Research Update:

U.K.-Based Housing Group Karbon Homes Outlook Revised To Stable From Positive; 'A' Ratings Affirmed

May 20, 2025

Primary contact

Colleen Sheridan
London
44-20-7176-0561
colleen.sheridan@spglobal.com

Secondary contact

Karin Erlander
London
44-20-7176-3584
karin.erlander@spglobal.com

Analytical group contact

Sovereign and IPF EMEA
SOVIPF@spglobal.com

Overview

- We project Karbon Homes Ltd. will sustain elevated investments in existing homes, following increases in fiscal 2025 (ended March 31), resulting in weaker financial metrics projected for fiscal 2026-2028.
- We anticipate that lower S&P Global Ratings-adjusted EBITDA and debt-funded development will put pressure on Karbon's credit metrics and weigh on the group's debt profile, relative to the previously very strong position.
- We therefore revised the outlook on the long-term issuer credit rating on Karbon to stable from positive and affirmed the 'A' issuer credit rating.
- The stable outlook reflects our view that, while the group contends with pressure from higher repairs, management will contain costs to support a gradual recovery of adjusted EBITDA margins.

Rating Action

On May 20, 2025, S&P Global Ratings revised its outlook on the long-term issuer credit rating on U.K.-based social housing provider Karbon Homes Ltd. to stable from positive. At the same time, we affirmed our 'A' long-term issuer credit rating on Karbon and our 'A' issue rating on the group's £250 million bond.

Outlook

The stable outlook reflects our view that, despite pressure from planned high investments in existing stock and debt-funded development, Karbon's management team will effectively control costs and utilize operational flexibility to improve adjusted EBITDA and stabilize debt metrics over fiscal 2026-2028.

Downside scenario

We could lower the rating on Karbon if management adopts a more aggressive growth strategy or materially increases its investments in existing homes, leading to weaker financial metrics.

Upside scenario

We could raise the rating if management's actions, such as effective cost controls, accelerate recovery of adjusted EBITDA or if debt funding needs reduce, improving financial metrics beyond our current expectations.

Rationale

The outlook revision to stable reflects our view that that debt to non-sales adjusted EBITDA will exceed 15x and non-sales adjusted EBITDA interest cover will remain closer to 1.5x as a result of higher investments in existing assets and continued debt-funded development. At the same time, we forecast a recovery in financial performance relative to the dip in fiscal 2025 as management targets to reduce repairs per home rates and implements operational efficiency programs. We still anticipate debt to increase over the next two years to fund development of new homes, though we project lower capital expenditure and delivery of new units compared with our previous assumptions. This points to our view of Karbon's strong management team and that we think it will apply operational flexibility when needed to mitigate potential external pressures.

Enterprise risk profile: Supported by low-risk operations and predictable revenue sources, limited exposure to sales, and sound management practices

We think that Karbon benefits from generating most of its income in the predictable and countercyclical social housing sector. Additional support stems from the group's solid regional market position and generally cautious approach to sales. The group owns and manages roughly 34,000 homes in the northeast of England and, through its subsidiary 54North Homes, has a foothold further south, in Yorkshire. We consider that Karbon operates in an area of England where the gap between average affordable rent to market rent is tighter. Still, Karbon continues to see solid demand for its properties. The group's vacancy rates, at roughly 1.8% over the past three audited years, are on par with the sector average.

Our view of Karbon's management as experienced and prudent in its planning supports the rating. Although we forecast financial metrics to weaken, we think management will maintain conservative financial policies and a prudent strategy, underpinned by strong oversight of its housing assets. Further rating support stems from management's flexibility to reprofile investments. As Karbon executes its pipeline of investment in existing assets and new builds, we believe that management will adjust its development program as needed to contain pressure on the metrics.

We assess the regulatory framework under which registered providers of social housing in England operate as strong (see "Regulatory Framework Assessment: Strong For Social Housing Providers In The U.K.," published April 17, 2025, on RatingsDirect).

Financial risk profile: Financial metrics will recover, though to levels below prior expectations given higher investments in existing homes

We expect Karbon's financial performance to improve over the next two fiscal years--following deterioration driven by higher repairs spending in fiscal 2025--as Karbon implements cost-efficiencies to partially mitigate sizable investments. We project repairs spend will remain high, greater than previously anticipated, because of demand, the group's component replacement cycle, energy efficiency spend, and building safety costs identified related to one scheme. We think management will work to mitigate pressure and expect financial performance will be supported by expectation of rents outpacing inflation and social housing decarbonization grant partially funding energy efficiency works. Although investments in existing homes are increasing, we view Karbon's stock quality as solid at just under 80% of homes with Energy Performance Certificate at C or above.

We project more subdued debt metrics than in our previous base case and compared with the group's historic levels, driven by reduced S&P Global Ratings non-sales adjusted EBITDA. We forecast Karbon will continue to debt fund development. However, we view the group to be accommodating investments in existing homes by scaling back new build activity. We understand that Karbon intends to partner with other local registered providers to help deliver its commitment under the final stages of its current Homes England Strategic Partnership and pull back on uncommitted spending. While Karbon has scaled back its new build pipeline, we understand the group's development objectives have not fundamentally changed, as highlighted by the group's intention to form a for-profit subsidiary. At this time, we do not have further details on how a for-profit subsidiary will impact the group's new build activity and metrics and it is not incorporated into our base case.

