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Ratings

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BRIDGE Housing, California; General Obligation

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Credit Profile		
Bridge Hsg BRIDGE Housing ICR		
Long Term Rating	A+/Stable	Affirmed

Rationale

S&P Global Ratings affirmed its 'A+' issuer credit rating (ICR) on BRIDGE Housing Corp., Calif. The outlook is stable.

The ICR reflects our view of BRIDGE's:

- Strong overall management and a strategic plan that supports BRIDGE's mission to provide quality low-income housing in the least affordable markets;
- Strong enterprise risk profile, which is supported by very strong economic fundamentals (very high demand on a local rental market and high population growth), extremely strong asset quality (minimal vacancies and newly developed properties), and development plans that continue to strengthen asset quality;
- Strong financial profile, reflected by BRIDGE's ability to cover operating and maintenance costs from rental income, capacity to repay debt obligations from earnings before interest, taxes, depreciation and amortization (EBITDA) in a timely manner, and strong profitability; and
- Ability to generate revenue streams from in-house development and operating activities, thereby lessening the appropriation risk associated with reliance on federal funding streams (including the risk of underfunding of federal operating fund subsidies and the federal housing choice voucher program).

Partially offsetting those strengths is our view of BRIDGE's:

- Higher financial leverage profile and relatively weak liquidity ratio compared with U.S. public housing authority (PHA) peers; and
- Dramatic changes in external environment, including demographic, economy, government policies and housing programs which materially affect BRIDGE's strategic plans and works.

BRIDGE is a leveraged organization, with a consistent debt-to-EBITDA ratio (three-year average) of approximately 21.2x, compared with a 7.2x average for U.S. public and nonprofit social housing (primarily consisting of U.S. PHAs). BRIDGE's 3.7x EBITDA interest coverage is relatively low compared with its peers (10.2x). However, about 73.5% of its debts are associated with soft and construction debts and we recognized BRIDGE's soft debt subordinated debt obligations in which it will have flexibility to pay them off if it can generate surplus cash. Also, construction debts have contractual and known take-outs which are condition precedent to closing on the construction loans. We believe these flexibilities give BRIDGE less pressure to manage leverage position and liquidity use.

Unlike PHAs, which manage public housing and need some financial resources for unit rehabilitation and planned capital expenditures, each BRIDGE property has dedicated replacement and operating reserves in place for eligible routine and preventative expenditures for any capital improvements. We believe this ensures health and quality of assets and an efficient management/control on liquidity.

BRIDGE's financial performance (profitability) is relatively strong and comparable with global public and nonprofit social housing providers. The organization has shown an ability to manage debt and generate manageable liquidity ratios while continuously leveraging assets for maximum efficiency and profit.

BRIDGE Corp. (BRIDGE) is a 501(c)(3) not-for-profit entity founded in 1983, headquartered in San Francisco. It creates high-quality, affordable homes for working families and seniors. For the past three years, with over 2,319 units developed or acquired in the past three years, BRIDGE is among the largest affordable housing developers. It is also affiliated with and under common board control with other not-for-profit corporations (Affiliates) which have been formed either as supporting entities to BRIDGE or as instruments to further its organizational objectives. BRIDGE's geographic footprint has formed in response to demand for affordable rental housing. It has historically developed in some of the least affordable markets in the state, first the nine Bay Area counties, then Orange and San Diego counties. BRIDGE currently develops, owns, and operates housing along much of the urban coast of California, with forays into Sacramento, San Joaquin, and Riverside counties; Portland, Ore.; and Seattle.

Our view of the management team is a key rating factor. We believe BRIDGE has a well-developed five-year strategic plan with clearly stated goals and objectives. We believe its management has the wherewithal to balance new development and rehabilitation projects prudently, making efficient use of resources to increase quality housing stock. BRIDGE has a demonstrated track record for the production and long-term, stable stewardship of quality affordable housing in challenging markets with complex parameters. Its engagement in federal public housing programs and private-sector affordable housing allows it to access equity and better use revenue generated from financial flexibility and autonomy. BRIDGE effectively maintains financial stability while achieving its overall goals, in our view. It launched its strategic planning process that included a detailed assessment of the changing and demanding external environment and the development of scenarios for the future, as well as an assessment of its own strengths and capabilities in the context of a changing environment. We believe the company will continue to both adapt and innovate to sustain itself in these times of rapid change.

