive for UK housing associations, including the ability to raise social rents by CPI+1% for 10 years from fiscal 2027 onwards, and a substantial increase in the Social and Affordable Homes Programme, with a commitment to provide £39 billion in funding over 2026-2036.

High capital expenditure in the near term, but significantly reduced over the medium term due to cuts in its development programme

Southern has historically been a major developer in the sector. However, it has made a strategic shift over the last two years due to high expenditure requirements on its existing stock, as well as a turbulent housing market in London, high cost inflation and higher interest rates. As a result it has materially cut its development programme. The organisation plans to complete the remaining committed units and other units that are in advanced planning stages, and after this commit to no new major developments. Southern expects to continue some small residual development activity but this will be a marginal aspect of its business over the medium term. However, this ramp down has been delayed due to slow completion rates, and the date has been pushed back to fiscal 2028 from fiscal 2027. Southern still has around 2,750 units to be built in its remaining programme to fiscal 2028.

Southern's focus is on its high levels of repairs and maintenance costs on its existing stock, driven by building safety costs and major repairs, and decarbonisation to a lesser extent. Total maintenance costs are estimated at around £330 million per annum on average over the next five years vs. an average of £215 million per annum over the previous five years, a significant ramp up in expenditure. Southern is not an outlier, but it does have one of the higher property costs per unit in our rated portfolio, above the average level.

We note that higher-than-expected maintenance costs have been a key driver of weaker financial performance in fiscal 2024 and 2025 and this remains a downside risk as it is challenging to accurately estimate costs for large building safety and retrofitting projects in advance.

Weak margins and interest coverage ratios

Southern's operating margin and social housing interest coverage are weak at 12% and 0.7x respectively in fiscal 2025, due to high repairs volumes, delays on development completions and continued building safety expenditure. The margin is also affected by impairments in fiscal 2025 - without these the operating margin would have been 15%. Southern anticipates a rebound in operating margin to 17% in fiscal 2026 as its delayed sites complete and it realises sales on these projects. Social rents returning to CPI+1% in fiscal 2026 and beyond should support margins and interest cover, as would rent convergence in the event that it was permitted, however we note that Southern's repairs and maintenance costs continues to climb, so downside risk remains.

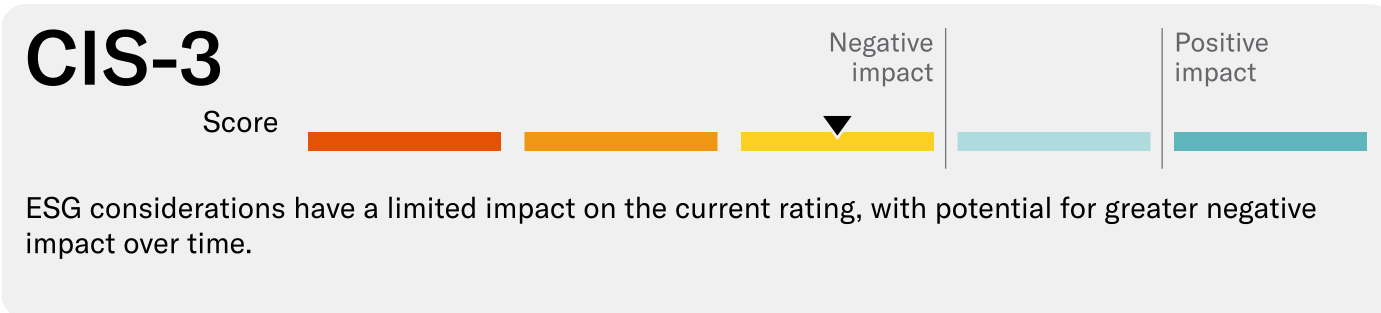
Extraordinary support considerations

The strong level of extraordinary support factored into the ratings 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 housing associations 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 Southern Housing and the UK government reflects their strong financial and operational linkages.

ESG considerations

Southern Housing's ESG credit impact score is CIS-3

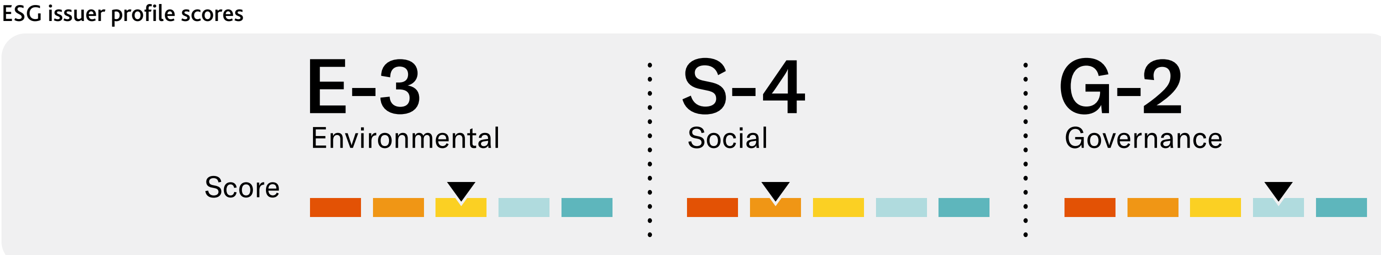
Exhibit 3
ESG credit impact score



Source: Moody's Ratings

Southern's **CIS-3** reflects our view that ESG risks in their totality have a materially negative impact on its rating. In particular the expenditure requirements related to the carbon transition and building safety which will weaken margins and increase financing needs, as well as affordability constraints for low-income tenants which have led to government-imposed rent caps in the sector.

Exhibit 4
ESG issuer profile scores



Source: Moody's Ratings

Environmental

Southern's exposure to environmental risks (**E-3**) relates to its material exposure to carbon transition risks as a relatively high proportion of its stock requires retrofit to meet EPC-C standards by 2035. This will increase capital expenditure over this time period, although Southern will partially offset the impact on debt through reduced development activity.

Social

Southern is highly exposed to social risks (**S-4**) through sector-wide legislative requirements to improve the safety of existing housing stock (responsible production risks) for which it has considerable expenditure requirements which will weigh on its margins and interest coverage over the medium term. Southern is also affected by 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

Southern has limited governance risks (**G-2**). Its governance is fit for purpose with strong financial management policies and processes, detailed reporting and a somewhat more complex organisational structure, however we consider that this is mitigated by the group's strong management and governance practices. 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 the same as the scorecard-indicated BCA outcome.

The methodologies used in these ratings were European Social Housing Providers published in July 2024, and Government-Related Issuers Methodology published in May 2025.

Exhibit 5

31 March 2025

Southern Housing			
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%	73,651	aa
Factor 3: Financial Performance			
Operating Margin	5%	11.5%	baa
Social Housing Letting Interest Coverage	10%	0.7x	b
Cash-Flow Volatility Interest Coverage	10%	0.4x	b
Factor 4: Debt and Liquidity			
Debt to Revenue	5%	5.0x	b
Debt to Assets	10%	49.5%	ba
Liquidity Coverage	10%	1.7x	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**

Source: Southern Housing, Moody's Ratings

Ratings

Exhibit 6

Category	Moody's Rating
SOUTHERN HOUSING	
Outlook	Stable
Baseline Credit Assessment	baa2
Issuer Rating -Dom Curr	A3
Senior Secured -Dom Curr	A3
Senior Unsecured MTN -Dom Curr	(P)A3
OPTIVO FINANCE PLC	
Outlook	Stable
Senior Secured -Dom Curr	A3

Source: Moody's Ratings

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