

CREDIT OPINION

12 December 2023

Update

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RATINGS

Action Logement Services

Domicile	France
Long Term Rating	Aa2
Type	LT Issuer Rating - Fgn Curr
Outlook	Stable

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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Action Logement Services (France)

Update to credit analysis

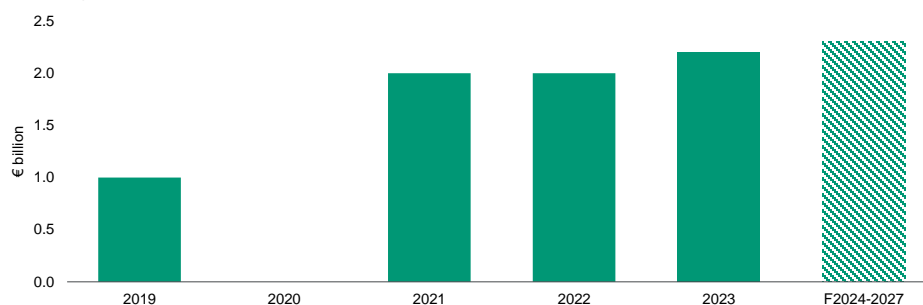
Summary

[Action Logement Services'](#) (ALS) issuer rating of Aa2 with a stable outlook reflects its key role in implementing the country's housing policy, an important element of the French welfare system. ALS can be considered as the financing department of the Action Logement group, whose public mandate is to finance housing policies — which is made possible by the exclusive right to collect and use a tax-like mandatory contribution from private sector employers (*Participation des Entreprises à l'Effort de Construction*, PEEC) — and to operate as the biggest group of French social housing providers (SHPs). Therefore, the Action Logement group benefits from a high degree of support and oversight from the [Government of France](#) (Aa2 stable). As a result, from a credit perspective, we do not distinguish between the Action Logement group, ALS and the central government.

Exhibit 1

Action Logement is becoming a flagship issuer in the bond market

Action Logement Services' bond issuances



F = Forecast; Forecasts over the 2024-27 period reflect the funding needs already agreed upon with the central government.
 Sources: Action Logement and Moody's Investors Service

Credit strengths

- » High degree of central government support and supervision
- » Key role in the social housing sector

Credit challenges

- » A fairly new entity, established in a changing and difficult environment
- » No formal guarantee or legal provision that ensures timely support from the central government

Rating outlook

The stable rating outlook reflects our expectation that the strong institutional, financial and operational links with the French government will remain unchanged.

Factors that could lead to an upgrade

An upgrade of the rating would require an upgrade of France's sovereign rating. However, this is unlikely given France's current Aa2 rating with a stable outlook.

Factors that could lead to a downgrade

Any sign of weakening support or supervision from the central government could negatively affect the rating. In addition, a downgrade of France's sovereign rating would lead to a downgrade of ALS' rating.

Key indicators

Exhibit 2

Action Logement Services (consolidated accounts)€ millions

Action Logement Services	2018	2019	2020	2021	2022
PEEC income	1,507	1,536	1,600	1,304	1,386
Net banking income	152	134	125	113	85
Surplus/deficit	436	399 -	1,906 -	3,954 -	1,081
Total debt	1,296	2,373	2,314	4,276	6,247
Debt-to-assets	6.2%	10.5%	10.9%	21.3%	29.3%
Net debt	-	2,744 -	3,588 -	2,215	1,517
CET Ratio	83%	81%	73%	42%	32%

The PEEC amounts indicated correspond to the share paid out in the form of grants and therefore do not include payments made in the form of loans.

Sources: Action Logement and Moody's Investors Service

Detailed credit considerations

The credit profile of ALS, as expressed in its Aa2 rating, reflects its very strong links with the French government. From a credit risk perspective, we do not distinguish between ALS and the French government because of the intrinsic ties between the two. Therefore, ALS' rating derives from the application of the approach for government-related issuers (GRIs) rated solely on support, as our [Government-Related Issuers](#) rating methodology describes.

