

CREDIT OPINION

5 November 2024

Update



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RATINGS

1001 Vies Habitat

Domicile	France
Long Term Rating	A1
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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1001 Vies Habitat (France)

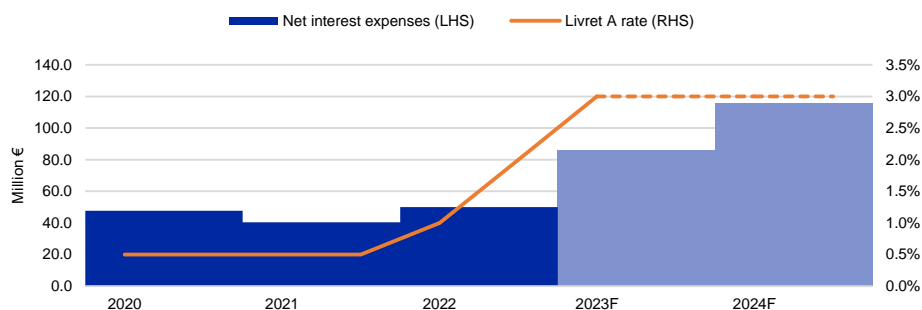
Update following outlook change to negative from stable

Summary

The credit profile of [1001 Vies Habitat](#) (MVH, A1/Prime-1 negative) reflects the social housing provider's (SHP) strong focus on social housing lettings in a supportive regulatory framework, and very strong management and governance practices. The group benefits from a high level of integration that allows MVH to achieve significant economies of scale, stable operations and a solid operating performance despite rising operating costs and increasing property taxes. Our credit view also takes into consideration MVH's high debt levels and deteriorating interest coverage metrics because of its significant exposure to rising interest rates. We also assess that there is a strong likelihood of the [Government of France](#) (Aa2 negative) intervening should MVH face acute liquidity stress.

Exhibit 1

The sharp and rapid increase of Livret A rate puts pressures on MVH's interest expenditures



F = Forecasts

Source: 1001 Vies Habitat and Moody's Ratings

Credit strengths

- » Strong governance practices
- » Low-risk core business of social housing lettings, that provides secure and predictable cash flow
- » Supportive regulatory framework

Credit challenges

- » Growing pressures on interest cover ratios from higher interest rates and price inflation
- » High level of debt

Rating outlook

The negative outlook reflects the social housing sector's exposure to policy uncertainty at the sovereign level in a context of deteriorating public finances in France. This increases the risk of sudden measures negatively affecting the sector and may reduce SHPs' ability to plan effectively. The negative outlook also considers the limited capacity remaining for SHPs to adapt to potential adverse decisions at the sovereign level.

Factors that could lead to an upgrade

A rating upgrade is unlikely given the negative outlook. The negative outlook could be changed to stable as a result of one or a combination of the following: (i) France's outlook is changed to stable; (ii) the institutional framework remaining strong and the level of support from the French Government undiminished; (iii) stable financial metrics or an improvement over the medium term compared to current expectations.

Prime-1 is Moody's highest short-term rating.

Factors that could lead to a downgrade

The ratings could be downgraded as a result of one or a combination of the following: (i) a sovereign bond rating downgrade; (ii) a weakening of the institutional framework or a dilution of the overall level of support from the French Government; (iii) a prolonged worsening of profitability; (iv) a substantial deterioration in the debt burden.

Key indicators

Exhibit 2

	2020	2021	2022	2023F	2024F
Units under management (no.)	90,194	89,892	90,217	91,711	92,490
Operating margin, before interest (%)	16%	14%	10%	12%	14%
Net capital expenditure as % turnover	21%	35%	12%	22%	21%
Social housing letting interest coverage (x times)	2.1x	2.2x	1.4x	0.9x	0.9x
Cash flow volatility interest cover (x times)	3.6x	3.4x	4.2x	2.4x	2.1x
Debt to revenue (x times)	5.9x	6.0x	6.0x	6.0x	5.9x
Debt to assets at cost (%)	65%	65%	65%	65%	65%

Source: 1001 Vies Habitat and Moody's Ratings

Detailed credit considerations

On 29 October 2024, we changed MVH's outlook to negative from stable and affirmed the issuer's A1/ Prime-1 ratings. The outlook change followed the change to negative from stable of the Government of France's outlook on 25 October 2024, while the Aa2 sovereign bond rating was affirmed.

