



Non-U.S. Social Housing Sector Outlook 2025

Quality Maintenance Constrains Recovery

S&P Global
Ratings

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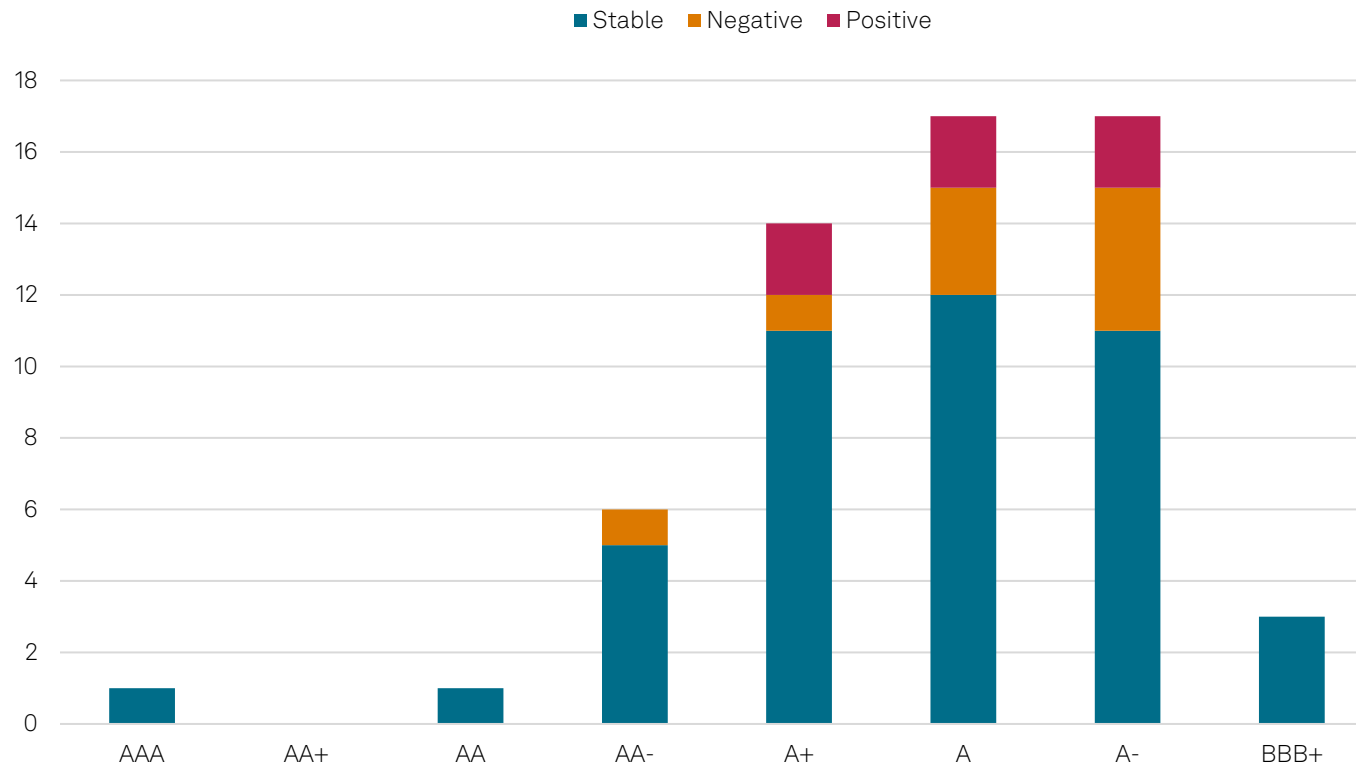
This report does not constitute a rating action

Key Takeaways

- We consider that non-U.S. social housing providers' (SHPs') focus on the quality of existing homes will continue to delay the development of new homes in most regions. This will lead to reduced debt funding of capital expenditure (capex) over the next three years. We project lower, albeit still high, interest rates, which--in combination with a contained debt increase--should support a gradual strengthening of interest coverage ratios.
- Temporary caps on rent increases that were imposed due to high inflation have been removed in many regions. We project that cost inflation, which lasted for longer than we had expected, will ease. Investments in existing homes will moderate but continue to hinder a more pronounced improvement of SHPs' financial performance.
- The differences among the regions where we rate SHPs are material. We project that the financial performance of French and German SHPs will stabilize at the strongest levels regionally, while the financial performance of Swedish and U.K. SHPs will remain relatively modest. We consider that SHPs' debt metrics will converge because we forecast that French and German SHPs' debt will increase faster than that of their U.K. peers.
- We therefore project that financial indicators across non-U.S. SHPs will stabilize and gradually strengthen in 2025, supporting our view that we are at a turning point in the rating cycle.
- We consider that the negative bias across rated non-U.S. SHPs has reduced and anticipate that our ratings will remain predominantly in the 'A' category in 2025.