Baseline credit assessment

High degree of central government support and supervision

The Action Logement group is a not-for-profit entity created in 2016 under France's 1901 association law. ALS is a simplified joint-stock company, created by decree and licensed as a financial institution under the supervision of ACPR (*Autorité de contrôle prudentiel et de résolution*), the French banking regulator, from the merger of several entities that have financed the government's social housing and urban policies since 1953, and therefore, can only be dissolved by law. ALS is part of the Action Logement group, which has the public mandate to finance housing policies, focusing on employed people. The Action Logement group finances the housing sector using a tax-like mandatory resource, PEEC, which it manages exclusively. Approved by the French Parliament in 1992, PEEC collects 0.45% of the payroll from all French private sector companies with more than 50 employees. In the Action Logement structure, [Action Logement Groupe](#) (ALG, Aa2 stable) acts as the strategic and supervisory board, while ALS acts as the financing department and [Action Logement Immobilier](#) (ALI, Aa2 stable) acts as the operational branch. The French Parliament defined in a law (*loi d'habilitation*), the creation and role of the three entities, their joint-governance and fiscal status, and the cash flow within the Action Logement group. A parliamentary vote would be required to change any of these elements.

The three entities within the Action Logement group are jointly managed by the representative major unions, representing both employers and employees, along with three representatives from the French government (from the housing, economy and finance ministries) sitting on the board and endowed with veto rights. Through a five-year agreement (*Convention quinquennale*) negotiated

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with ALG, the central government effectively dictates the structure's priorities and strategy. The central government is also involved in defining more operational targets, including the sales of social housing dwellings, energy retrofitting and first-time buyer aids for employees, as well as the entities' level of spending (fixed capital investment and operating expenses) and debt management (including the target for leverage and type of debt). The central government's commissioners have regular meetings with each entity. And twice a year, ALG must send to the central government a report on the implementation of the *Convention quinquennale*, with predefined key performance indicators (KPIs) and highlights on some targets, such as territorial distribution of subsidies or operating expense targets; and ALI's and ALS' budget executions.

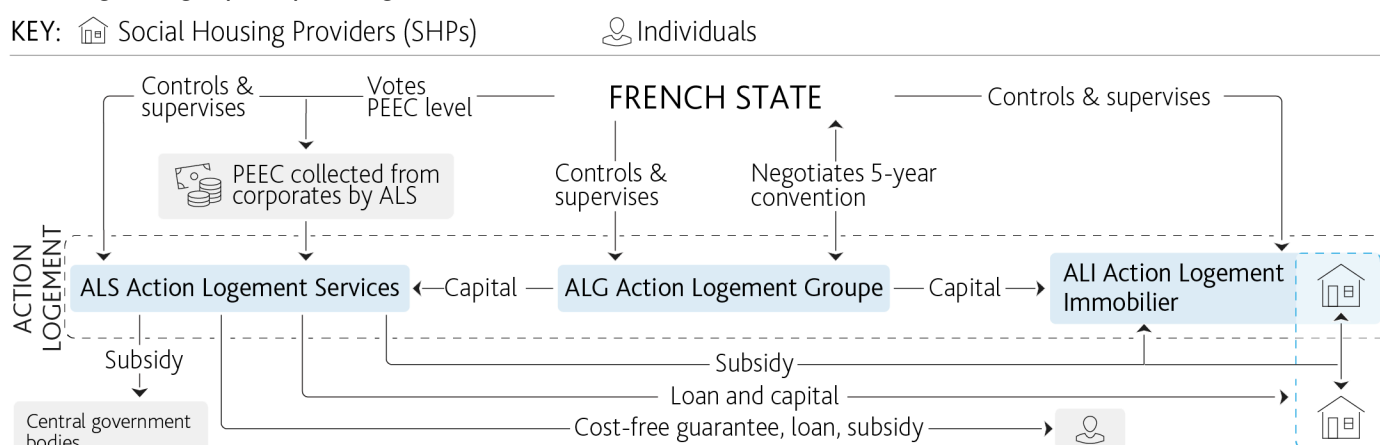
The five-year agreement with the central government was renewed on 16 July 2023, covering the 2023-27 period. While restating the importance of the Action Logement group for the national housing policy, it emphasises the objective for ALS to reach financial equilibrium of its activity from 2024 onwards. To achieve this goal, the agreement includes supportive measures contributing to limit ALS' debt burden, such as the central government's commitment to provide ALS with its guarantee on the VISALE instrument.¹ The agreement also strengthens monitoring from the central government over the execution of commitments made, through semi-annual and quarterly reviews.

