Market Update

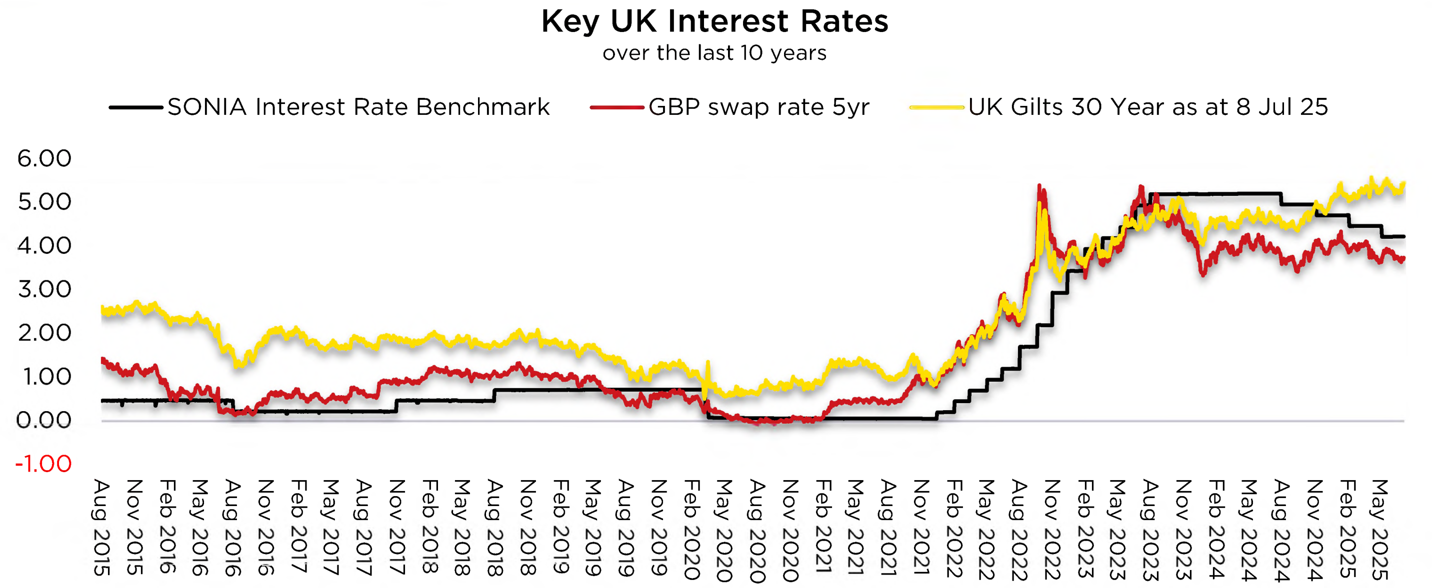
UK Social Housing Sector

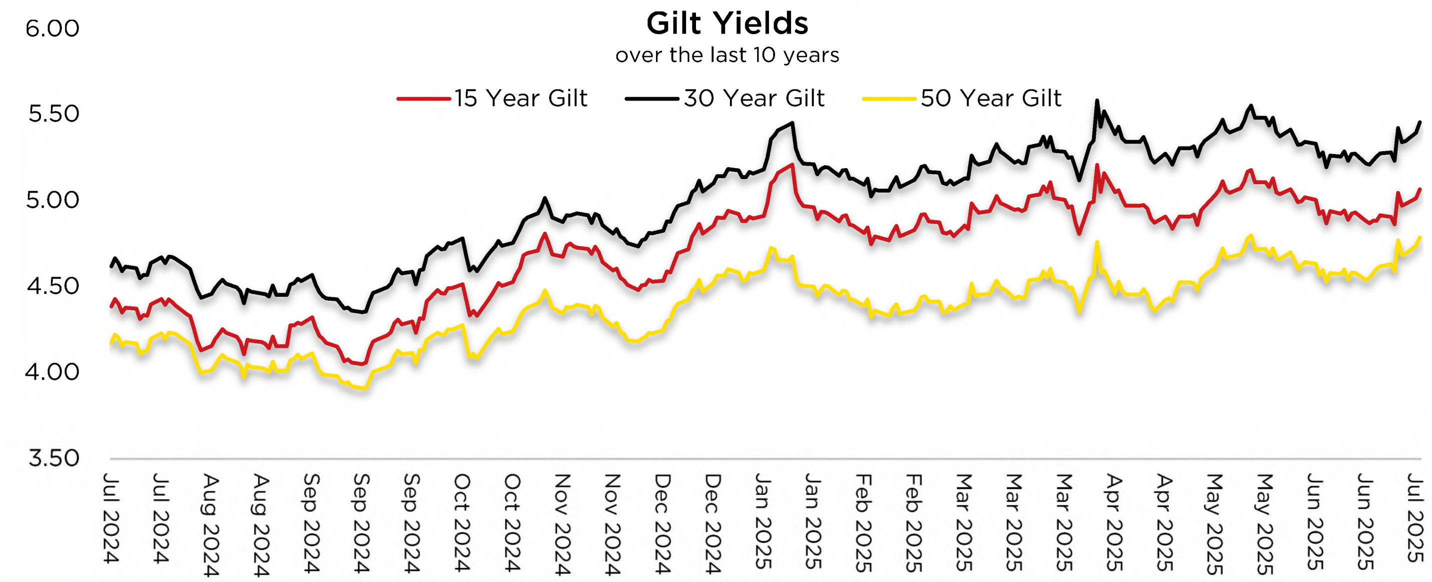
Prepared by:

Savills Financial Consultants

33 Margaret Street
London
W1G 0JD

Key Interest Rates





- Towards the end of 2021, interest rates began to rise from their historic lows due to growing inflationary pressure from global supply chain disruption, surging energy prices and returning economic growth after the Pandemic as well as the fiscal stimulus used to mitigate the crisis. This marked a regime change for financial markets, shattering the low, stable inflation backdrop that had been in place since the early 1990s.