Most Ratings On Non-U.S. SHPs Remain In The 'A' Category

Ratings across the non-U.S. SHP sector



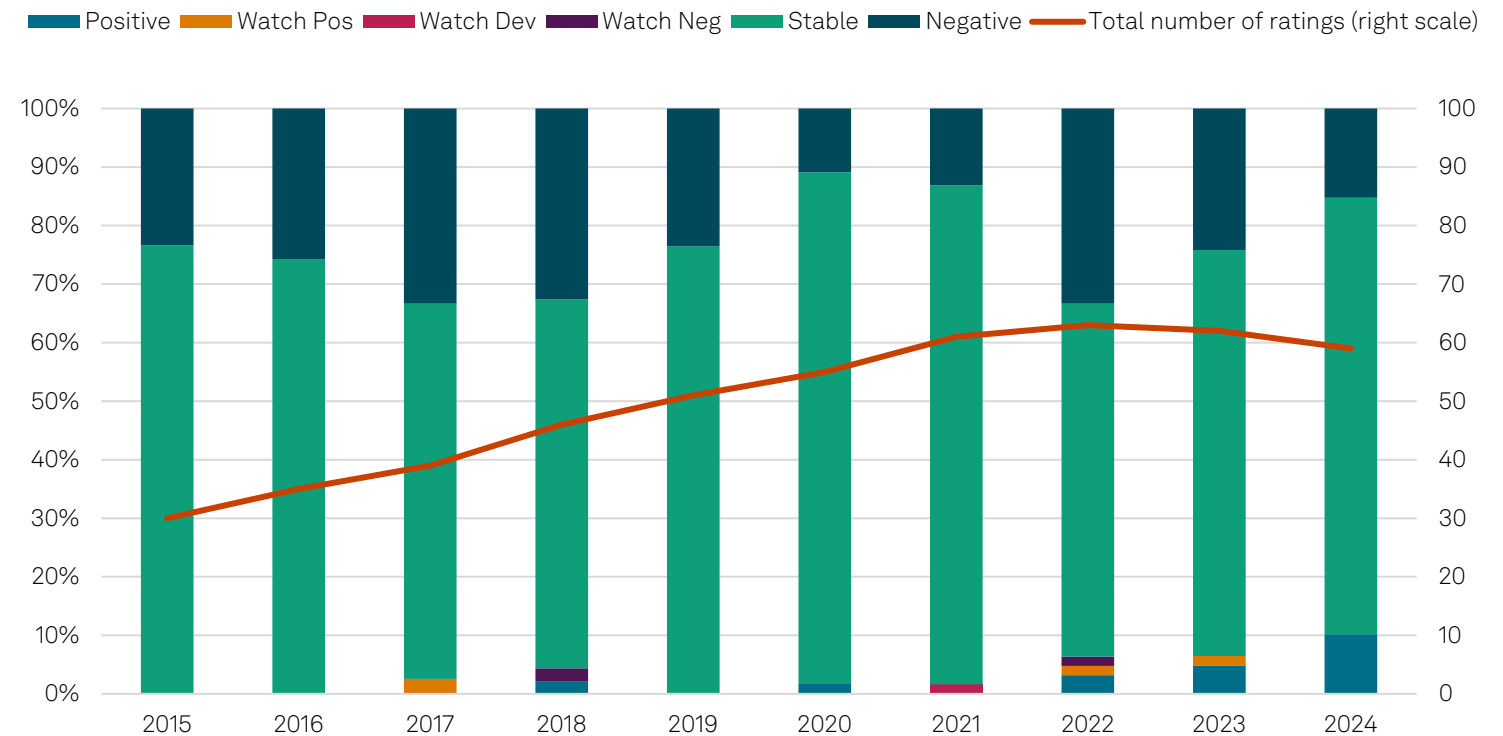
Source: S&P Global Ratings.

- In our view, most rated non-U.S. SHPs' financial performance remains under pressure, mainly due to external regulatory and macroeconomic factors.
- However, many SHPs are taking steps to mitigate the pressures on debt metrics, mostly by scaling back on partially debt-funded developments of new homes.
- We therefore continue to view management teams' strategies and policies as an important driver for our ratings because their actions often prevent a further deterioration of credit quality.
- Importantly, we consider that rated non-U.S. SHPs' liquidity remains strong.

Negative Bias Is Easing

- The number of negative outlooks has steadily reduced, while the number of positive outlooks has reached its highest level in a decade.
- The proportion of stable outlooks has increased to 75%, from 60% in 2022. Many outlook revisions to stable from negative resulted from downgrades (for more details see “Non-U.S. Social Housing Providers Ratings History: October 2024,” published Oct. 31, 2024, on RatingsDirect).
- We revised the outlook to stable from negative in instances where management actions have prevented a deterioration of credit metrics. For the same reason, we have a positive outlook on 10% of the ratings, underpinned by potentially stronger credit metrics.
- We have a negative outlook on 15% of our ratings, down from 35% in 2022, mainly on U.K.-based SHPs, whose investments in existing homes weigh on credit quality.

