

CREDIT OPINION

24 October 2025

Update

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RATINGS

Paragon Asra Housing Ltd

| | |
|------------------|-----------------------------|
| Domicile | United Kingdom |
| Long Term Rating | A3 |
| Type | LT Issuer Rating - Dom Curr |
| Outlook | Negative |

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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Paragon Asra Housing Ltd (UK)

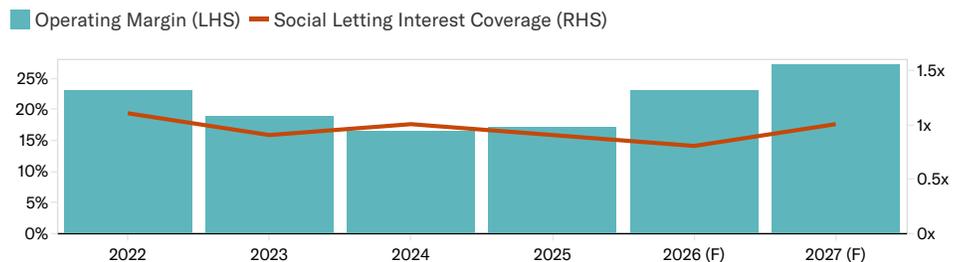
Update following outlook change to negative from stable

Summary

The credit profile of [Paragon Asra Housing Ltd](#) (PA Housing, A3 negative) reflects its strong liquidity and its focus on social housing lettings and investment on existing stocks, which limit the future risk. It also reflects the weak operating performance, induced by fire safety costs and impairments, and the increase in debt, both weighing negatively on interest coverage ratios. PA Housing also 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

PA expects continued pressure on interest coverage
Operating margin and social housing lettings interest coverage, FY2021-2027 (F)



Source: PA and Moody's Ratings

Credit strengths

- » Solid liquidity to be maintained because of its robust treasury policies
- » Focus on social housing lettings
- » Supportive institutional framework

Credit challenges

- » Debt to continue increasing, weighing negatively on debt and interest cover ratios
- » Weak operating performance, anticipated to improve with no more negative one-offs

Rating outlook

The negative reflects the prolonged weakening of financial performance and the risk of slower recovery of operating margins and interest cover metrics due to high repair expenses and fire and safety costs on existing stock.

Factors that could lead to an upgrade

An upgrade is unlikely given the negative outlook. A stabilization of the outlook could result from a material improvement in operating performance reflected in recovery of operating margin to historic levels, which concurrently would drive the strengthening of interest cover metrics, or if a significant increase of capital grants which would require lower levels of external funding.

Factors that could lead to a downgrade

A downgrade could result from a weaker than expected recovery in financial performance, with operating margins and SHLIC remaining below A3 peer levels for an extended period. A more rapid increase in debt and interest costs than forecasted would also put downward pressures on the ratings. 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

PA Housing

| | 31-Mar-21 | 31-Mar-22 | 31-Mar-23 | 31-Mar-24 | 31-Mar-25 | 31-Mar-26 (F) | 31-Mar-27 (F) |
|--|-----------|-----------|-----------|-----------|-----------|---------------|---------------|
| Units under management (no.) | 22,312 | 22,591 | 23,467 | 23,810 | 24,238 | 24,914 | 25,391 |
| Operating margin, before interest (%) | 23.2 | 23.0 | 18.7 | 16.5 | 17.1 | 23.0 | 27.1 |
| Net capital expenditure as % turnover | 66.3 | 80.2 | 62.7 | 63.8 | 51.4 | 39.1 | 41.9 |
| Social housing letting interest coverage (x times) | 1.3 | 1.1 | 0.9 | 1.0 | 0.9 | 0.8 | 1.0 |
| Cash flow volatility interest coverage (x times) | 1.2 | 1.1 | 1.9 | -0.6 | 0.6 | 0.9 | 1.2 |
| Debt to revenues (x times) | 5.6 | 5.9 | 6.0 | 6.3 | 5.8 | 5.9 | 6.0 |
| Debt to assets at cost (%) | 52.9 | 54.7 | 55.8 | 57.1 | 58.7 | 60.1 | 61.1 |

F: Forecast.