- Between February 2021 and October 2022, the annual UK CPI rate increased in almost every single month. It reached a peak of 11.1% in October 2022, the highest rate in 40 years. To counter this, the Bank of England ("BoE") increased the Bank Rate from 0.65% to 5.25% in 14 consecutive hikes. In September 2023 however, the BoE held the Bank Rate at 5.25% in a knife-edge decision following a lower-than-expected August CPI reading, spelling an end to the BoE's most aggressive round of rate increases in decades.

- Since 2021 we have entered into a new economic period defined by elevated interest rates, sustained volatility, rekindled and unstable inflationary concerns, elevated cost of living, increased geopolitical risk and protectionism and rising government debt and financial repression; gone are the days of cheap and stable liquidity. Uncertainty and division has become the new norm – including around the future outlook for interest rates and where the long-term 'neutral' rate will settle. All of these factors have made society more vulnerable to repeated price level shocks and 'spikeflation', with less capacity to respond.

- 2024 was a year the world went to the polls – 70 countries (including the US and UK) and c. 50% of the world's population held elections. It turned out to be a difficult year for incumbents and traditional parties. Rattled by rising prices, divided over cultural issues and angry at the political status quo, voters in many countries sent a message of frustration and nationalism has continued to grow. Exceptional geopolitical events have become the norm and the world remains the most conflicted it has been since the Cold War.

US Recent Commentary

- Resilient global economic growth, lingering wage growth and service inflation and a surge in input pricing caused interest rates expectations to generally trend upwards in the first half of 2024. By August 2024 however US CPI had fallen quicker than expected to 2.5%, resulting in Fed Chair Jerome Powell announcing in August that the "time has come" for rate cuts.

- On the 18th September, the Fed began the easing cycle with a bang and cut the target policy rate down by 0.5% to 5.0%, which was 65% priced-in ahead of the meeting. This caught many by surprise and was evidence that the Fed was switching the focus of its dual mandate from price stability to full employment.

- Markets shifted after this point, with US treasury yields rising significantly from September 2024 to January 2025. Central to this was the anticipation of a Trump presidency, accompanied by his often fiery rhetoric, bluster and unpredictability. Markets grew increasingly worried around his agenda of tariffs, tax cuts, protectionism and expansive fiscal policy and their impact on inflation and the burgeoning US deficit.

- The global sell-off in interest rates went into overdrive in early 2025 due to long-simmering worries around proliferating government debt, reignited inflation, a resilient US economy and Trump's policies. A 'worst of all worlds' scenario occurred in the first week in January, with yields jumping after the ISM prices paid index surprised to the upside followed by the JOLTS job openings unexpectedly rising. A blowout US Labour Market report capped off one of the worst-performing weeks for US treasuries in recent memory.

- To the dismay of its allies, Donald Trump started his Presidential term with a bang. In the first few months of 2025, the geopolitical status quo and traditional alliances have been upended, culminating in Zelensky's public dressing down in the oval office. The Trump administration has doubled down on its 'America First' rhetoric, at one point temporarily turning off aid to Ukraine in its entirety and threatening to withdraw from NATO. This has left politicians in Europe scrambling to react to the shifting world order.

- Europe is in a precarious position, as it is widely regarded that the continent has underinvested in its military capabilities over the last few decades. The UK announced an increase to the defence budget in March, and bond yields across Europe rose markedly in that month due to anticipated increases in defence spending and Ukrainian support from their already strained and highly indebted economies.

- Trump's threats around tariffs have turned to actions, igniting a potential global trade war in the process. This began with a series of tariffs against Canada, Mexico and China as well as blanket tariffs on steel and automobile imports, and culminated in 'Liberation Day' on 02 April 2025. A 10% Universal Minimum Tariff ("UMT") on all imports into the US has been imposed (including the UK), with higher rates implemented for the "worst offenders" (an additional 34% for China and 20% for the EU on top of existing tariffs).

- These tariffs were more severe than many investors were expecting – plunging global financial markets into turmoil, with many stock indexes suffering the worst one-day decline since 2020. Uncertainty and volatility have reached new heights, with the VIX Index (a measure of expected volatility in US stocks often called the "fear gauge") at one point surpassing levels seen during the onset of the Covid 19 Pandemic.

- A historic sell-off in sovereign debt markets prompted questions about the resilience of traditional safe-haven assets and US government debt, with the 10Y Treasury yield surging to highs of 4.51% at one point.

- Later on during Wednesday 9th April, in an unexpected U-turn, Trump backed down on reciprocal tariffs for the next 90 days, bringing tariff levels to a universal 10% — claiming that over 75 countries had not retaliated but reached out to negotiate. Whilst this initial reprieve excluded China, a similar 90-day reprieve followed suit later in May, lifting equities and treasury yields in the process.

- The prospect and then announcement of the tariffs has weighed heavily on the outlook of the US economy, with signs of stalling activity (such as falling PMI data) and deteriorating sentiment. This was verified by US GDP data for Q1 that showed the US economy contracted by 0.3% Q-on-Q as tariff policy prompted an import surge. In the immediate aftermath of Liberation Day, many key institutions downgraded their economic outlook of the US citing that they see a recession in 2025 as the likely outcome.

