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BRIDGE Housing Corp., California; General Obligation

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Table Of Contents

BRIDGE Housing Corp., California; General Obligation

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

Rating Action

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

BRIDGE Housing Corp. 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. It is among the largest affordable housing developers. It is also affiliated with and under common board control with other not-for-profit corporations (Affiliates) formed either as supporting entities to BRIDGE or as instruments to further its organizational objectives. BRIDGE's geographic footprint has formed in response to the demand for affordable rental housing. It has historically developed in some of the least affordable markets in California: first the nine Bay Area counties, then Orange and San Diego counties. BRIDGE currently develops, owns, and operates housing in its historical markets as well as Los Angeles and Riverside counties; Portland, Ore.; and Seattle.

Credit overview

In our view, the coronavirus pandemic will pose a low-to-medium risk to the creditworthiness of BRIDGE, as the social housing sector is largely countercyclical and currently benefits from robust liquidity positions, including good market access. We believe rental payments from tenants without subsidies could weaken credit quality. Reduced revenues would increase debt burdens and shrink interest coverage. In our stress scenario of a higher rental delinquency for affordable market rent units and an increase in certain operating costs as a result of COVID-19, BRIDGE's EBITDA could decrease by 6% in fiscal 2020 compared to the prior year, but its robust liquidity position is adequate to face the potential consequences related to the pandemic. According to management, the effect on revenues collected during April and May was minimal.

Nonetheless, given the uncertainty of the situation, the company may face challenging economic conditions that could lead to temporary suspension of nonessential maintenance activities, and less frequent or less thorough physical inspections. Similarly, if COVID-19 prevention measures delay maintenance staff or contracted personnel in upgrading units or preparing vacant units for new tenants, economic occupancy rates could decrease and weaken operational performance--a measure of market position in our rating analysis. To date, BRIDGE is performing all emergency repairs in units and common areas and critical systems preventative maintenance.

The ratings reflect our view of BRIDGE's strengths, including its:

- Extremely strong management and a strategic plan that supports its mission to provide quality low-income housing in the least affordable markets;

- Very strong enterprise risk profile, which is supported by very strong economic fundamentals (very high demand in the local rental market and strong population growth), extremely strong asset quality (minimal vacancies and newly developed properties), and robust development plans that continue to strengthen asset quality;
- Strong financial risk profile due to strong financial performance (measured by 37% of EBITDA over revenue), strong liquidity ratios (1.4x more resource of funding to cover uses), and very strong financial policies; and
- Ability to generate revenue streams from in-house development and operating activities.

Partly offsetting the above strengths, in our view, are dramatic changes in the external environment, including demographics, the economy, and government policies and housing programs that materially affect BRIDGE's strategic plans and works.

BRIDGE has a relatively high leveraged position, with a consistent debt-to-EBITDA ratio (five-year average from fiscal 2018-2019 and forecast 2020-2022) of approximately 22.8x, compared with a 9.9x average for U.S. public and nonprofit social housing (primarily consisting of U.S. public housing authorities [PHAs]). BRIDGE's 2.1x EBITDA interest coverage is lower compared with that of peers (7.8x). However, about 68% of its debt is associated with soft and construction debt and we recognize that BRIDGE will have the flexibility to pay down those soft debts if it can generate surplus cash. Construction debt has contractual and known take-outs, which are conditions that precede closing on the construction loans. We believe this flexibility reduces the pressure in managing its EBITDA interest coverage and liquidity position.

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

The stable outlook reflects S&P Global Ratings' opinion of BRIDGE's finances with strong financial performance and liquidity profiles, led by a strong, experienced senior management team. We expect BRIDGE's available funds for operations and debt service, and ability to repay debt from EBITDA, will likely remain stable during this year. Low-income housing demand remains extremely strong. In our opinion, BRIDGE will continue to employ an excellent strategic-planning process, proactive business model, and flexibility to address affordable housing needs.

Environmental, social, and governance factors

We have analyzed BRIDGE's environmental, social, and governance (ESG) risks relative to its ICR in terms of economic fundamentals, financial performance, asset quality, and strategy and management and determined that all are in line with our view of the sector standard. In response to the spike in unemployment and sudden drop in economic activity related to the pandemic, the U.S. government has announced restrictions limiting evictions for nonpayment of rent in the short term. Although we believe the pandemic exposes the social housing sector to potential social risks that could present financial pressure in the short term, we believe these risks are mitigated by strong economic fundamentals of the sector, which is largely countercyclical. We also analyzed BRIDGE's governance and environmental risks and determined that they are in line with our view of the sector standard.

Stable Outlook

Downside scenario

We could consider a negative rating action if we were to observe a sharp deterioration of the company's EBITDA interest coverage (below 1.5x). Since its business model relies heavily on the local economy, government policies, and housing programs (e.g., low-income housing tax credits [LIHTCs]), if the current external environment dramatically shifts and significantly affects BRIDGE's ongoing or future developments and leveraged positions, we could lower the rating. We could also do so if the COVID-19 outbreak persists and weakens the company's cash flows and liquidity profile.

