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CREDIT OPINION
24 August 2026

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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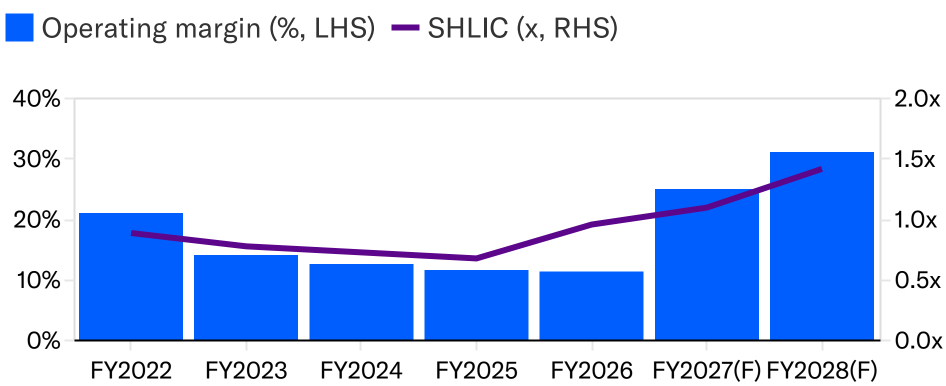
Southern Housing (United Kingdom)

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 high investment requirements in existing stock. 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 financial performance expected to improve in the near term
Operating margin (% - LHS), social housing lettings interest coverage (SHLIC, x times - RHS)



Note: Excluding one-off items, operating margin would have been 15% in fiscal 2025 and 20% in fiscal 2026.
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 investment requirements in existing stock

» Weak but improving margins and interest coverage ratios

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, with margins exceeding 25% and SHLIC exceeding 1.3x on a sustained basis, and/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, with margins falling below 10% on a sustained basis, and SHLIC below 1.0x, as well as a significant increase in leverage and weakening in liquidity.

Key indicators

Exhibit 2

Southern Housing	31-Mar-22	31-Mar-23	31-Mar-24	31-Mar-25	31-Mar-26	31-Mar-27 (F)	31-Mar-28 (F)
Units under management (no.)	70,400	72,058	73,041	73,651	74,109	72,463	71,936
Operating margin, before interest (%)	20.8	13.9	12.4	11.5	11.2	24.8	31.0
Social housing letting interest coverage (x times)	0.9	0.8	0.7	0.7	1.0	1.1	1.4
Net capital expenditure as % turnover	40.5	44.1	52.0	48.6	22.6	20.7	14.8
Cash flow volatility interest coverage (x times)	1.7	1.6	0.9	0.5	1.2	1.3	1.9
Debt to revenues (x times)	4.7	4.6	5.2	5.0	4.7	4.5	4.2
Debt to assets at cost (%)	43.5	44.6	47.4	49.3	49.7	49.0	47.4

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 supported by moderate leverage, with debt to assets of 50% at fiscal year-end 2026, broadly unchanged from 49% in fiscal 2025. We expect gearing to improve gradually to 49% in fiscal 2027 and 47% in fiscal 2028, reflecting lower debt levels following the fiscal 2026 peak.

This improvement is driven by increased asset disposals, stronger operating performance and a continued reduction in development activity, which together lower funding requirements. Southern also benefits from substantial balance sheet flexibility, supported by a sizeable pool of unencumbered assets and approximately £3.2 billion of available borrowing capacity.Southern's organisational structure remains relatively complex, comprising numerous subsidiaries including development and project companies, registered providers, charities, market-rent entities and a dedicated financing vehicle. While the group now includes eight registered providers, the vast majority of its social housing stock is concentrated within Southern Housing, the parent entity.