Outlook

The stable outlook reflects our view of BRIDGE's management and what we consider clear, directed strategic plans to maximize its position in its multiple markets. We believe current and future market demand for affordable housing far outweighs the regions' existing and planned portfolio, evidenced by a strong need for this housing market segment. BRIDGE's ability to maintain liquidity, preserve market stability, tenant occupancy for continued profitability due to its low reliance on federal subsidies, is a key factor in maintaining the 'A+' rating, in our view. The stable outlook also reflects our view of BRIDGE's liquidity profile. If BRIDGE's financial profile is reinforced, more specifically, if its debt and liquidity is consistently strengthened and its profitability shows a considerable uptrend, we could raise the rating. Conversely, if BRIDGE can't maintain or increase additional leveraged resources, net working capital, or profitability, thereby impairing its long-term financial strength, we could lower the rating. Should the liquidity ratio fall below 0.50, a higher liquidity score of '5' would result, and the ICR would be capped at 'A'.

Comparative Analysis

S&P Global rates 49 public and social housing providers globally whose primary purpose we believe is to provide a public service rather than maximize profit, and whereby any surpluses are reinvested or distributed for public service needs. Examples of these entities can be found in the U.S., Sweden, the U.K., and the Netherlands.

Out of 49 outstanding ICRs, 15 are U.S. based, and are all social housing providers and PHAs. In our view, BRIDGE is a not-for-profit social housing provider similar to rated providers in Sweden (AB Stangastaden, MKB Fastighets AB, and Uppsalahem) and U.K.-based Guinness Partnership, Town and Country Housing Group, Boston Mayflower, and Thrive Homes. Table 1 details how BRIDGE compares in key measurements with the aforementioned international entities and four U.S. peers (including BRIDGE, San Diego, Vancouver, Seattle, and WHPC).

The international entities are in dynamic, expanding cities with strong underlying demands for housing. These companies have minimal vacancies and high market rental prices compared to their respective social rental prices. BRIDGE shares "very strong" enterprise and "strong" financial risk profile similarities with its international peers. In particular, it compares well with its international peers in terms of relatively strong financial performance, predictable cash flows from operations, and highly leveraged debt risk (debt-to-EBITDA and interest coverage). Overall, the U.S. peers, including BRIDGE, have relatively strong liquidity profiles.

Table 1

Comparative Analysis

Entity	Proportion of revenues from Social Housing Activity (%)	Proportion of revenues from Traditional Activity(%)	Annual Pop. Growth (%)	Average social rent as % of market rent in the main region of operation	Vacancy Rates (3yr Average) (%)	Average age of the portfolio (years)	EBITDA / Revenues (3yr Average or 5 year ave) (%)	Debt/EBITDA(3yr Average or 5 year ave) (X)	EBITDA/ Interest (3yr Average or 5 year ave) (X)	Liquidity Ratio (outlook)
Guinness Partnership	N.A.	90.6%	0.7%	68.0%	0.9%	23	27.0%	16.5	1.3	1.3
Town and Country Housing Group	N.A.	83.0%	1.1%	62.0%	1.8%	38	48.0%	16.3	1.8	1.8
Thrive Homes	N.A.	98.4%	0.8%	47.0%	0.5%	55	23.0%	12.7	2.1	2.2
Stangastaden	N.A.	N.A.	0.9%	N.A.	0.1%	37	28.0%	8.5	3.3	1.0
MKB Fastighets AB	N.A.	N.A.	1.5%	N.A.	0.6%	43	30.0%	12.3	2.6	0.8
Uppsalahem	N.A.	N.A.	1.2%	N.A.	0.1%	39	42.0%	11.3	2.9	1.0
BRIDGE Housing	15.0%	90.2%	1.0%	39.2%	2.1%	16	33.7%	21.2	3.7	0.9
San Diego Housing Commission	84.1%	100.0%	4.2%	70.5%	6.3%	21	11.7%	5.1	4.2	2.4
Vancouver Housing Authority	41.7%	100.0%	1.4%	42.9%	3.0%	41	39.2%	9.5	3.1	2.1

Table 1

Comparative Analysis (cont.)