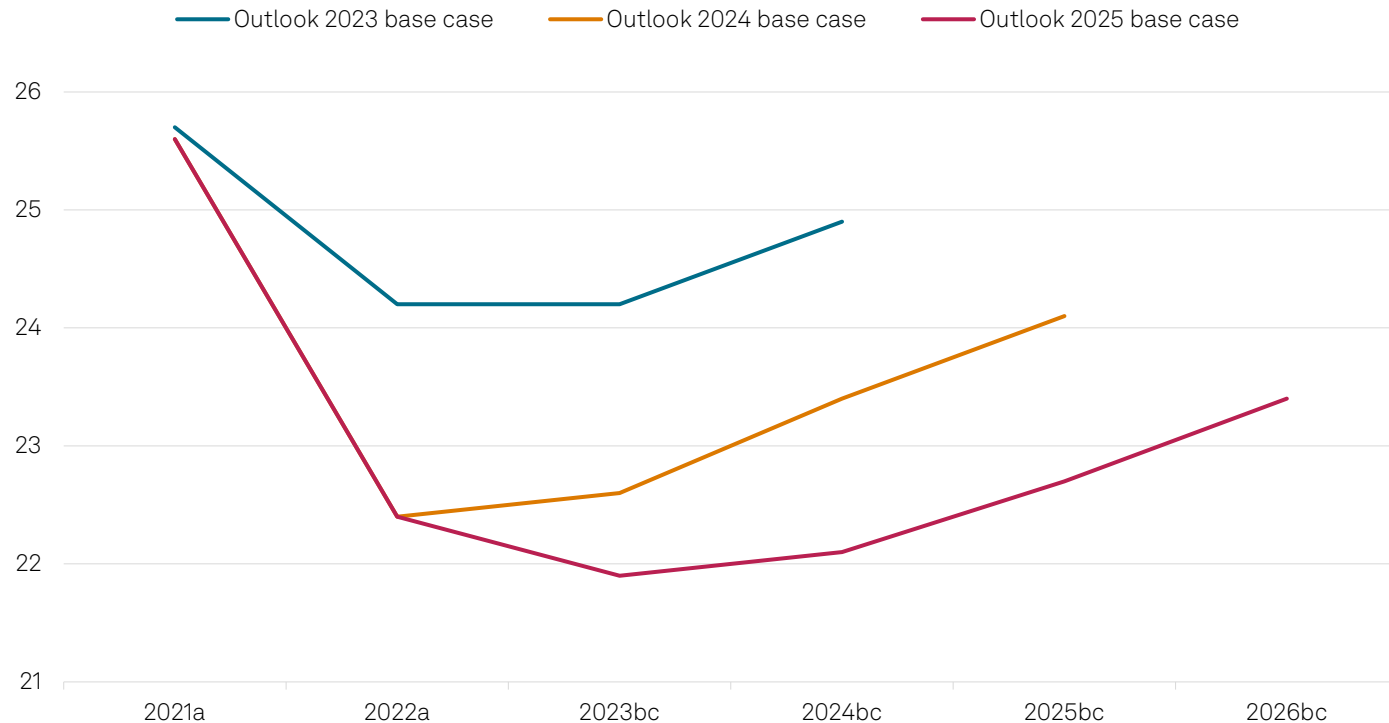
Outlook distribution across our rated SHPs



Source: S&P Global Ratings.

Focus On Asset Quality And Lingering Cost Inflation Delay Recovery

S&P Global Ratings-adjusted EBITDA margins (%)



a--Actual. bc--Base case (includes actual when available). U.K. and New Zealand SHPs' financial year ends on March 31 and June 30 the following year, respectively.

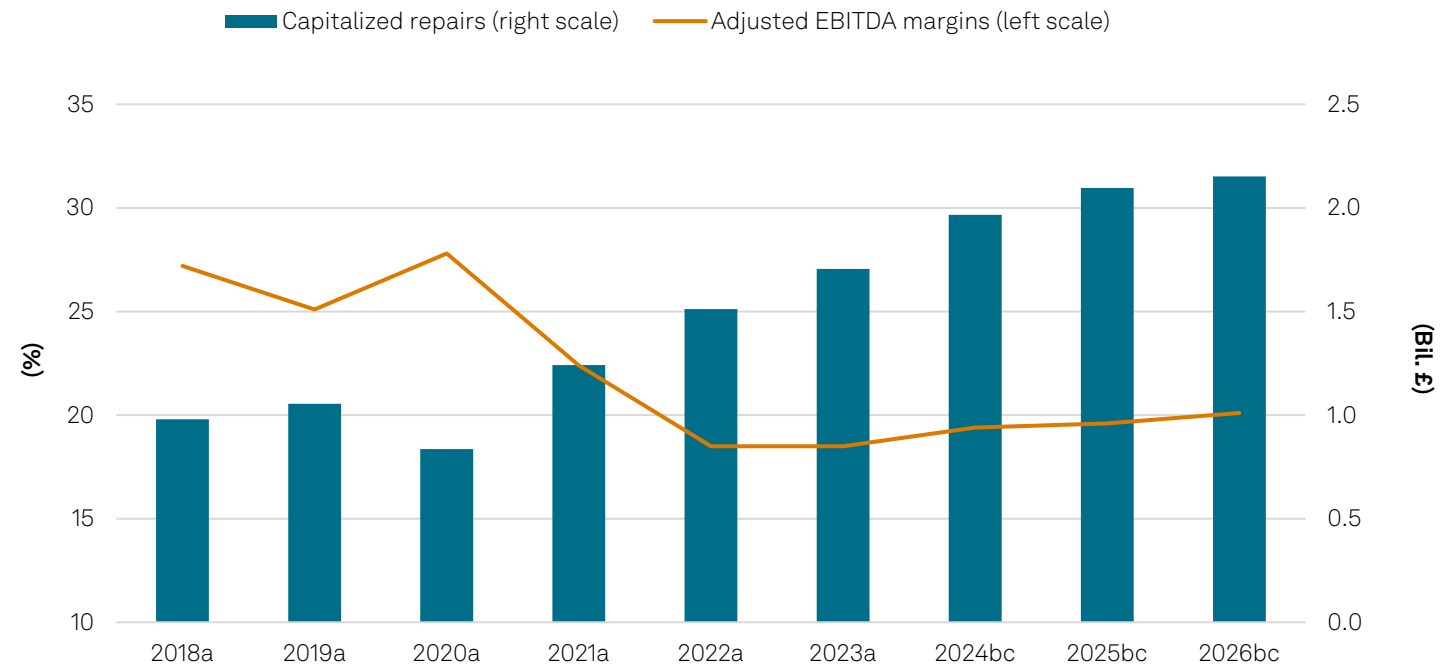
Source: S&P Global Ratings.

- We expect SHPs' financial performance will improve modestly, albeit at a slower pace than we had previously anticipated.
- Temporary caps on rent increases that were imposed due to high inflation have been lifted in many regions. We expect cost inflation will ease.
- That said, inflation has lingered for longer than we had forecast. Additionally, elevated levels of investments in existing homes to enhance the quality of stock will hinder a more pronounced improvement of SHPs' financial performance.