- This poses a serious headache for the Fed, as tariffs are likely to cause "higher inflation and slower growth". As a result, the Fed held rates steady in May and June, citing rising uncertainty and stagflation risk.

- Sentiment grew more positive in May and early June, driven by optimism and renewed momentum around de-escalating trade tensions. This culminated in the first 'trade deal' (legally speaking it is not) with the UK. Whilst politicians on both sides were quick to hail its historic importance, analysts are generally agreed on its limited significance which largely relate to a roll-back of tariffs on automobiles, steel and beef. Trump however hopes this will serve as a catalyst and starting point for future trade deals. Trump remains capricious however, such as his 50% tariff threat on the EU citing stalling negotiations. The threat underscores the ongoing risk that shifts in US policy can abruptly upend market dynamics at short notice.

- On May 16th, Moody's became the last major rating agency to strip the US of its AAA rating. Moody's cited rising debt affordability concerns, long-term deterioration in fiscal strength across successive governments, and lack of political consensus to reduce the deficit. Add this to the ongoing debate around Trump's Tax Bill, which would raise the debt ceiling and add 100s of billions p.a. to the deficit. These factors caused the 30Y Treasury yield to breach the 5% ceiling and threaten near 18-year highs. This caused global move in bond yields as investors grew more anxious around the long-term sustainability of public finances.

- Uncertainty in the Middle East is currently dominating market themes and headlines, as Israel and Iran continue to exchange missile strikes which threatens to boil over into an all-out regional war.

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UK Recent Commentary

- At the start of 2024, the market was optimistic about the scale and pace of rate cuts in the UK in 2024, with a 1.5% reduction priced-in over six separate cuts. However this did not materialise – with only 0.5% of cuts across two MPC meetings. The reasons for this largely hinge on the fact that for most of the year CPI in the UK fell faster than expected despite the higher rates and that, for the first half of 2024 at least, GDP growth was more robust than expected (the UK was the fastest growing economy in the G7).

- This lead to the BoE cutting the Bank Rate by 0.25% to 5.0% in August 2024 that reduced borrowing costs from their 16-year high. Governor Bailey stated that whilst inflationary pressures had eased enough to allow that to happen, a gradual approach to further decisions must be employed to keep inflation low.

- In the last four months of 2024 the rates environment deteriorated. This was due to global contagion, but also factors endemic to the UK, such as the unsustainability of the UK fiscal position and weak economic outlook. In particular the Autumn Budget surprised the market as the additional tax burden and employee costs are expected to be passed on in the form of rising prices and lower growth. Unfunded spending, increased forecast gilt issuance and concerns over the UK's creditworthiness spooked investors.

- In January the UK was left facing a worst-case scenario of persistent inflation, ballooning government debt, US tariffs and tepid growth. Investor anxiety has increased the UK's susceptibility to external shocks and a negative feedback loop occurred due to rising yields meaning higher borrowing costs and therefore greater fiscal concerns, with the 30Y gilt yield rising to highs not seen since the late 90s.

- Business and consumer sentiment weakened significantly in late 2024 and early 2025, particularly after the Autumn Budget - with company insolvencies in January reaching the second highest they've been since 2009. This sentiment was felt in the economy, with stagnant GDP growth during this period.

- Heightened geopolitical risk and the need for increased defence spending in February and March threatened to pour fuel on the fire that is the government's precarious balance sheet however the PM appeared to somewhat navigate this issue by raiding the Overseas Aid Budget.

- Whilst the lower-than-expected CPI prints for February and March have provided some green shoots, CPI is generally expected to continuing increasing over the course of 2025. The April print showed a higher-than-expected increase to 3.4% (versus expectations of 3.3%) from 2.6% in March, principally driven by a rise in the domestic energy price cap. Annual CPI growth remained at 3.4% for May 2025.

- The Office for Budget Responsibility's ("OBR") updated fiscal forecast published in March compounded Chancellor Reeves' woes with the announcement that the budget deficit had exceeded their predictions by £20bn, itself implying that Reeves' slender £10bn of headroom on her self-imposed fiscal rules had dissipated. The increased borrowing reflected higher spending, borrowing costs and lower tax receipts.

- Reeves reaffirmed that the government's fiscal rooms were "non-negotiable" in the Spring Statement and declared that she had managed to adhere to them without the use of further tax increases. This was achieved through £4.8bn of savings through the welfare budget, a reduction in costs and headcount associated with the Civil Service and savings delivered through further crackdowns on tax avoidance.

↳ In the June Spending Review Chancellor Reeves announced a £39bn grant funding package for Affordable Housing over the next ten years, as well as a CPI+1% rent settlement and a consultation on rent convergence which was seen as a very welcome and much-needed boost to the sector.

↳ Stock indexes in the UK were caught up in the global turmoil post US 'Liberation Day' however they have pared their losses in May and reached a record high in June with the FTSE 100 notching 16 consecutive day of gains (its longest winning streak ever). Generally the UK has fared better than the EU in this respect as it has largely remained outside of Trump's firing line.

↳ In a positive for the UK, GDP grew more than expected in Q1 at 0.7%, up from 0.1% the previous quarter and the highest in the G7 for that period, although analysts have commented that this was likely helped significantly by businesses rushing to beat US tariffs. Economic outlook has weakened however along with the rest of the world, with the IMF recently downgrading the UK's 2025 growth forecasts from 1.6% to 1.1%.