MVH's A1 rating combines a Baseline Credit Assessment (BCA) of a3 and a strong likelihood of extraordinary support from the French government in the event that the entity faces acute liquidity stress.

Baseline credit assessment

Strong governance practices

MVH is among the biggest SHP groups in France managing around 90,000 housing units, two-thirds of which are in the [Ile-de-France Region](#) (Aa2 negative) and the remainder are in the high-demand region of south-east France. Under the oversight of its main shareholder, [AXA SA](#) (Aa3 positive), the SHP's development strategy has been risk-averse: investment decisions are driven by the expected return on investment and development is only focused on high-demand territories with a clear mapping of the territories where new units can be bought from other SHPs or built. The development strategy is focused on profitability and able to adapt to sudden environment changes, a credit positive.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the issuer/deal page on <https://ratings.moody's.com> for the most updated credit rating action information and rating history.

The group structure is simple and deeply integrated with the five subsidiaries, with many shared services such as purchases and invoicing resulting in economies of scale. The group has thus been able to maintain strong margins, and we expect operating margin to remain above 10% of revenue over the next two years. Because of the strong governance practices, MVH has recovered from a significant cyberattack in 2021. The cyberattack incurred costs of €10 million (around 1.5% of 2021 revenue), partially covered in 2023 by €4.7 million of insurance compensation.

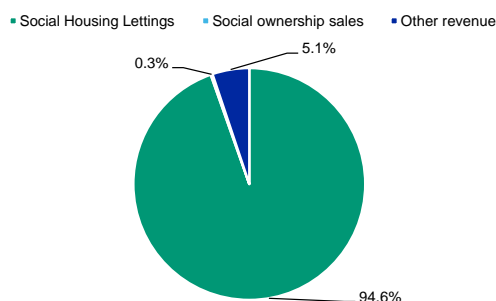
Low-risk core business of social housing lettings, that provides secure and predictable cash flow

The majority of MVH's revenue stems from its low-risk core business of social housing lettings (see Exhibit 3), which represented over 90% of turnover. Over 40% of tenants receive housing benefits – a large part of which comes in the form of transfers from the central government directly to the issuer – contributing to secure and predictable cash flows, as well as limiting the risk of arrears and bad debts. In 2022-23, the central government's decisions to increase housing benefits¹ and cap energy bills² also supported tenants' affordability and mitigate the risk of higher arrears for SHPs despite the current high-inflationary environment. The SHP has also set up a broad array of measures to monitor arrears and to help tenants deal with increasing energy prices. We thus expect MVH to improve its level of bad debt and arrears, which has temporarily increased due to the 2021 cyberattack.

Exhibit 3

MVH's revenues are highly concentrated in the low-risk core business of social housing lettings

Turnover by source of revenue (as of 2022)



Source: 1001 Vies Habitat and Moody's Ratings

The French social housing institutional framework limits SHPs' ability to engage in ventures outside of their core mission and in risky activities to generate revenue. Contrary to English peers that can engage in non-social housing activities like market sales and market rents without restrictions, the amount and type of risks that SHPs can take on is limited. Non-social housing activities, including the rental of SHP real estate for parking or commercial use, generate a marginal part of revenues.

To shore up internal resources to fund fixed capital investments, SHPs carry out social ownership (accession sociale à la propriété) and asset sales. MVH aims to sell around 1,000 units in 2024 (around 1% of its units under management), of which around 80% are expected to be sold to other SHPs. This strategy bears low risks because it allows MVH to receive social housing lettings until the asset is sold to another provider and to rationalise its assets' location.