Very strong liquidity and low risk debt structure

Southern has maintained a very strong liquidity position over several years, reflecting a prudent approach to managing the risks associated with its historically significant development programme. Its liquidity policy requires sufficient resources to cover 18 months of net cash outflows before accessing new debt and excludes projected sales receipts, providing a conservative buffer against market and sales risks. Covenant protection remains sufficient against its most restrictive interest cover covenant at fiscal year-end 2026. The group's debt profile is low risk, with approximately 90% of drawn borrowings either fixed-rate or hedged to fixed rates, limiting exposure to interest rate volatility. Refinancing risk is also manageable, with only around 24% of outstanding debt maturing within the next five years.

Supportive institutional framework in England

The sector's credit quality benefits 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 investment requirements in existing stock, partly mitigated by lower development activity, planned disposals and improving operating performance

Southern has historically been one of the sector's larger developers but has repositioned its strategy towards investment in existing homes. This reflects increasing building safety, Decent Homes and energy-efficiency requirements, alongside less favourable market conditions, including higher interest rates, construction cost inflation and a weaker housing market. As a result, Southern has significantly scaled back its development programme and suspended new development commitments. The remaining pipeline is expected to be delivered over the medium term, reducing development-related funding requirements and lowering exposure to market sales, construction and contractor-related risks.

Capitalised major repairs requirements for existing stock are expected to remain substantial, rising to around £200 million annually by fiscal 2028. Capital expenditure is increasingly focused on maintaining and enhancing the quality of existing homes rather than supporting growth. Building safety represents the most significant driver of expenditure. Under the government's Remediation Acceleration Plan, Southern has committed to remediate all buildings above 18 metres by 2029 and to complete, or have clear remediation plans in place for, buildings above 11 metres by the same date. Estimated remediation costs have increased as survey coverage has improved and construction costs have risen, although greater certainty around government funding provides partial mitigation.

In addition, Southern faces significant investment demands associated with Decent Homes compliance, EPC C targets and other major maintenance programmes. The group's strategy targets EPC C ratings for 88% of homes by 2030, supported by increasing expenditure on energy-efficiency improvements, refurbishment and broader net-zero initiatives over the forecast period.

While these investment pressures remain elevated, they are partly offset by the reduction in development activity, planned asset disposals and improving operating performance. Nevertheless, leverage remains exposed to execution risk, including delays to disposal programmes, weaker-than-expected operating performance, higher-than-anticipated capital investment requirements or any renewed reliance on debt-funded development.

Weak but improving margins and interest coverage ratios

Southern's reported operating margin remained weak at 11% in fiscal 2026, largely reflecting provisions and impairments recognised during the year, including a £49 million building safety provision. Excluding these non-recurring items, the underlying operating margin would have been approximately 20%, demonstrating a meaningful recovery from fiscal 2023-2025, when margins averaged 14%. Underlying performance benefited from stronger recurring rental income as previously completed homes entered management, together with operational efficiencies. These improvements also contributed to stronger social housing letting interest coverage (SHLIC), which increased to 1.0x in fiscal 2026 from 0.7x in fiscal 2025.

Southern expects operating performance to strengthen further over the forecast period. Underlying operating margins are projected to exceed 30% by fiscal 2028, while SHLIC is expected to improve to around 1.4x. The anticipated improvement is driven primarily by the maturation of previously delayed development completions, which will expand the income-generating housing stock, alongside continued delivery of efficiency initiatives. The group is targeting an additional £30 million of cost savings over the next three years.

However, the forecast improvement remains subject to execution risk. Achievement of performance targets depends in part on improved recovery of service charges and effective management of repairs and maintenance expenditure, both of which remain areas of pressure across the sector. Consequently, operating performance could be weaker than expected if service charge recovery falls short of assumptions, maintenance costs remain elevated, or planned efficiency savings are not delivered in full or on schedule.