Entity	Proportion of revenues from Social Housing Activity (%)	Proportion of revenues from Traditional Activity(%)	Annual Pop. Growth (%)	Average social rent as % of market rent in the main region of operation	Vacancy Rates (3yr Average) (%)	Average age of the portfolio (years)	EBITDA / Revenues (3yr Average or 5 year ave) (%)	Debt/EBITDA(3yr Average or 5 year ave) (X)	EBITDA/ Interest (3yr Average or 5 year ave) (X)	Liquidity Ratio (outlook)
Housing Authority of City of Seattle	65.5%	100.0%	2.7%	40.9%	4.2%	40	26.2%	3.5	9.3	4.0
WHPC	3.3%	100.0%	0.2%	62.9%	4.7%	34	54.2%	8.9	3.1	4.7

N.A.--Not available.

Enterprise Profile

Industry risk

U.S. public and nonprofit providers' collective focus on affordable housing lends further rating stability, with low competitive risk. The U.S. public and nonprofit housing industry risk scores a '2', representing a combination of individual assessments: sub-scores of '2' for cyclicality and competitive risk, with no adjustment for the government's support for the industry. Economic cycles are most likely to affect U.S. public and nonprofit social housing providers more than any other social service types, in our view, because real estate fluctuations can change asset values. Real estate markets also tend to be overbuilt, leading to depressed occupancy rates, rentals, and property values. Residential rental markets typically pose less risk relative to other property classes, however, and competitive risk is fairly low due to effective entry barriers in many jurisdictions, minimal substitution risk, and overall stability in growth and margins. In addition, ongoing government subsidies and other support and oversight limit volatility, with the overall importance of the service delivered, limiting the potential for negative government intervention, in our opinion.

Economic fundamentals and market dependencies

Thirty years ago, BRIDGE Housing began as a practical solution to a growing problem of shortage for the affordable housing industry by producing large volumes of high-quality, affordable homes in California. An anonymous donor provided seed capital to figure out how to deliver affordable housing to working-class families in the expensive Bay Area. Today, BRIDGE has a demonstrated track record for the production and long-term, stable stewardship of quality affordable housing in challenging markets with complex parameters.

Accordingly, it continues to demonstrate solid overall growth. S&P Global views BRIDGE's essentiality to the market as extremely strong. Like many other social housing providers (including PHAs), market demand for public housing services far exceeds available supply.

BRIDGE is affiliated with Bay Area Senior Services Inc. (BASS), operator of a continuing-care retirement community (CCRC), as well as BRIDGE Impact Capital (BRIC), a community development finance institution (CDFI). BRIDGE has generated about 9.2% of its revenues from non-traditional activities. We consider BRIDGE a low-income-focused social housing provider where we assess the low-income-based activities based on average social rent as a percentage of market rent in the main region of operation and average population growth.

BRIDGE's average social rental as a percentage of market rent in the submarket it manages and owns is 39.2%, which, combined with a robust population growth of 1.0% annually in fiscal 2015, suggests extremely strong economic fundamentals. These factors, along with business profile ratios and qualitative factors, yield a score of '1' for economic fundamentals, with no qualitative adjustments applied.