U.K. SHPs' Financial Performance Will Improve Modestly

- We anticipate that an inflation-linked multi-year rent settlement will support revenue growth of SHPs in the U.K., where most of our rated SHPs are based.
- While we anticipate that the increase in repair and maintenance spend will moderate, expenditure will remain elevated through our base-case period due to increased demand and cost inflation.
- Furthermore, U.K. SHPs are required to invest in existing homes to address enhanced fire and building safety standards, as well as energy efficiency requirements.
- We project that repair and maintenance spend will prevent financial performance from reaching pre-pandemic levels.

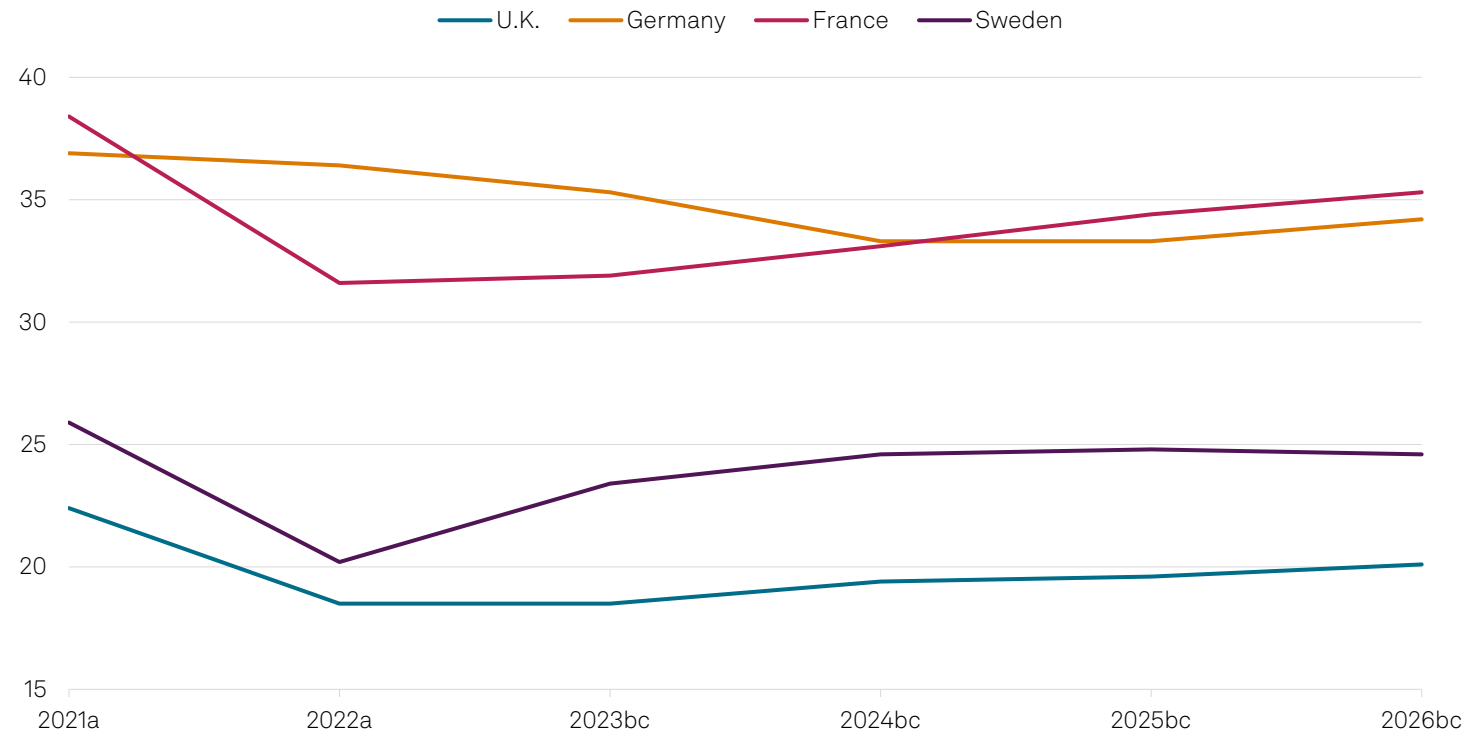
Adjusted EBITDA margins (%)



a--Actual. bc--Base case (includes actual when available). U.K. SHPs' financial year ends on March 31 the following year.
Source: S&P Global Ratings.

Financial Performance Is Stronger In France And Germany Than In The U.K.

Adjusted EBITDA margins (%)



a--Actual. bc--Base case (includes actual when available). U.K. SHPs' financial year ends on March 31 the following year.