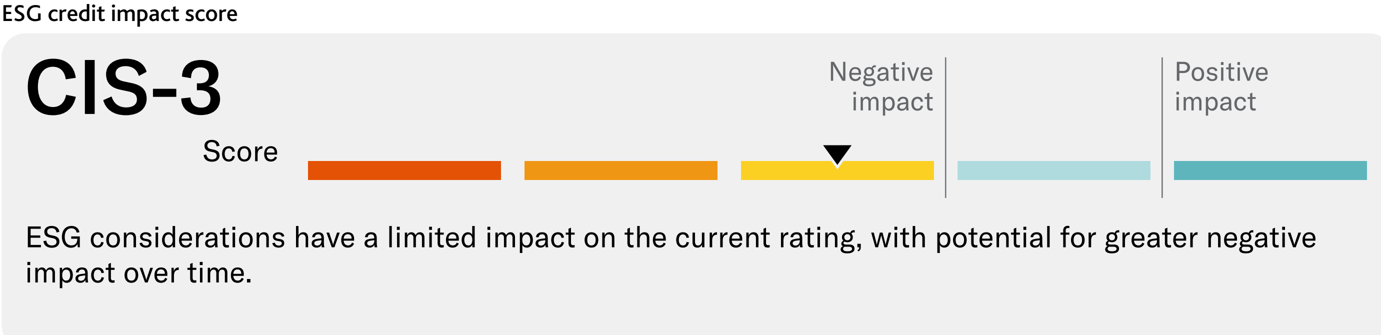
Extraordinary support considerations

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

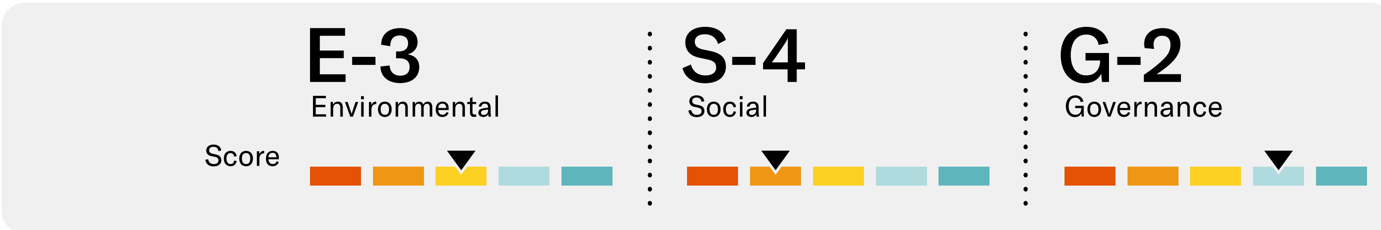
Exhibit 3
ESG credit impact score



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.

Exhibit 4
ESG issuer profile scores



Source: Moody's Ratings

Environmental

Southern's environmental risk exposure (**E-3**) stems from its material carbon transition risk, as around 23% of its housing stock requires retrofitting to meet the government's minimum energy efficiency standards, currently equivalent to EPC-C. This is expected to result in significant capital expenditure, with upgrade costs of up to £10,000 per unit to fiscal 2030 and further investment to 2039 for higher-cost properties, by which point all social rented homes are expected to comply with sector-wide energy efficiency requirements.

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).

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 one-notch below 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 2026

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%	74,109	aa
Factor 3: Financial Performance			
Operating Margin	5%	11.2%	baa
Social Housing Letting Interest Coverage	10%	1.0x	ba
Cash-Flow Volatility Interest Coverage	10%	1.2x	baa
Factor 4: Debt and Liquidity			
Debt to Revenue	5%	4.7x	ba
Debt to Assets	10%	49.7%	ba
Liquidity Coverage	10%	2.1x	aa
Factor 5: Management and Governance			
Financial Management	10%	baa	baa
Investment and Debt Management	10%	baa	baa
Scorecard - Indicated BCA Outcome			**baa1**
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

SOUTHERN HOUSING FINANCE PLC	
Outlook	Stable
Senior Secured -Dom Curr	A3

Source: Moody's Ratings

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CLIENT SERVICES

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Asia Pacific	852-3551-3077
Japan	81-3-5408-4100
EMEA	44-20-7772-5454