Table 2

Scores Assigned To BRIDGE Housing		
	Prior Fiscal Year	**Current Fiscal Year**
Enterprise Profile		
Industry	2	2
Economic Fundamentals	1	1
Strategy and Management	1	1
Asset Quality	2	2
Total for Enterprise profile	2	2
Financial Profile		
Financial Performance	4	3
Debt Profile	3	3
Liquidity	2	4
Financial Policies	2	2
Total for financial profile	3	3

Market Position: Strategy And Management

In our view, BRIDGE's vision is clearly defined and sets forth the organization's overall strategic plan. BRIDGE launched its strategic planning process in the fall of 2011 as a participatory, iterative engagement of its board and senior leadership. The process included a detailed assessment of the changing and demanding external environment and the development of scenarios for the future, as well as an assessment of its own strengths and capabilities in the context of a changing environment. This plan is a five-year road map that will require the company to continue to both adapt and innovate to sustain itself in these rapidly changing times. While this plan focuses on a five-year horizon, BRIDGE maintains a longer view of where and what it aims to be. The long-range goals are to:

- Advance its mission, always in pursuit of "Quantity, Quality, and Affordability;"
- Strengthen communities, starting but not ending with housing;
- Leverage experience, resources and a culture of innovation to test new ways to achieve more in less time with fewer resources;
- Redefine how BRIDGE delivers products and services to make the company more competitive in an era of reduced subsidies and increased demand;
- Lead the repositioning of the industry given shifts in resources, markets, and policies; and
- Be the "go-to" organization for best practices in all of its lines of business.

To accomplish those goals, BRIDGE's board and staff sets nine strategic initiatives that enable it to build, lead, and sustain in a volatile and demanding external environment. The initiatives are as follows: product and service diversification, community development (supporting and enhancing neighborhoods), geographic expansion, mergers and acquisitions, leveraged portfolio management, financial services and capital markets, cost containment, IT, human capital.

We believe the implementation of these initiatives will facilitate growth and product and services diversification, promote innovation, and support continued improvement of BRIDGE's capacity to deliver on its strategic plan. Also, in our opinion, BRIDGE has clear measurements for each initiative, clear vision, the right leadership, and a strong base of community support.

We believe BRIDGE's board and staff engage in a decision-making process characterized by open, effective communication and appropriate delegation of authority, consistent with principles of sound corporate governance. The board reviews strategic plans annually and monitors the staff's progress in achieving each goal. BRIDGE's management is very strong, in our view. All 15 members of the board of directors have voting rights in all board matters.

No boardmembers are related to staff or senior executive members of staff. Board members serve uncompensated for three-year staggered terms with no limits on terms served. BRIDGE also has an informal succession plan, administered through the board's specialized professional development program.

BRIDGE has over 400 full-time staff members with extensive related experience that includes accounting, finance, real estate acquisitions, property management, construction management, governmental relations, senior living, and community services. A core staff operates in the San Francisco, Orange County, San Diego, and Portland offices. Collectively, the organizational structure presents a very strong social and financial balance of expertise, in our view.

Senior staff members work in close conjunction with one another to meet BRIDGE's mission and bring operations and projects into compliance with overall strategic goals, in our view. This garners a score of '1' for strategy and management. Internal policies and procedures are institutionalized and built into the fabric of all BRIDGE operations. We also believe BRIDGE is effectively leveraging partnerships with lenders and other stakeholders, allowing it to develop an income stream that does not specifically rely on federal subsidies. The organization maintains that its partnerships are aiding redevelopment and providing BRIDGE sufficient funding to increase its housing portfolio.

Asset Quality

BRIDGE's geographic footprint has formed in response to demand for affordable rental housing. It has historically developed in some of the least affordable markets in the state, first the nine Bay Area counties, then Orange and San Diego counties. BRIDGE currently develops, owns, and operates housing along much of the urban coast of California, with forays into Los Angeles, Sacramento, San Joaquin, and Riverside counties. It works in 85 communities in Northern and Southern California and has participated in the development of over 14,000 affordable homes, including 10,498 it owned and 8,110 it property/asset manages. It also created parks and wetlands, child care centers, police substations, a library, and over 500,000 square feet of commercial and retail space. It also offers a growing slate of educational, health, and wellness programs to residents (more than 27,000 class participants served in 2015).

BRIDGE's development plan is very active. It added an additional 938 units in 2015 and expects 1,116 more in 2016. We believe BRIDGE has built a good track record of timely completion of new construction and ensuring the delivery of projected tax credits. It also has established effective procedures to mitigate lease-up risks. Management indicates that due to high demand and short supply in BRIDGE's served area, newly constructed properties are all fully leased and occupied within a few months. For AveVista, a newly constructed property in Oakland, more than 7,000 potential residents expressed interests for 68 units.