Supportive regulatory framework

Social housing plays an important role in French housing policy, representing a high 16% of total housing with 5.3 million dwellings and housing an estimated 10 million people, the equivalent of 15% of the French population³. The housing policy is generally stable and changes are made in consultation with the sector's federations and other key stakeholders. New regulations set by the central government are also enforced gradually, giving time to SHPs to implement these rules with technical guidance usually provided by the federations.

In France, the funding model of SHPs is based on dedicated lending from the state-owned [Caisse des Depots et Consignations](#) (CDC, Aa2 negative) to finance the sector's substantial and ongoing capital spending needs. SHPs have unrestricted access to CDC funding, which is stable, with long maturities and smooth debt service payments. The cost of loans is linked to the category of rent the SHP will

receive. CDC loans are indexed to the Livret A rate which is set by the central government, taking into account the recommendation of the French Central Bank based on a formula balancing price inflation and short-term interest rates⁴. SHPs' interest expenses are designed to move with rents, which normally evolve according to a price consumer inflation-based index (IRL, indice de référence des loyers). As opposed to England where government funding materializes through grants, central government grants are limited and generally dedicated to demolitions, a highly subsidized activity⁵. [Action Logement Services](#) (ALS, Aa2 negative) also provides subsidies to all and every SHPs through the national construction fund (Fonds national d'aide à la pierre).

French SHPs operate in a highly regulated environment, with strong oversight exercised by multiple public bodies, including the sector's regulator, ANCOLS (Agence nationale de contrôle du logement social), the CGLLS and the CDC. Private SHPs, including MVH are also monitored by a dedicated committee (Comité d'autocontrôle et de prévention). From a financial perspective, the regulator tracks a number of performance metrics on an ongoing basis⁶. In case of material irregularities, ANCOLS may enforce SHPs to correct them and propose sanctions⁷ in the event of non-compliance. The CGLLS' mission is to protect public investment in the social housing sector by intervening early and effectively when necessary either with additional funding, financial guarantees, or organizing a takeover of a weak or failing SHP. The CDC, on top of being the preferred lender, monitors and sets performance thresholds for SHPs, that submit financial accounts and five-year forward-looking business plans for scrutiny. The CDC may decide not to grant a loan or to cancel granted loans if a SHP's financial situation deteriorates. We also note that the regulatory framework for debt and investment management is relatively rigid, limiting the amount and type of risk that SHPs can take on.

Growing pressures on interest cover ratios from higher interest rates and price inflation

We expect MVH's net financial expenses to increase from €50.1 million in 2022 to €85.8 million in 2023 and €115.7 million in 2024. This rise is driven by the sharp and rapid increase of the Livret A rate, which reached 3% in February 2023, compared to an all-time low of 0.5% in 2021. In spite of the government decision to maintain this rate at 3% until end of January 2025, MVH's interest expenses will remain elevated, due to its current and forecasted high debt, as well as its material share of debt indexed to the Livret A rate (around three quarters of the debt).

As a result, we expect a deterioration of MVH's interest cover ratios in 2023 with levels likely remaining weak in 2024 in comparison to those of the past years. Social housing letting interest coverage (SHLIC) - which captures the ability of the SHP to pay net interest from surpluses derived purely from social housing rental income - will decrease to 0.9x in 2023 and 2024, compared to 1.4x in 2022. Cash flow volatility interest coverage (CVIC) - which captures the ability of pre-interest cash flow from operations, adjusted by historical volatility, to cover net cash interest expense - will also decrease (to 2.4x in 2023 from 4.2x in 2022). We note that the impact of a higher Livret A rate on debt service is, nevertheless, mitigated by a CDC dedicated mechanism, the "double révisabilité" clause. When the Livret A rate sharply increases, debt amortization decreases to offset the increase of interest costs, resulting in a barely unchanged debt service, limiting the impacts on cash-flows.