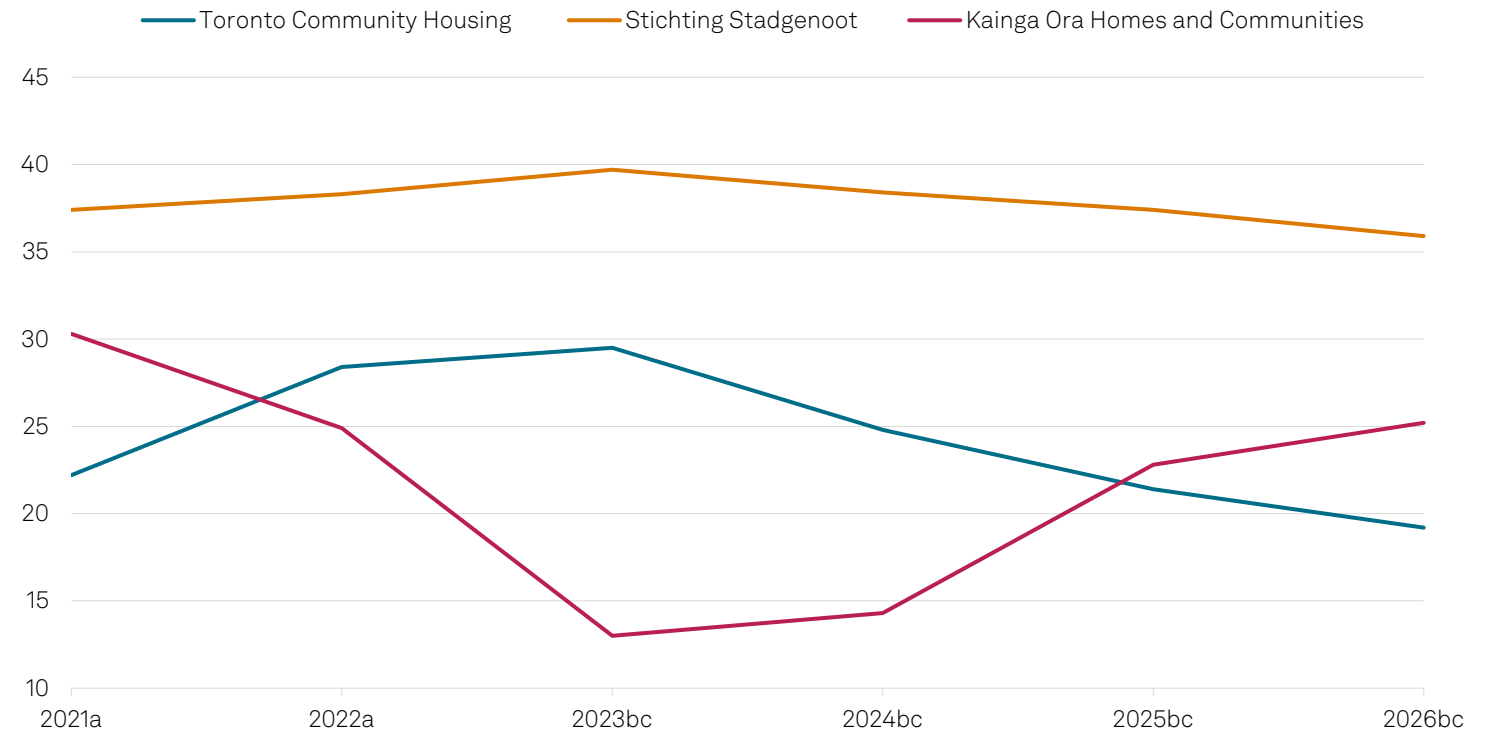
Source: S&P Global Ratings.

- We expect French and U.K. SHPs will revert to inflation-linked rent increases following temporary caps of 3.5% and 7.0%, respectively.
- In Germany, various municipal owners have lifted previously strict, politically motivated rent increase limits.
- French and German SHPs' financial performance is relatively strong because they can increase rents to compensate for eligible refurbishment costs, meaning that these investments are not classified as operating costs and hence do not affect adjusted EBITDA.
- We anticipate Swedish SHPs' financial performance will be stable due to a solid multi-year rent settlement. This follows a period when rent increases lagged cost inflation, which squeezed margins.

Maintenance Spend Also Weighs On Financial Performance In Other Regions

- We rate one SHP each in Canada, New Zealand, and the Netherlands. Similarly to SHPs in other regions, these three SHPs will need to increase their repair and maintenance spend. However, several features mitigate the effect of cost increases on the respective SHPs' credit quality.
- Toronto Community Housing benefits from a near monopoly position, and we expect its owner, the City of Toronto, will continue to provide stable and sufficient operating and capital support.
- Kainga Ora is a government agency is deeply integrated within the government's social housing policy. The government provides most of Kainga Ora's operating revenues as well as all its future borrowing needs.
- Stadgenoot benefits from its focus on affordable rental homes in Amsterdam.

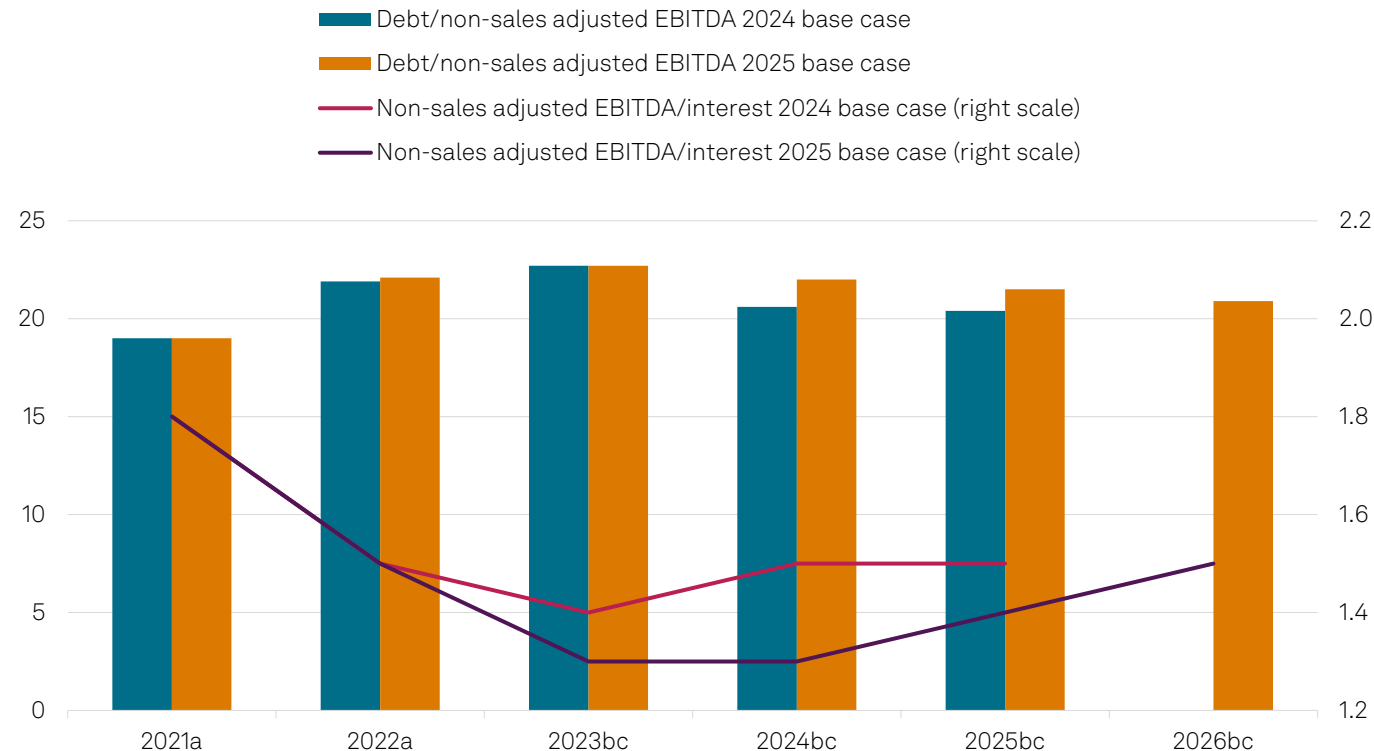
Adjusted EBITDA margins (%)