Source: PA Housing and Moody's Ratings

Profile

PA Housing ('PA') is a provider of social housing with over 24,000 homes under management across London, Surrey, and the East Midlands. It focuses predominantly on social housing lettings with low exposure to shared ownership sales and non-social housing lettings.

Detailed credit considerations

On 22 October, we changed the outlook to negative on PA from stable and affirmed its rating at A3 and BCA baa2. The change in outlook was driven by the prolonged weakening of financial performance and the risk of slower recovery of operating margins and interest cover metrics, while high debt continues to weigh on financial profile.

PA Housing's A3 stable rating combines (1) its Baseline Credit Assessment (BCA) of baa2 and (2) a strong likelihood that the UK government would act in a timely manner to prevent a default.

Baseline Credit Assessment

Solid liquidity to be maintained because of robust treasury policies

PA Housing has a solid liquidity policy, mitigating treasury risk. Golden rules state that the group will hold sufficient cash and liquid resources to cover at least the next 18 months' forecast net cash requirement. Its policy also requires the HA to commence work to secure new facilities 24 months before the funding needs.

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Its liquidity coverage ratio was strong at 1.9x as of March 2025, with £11 million in cash and £362 million in secured undrawn facilities available within 48 hours. PA Housing also benefits from a strong unencumbered assets position, which supports additional borrowing capacity of £642 million, which combined with its undrawn and charged position, compares well with funding needs.

Its treasury policy includes a specific mark-to-market policy requiring a separate liquidity buffer covering an adverse movement of interest rates of 50 basis points. PA Housing reports a large swap portfolio, with a total stand-alone notional value of £210 million and a negative mark-to-market value of £1 million, as of September 2025. This mark-to-market exposure is covered by properties, reducing the impact of potential margin calls.

Focus on social housing lettings and modest development plans

Social housing lettings are projected to represent 91% of PA Housing's turnover over the next five years. The high proportion of revenue derived from social housing is credit positive because it generates stable and predictable operating cash flows. PA Housing in fiscal 2024 reduced its internal maximum sales exposure to 15% of turnover, from 25%. PA Housing does not want to develop outright sales schemes because of the higher risks involved.

PA Housing's development programme, including regeneration schemes, is supported by grants via its two strategic partnerships with Greater London Authority and Homes England.

PA Housing has reduced its development target to build approximately 1,850 units over the next five years, representing around 8% of units under management. This can be characterized as a modest target compared to its historical rate of 16%. Moreover, 67% of the new units will be for social rent, which will enhance its strategy of generating stable cash flows. Alongside other changes to its operating model, PA Housing has reviewed its development strategy to reduce risk, demonstrating sound financial management. This includes a preference for working with larger contractors on bigger sites and closely monitoring contractor performance.

In addition to its development programme, PA Housing will dedicate £71 million of capital spending over the next five years on retrofitting and energy efficiency works. On existing stock, PA Housing continues to progress towards its internal target of all stock at EPC-C by 2029. The HA currently reports 81% of its stock at EPC-C.

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 a2 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 regular programmed inspections for HAs with more than 1,000 units. The regulator has a strong track record of intervention in cases of mismanagement or financial stress.

The operating environment for English housing associations is supportive. Demand for social housing is very high and English housing associations retain some expenditure flexibility, with a track record of controlling costs to mitigate lower income. We recently upgraded the score to a2, reflecting recent credit-positive policy announcements that will provide greater revenue certainty and expenditure flexibility to the sector, including a 10-year rent settlement at CPI+1% and more generous funding for new and existing assets.

Debt growth slows but continues to pressure debt ratios and higher interest

PA Housing plans to increase its debt to fund its development programme and investment in existing assets, albeit at a slower pace than previously anticipated. Gross debt is projected to rise to £1.5 billion by fiscal 2028 from £1.3 billion in fiscal 2025, putting continued pressure on its debt metrics.

Historically, PA Housing's debt metrics have been elevated due to its Large Scale Voluntary Transfer (LSVT) background, with the group steadily increasing its debt over the past five years. While the debt to revenue ratio improved to 5.8x in fiscal 2025 from 6.3x in fiscal 2024, this was largely due to temporarily higher debt levels at the end of fiscal 2024. Nonetheless, this still compares unfavourably with the A3-rated peer median of 4.6x.

