

Woningbouwvereniging Stadgenoot Assigned A New Long-Term Rating Of 'AA'; Outlook Stable

Overview

- Standard & Poor's has assigned a new long-term rating of 'AA' to Woningbouwvereniging Stadgenoot (Stadgenoot), a registered provider of social housing incorporated in the Netherlands.
- The stable rating outlook reflects our view that Stadgenoot the ability to maintain its financial performance and debt close to current levels. We also believe that the institutional framework will remain stable.
- We have assessed the likelihood of extraordinary support from the government of the Netherlands beyond the very strong ongoing regulatory and financial support as "low."
- Stadgenoot's stand-alone credit profile (SACP) is 'aa'.

Rating Action

On Oct. 12, 2011, Standard & Poor's Ratings Services assigned a new long-term issuer credit rating of 'AA' to Woningbouwvereniging Stadgenoot (Stadgenoot).

Rationale

The rating on Stadgenoot is based on its stand-alone credit profile (SACP), which we assess at 'aa'. In our opinion, there is a "low" likelihood that Stadgenoot would receive timely and sufficient extraordinary support from the government of the Netherlands (AAA/Stable/A-1+) above the ongoing regulatory and financial support that is already provided to the sector by the Fonds Volkshuisvesting (CFV) and Waarborgfonds Sociale Woningbouw (WSW) (AAA/Stable/—). In accordance with our criteria for rating government-related entities

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(GREs), our view of a “low” likelihood of extraordinary government support is based on our assessment of Stadgenoot’s:

- Role to the government, which we consider to be of “limited importance”.
- “Limited” link with the Dutch government.

The SACP reflects the ongoing committed extraordinary support to social housing from the Dutch government through the CFV and WSW. The rating is supported by the high demand for social housing in the main areas that the company operates in, its experienced management team, and good governance. In addition, Stadgenoot’s relatively strong operating performance and its flexibility to increase its income and control expenditure further support the rating.

The rating is constrained by the company’s high debt levels and its very low cash reserves. The company’s existing lines of credit largely mitigate these risks. The integration of Far West (a joint venture established in 2000 to revitalize an area in West Amsterdam experiencing economic decline, in which Stadgenoot has a 32.3% stake) could increase financial pressure on the entity if refurbishment or maintenance costs were to rise significantly. We do not consider this likely, given the company’s involvement in the management of Far West’s properties. If costs were to increase, we believe Stadgenoot would be able to make adjustments by postponing discretionary expenditure or increasing disposals.

The Dutch social housing sector benefits from what we view as an extremely stable and supportive framework, which is mainly due to the ongoing support provided by the CFV and WSW. WSW helps the housing associations in the sector obtain cheaper funding, whereas CFV monitors the creditworthiness of member associations and can provide financial support when addressing solvency issues to prevent a default. We understand that the sector’s financial strength is generally considered adequate by those entities that are in charge of monitoring it and that there have been no cash defaults.

Stadgenoot operates mainly in Amsterdam, an area experiencing high demand for social housing owing to its rising population and high housing prices. Although nine housing associations operate in this area, a waiting list over seven years long for first-time tenants in the area reflects the shortage of, and high demand for, properties within the regulated sector. Furthermore, this excess of demand and a centralized tenant allocation system help protect Stadgenoot from competition from other social housing associations operating in the regulated market.

As with its domestic peers, Stadgenoot’s rental income does not result solely from regulated rental activities: 16% of its income stems from commercial real estate rents, parking charges, and the liberalized rental market. The diversification of the rental business, combined with the sale of properties, cross-subsidizes the regulated business and provides Stadgenoot with growth opportunities.

We see the company’s governance as robust, with well-defined management processes and prudent accounting practices. Stadgenoot’s highly experienced management team is knowledgeable about the local market and has a track record of efficiency. These positive factors support the rating.