a--Actual. bc--Base case (includes actual when available). New Zealand SHPs' financial year ends on June 30 the following year.
Source: S&P Global Ratings.

Debt Metrics Will Improve Modestly Across Rated Non-U.S. SHPs

Debt metrics (x)



a--Actual. bc--Base case (includes actual when available). U.K. and New Zealand SHPs' financial year ends on March 31 and June 30 the following year, respectively.

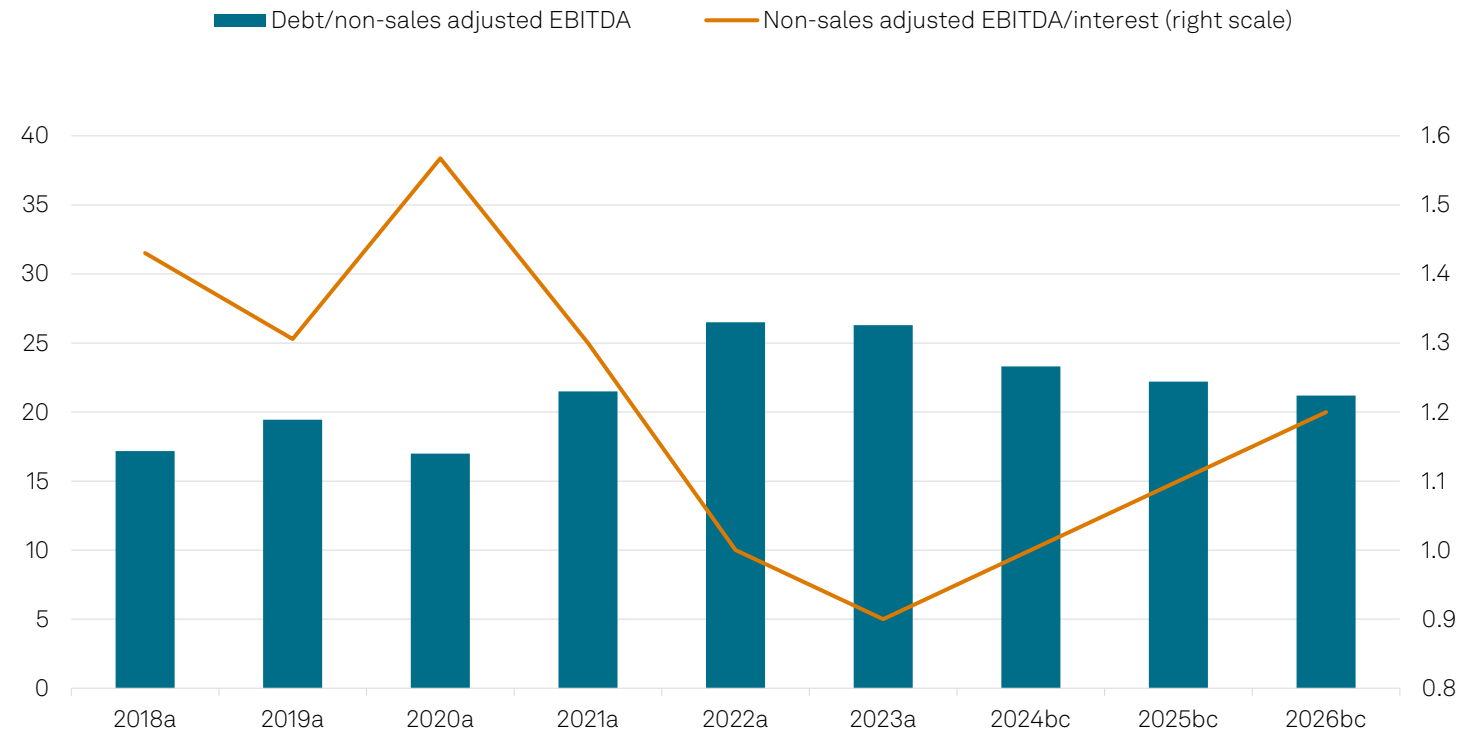
Source: S&P Global Ratings.

- We project debt will increase at a slower pace over 2025-2026 than in the past three years, mainly due to lower debt-funded capital expenditures.
- We expect this, together with non-sales adjusted EBITDA forecast to increase faster than debt, will result in a modest strengthening of the debt/non-sales adjusted EBITDA.
- While interest rates remain relatively high, we think that the growth in interest expenses will moderate due to slower debt build-up, low exposure to floating-rate debt, and the projected reduction of interest rates.