Gearing (debt to assets at cost) weakened to 59% in fiscal 2025, also above the A3-rated peer median of 52%. It is expected to deteriorate further to 61% by fiscal 2028, driven by increased use of debt drawdowns. Similarly, the debt to revenue ratio is forecast to remain high at 5.9x in fiscal 2028, continuing to lag behind peers. However, the HA is conservative with its forecasts have not included any additional grants, which will impact positively the debt. Moreover, the debt portfolio is well structured, with 86% fixed rate debt and only 23% of debt matures over the next five years, reflecting prudent treasury management.

In line with the debt increase, net interest costs are projected to increase to £65 million by fiscal 2028 from £43 million in fiscal 2025, which will weigh on PA Housing's interest cover ratios.

Slower recovery than previously anticipated, also impacting interest coverage metrics

PA Housing's operating margin remained relatively weak at 17% in fiscal 2025, primarily due to increased management costs aimed at improving tenant satisfaction, as well as spending related to fire and building safety and impairment charges. Fire and building safety costs accounted for £5 million of operating expenses, of which £4 million were attributed to waking watch and fire safety cover. The operating margin is expected to remain affected by fire safety works until fiscal 2027, as PA Housing plans to complete most of the work by then. However, delays are possible due to setbacks in starting on-site works, which could prolong the recovery.

PA also incurred impairments of £5.2 million, stemming from contractor failures and impaired land bank sites that PA expects to dispose of in the future. Excluding these items, the operating margin would have been 19% in fiscal 2025, compared to 24% the previous year (also excluding impairment costs), reflecting a deliberate increase in management spending to enhance tenant satisfaction. Additionally, margins on shared ownership sales declined to 21% in fiscal 2025 from 28% in fiscal 2024. Nevertheless, PA's exposure to market sales remains moderate, averaging 10% of turnover annually over the next three years, which limits additional risk to cash flows. PA has no exposure to outright sales, which is a credit positive.

PA Housing revised its internal operating margin target to 25% from 30% in fiscal 2024, acknowledging ongoing pressures on its operating performance. The organization expects margins to recover to 23% in fiscal 2026 and 27% in fiscal 2027, supported by an improved cost base, including enhancements to the repairs business model, stronger cost control, better contract terms, and reduced void relet times. Some of the savings achieved will be reinvested to improve the quality of existing assets and tenant services. Furthermore, there may be upside potential if the housing association receives additional reimbursement for fire and safety works on existing stock amongst other cost savings.

Margin deterioration has also negatively impacted interest coverage metrics, combined with rising interest expenses. SHLIC stood at 0.9x and CVIC at 0.6x in FY2025, placing PA below the A3-rated peer median. Although profitability is expected to improve in FY2026, interest coverage metrics are projected to rebound only in FY2027. By then, SHLIC is expected to approach 1.0x as the proportion of social housing lettings increases and expenses normalize, slightly below the A3 median of 1.05x. CVIC is forecast to reach 1.2x, supported by margin recovery and more stable interest costs due to slower debt growth, though still below the A3 median of 1.5x. Both metrics are expected to fully recover to A3 peer median levels by FY2028, with SHLIC at 1.0x and CVIC rising to 1.6x.

Extraordinary support considerations

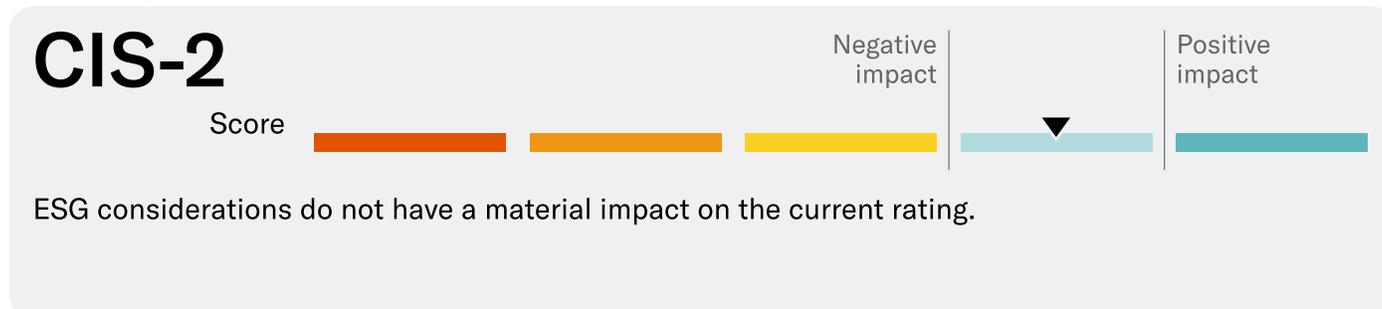
The strong level of extraordinary support factored into the rating reflects the wide-ranging powers available to the regulator in cases of financial distress, with the possibility of a facilitated merger or a transfer of engagements. However, the process can be protracted and is reliant on HAs agreeing 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 PA Housing and the UK government reflects their strong financial and operational linkages.