The company’s financial performance improved substantially in 2010, mainly as a result of cost containment measures. Operating margins increased to 29% in 2010 from minus 13% in 2008 and 15% in 2009. We expect Stadgenoot’s operating performance to continue to strengthen owing to additional rental revenues. We also believe it will continue to rein in costs over the forecast period 2011-2015, and exhibit average operating and net margins of 37% and 7%, respectively. In our view, Stadgenoot has additional flexibility to withstand financial pressures in the future because it has the

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option to scale back or delay some investments and apply rental increases above the rate of inflation to a larger share of its estate than it does at present.

Leverage is quite high, rising to 71% in 2010 from 70% in 2009, and we expect debt levels to increase only slightly over the next five years. This is because Stadgenoot expects to fund most of its development by selling assets. It has also significantly reduced the size of its capital program compared with 2007-2008 levels.

The transfer of properties related to the divestment of Far West (around 3,000 properties over the rest of 2011) also constrains the rating. Although we do not expect this to result in a substantial operational burden for Stadgenoot, significant maintenance or repairs of the transferred properties could put its financial position under pressure. This is especially so if it is unable to accommodate the additional expenditure by curtailing its current capital plans, or by increasing proceeds from sales. Nevertheless, given its track record of adjusting its planned maintenance and development plans to absorb revenue shocks, we believe it will continue to cope with additional pressure on revenues.

Liquidity

We view Stadgenoot's liquidity position as a positive factor for the rating, mainly driven by the availability of credit facilities. However, cash levels are low, and have decreased substantially to €1.7 million by the end of June, 2011, only covering about 22% of interest payments, from about €35.5 million in the first quarter of 2011. We believe cash position will deteriorate further by the end of 2011 to €0.6 million. Nevertheless, €183 million in undrawn credit facilities could help mitigate this risk by raising the coverage of interest payments to 3.6x.

Moreover, we note that Stadgenoot plans to keep cash levels close to zero during the forecast period, in line with its policy of using credit lines as the first source of liquidity. We view this external financial cushion as more than sufficient to cover Stadgenoot's yearly liquidity needs. We also view it as a positive factor that alleviates the company's weak internal liquidity position.

Outlook

The stable outlook reflects our view that Stadgenoot will continue to adjust its development plans to accommodate additional expenditure so that debt levels do not slip beyond 73% by 2013, under our base-case scenario. The outlook also considers that Stadgenoot will use the additional flexibility enabled by recent changes in the system to increase rents and expand operations outside the regulated sector. It also incorporates our opinion that the institutional framework for the Dutch social housing sector will remain stable.

We could raise the rating on Stadgenoot if the entity deleverages more aggressively than we currently anticipate under our base-case scenario in the forecast period. However, we understand this would only be possible if it achieves a stronger turnover than that expected in our base-case scenario because of higher proceeds from asset sales and a higher income from a larger share of liberalized rents.

Conversely, the rating on Stadgenoot could come under pressure if it increases its leverage more aggressively than under our base-case scenario. This could stem from lower asset sales, a reluctance or inability to scale back on new building, and additional pressure on maintenance costs from the transfer of Far West properties. However, we do not consider any of these scenarios as highly likely.

Related Criteria And Research

All articles listed below are available on RatingsDirect on the Global Credit Portal, unless otherwise stated.

- Credit Approach To Rating Social And Public Housing Providers, Nov. 30, 2004
- Rating Government-Related Entities: Methodology And Assumptions, Dec. 9, 2010
- Principles of credit Ratings, Feb. 16, 2011

Ratings List

New Rating

Woningbouwvereniging Stadgenoot

Issuer Credit Rating AA/Stable/—

Complete ratings information is available to subscribers of RatingsDirect, Standard & Poor's Web-based credit analysis system, at www.ratingsdirect.com. All ratings affected by this rating action can be found on Standard & Poor's public Web site at www.standardandpoors.com; under Credit Ratings in the left navigation area, select Find a Rating, then Credit Ratings Search.

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