

## CREDIT OPINION

14 March 2023

Update



### 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.

### Contacts

**Matthieu Collette** +33.1.5330.1040  
 VP-Senior Analyst  
 matthieu.collette@moodys.com

**Mathilde Bonvin** +33.1.5330.1036  
 Associate Analyst  
 mathilde.bonvin@moodys.com

**Sebastien Hay** +34.91.768.8222  
 Senior Vice President/Manager  
 sebastien.hay@moodys.com

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# Action Logement Services (France)

## Update to credit analysis

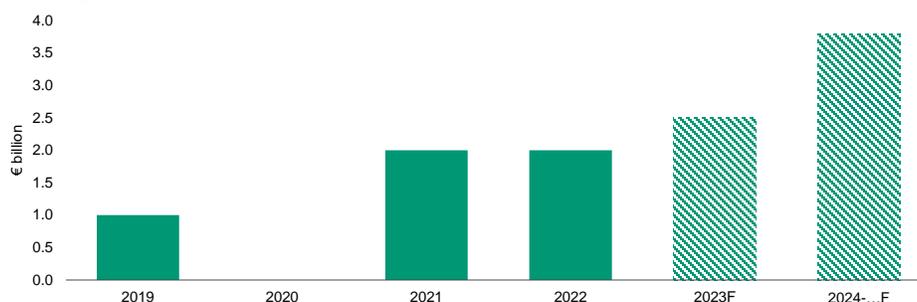
### Summary

[Action Logement Services](#)'s (ALS) issuer rating of Aa2 with 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 thanks to 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) as well as 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; Note: Forecasts, including from 2024 onwards, reflect the funding needs already agreed with the central government

Source: Action Logement, 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) EUR million

	2017	2018	2019	2020	2021
<b>Action Logement Services</b>					
PEEC income	1,480	1,507	1,536	1,600	1,304
Net banking income	177	152	134	125	113
Surplus/deficit	253	436	399 -	1,906 -	3,954
Total debt	1,423	1,296	2,373	2,314	4,276
Debt-to-assets	7%	6%	10%	11%	21%
Net debt	-2,218	-2,744	-3,588	-2,215	1,517
CET Ratio	81%	83%	81%	73%	42%

Source: Action Logement, 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's 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. Action Logement 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 payroll from all French private sector companies with more than 50 employees. Considering Action Logement structure, [Action Logement Groupe](#) (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 Action Logement. A parliamentary vote would be required to change any of these elements.

This publication does not announce a credit rating action. For any credit ratings referenced in this publication, please see the issuer/deal page on <https://ratings.moody's.com> for the most updated credit rating action information and rating history.

The three entities of Action Logement 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 with ALG, the central government effectively dictates the structure's priorities and strategy. The central government is also involved in the definition of more operational targets, including sales of social housing dwellings, energy retrofitting energetic renovation and first-time buyer aids for employees, as well as the level of spending of each of Action Logement's entity (fixed capital investment and operating expenses) and debt management (including target for leverage and type of debt). The central government's commissioners have regular meetings with each entity of Action Logement 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.

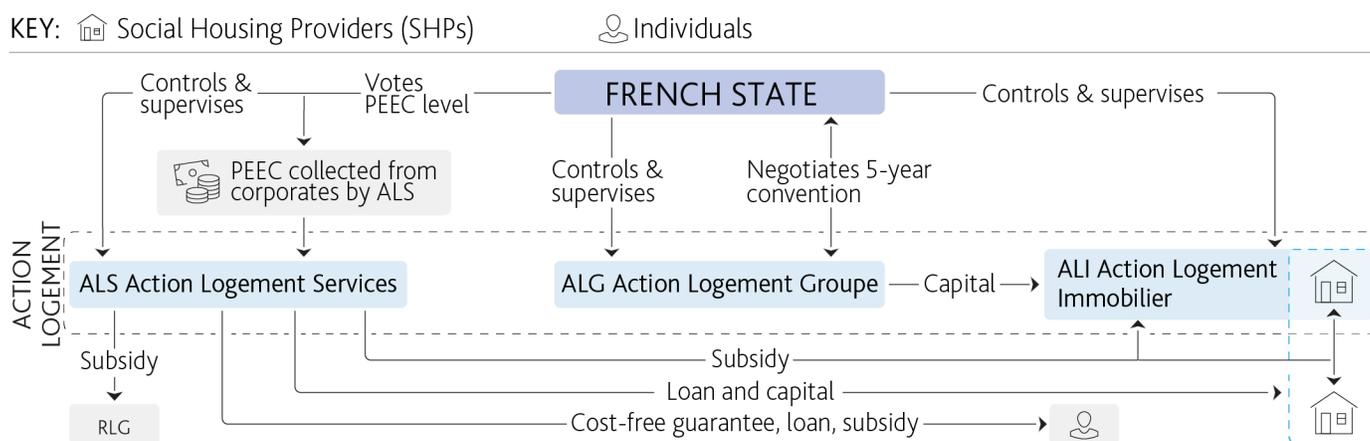
The three entities are subject to verification from the national court of accounts (*Cour des comptes*) and the scrutiny of ANCOLS (*Agence nationale de contrôle du logement social*), the regulator of the French social housing sector. The three entities' accounts are also externally audited. Finally, the central government is entitled to place any entity of Action Logement 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.

