

## London & Quadrant Housing Trust Assigned 'A+' L-T Rating; Outlook Stable

### *Rationale*

On Dec. 19, 2008, Standard & Poor's Ratings Services assigned its 'A+' long-term issuer credit rating to the London & Quadrant Housing Trust (L&Q), a U.K. housing association. L&Q is the parent of the L&Q Group, as well as being its largest and most creditworthy member. The outlook is stable. At the same time, the 'A/Negative' insured rating on the senior secured debt issued by Quadrant Housing Finance Ltd., a member of the L&Q Group, was withdrawn, and replaced with the 'A+/Stable' underlying rating.

Monoline insurer Ambac Assurance U.K. Ltd. (A/Negative/—) guarantees the debt issued by Quadrant Housing Finance Ltd. Under our criteria, the rating on a monoline-insured debt issue reflects the higher of the rating on the monoline or the underlying rating. (See "Credit FAQ: Increased Focus On Credit Quality Of Project Finance Issues After Ratings Changes To Monolines," published April 24, 2008, on RatingsDirect.)

The rating on L&Q reflects the high demand for L&Q's provision of social and intermediate housing, the size and diversification of its portfolio, its ready access to liquidity, and its high level of management expertise relative to the sector. Constraints include L&Q's exposure to the falling prices and lack of liquidity in the U.K. housing market.

As a result of these market conditions, L&Q has reviewed its business plan and has made forecasts based on receiving no future revenues from shared ownership and open market sales. Instead, it assumes such properties originally intended for sale would be used for social, intermediate, or market rent. Given the conservative assumptions, and L&Q's other credit strengths, we believe that achievement of this plan would still be consistent with the 'A+' rating on L&Q.

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The Group benefits from strong demand for social housing in London and the surrounding area, its main area of operations. London's population is forecast to grow, and affordable housing to continue to be in short supply for the foreseeable future.

We believe that there is a high level of management expertise able to take advantage of the Group's size and brand recognition to achieve efficiencies in procurement and service delivery; identify business opportunities; and adapt rapidly to changing circumstances.

Historically, the Group has posted high net margins for the sector, averaging 21% over the past three years, although these will fall considerably as property sales decline. EBITDA before property sales over net interest (including capitalized interest) is forecast to stay at a moderate but sustainable 1.1x for the next few years.

L&Q has ready access to liquidity, despite in the very short term having to set aside cash in relation to swap liabilities. Even so, unrestricted cash and undrawn facilities are set to comprise more than 50% of turnover at Dec. 31, 2008. The Group's long-term borrowing is forecast only to grow slightly, with turnover as a percentage of debt falling from 18% to 16% by 2012.

### ***Outlook***

The stable outlook on L&Q reflects our expectation that the Group will maintain strong operating margins, generating sufficient cash to pay debt-service costs despite a severe decline in revenue from property sales. We believe that L&Q's size, diversification, expertise, and access to long-term funding should provide adequate protection from the upcoming recession.

If L&Q can demonstrate its ability to adapt to this cycle, then in the medium term there may be some scope for an upgrade. Conversely, should the effects of the current recession, or an altered business strategy reduce the return on L&Q's assets or materially reduce its flexibility, then this could weaken the rating.

### ***Ratings List***

Issuer credit rating      A+/Stable/—

N.B.—This list does not include all ratings affected.

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