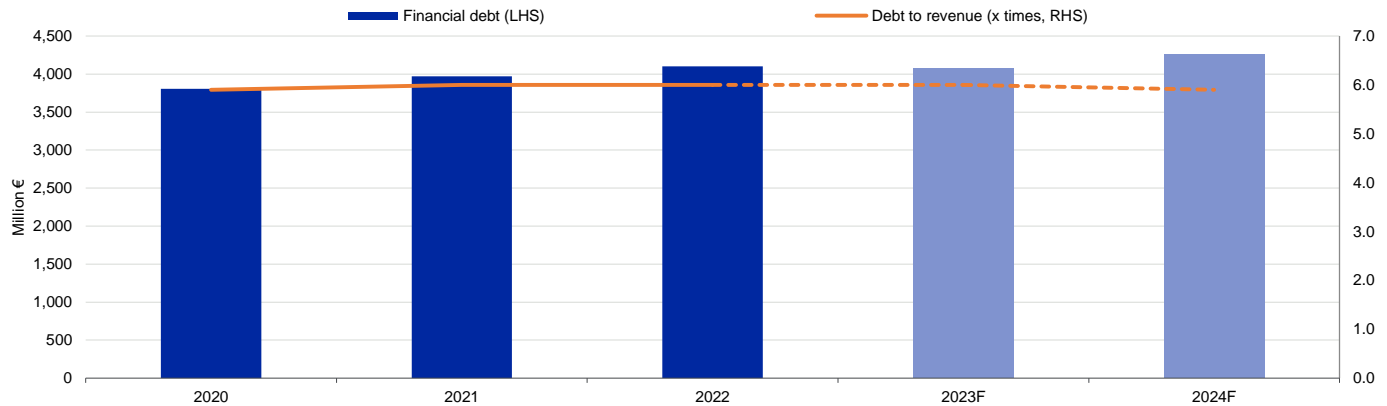
Additionally, social rents have grown slower than interest spending and cost inflation, especially for repairs, maintenance and building. Since 2018, the rent cut (RLS, *réduction de loyer de solidarité*) decided by the central government limits MVH's revenue flexibility resulting annually in revenue losses from social rents. The rental regime is also set within a relatively rigid framework, undermining SHPs' capacity to offset the rapid increase in expenditure. In 2023, MVH has been able to increase rents by up to 3.6% which will however not be material enough in terms of cash flows to increase interest coverage ratios as this rise in rents remains (1) much lower than the rise in maintenance and repair costs (6.2% yoy in Q2-2023), construction costs (8% yoy in Q2-2023) or general consumer price inflation (5.7% yoy in September 2023, HICP) and (2) will not be enough to offset the 2022 Livret A rate shock when SHPs could only raise rents by up to 0.42%. Despite the challenging macroeconomic context and growing taxes, due to local increases in property tax rates (*Taxe Foncière sur les Propriétés Bâties*), we expect MVH to maintain a solid operating margin, above 10% of turnover over 2023-24.

High level of debt

MVH's growth plan foresees the development or acquisition of over 2,200 social housing units in 2024, corresponding to around 2.5% of units under management. In addition, MVH aims to spend €80 million to retrofit dwellings. The sharp increase in construction costs since 2020 inflates capital spending, lowering long-term profitability and increasing funding needs. This may entail higher borrowing needs, resulting in higher-than-expected debt ratios. MVH plans to make an overall overhaul of its business plan in 2024 and may decide to further revise its investment programme downwards.

MVH funds capital spending needs mainly through debt. As a result, debt levels are high. As of year-end 2022, MVH's total debt amounted to €4.1 billion, which represent 6.0x of its revenues and around 65% of its assets (calculated at cost). We expect its debt-to-revenue ratio to remain around these levels in 2023 and 2024. Such leverage is high and stands within the weakest bucket of our methodology (between 5.0x and 6.5x).

Exhibit 4

High debt-to-revenue ratio

Source: 1001 Vies Habitat and Moody's Ratings

Extraordinary support considerations

The likelihood of MVH receiving extraordinary support is strong, reflecting the importance of social housing in France and the wide-ranging powers of redress available to the regulators in case of financial distress. The provision of extraordinary support manifests itself through the regulating entities' wide-ranging levers of control and includes the ability to award capital funding and guarantees, appoint new managers and officers, and impose reorganisations in extreme circumstances. In the context of France, extraordinary support would be provided by the same public entities that set the operating environment and regulatory framework — CGLLS, ANCOLS and CDC.