Action Logement is discussing the five-year agreement — originally signed in 2018 — with the central government, and expects it to be renewed this year. While we do not expect any substantial change in the central government's objectives, we will continue to closely monitor the development surrounding negotiations.

Exhibit 3

### Action Logement's simplified organizational structure

KEY: 🏠 Social Housing Providers (SHPs)      👤 Individuals



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)<sup>1</sup>. Action Logement is by far the biggest French SHP, with 1.1 million social units, 21% of the total French stock<sup>2</sup>, and by far the biggest French social housing builder, with 25,844 dwellings built in 2021. 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 Action Logement 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 development of units and in urban renewal programs demonstrate its important role in housing policies. In our view, the reallocation of Action Logement's extra year-end cash until 2022 to other related

public-policy goals by the central government also demonstrates its key role. As Action Logement's revenue increases with national payrolls that move with nominal gross domestic product (GDP) growth, the entity has benefited from comfortable liquidity positions and reserves, of which the government deducted €1 billion in 2021 and €0.3 billion in 2023 (that is, 11% of annual PEEC revenue) to fund France's national housing and construction funds (*Fonds National d'Aide au Logement* and *Fonds National d'Aide à la Pierre*, respectively).

#### **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 building of social dwellings by encouraging sales through the creation of a dedicated entity to handle assets 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 Amenagement](#) (A2 negative), [Seqens](#) (A1 negative), [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, Action Logement does not 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 EPIC) and cannot go bankrupt or have their assets seized as a result of nonpayment of claims. Although Action Logement'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, Action Logement negotiated a new compensation with the government for 2020. Another mitigant is the fact that transferring the activity of Action Logement to other entities would require a parliamentary vote, making the substitution of ALS or ALI difficult, which also supports our current rating approach.

Action Logement is becoming a flagship issuer in the bond market. Since 2019, ALS has had six issuances, totaling €6.2 billion. All of these issuances were labeled as part of ALS' sustainable euro medium-term note (EMTN) programme and attracted a wide-range of international investors. In 2023, ALS has already issued a €1.2 billion bond compared with budgeted needs of €2.5 billion for the year. From 2024 onwards, ALS plans to add €3.8 billion to reach a debt projection of €11.3 billion, corresponding to the cumulated financing needs for the 2018-22 five-year agreement as well as its Voluntary investment plan, in accordance with the amendment signed with the central government in February 2021. As Action Logement's 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 Action Logement's rating. Action Logement 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 Action Logement's strategic role and the support coming from the Government of France.

Social risks are not material to Action Logement's rating. Action Logement 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 Action Logement's strategic role and the support from the Government of France.

Governance considerations are material to Action Logement's credit profile. The governance framework is intrinsically intertwined with the supporting government, which exerts strong control over Action Logement 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's credit profile, we apply our [Government-Related Issuers Methodology](#), published in February 2020.

Please see the Rating Methodologies page on [www.moody's.com](http://www.moody's.com) for a copy of this methodology.

## Ratings

Exhibit 4

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

Source: Moody's Investors Service

## Endnotes

- 1 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](https://www.statistiques.developpement-durable.gouv.fr/sites/default/files/2022-12/datalab_essentiel_295_parc_social_locatif_1jan2022_decembre2022.pdf)
- 2 The runner-up is CDC Habitat with 532,000 social housing units, owned at 34% by ALI, followed by Groupe Habitat en Region with 252,000 units.

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