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Research Update:

Places for People Group 'A' Long-Term Rating Affirmed; Outlook Stable

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Rationale

On Dec. 22, 2008, Standard & Poor's Ratings Services affirmed its 'A' long-term issuer credit rating on U.K.-based housing association Places for People Group (PfP; the Group). The outlook remains stable.

The affirmation reflects our opinion that the group is a well-managed business with a national presence, has an appropriate level of available liquidity, and has a significant property asset base against which further funds could be raised. The rating also reflects flexibility to move properties for sale into rent and the benefits from the system of social housing regulation and government support, as the majority of its business operations are regulated at present. However, neither the U.K. government nor the regulator provides any direct guarantee to the obligations of housing associations.

These strengths are offset by the Group's exposure to property sales and shared ownership revenue in a falling housing market, resulting in a significant weakening of interest coverage in the short term. Debt-service coverage ratios are low compared with other rated peers, and extremely low for an 'A/Stable' rating when property sales income is stripped out of the ratio.

PfP has significantly restructured its development plan and will reassess any future development unless it has already committed to supply new units. This should reduce pressure on funding needs and ultimately on the cash interest coverage as less debt is being drawn. Further, as both a developer and property manager, PfP has the scope to transfer properties for sale into rent quickly. Due to recent changes in the U.K. property market, PfP has had to move back to a majority social rental business model, with 80% of turnover from affordable rent (up from 58% in 2007). There are, however, cash flow implications as PfP follows this course of action. PfP's current levels of cash and committed available liquidity provide some flexibility to weather the current storm in the medium term, but the current low debt service ratios constrain the rating at its existing level.

PfP's decision to build up a land trading capacity adds another dimension of risk in the current environment. While the outlay which now represents a sunk cost will be limited to approximately £300 million, this investment is expected to help PfP control the development of more mixed-tenure communities in the future.

Liquidity

PfP currently has approximately £11 million available cash and short-term investments. Further committed facilities of approximately £160 million are available, and further net proceeds of the proposed tap on Places for People Homes 2043 bond is available, providing added flexibility.

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