The three entities are subject to verification from the national court of accounts (*Cour des comptes*) and the scrutiny of ANCOLS (*Agence nationale de contrôle du logement social*), the regulator of the French social housing sector. The three entities' accounts are also externally audited. Finally, the central government is entitled to place any entity of the Action Logement group under administration in case of financial distress or misuse of the PEEC proceeds according to the French construction and housing code (*Code de la construction et de l'habitation*). Furthermore, the current five-year agreement states that if there were to be lasting and substantial deficits, the convention would be re-examined, supporting our view of ongoing support coming from the central government.

We also note that ALS' debt is included in France's general government debt ratios per EU practices, since INSEE, the national institute of statistics, classified ALS as an "other government body" (or ODAC)² in 2022. This decision could prevent ALS from issuing long-term debt in case the entity is added by the minister in charge of public accounts to the list of ODAC that are currently not allowed to take on debt with maturities longer than 12 months. Action Logement is challenging this reclassification in court, which puts on hold any of its potential effects until a judgment is made. We will, however, continue to monitor the developments related to this legal issue.

Exhibit 3

Action Logement group's simplified organizational structure



Source: Action Logement, Moody's Investors Service.

Key role in the social housing sector

ALG works with its two fully owned subsidiaries, ALI and ALS, to meet the central government's targets in terms of social housing policy, on the financing of the sector and operations. Social housing is a key sector for France, accounting for 16% of total housing with 5.3 million dwellings as of 2022, housing an estimated 10 million people (or 15% of the French population)³. Action Logement is by far the biggest French SHP, with 1.1 million units under management, including 1 million pure social units that represent 17% of the total

French stock of social housing,⁴ and by far the biggest French social housing builder, with 28,157 dwellings built in 2022. ALS is also the second-largest funding source for SHPs after [Caisse des Dépôts Et Consignations](#) (CDC, Aa2 stable) and finances several public policies, such as the new national urban renovation plan (*Nouveau programme national de rénovation urbaine*).

The involvement of the Action Logement group in France's recovery plan from the effects of the coronavirus pandemic in 2021, in the 2022-23 inflation relief measures for SHPs, and its ongoing support for the development of units and in urban renewal programmes demonstrate its important role in housing policies. In our view, the reallocation of Action Logement Services' extra year-end cash until 2022 to other related public-policy goals by the central government also demonstrates its key role. As ALS' resources increase with national payrolls that move with nominal GDP growth, the entity has benefited from comfortable liquidity positions and reserves, of which the government deducted €2.5 billion in total over the 2020-22 period to fund France's national housing and construction funds (Fonds National d'Aide au Logement - FNAL, and Fonds National d'Aide à la Pierre - FNAP). Action Logement's contribution to these funds is expected to end following the last two payments to the FNAP of €300 million in 2023 and €150 million in 2024.

A fairly new entity, established in a changing and difficult environment

Over the last three years, the French social housing sector has undergone important changes, without however compromising the strength of the sector as a whole. A social housing reform enacted in 2018 with the ELAN (*Evolution du logement, de l'aménagement et du numérique*) law contributed to the reshaping of the sector with two main goals. Firstly, it aimed at promoting the building of social dwellings by encouraging sales through the creation of a dedicated entity to handle asset disposals (*Opérateur National des Ventes* [ONV]), which is owned by ALS. Secondly, this reform aimed at promoting pooling and equalisation, including through mergers. In 2018, the central government also decided a rent cut corresponding to 6.5% of the French SHPs' 2016 turnover, applicable gradually from 2018 and still ongoing.

Additionally, French SHPs are currently being strained by higher interest rates and price inflation, which negatively affect their interest cover ratios. In our view, these difficult economic and financial conditions, which will likely persist over the next couple of years, will test SHPs' ability to adjust their business plans, which comprise sizeable capital spending largely funded through debt. Therefore, we will monitor SHPs' willingness and ability to respond to these difficult economic and financial conditions, including ALI's stance and plans, as the owner of rated SHPs with a negative outlook — [ALLIADE HABITAT](#) (A1 negative), [Clairsienne](#) (A2 negative), [Immobiliere Atlantic Aménagement](#) (A2 negative), [Seqens](#) (A1 negative) and [Valloire Habitat](#) (A1 negative).