Our analysis involved site visits to a sampling of properties in the portfolio.

Physical curb appeal on newly developed and renovated properties is good, in our view, and in most cases better than surrounding neighborhood properties. Strict oversight procedures and contractual monitoring incorporate efficient methods and ensure strong management of the portfolio, in our view. In our opinion, BRIDGE demonstrates strong efficiency in its property management functions and is acting appropriately to improve its financial strength and provide quality housing. Excellent operational performance, exhibited by strong asset management practices, has led to strong operational consistency, in our view. One example of operational strength is rent collected as a percentage of gross rent, which has stayed above 97.9% for the past three years.

Average occupancy for the last three years is 97.9%, leading to an asset quality score of '2'. The average portfolio age is 16 years, with no qualitative adjustments applied. We will closely monitor BRIDGE's ability to maintain these positive ratios amid further pending acquisitions, rehabilitations, and development plans.

Financial Profile

BRIDGE's financial performance is very steady, in our view, with little reliance on federal appropriation risk, unlike most U.S. PHAs. The organization's EBITDA-to-revenue is relatively weak compared with other social housing peers, including international social providers, but stronger than most of U.S. PHAs. However, strong profitability is offset by relatively high debt obligations. BRIDGE's ratio of liquidity sources to uses is adequate.

Financial performance: predictable cash flow from operations and strong financial performance compared with U.S. peers

BRIDGE's financial performance has been stable, in our opinion. The organization has maintained positive cash flow from operations. EBITDA has remained steady at over $39 million for the past three years. The three-year average of EBITDA to revenue (33.7%) has outperformed most traditional U.S. PHAs, resulting in a final score of '3'.

BRIDGE benefits from a self-supporting revenue stream, which is highly uncharacteristic of U.S. PHAs. Its financial health depends on maintaining this arrangement, but with contributions and grants expected to decrease in the future. We believe this projected income growth, coupled with anticipated cost controls, should strengthen the corporation's financial ratios.

Debt profile: high debt profile among global and U.S. peers

BRIDGE's debt profile constrains its financial risk score and the overall rating. Its debt obligations are the highest among both global and U.S. public and nonprofit social housing providers. Adding to the debt profile, in our view, are BRIDGE's extensive development plans that bring its 21.2x debt-to-EBITDA ratio well above the 13.4x global and 7.1x domestic averages. Similarly, BRIDGE's 3.7x EBITDA-to-interest ratio (actual average of the past three years) represents solid interest coverage on a global scale. After assessing these measurements and BRIDGE's debt profile, we conclude with a final score of '3', with one positive qualitative adjustment factor. However, about 73.5% of its debts are associated with soft and construction debts. We recognized its soft debt as subordinated debt obligations, which BRIDGE will have flexibility to pay off if it can generate surplus cash. Also, all construction debt must have a known take-out funding source (either permanent debt or equity) prior to starting construction. The financial structure of BRIDGE's affordable transactions require that all financing be locked into place for the life of the tax credits to be delivered (15 years). No cash or reserves will be used to fund the paydown of the construction debt as BRIDGE moves to the permanent financing sources.

We believe this flexibility gives BRIDGE less pressure to manage its liquidity use. Still, we will closely monitor this constraint. Should asset quality and financial performance weaken, we would expect the debt profile to increase considerably.

Liquidity: adequate liquidity profile for a highly leveraged entity

We expect BRIDGE to have $72.5 million in liquidity sources in two years. These sources include cash from operations, cash and equivalents, and current investments. Meanwhile, we expect liquidity uses, including debt service less noncash working capital (if negative), to be around $78.6 million to $80.6 million. We recognize BRIDGE's soft debt as subordinated debt obligations in which BRIDGE will have flexibility to pay them off if it can generate surplus cash.

In the event of nonpayment, interest will accrue to the loan and will not trigger an event of default. Historically, BRIDGE has paid debt obligations in a timely manner.