ESG considerations

1001 Vies Habitat's ESG credit impact score is CIS-2

Exhibit 5

ESG credit impact score

CIS-2



ESG considerations do not have a material impact on the current rating.

Source: Moody's Ratings

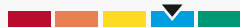
MVH's ESG Credit Impact Score (**CIS-2**) reflects a moderate exposure to environmental and social risks, and a strong governance profile. MVH also benefits from a strong regulatory framework and French government support to ensure decarbonisation plans are properly funded.

Exhibit 6

ESG issuer profile scores

ENVIRONMENTAL

E-2



SOCIAL

S-3



GOVERNANCE

G-2



Source: Moody's Ratings

Environmental

MVH's environmental issuer profile score (**E-2**) reflects the fact that, in line with other SHPs in France, energy efficiency and decarbonization more broadly are becoming an increasingly acute priority with a target of all homes obtaining an energy performance certificate (EPC) of D or above by 2034 in France. However, MVH faces relatively lower risk from this exposure as it has a large share of its stock already at EPC D or above.

Social

MVH's social issuer profile score (**S-3**) reflects a moderate exposure to risks stemming from socially-driven policy agendas, in addition to the impact of demographic trends on demand. As for other SHPs in France, MVH also has moderate exposure to responsible production with requirements to maintain quality of service with an impact on maintenance costs. Exposure to other social risks is muted.

Governance

MVH's G issuer profile score (**G-2**) reflects the strong governance practices including multi-year strategies supported by detailed forecasts, conservative liquidity policies and robust risk management. It is also supported by a strong regulatory framework. MVH's financial strategy and risk management has a clear business focus on the low-risk core business of social housing lettings. Risk appetite is well managed and limited by the regulation. Financial policies and procedures are conservative, budgeting prudent and internal controls effective.

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 a3 is aligned with the scorecard-suggested BCA.

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

Exhibit 7

1001 Vies Habitat			
Baseline Credit Assessment	Sub-factor Weighting	Value	Score
Factor 1 : Institutional Framework			
Operating Environment	10%	a	a
Regulatory Framework	10%	aa	aa
Factor 2: Market Position			
Units Under Management	10%	90,217	aa
Factor 3: Financial Performance			
Operating Margin	5%	10%	ba
Social Housing Letting Interest Coverage	10%	1.4x	baa
Cash-Flow Volatility Interest Coverage	10%	4.2x	aaa
Factor 4 : Debt and Liquidity			
Debt to Revenue	5%	6.0x	b
Debt to Assets	10%	65%	b
Liquidity Coverage	10%	1.5x	a
Factor 5: Management and Governance			
Financial Management	10%	aa	aa
Investment and Debt Management	10%	baa	baa
Scorecard - Suggested BCA			a3
Assigned BCA			a3

Source: Moody's Ratings; Fiscal 2022.

Ratings

Exhibit 8

Category	Moody's Rating
1001 VIES HABITAT	
Outlook	Negative
Baseline Credit Assessment	a3
Issuer Rating -Dom Curr	A1
Commercial Paper -Dom Curr	P-1

Source: Moody's Ratings

Endnotes

- 1 In August 2022, the French government increased housing benefits by 3.5% as an emergency measure to protect households' purchasing power.
- 2 In September 2022, the French government extended to 2023 the cap on energy bills, with an increase to 15%.
- 3 As of 2022. Source: [French Ministry of Ecological Transition](#).
- 4 The central government may decide to deviate from the formula.
- 5 Demolition is part of the central government's urban renewal policy (Plan national de rénovation urbaine). A dedicated national agency (ANRU, Agence Nationale pour la Rénovation Urbaine) finances and supports the implementation of this policy.
- 6 Including indebtedness, operating costs, vacancy rates, bad debt recovery and self-financing ratios.
- 7 Including board dismissal and appointment of an interim administrator, mandate withdrawal or SHP dissolution enforced by ministerial decree.

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