↳ Buoyant UK Q1 GDP growth came to an abrupt halt in April with GDP shrinking 0.3% MoM and 0.9% YoY, the weakest since last June. The report fits with the BoE's gloomier protestation that growth in the second quarter would soften and fits neatly with signs of a cooling labour market with unemployment rising to 4.6% (the highest level in 4 years) and wage growth easing to 5.2% (from 5.5% - the slowest pace in 7 months). This suggests that demand risks had tilted lower as employers cut back to cope with increased labour costs (NI and mandated national living wage hikes), against a backdrop of global uncertainty.

↳ Short and long term interest rates fell in late April due to the impact of the tariffs on the global economic outlook and the need for central banks to provide economic stimulus. On the 08th May the BoE cut the Bank Rate to 4.25%, citing that inflation pressures have continued to ease but reiterated the "gradual and careful approach" due to macro unpredictability. This language was reiterated in the June Bank Rate decision to hold at 4.25%. Nearly two further rate cuts are currently priced in for the rest of 2025.

↳ Interest rate expectations shifted higher in May as trade negotiations progressed and concerns reignited over global public finances, driven largely by Trump's Tax Bill. The moves will be unwelcome for Chancellor Reeves as they have re-highlighted the pressure on the government's balance sheet and the lack of fiscal headroom that she is operating with, compounded by the recent announcement that borrowings in May were the second highest on record. Government borrowings for the first two months of the year were £3bn below the £40.7bn forecast, providing a modest boost for the Chancellor as she faces increasing pressure from a U-turn on the winter fuel allowance and consistently high interest rates.

Yield Curves

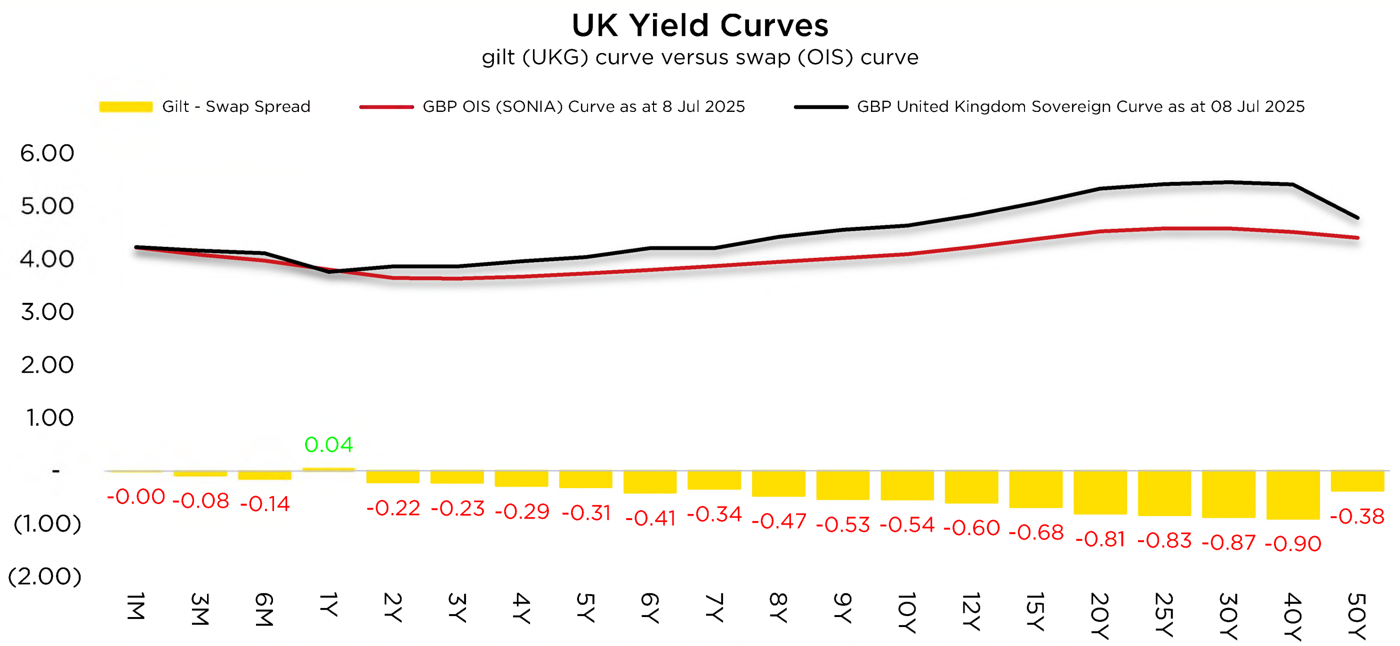
↳ The swaps curve is negatively sloping until 3Y, meaning fixing at 3Y is the cheapest point of the curve – the bottom of the curve has moved in materially from 7Y over the last few months which has caused borrowers to flex their interest rate hedging strategies accordingly. This inversion implies traders expect the BoE to continue to unwind policy rates over the next few years.

↳ The long-end of the swaps curve remains illiquid and is dictated by supply and demand dynamics, not rate expectations. The curve is steeply upwards sloping from 3Y to 25Y.

↳ The gilt curve is inverted to 1Y then steeply upwards sloping until 30Y. The short end of the curve is governed more around expectations of upcoming gilt issuance – which was significant in 2024 (with public debt reaching 100% of GDP in August, a level unseen since the 1960s) with significant increases observed to the forecast levels (just under £100bn) over the next four years as a result of the Autumn Budget. These forecasts were increased further still as part of the OBR's updated fiscal outlook published in March 2025.

↳ An interesting dynamic to occur over the course of 2023 and 2024 has been the widening of a negative gilt-swap spread (i.e. swap rates are lower than gilt yields) at virtually all points of the curve, as well as a significant increase in this spread, as shown by the chart below.