Given the current liquidity sources and cash flow operations, we expect the organization might achieve a 0.9x-0.92x liquidity ratio over the next two years. We base this view on BRIDGE's two-year debt service schedule and projected liquidity sources, which correlates to a liquidity score of '4', with one positive qualitative adjustment (strong access to external liquidity).

Should the liquidity ratio fall below 0.50, a higher liquidity score of '5' would result, and the ICR would be capped at 'A'.

Table 3

BRIDGE -- Projected Liquidity Ratios

	2016	2017
A: Sources of liquidity		
Forecasted cash generated from continuing operations	10,673,000	10,673,000
Cash and liquid investments	$61,847,000	$61,847,000
Forecasted working capital inflows		
land sale		
Total sources of liquidity	$72,520,000	$72,520,000
B: Uses of liquidity		
Forecasted cash generated from continuing operations		
Forecasted working capital excluding cash outflows	$55,195,667	$55,195,667

Table 3

BRIDGE -- Projected Liquidity Ratios (cont.)		
	2016	**2017**
Expected capital expenditure over the next 12 months		
Interest and principal payments due on debt over the next 12 months	$25,413,941	$23,453,086
Total uses of liquidity	$80,609,608	$78,648,753
Liquidity Ratio	0.90	0.92

Financial polices: positive credit impact, with strong transparency

BRIDGE's financial policies are well established and contain sufficient oversight and prudence, in our view. Our analysis measures the organization's level of transparency, liquidity, debt management, and long-term planning.

The finance department handles these tasks with strong oversight from senior management and the board of directors. Regularly scheduled reporting on all operating segments exists, thus providing a high degree of transparency. Furthermore, BRIDGE adheres to an adequate debt management policy with risk-averse practices.

The organization's long-term planning includes sophisticated, multilayered financial, acquisition, and asset management strategies. Leveraging their score is BRIDGE's well-prescribed, albeit less formal, liquidity and debt management policies. The resulting score is '2', with BRIDGE exhibiting a mix of strong and adequate attributes, fostering a stable financial culture.

Table 4

Financial Spread			
	2013 restated	**2014**	**2015**
Operating Activities			
Change in Net Assets/Equity	(20,687,000)	(14,107,000)	(26,894,000)
Net Cash provided by operating activities	16,935,000	64,946,000	10,673,000
Investing Activities			
Net Cash provided by investing activities	(138,105,000)	(314,197,000)	(271,798,000)
Financing Activities			
Interest Paid	(15,517,000)	(18,490,893)	(22,153,000)
Payments of LTD	(19,892,000)	(30,346,000)	(3,959,700)
Proceeds from sale of bonds/notes	78,787,000	215,777,000	161,814,700
Other adjustments from financing activities	72,028,000	79,959,893	130,322,000
Net Cash provided by financing activities	115,406,000	246,900,000	266,024,000
Key Measurements			
EBITDA ($)	39,800,034	55,803,811	54,858,456
Debt ($) including Soft Debt	888,724,000	1,099,542,000	1,175,346,073
Government Support Percentage (%)	5	24.8	15.0
Voids, Vacancy (%) of Revenues	2.3	2.3	1.6
Average social rent as a percentage of market rent in the main region of operation	43.5	40.3	39.2
Average dwelling Price as (%) of national average	184.2	189.5	189.4
EBITDA/Revenues (%)	33.1	33.5	34.5

Table 4

Financial Spread (cont.)	2013 restated	2014	2015
Debt/EBITDA (x)	22.3	19.7	21.4
EBITDA interest coverage (x)	3.6	4	3.5
Cash from Operations ($)	16,935,000	64,946,000	10,673,000
Cash and Liquidity ($)	59,299,000	56,948,000	61,847,000
Net Working Capital ($)	9,247,000	(28,720,000)	(18,930,000)
Working Capital excluding Cash ($)	(32,677,000)	(67,857,000)	(65,054,000)
Pop Growth (%)	N.A.	N.A.	1%
Number of Units - owned	8,379	9,718	10,498

N.A.--Not available.