We view Karbon's liquidity as very strong. Sources of liquidity are estimated to cover uses by about 1.4x over the next 12 months. This is based on our forecast of liquidity sources of close to £257 million (mainly comprising cash and undrawn available facilities, fixed asset sales proceeds, grant receipts, and cash from operations) compared with liquidity uses of £183 million (primarily capital expenditure, interest, and principal repayments). Although Karbon's liquidity is weaker than in previous years, we forecast it will improve as the group secures the remainder of its recently completed facilities in the near term. We also consider that Karbon maintains satisfactory access to external funding.

Government-related entity analysis

We think there is a moderately high likelihood that Karbon would receive timely extraordinary government support in case of financial distress. This provides a one-notch uplift from the stand-alone credit profile. As one of the Regulator of Social Housing's (RSH's) key goals is to maintain lender confidence and low funding costs across the sector, we believe it is likely that the RSH would likely step in to try to prevent a default in the sector. We base this view on previous records of the RSH mediating mergers or arranging liquidity support from other registered providers in cases of financial distress and think this would also apply to Karbon.

Key Statistics

Table 1

Karbon Homes Ltd.--Key Statistics

	--Year ends March 31--

Mil. £	2024a	2025e	2026bc	2027bc	2028bc
No. of units owned or managed	32,664	33,992	34,512	34,703	34,862
Adjusted operating revenue*	186.1	209.2	221.7	224.8	246.4
Adjusted EBITDA*	42.3	36.5	40.4	44.1	50.4
Non-sales adjusted EBITDA*	40.7	35.4	38.9	43.4	47.7
Capital expense	115.4	140.3	136.7	104.6	61.8
Debt	508.1	579.8	671.4	753.6	785.5
Interest expense	20.4	23.2	27.6	30.3	32.5
Adjusted EBITDA/Adjusted operating revenue (%)*	22.7	17.4	18.2	19.6	20.5
Debt/non-sales adjusted EBITDA (x)*	12.5	16.4	17.3	17.4	16.5
Non-sales adjusted EBITDA/interest coverage (x)*	2.0	1.5	1.4	1.4	1.5

*Adjusted by S&P Global Ratings. a--Actual. e--Estimate. bc--Base case reflects S&P Global Ratings' expectations of the most likely scenario.

Rating Component Scores

Table 2

Karbon Homes Ltd.--Ratings Score Snapshot

Assessment	Score
Enterprise risk profile	3
Industry risk	2
Regulatory framework	3
Market dependencies	4
Management and Governance	2
Financial risk profile	3
Financial performance	4
Debt profile	4
Liquidity	2
Stand-alone credit profile	a-
Issuer credit rating	A

S&P Global Ratings bases its ratings on non-profit social housing providers on the seven main rating factors listed in the table above. S&P Global Ratings' "Methodology For Rating Public And Nonprofit Social Housing Providers," published on June 1, 2021, summarizes how the seven factors are combined to derive each social housing provider's stand-alone credit profile and issuer credit rating.

Related Criteria

- General Criteria: Environmental, Social, And Governance Principles In Credit Ratings, Oct. 10, 2021
- Criteria | Governments | General: Methodology For Rating Public And Nonprofit Social Housing Providers, June 1, 2021
- General Criteria: Rating Government-Related Entities: Methodology And Assumptions, March 25, 2015

- General Criteria: Methodology: Industry Risk, Nov. 19, 2013
- General Criteria: Principles Of Credit Ratings, Feb. 16, 2011

Related Research

- Non-U.S. Social Housing Providers Ratings Risk Indicators: Stabilization At Lower Levels, May 12, 2025
- Non-U.S. Social Housing Providers Ratings History: April 2025, May 12, 2025
- U.K. Social Housing Borrowing 2025: Focused On Containing Debt, April 24, 2025
- Regulatory Framework Assessment: Strong For Social Housing Providers In The U.K., April 17, 2025
- United Kingdom, April 14, 2025
- European Housing Markets: Better Housing Affordability Supports Recovery, Jan. 27, 2025
- Non-U.S. Social Housing Sector Outlook 2025: Quality Maintenance Constrains Recovery, Jan. 14, 2025
- The Autumn Budget Kicks Off A Funding Regime Revision For U.K. Public Sector Entities, Nov. 5, 2024
- U.K. Social Housing Providers' Financial Capacity Shrinks On Investment Needs, Nov. 4, 2024
- Cyber Risk Brief: U.K. Public Sector Is Increasingly Under Threat, Oct. 24, 2024

Ratings List

Ratings list		
Ratings Affirmed; Outlook Action		
	To	**From**
Karbon Homes Ltd.		
Issuer Credit Rating	A/Stable/--	A/Positive/--
Ratings Affirmed		
Karbon Homes Ltd.		
Senior Secured	A	