No formal guarantee or legal provision to ensure timely support from the central government

Contrary to some of its other peers we rate, entities of the Action Logement group don't benefit from a formal guarantee or a legal provision that ensures timely support from the central government. Most of its French peers, which we rate using the same approach, benefit from their status as a public establishment (EPA or EPIC⁵) and cannot go bankrupt or have their assets seized as a result of nonpayment of claims. Although Action Logement group's institutional framework is solid, the central government is not the ultimate recourse for the group's creditors. This is mitigated by the central government's high involvement and willingness to maintain a functioning system. In 2006, when the law raised the PEEC's collecting threshold to 20 employees from 10 employees, the central government awarded a financial compensation (80.25% of a local tax on offices for 10 years). Similarly, while the 2019 *PACTE* law changed the threshold to 50 employees from 20, the Action Logement group negotiated a new compensation with the government for 2020. Another mitigant is the fact that transferring the activity of the Action Logement group to other entities would require a parliamentary vote, making the substitution of ALS or ALI difficult, which also supports our current rating approach.

The Action Logement group is becoming a flagship issuer in the bond market, as ALS has issued a total of €7.2 billion of bonds since 2019. Action Logement's Euro Medium-Term Note (EMTN) programme is now set at €9.5 billion to comply with the 2023-27 agreement with the central government. From 2024 onwards, ALS plans to issue €2.3 billion of bonds to reach a debt projection of €11.8 billion in 2027. All of these issuances were labeled as part of ALS' Sustainable EMTN programme and attracted a wide-range of international investors. As Action Logement Services' outstanding debt increases and the GRI becomes a bigger and regular issuer, the reputational risk related to a potential default increases, strengthening our view of extraordinary support coming from the central government.

ESG considerations

How environmental, social and governance risks inform our credit analysis of ALS

Moody's takes account of the impact of environmental (E), social (S) and governance (G) factors when assessing sub-sovereign issuers' economic and financial strength. In the case of Action Logement's entities, the materiality of ESG to its credit profile is as follows:

Environmental risks are not material for the Action Logement group's rating. The Action Logement group is exposed to the same environmental risks as France, which are low across all risk categories including physical climate risks, carbon transition, water management, natural capital and waste and pollution. These risks are not material for the rating, given the Action Logement group's strategic role and the support coming from the Government of France.

Social risks are not material to the Action Logement group's rating. The Action Logement group is exposed to the same social risks as France, which benefits from high-quality education, good housing availability, high quality of health and safety, and very high-quality access to basic services. France's demographic pressures are less pronounced than many other European countries, though population ageing is a longer-term challenge. These risks are not material for the rating because of the Action Logement group's strategic role and the support from the Government of France.

Governance considerations are material to the Action Logement group's credit profile. The governance framework is intrinsically intertwined with the supporting government, which exerts strong control over the Action Logement group and heavily influences the definition of its strategy.

Further details are provided in the *Detailed credit considerations* section above. Our approach to ESG is explained in our cross-sector methodology [General Principles for Assessing ESG Risks](#).

Rating methodology and scorecard factors

In assessing ALS' credit profile, we apply our [Government-Related Issuers Methodology](#), published in February 2020.

Ratings

Exhibit 4

Category	Moody's Rating
ACTION LOGEMENT SERVICES	
Outlook	Stable
Issuer Rating	Aa2
Senior Unsecured -Dom Curr	Aa2
PARENT: ACTION LOGEMENT GROUPE	
Outlook	Stable
Issuer Rating	Aa2
ACTION LOGEMENT IMMOBILIER	
Outlook	Stable
Issuer Rating	Aa2

Source: Moody's Investors Service

Endnotes

- ¹ The VISALE instrument is a free rent guarantee that covers the risks of unpaid rent over the entire duration of the lease, and currently targets young people and employees with limited revenue. The target is set at 2.1 million VISALE contracts subscribed over the 2023-27 period, versus 870,000 over 2018-22.
- ² Per INSEE's definition, in the national accounts, "other government bodies" (ODAC) are bodies to which the State has entrusted a functional and specialised competence at the national level. Controlled and mainly financed by the French State, these bodies have a mainly non-trading activity.
- ³ According to the French Ministry of ecological transition: https://www.statistiques.developpement-durable.gouv.fr/sites/default/files/2022-12/datalab_essentiel_295_parc_social_locatif_1jan2022_decembre2022.pdf
- ⁴ The runner-up is CDC Habitat, owned at 34% by ALI, with 544,000 social housing units, followed by Groupe Habitat en Region with 241,000 units.
- ⁵ Établissement public administratif (EPA) or Établissement public industriel et commercial (EPIC)

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