ESG considerations

Paragon Asra Housing Ltd's ESG credit impact score is CIS-2

Exhibit 3

ESG credit impact score

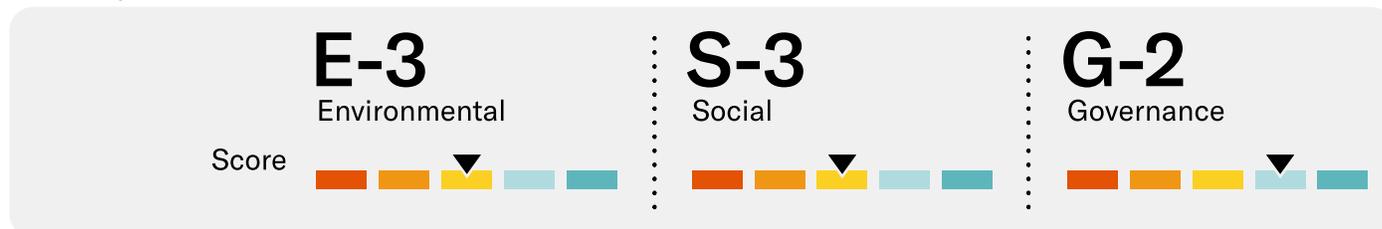


Source: Moody's Ratings

PA Housing's **CIS-2** reflects our view that ESG risks have a limited impact on its rating. Safety costs remain high and material but we consider that PA Housing has made progress to meet the new standards. Although social risks are prevalent, we consider that PA Housing 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 Ratings

Environmental

PA Housing has a material exposure to environmental risks (**E-3**) relating to a significant proportion of its stock requiring retrofit (21% as of fiscal 2024) to meet energy efficiency standards by 2030 (carbon transition risks), leading to increased expenditure.

Social

PA Housing 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 will weigh on its margins and interest coverage over the medium term. PA Housing 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

PA Housing 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 close to the scorecard-indicated BCA of baa3.

The methodologies used in this rating were [European Social Housing Providers](#), published in July 2024, and the [Government-Related Issuers Methodology](#), published in May 2025.

Exhibit 5

Fiscal 2025 scorecard

| 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% | 24,238 | a |
| Factor 3: Financial Performance | | | |
| Operating Margin | 5% | 17.1% | baa |
| Social Housing Letting Interest Coverage | 10% | 0.9x | b |
| Cash-Flow Volatility Interest Coverage | 10% | 0.6x | b |
| Factor 4: Debt and Liquidity | | | |
| Debt to Revenue | 5% | 5.8x | b |
| Debt to Assets | 10% | 58.7% | b |
| Liquidity Coverage | 10% | 1.9x | a |
| Factor 5: Management and Governance | | | |
| Financial Management | 10% | baa | baa |
| Investment and Debt Management | 10% | baa | baa |
| Scorecard - Indicated BCA Outcome | | | baa3 |
| Assigned BCA | | | baa2 |

Source: PA Housing and Moody's Ratings

Ratings

Exhibit 6

| Category | Moody's Rating |
|---------------------------------|-----------------------|
| PARAGON ASRA HOUSING LTD | |
| Outlook | Negative |
| Baseline Credit Assessment | baa2 |
| Issuer Rating -Dom Curr | A3 |
| Senior Secured -Dom Curr | A3 |
| PARAGON TREASURY PLC | |
| Outlook | Negative |
| Senior Secured -Dom Curr | A3 |

Source: Moody's Ratings

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