↳ This has been exacerbated in recent months as pressure around the government's balance sheet has come into focus, which has been worsened further by the ongoing geopolitical tensions, need for increased defence spending and the prospect of tariffs weighing on the global economic outlook. This provides a significant pricing advantage to any debt instrument that prices off the swaps curve versus the gilts curve.



Credit Spreads

↳ All in borrowing rates are a function of underlying market interest rates (above) and the credit spread (or margin) that investors or banks apply to reflect the credit worthiness of the respective borrower. UK housing associations are seen as low risk for investors, as such spreads are generally quite low.

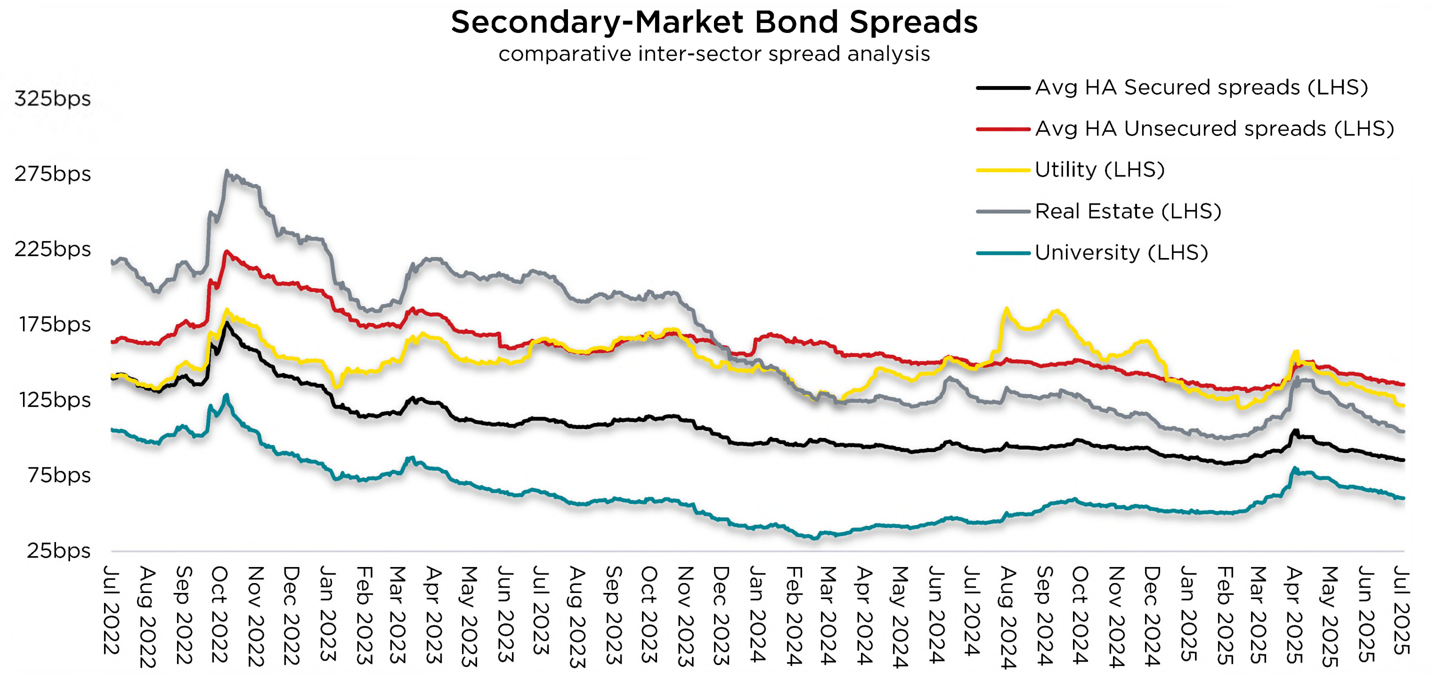
↳ Over the course of 2022 spreads across sectors generally rose due to the uncertainty on both the speed and scale of the BoE's monetary policies, the impact of rising inflation on consumer activity, the Russian Invasion of Ukraine and the likelihood of economic recession.

- Corporate bond spreads spiked as a result of the September Mini-budget announcement as institutional investors sold-off UK assets in response to concerns about the sovereign debt burden. They also needed to quickly liquidate their portfolio of gilts and fixed-income instruments to fund margin calls which were a result of extreme interest rate rises. The trend in rising spreads reversed post the U-turn on the mini budget and appointment of Rishi Sunak as investor confidence in the UK's financial stability was gradually restored.

- A notable feature of secondary spreads over the last 3 years has been the outperformance of Utilities by Housing Associations; SFC's index of secured Housing Association bond spreads has been inside Utilities for a while now: an indication of the sector's continuing maturity and its counter-cyclical nature.

- Spreads steadied in late 2023 as falling inflation was counterbalanced by the threat of recession from higher rates. In early 2024 however they fell again as signs developed that inflation was finally beginning to fall back under control and closer to the BoE's target rate of 2% and global economic growth, particularly in the UK, proved more resilient than expected.