Debt Metrics In The U.K. Will Improve But Remain Modest

- We consider that U.K. SHPs' improving adjusted EBITDA will support improving debt metrics. That said, we project that they will remain weaker than before the COVID-19 pandemic.
- Many SHPs have scaled back on the debt-funded development of new homes. Some larger borrowers are disposing of stock and use proceeds to repay debt or fund investments.
- We project that debt growth will be slow at 2.5% on average over the next three years. SHPs have enhanced their focus on debt containment amid high interest rates and the need to invest in existing homes.
- We project that interest rates will decrease further, which should support interest coverage ratios.

Debt metrics (x)

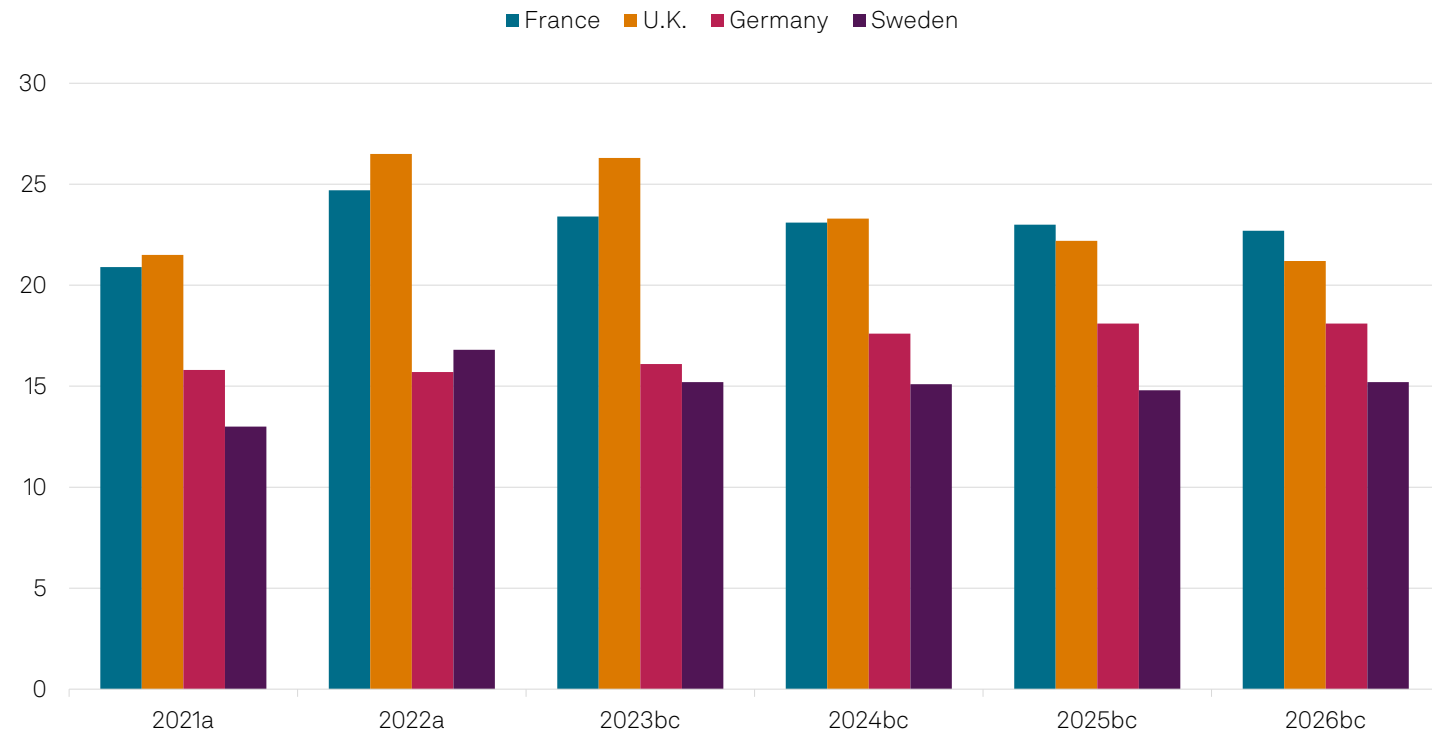


a--Actual. bc--Base case (includes actual when available). U.K. SHPs' financial year ends on March 31 the following year.

Source: S&P Global Ratings.

Debt Metrics Are Converging

Debt/non-sales adjusted EBITDA (x)



a--Actual. bc--Base case (includes actual when available). U.K. SHPs' financial year ends on March 31 the following year.