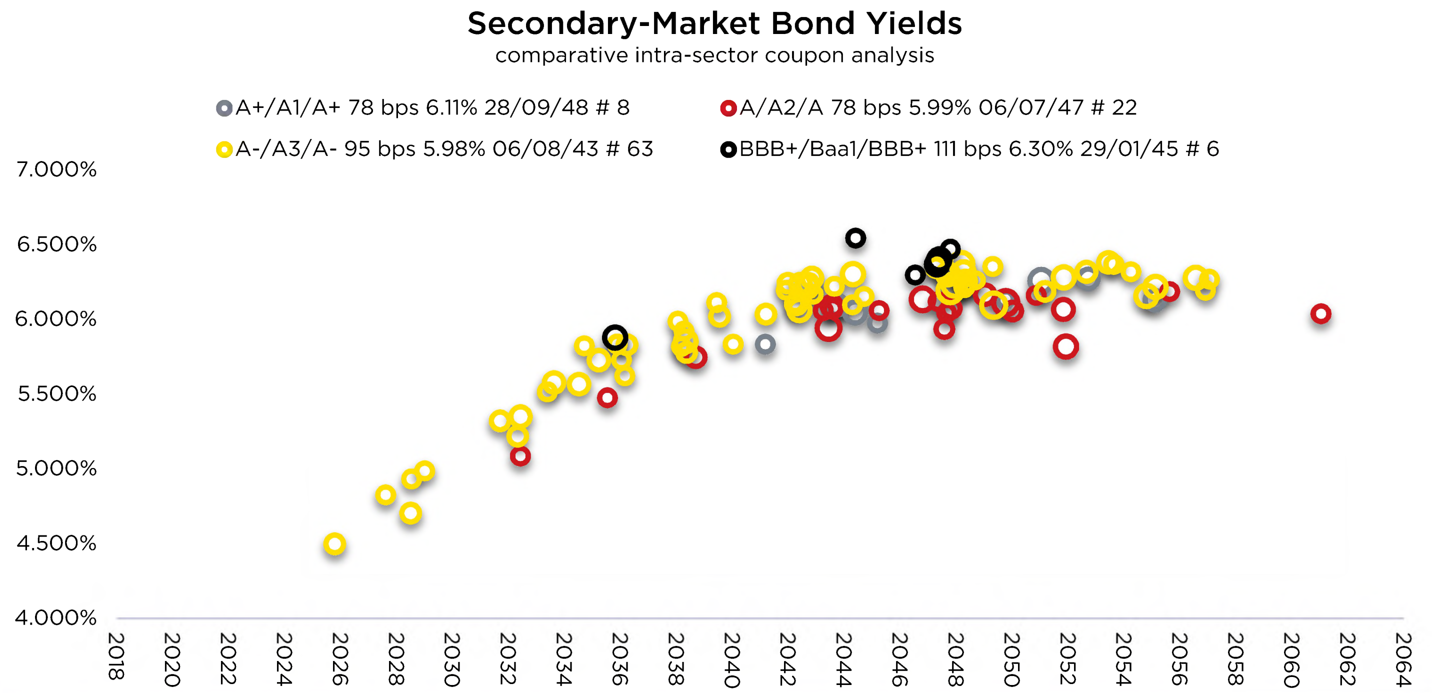
- Social housing spreads have reached near historic lows in early 2025 despite concerns around the economic outlook and reigniting inflation beginning to grow. However, this is largely as a result of the distinct lack of capital markets supply and high investor demand which is pulling down spreads artificially and keeping them tight despite the wider macroeconomic challenges.



- However, they began to creep up in late March due to growing concerns around the economic outlook in the UK and the announcements on the continued and increased support for Ukraine and need for elevated defence spending. They then widened materially in early April of the back of Trump's tariff announcements and the implications that has on the global economic outlook and investor's risk sentiment, although some tightening has occurred since as Trump has rowed back on some of his tariff announcements.

- There is a wide range when we look at the bond spreads in the secondary market. The circles in the graph below represent the current trading spreads and maturity dates of all publicly-listed issues in the housing sector. The colours represent the different credit ratings. Whilst we can see credit rating is a strong predictor of credit pricing, there is significant variability among the data set and often there is more to credit pricing than simply just the credit rating.

- The differential between A+/A1 and A-/A3 spreads now stands at approximately 20bps whilst non G15 spreads versus G15 spreads currently stands at approximately 17bps.



Recent Public Debt Issuance from Housing Associations

- 2023 saw total sterling bond issuance materially exceed total supply in 2022 and come close to reaching the 2021 total, despite being a year marked by rapidly rising interest rates and hawkish monetary policy.

- Despite that trend, social housing issuance remained scarce. HA supply only provided 8.7% of total GBP supply in 2023 vs consistent levels in prior years of 14-16%. Sitting on cheap liquidity procured during 2021 and H1 2022 (often forward-funded) and with scaled-back development programmes, many HAs chose to reassess their long-term funding strategies and adjust to rapidly rising interest rates. Consequently, during 2023, there were only two own-name new public bond issues in the sector (Aster and Places for People).

- This is a trend that has continued since; as long-term funding strategies have adjusted to the new rates environment, smaller taps, retained sales, shelf facilities and aggregator “credit envelopes” have become more popular due to the flexibility and speed-to-market they afford. They also reduce exposure to single-point pricing, helping borrowers to navigate turbulent markets.

- In January 2024 SNG priced a £400m 33Y Sustainable Bond at a yield of 5.603% - marking the first sector benchmark 30Y+ issue since July 2021. At the end of March 2024, Paradigm executed a new £150m 2044. This was unusual as it was one of the first sub-benchmark syndicated issuances in recent times. As a reminder, to qualify for index eligibility a minimum of £250m of bonds need to be sold publicly. So, day one this issuance will not qualify for index buyers which could reduce investor demand.

- In April 2024 Platform Housing issued a £250m new 2050 issue which was expected to be a good test for how tight investors would be willing to price. The final transaction was set at G+83bps with a reoffer price of 5.432% and was close to a historic sector-low spread – with some investors flagging spread sensitivity at these levels. In May Clarion executed a new £250m 33yr transaction, which was their first benchmark issuance since 2021. The 33-year gilt was selected strategically, because of amplified investor demand for longer tenors but also due to the yield curve inversion past 30yr, resulting in a small pricing benefit.

- In September, Southern Housing issued their first benchmark bond since the merger between Optivo and Southern Housing Group. The orderbook grew to £900m, supporting a 15bps revision to the IPTs to G+120.

- Investor demand remains the highest for long-dated (~20-year+) assets because of lack of supply. This has resulted in an inverted "spread curve", where long-dated bonds are achieving lower spreads than shorter maturities. Transactional evidence has shown this tighter spread has not offset the positively sloping gilt curve from 10-years+, resulting in higher overall coupons for longer maturities despite the spread inversion.

- The Affordable Homes Guarantee Scheme has remained popular with borrowers with a number of further retained sales and bond taps over the course of the year due to its government guarantee and pricing benefit. This included a £150m tap issuance (including £50m retained) of their 2033 bond in October 2024 which was well received, pricing flat to the secondary trading level at G+50. This was followed by a spate of activity in late November and early December, including a £83.5m tap of the 2033 issue, a £60m retained sale of their 2053 issue and a new £200m 12-year (2036) issue that priced with a coupon of 4.815%.

- A number of changes made to the AHGS over the last six months has also improved its flexibility, most notably being the change to include existing asset investment in the use of proceeds (at least 50% of proceeds must be retained on new development however).

- Other aggregators such as bLEND (5.748% at c. G+105 – new 2044 tranche) and MORhomes (£12.5m 2038 - 5.7286% reoffer for Soho) were strategically executed in early December before the more significant gilt rate movements. Flagship announced in January a £50m retained sale of their 1.875% 2061 bond.

- 2024 as a whole saw £24.8bn of UK corporate bond issuance with £2.33m issuance from the social housing sector – the lowest amount in the last 5 years. Naturally given the volatile market backdrop in 2025, wider sterling bond issuance has been very limited and has been dominated by the more frequent FI/SSA issuers.

- Specific to Social Housing, we have seen Saltaire dominate market issuance in 2025, accessing the 2053 (£100m of which £35m retained), 2036 (£30m) and 2033 (£15m) tranches. Saltaire also cancelled their retained bonds on the legacy tranches due to their significantly discounted prices making them unattractive from a cash receipt and security consumption perspective, implying that other lines will be the focus for future issuances.

- Moving into 2025, the first benchmark trade from the sector returned via a 7 year £400m unsecured issuance from Places for People that priced at G+115 (IPT G+130-135).

- Livewest (A2) have also issued a £75m 6 year EMTN issue at 5.00% indicating a credit spread of G+85bps. This was driven by a particular investor appetite for shorter duration. THFC/bLEND have also been providing reverse enquiries on this tenor with the tighter negative gilt-swap spread and cheaper part of the gilt curve hoping to entice issuers. THFC have also recently announced their retrofit funding product in collaboration with the National Wealth Fund.

- The last few weeks of March 2025 were busy, with NHG executing a transaction, along with SNG launching a £1.5bn Euro Medium-Term Note (EMTN) programme and Sanctuary a £2.5bn EMTN programme.

- The NHG £250m issuance was a 10-year senior secured sustainability bond under its EMTN programme, priced at UKT+130bps with a 6.046% re-offer yield and a 6.000% coupon and was more than 2x oversubscribed, reflecting strong investor demand. This transaction was notable given the G3/C3/V2 regulatory designation and the journey NHG has been on with the delisting of its public bonds in October 2024. This shows the resilience of investor demand for the sector despite these challenges.

- On 31 March 2025, LiveWest (A2) sold the remaining £37m portion (via retained sale) of its £75m 5% 2031 Sustainability Bond. SFC understand this to have been issued at a credit spread of G+85 for a c. 6yr issuance. This hit the market in advance of the more significant volatility in April.

- AHGS (Saltaire - Aa3) priced its long awaited 16 year bond which was fully underwritten by NatWest and sized at £275m (of which £75m is retained). SFC understands the issue to have priced at G+45bps indicating a coupon of 5.401% - £200m of this issue was lent to Vivid. We expect further demand from Saltaire going forward, with a number of issuers at advanced stages of application/approvals.

- Most recently, bLEND Funding Plc (A2) priced a £410m 7Y social senior secured fixed-rate bond (£150m retained) at G+100 with a 5.26% coupon, following guidance of G+100–105 and IPTs in the G+115–120 area. The all in rate is estimated as 5.45% assuming a 50bps arrangement fee and a 10bps annual cost. This was on-lent to Metropolitan Thames Valley (£250m) and Leeds Federated (£10m).

New Public Bond Issuances in the Social Housing Sector over the Last 12 Months

Issuer	Date	Principal	Maturity	Coupon/ Yield	Spread	O/S	Secured?	Credit Rating	ESG
Saltaire	Apr 25	£275m	2041	5.401%	0.45%	-	Secured	Aa3	-
Notting Hill Genesis	Mar 25	£250m	2035	6.046%	1.30%	2.4x	Secured	A-/A-	UoP
Places for People	Feb 25	£400m	2032	5.477%	1.15%	2.0x	Unsecured	A3/A-/A-	UoP
Saltaire Finance	Dec 24	£200m	2036	4.815%	0.49%	2.4x	Secured	Aa3	-
Southern Housing	Sep 24	£250m	2054	5.659%	1.20%	2.7x	Secured	A3 / A	UoP
Clarion	May 24	£250m	2057	5.462%	0.95%	3.2X	Secured	A3 / A- / A+	UoP
Platform	Apr 24	£250m	2050	5.432%	0.83%	3.0x	Secured	A+ / A+	UoP

Source: Bloomberg

Private Placements

- The private placement market continues to provide a stable funding platform however activity in the sector has been sparse over the last two years.