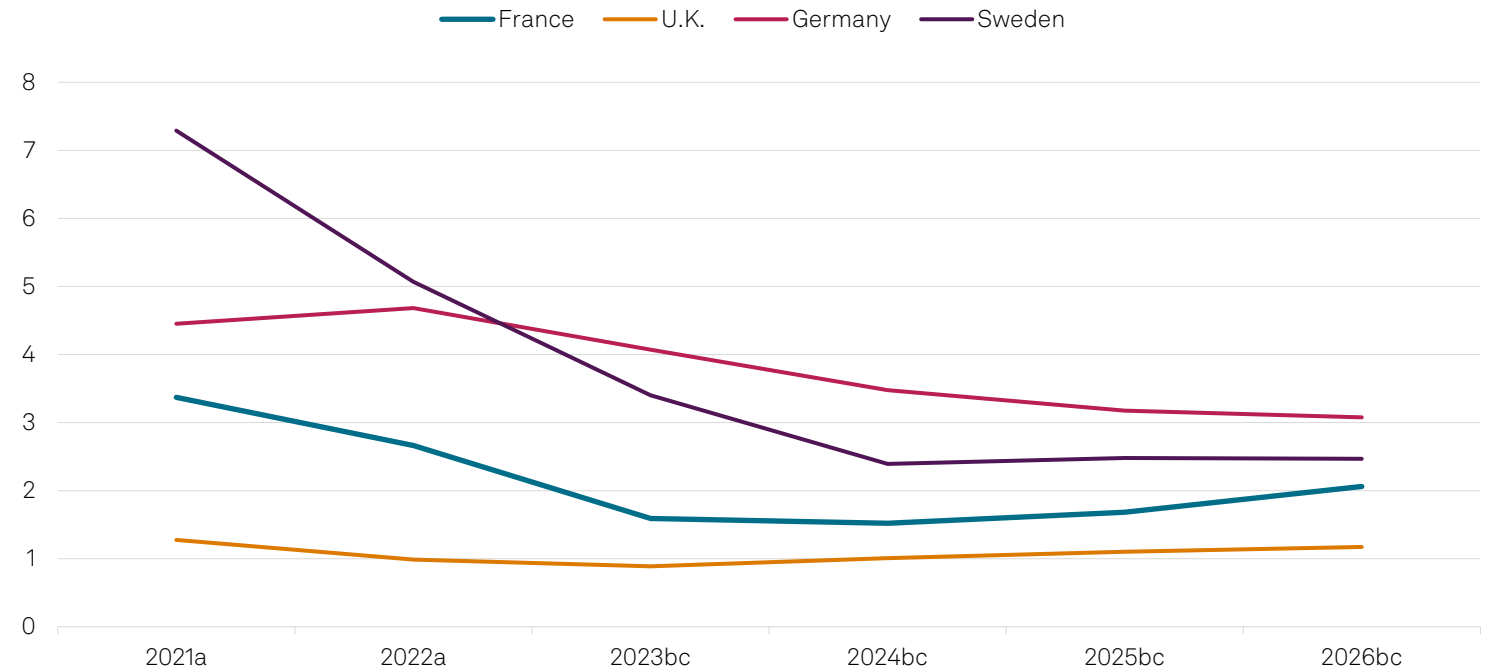
Source: S&P Global Ratings.

- In Germany, slow economic growth will make it difficult for municipal owners and regional governments to increase transfers, grants, and subsidized loans. We therefore project SHPs' debt will slowly increase as they invest in existing and new homes, resulting in slightly weaker debt metrics. A snap election in early 2025 adds some uncertainty about future housing policies.
- Similarly, French SHPs are investing in existing homes to enhance energy efficiency, while continuing to build new homes at a steady rate. We expect their debt to non-sales EBITDA will stabilize in 2025 but become marginally weaker than that of U.K. SHPs.
- Swedish SHPs' debt build-up is contained due to constraints on the development of new homes amid high construction costs. Hence, Swedish SHPs' debt to non-sales adjusted EBITDA remains the strongest regionally.

Interest Coverage Ratios Are Also Converging, But At Weaker Levels

- While interest rates have increased across all regions, we project that Swedish SHPs' interest coverage will weaken the most. This is due to the short-term nature of their debt profile, underpinning our view that interest costs will triple over 2021-2026.
- French SHPs have access to subsidized loans via Caisse des Dépôts et Consignations (CDC). The interest rate--Livret A--on CDC loans was frozen in 2023 due to high inflation, protecting French SHPs. We expect Livret A will start to decrease as inflation has dropped and the European Central Bank continues its rate cuts, supporting interest coverage ratios.
- German SHPs' interest coverage is stabilizing and will likely remain the strongest regionally. The projected decline mainly results from the debt build-up and higher interest rates slowly affecting the debt stock.

Non-sales adjusted EBITDA interest coverage (x)



a--Actual. bc--Base case (includes actual when available). U.K. SHPs' financial year ends on March 31 the following year.

Source: S&P Global Ratings.

Related Research

- [The Autumn Budget Kicks Off A Funding Regime Revision For U.K. Public Sector Entities](#), Nov. 5, 2024
- [U.K. Social Housing Providers' Financial Capacity Shrinks On Investment Needs](#), Nov. 4, 2024
- [Comparative Statistics: Non-U.S. Social Housing Providers Ratings Risk Indicators: Ratings Pressure Has Eased](#), Oct. 31, 2024
- [Non-U.S. Social Housing Providers Ratings History: October 2024](#), Oct. 31, 2024
- [United Kingdom 'AA/A-1+' Ratings Affirmed; Outlook Stable](#), Oct. 18, 2024
- [Regulatory Framework And Systemic Support Assessments For Nonprofit Social Housing Providers](#), July 31, 2024
- [Regulatory Framework Assessment: Social Housing Providers In The Netherlands](#), July 23, 2024
- [U.K. Social Housing Borrowing 2024: Borrowing Capacity Remains Constrained](#), March 6, 2024
- [European Housing Markets Forecast Brightens Amid Ongoing Corrections](#), Jan. 25, 2024
- [Non-U.S. Social Housing Outlook 2024: At A Turning Point?](#), Nov. 29, 2023
- [Regulatory Framework Assessment: Social Housing Providers In The U.K. Benefit From Strong Regulatory Frameworks](#), Oct. 23, 2023
- [U.K. Social Housing Providers' Credit Headroom Could Tighten If The Operating Environment Deteriorates](#), Oct. 4, 2023
- [Regulatory Framework Assessment: German Public Housing Providers Face Increasing Political Demands But Benefit From Strong Institutions](#), Oct. 3, 2023
- [Freeze On Livret A Rate Should Boost French Social Housing Providers' Credit Metrics](#), July 17, 2023
- [Regulatory Framework Assessment: Social Housing Providers In France](#), May 30, 2023
- [Regulatory Framework Assessment: Swedish Public Housing Providers' Rent-Setting scheme Balances Income And Costs](#), May 22, 2023

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