- In September 2023, Bromford and Hightown priced a £100m and £125m private placement respectively. Both transactions were heavily oversubscribed and opted for tenors between the 10Y and 20Y range. Riverside priced a £365m large-scale transaction in November 2023 across 10Y to 40Y tenors in secured and unsecured format. The transaction was launched at £150m and significantly upsized, reflecting the ability of the PP market to absorb sizable transactions.

- A key transaction occurred in March 2024, when PA Housing priced a £200m PP across 10- and 25-year tranches at G+160 – 5.67% coupon (10Y) and G+150 – 5.95% (25Y), executed through a range of UK and North American Investors. This transaction was watched closely by the market as PA was the first HA to approach PP investors with a sub-A rating. The transaction was over 6.5x oversubscribed, having launched at £125m and well received by the market, supported by a scarcity of HA PP supply. PA did pay a material illiquidity premium over and above their trading public issues as a result.

- Local Space followed this up with a £120m Private Placement through repeat investor MetLife in April 2024 and generally in 2024 there was a number of advisor-led PPs that occurred alongside wider debt portfolio restructures and covenant optimisation, such as for Tai Tarion, Cottsway and Hafod.

- PPs are an attractive source of funding in these scenarios due to their 'covenant-light' characteristics as well as the ability to customise their structure. However, borrowers should be aware that from an outright yield perspective PPs remain one of the less-compelling funding options due to gilt-swap spread dynamics and the illiquidity premium versus public issues.

- In September 2024 a c. 10,000-unit HA (A-/A3 rated) executed a £150m USPP. The transaction was priced across 10- and 25-year tenors, with £30m (10y) and £120m (25yr). 5 investors participated (a mix of UK and North American), with the pricing evidencing a c. 25bps premium vs public capital markets trading levels. The 25yr tranche contained multiple deferred tranches of 3, 6 and 12 months. In addition a £125m Private Placement was executed earlier in the month for a large HA (high A rated) with a single institutional investor which priced also with a premium in the context of 25bps vs secondary trading levels.

- This was followed shortly after by another c.10,000 unit HA (Connexus - A3 rated) which priced a £60m Private Placement in October 2024 with tenors of up to 15 years.

- Many housing associations are opting to procure short and medium-term bank funding instead. This is because of the widening swap-gilt spread, particularly at the long-end, meaning that medium term bank funding is materially more attractive from an all-in perspective. Investor demand remains very high for HA paper due to lack of supply and we continue to see strong levels of reverse enquiries from PP investors.

- The Private Placement conference was held in Miami in February 2025 with strong representation from both investors and issuers alike. Investors remain keen to deploy capital, but relative value vs other funding markets remains a limiting factor. Floating rate issues are also being considered.

- Bromford Flagship raised £75m in March 2025 through a private placement of senior secured sustainability notes with a 15-year term, priced at G+100bps with a 6.06% coupon. The issuance saw strong demand from both domestic and international investors. The newly merged housing association, rated A+ (S&P) and A2 (Moody's), has a history of tapping capital markets, with previous private placements including £100m in September 2023 and £50m in August 2023. Its 2048 bond trades around G+70bps

Bank Lending

- The banking market proved very popular with HA borrowers over the last couple of years, as they have looked to shore up liquidity positions with short-term, flexible funding facilities given elevated long-term rates but also due to the pricing advantages of medium-term bank lines versus capital markets issuances.

- Demand remains very high for the sector and a large number of banks continue to bid competitively, helping to hold lending margins generally firm. This competition has also seen interest cover proposals become more favourable to borrowers as well, from a threshold and definition perspective.

- Many HAs combined these funding exercises with interest cover renegotiations, to facilitate the large investment volumes facing the sector over the coming years. Virtually all banks now offer new funding terms on an "EBITDA-Only" basis and combining new funding with covenant amendments can incentivise funders and preclude their requirement to charge additional 'works fees'.

- A number of HAs have also approached their existing banking partners for interest cover amendments only, without new funding. These exercises have largely been successful, although credit committees will require a credible rationale and concrete numbers and challenges can arise when existing commitments are long-term. A cost is typically involved, whether that be a re-pricing of margins or a upfront works fee.

- In the last few months a number of key high-street bank lenders have launched their retrofit financing products in collaboration with, and guaranteed by, the National Wealth Fund ("NWF"). These are Use of Proceeds loans that must be deployed on eligible retrofit works but benefit from sub-market pricing (due to the guarantee), unsecured funding and in certain cases tenors of up to 20 years. Barclays recently announced the completion of the first social housing retrofit loan (to VIVID) in May 2025.

Economic Forecasts

Period	Bank Rate	10 Year Gilt	CPI (YoY)
Q3 2025	4.00%	4.50%	3.4%
Q4 2025	3.74%	4.38%	3.2%
Q1 2026	3.55%	4.31%	2.8%
Q2 2026	3.43%	4.25%	2.1%
Q3 2026	3.36%	4.22%	2.2%
Q4 2026	3.31%	4.19%	2.2%

Source: Bloomberg Weighted Average Survey of Economist's Forecasts