Upside scenario

We could raise the rating if the company can demonstrate consecutive years of improved EBITDA margins, along with a sustained liquidity position. We also believe another key factor is its ability to leverage the needed resources to carry out its development plans, to continue to engage in business activities that provide it with diverse income sources, and to continue to implement operational and administrative efficiencies. These factors could result in a higher ICR.

Credit Opinion

Comparative Analysis

Table 1 details how BRIDGE compares in key measurements with one U.S.-based social housing provider (Wisconsin Housing Preservation Corp.,) and 13 U.S. PHA peers. BRIDGE is most profitable, measured by EBITDA/revenue among U.S. peers. It covers an area with high economic fundamentals, providing very low social rent over market rent to meet very high demands for low-rent housing. The financial ratios (including financial performance and debt and liquidity ratios) are generally comparable to those of 'A+' rated peers.

Table 1

BRIDGE Housing Corp., CA -- Peer Comparison

Entity	ICR	Outlook	Proportion of revenues from government (%)	Annual pop. growth (%)	Average social rent as % of market rent	Vacancy rate (%)	EBITDA/Revenues (5-year avg)	Debt/EBITDA (5-year avg)	EBITDA/Interest (5-year avg)	Liquidity ratio
Denver Housing Auth	AA-	Stable	77.6	1.3	34.6	2.1	17.9	13.8	9.3	3.3
Housing Catalyst	AA-	Stable	23.0	1.9	35.3	6.0	22.5	6.3	8.9	4.3
Wisconsin Hsg Preservation Corp	AA-	Stable	2.0	0.8	56.5	3.9	34.5	13.1	2.1	7.8
Bridge Housing	A+	Stable	13.3	0.4	32.0	2.0	37.3	22.8	2.1	1.4

Table 1

BRIDGE Housing Corp., CA -- Peer Comparison (cont.)											
Entity	**ICR**	**Outlook**	**Proportion of revenues from government (%)**	**Annual pop. growth (%)**	**Average social rent as % of market rent**	**Vacancy rate (%)**	**EBITDA/Revenues (5-year avg)**	**Debt/EBITDA (5-year avg)**	**EBITDA/Interest (5-year avg)**	**Liquidity ratio**
Howard Cnty Hsg Commission	A+	Negative	26.8	1.2	59.0	4.7	24.2	17.7	1.5	1.8
Boston Hsg Auth	A+	Stable	84.0	0.6	24.0	2.0	7.8	7.8	3.9	2.5
Baltimore City Hsg Auth	A+	Stable	89.5	0.2	11.0	5.8	8.0	1.6	12.0	3.0
Philadelphia Hsg Auth	A+	Stable	84.6	0.3	27.0	6.8	13.7	7.1	22.8	7.3
Hsg Auth of the City of Los Angeles	A+	Stable	94.6	0.3	24.9	1.1	2.0	4.7	4.6	5.1
Housing Auth of the City of Milwaukee	A+	Stable	65.0	0.5	43.4	4.0	4.6	6.6	3.2	2.2
Cuyahoga Metropolitan Hsg Auth	A+	Stable	86.8	(0.1)	17.4	4.5	7.3	18.6	4.6	1.6
Lucas Metropolitan Hsg Auth	A+	Stable	82.5	0.1	32.0	3.0	10.4	5.9	5.9	1.9
ELM City Community (New Haven)	A+	Stable	91.3	(0.1)	36.9	6.0	12.3	8.8	20.3	2.6
Hsg Auth of Cnty of Butte	A+	Negative	80.7	0.5	23.7	2.0	13.6	3.5	11.1	1.3
Housing Auth of Snohomish Cnty	A+	Stable	65.5	1.7	35.3	0.9	13.5	10.0	4.2	2.9

Industry Risk

U.S. public and nonprofit providers' collective focus on affordable housing lends further stability with low competitive risk. We consider the U.S.-based nonprofit provider's industry risk a low risk through a combination of individual assessments a low risk for cyclicality and for competitive risk, with no adjustment for the support of government policies for the industry. Economic cycles are more likely to affect U.S. PHAs than other types of social services because real estate fluctuations can change asset values. Real estate markets can be overbuilt, leading to depressed occupancy rates, rentals, and property values; residential rental markets typically pose less risk relative to other property classes, and U.S. PHAs' focus on affordable housing typically lends further stability. Competitive risk is low, because of effective barriers to entry in many jurisdictions, minimal risk of substitution, and overall stable trends in growth and margins. In addition, ongoing government subsidies, 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

Around 35 years ago, BRIDGE Housing began as a practical solution to the growing shortage of affordable housing 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 Ratings 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 BRIDGE Impact Capital (BRIC), a community development finance institution (CDFI). BRIDGE has generated less than 1% of its revenues from nontraditional 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 32%, which, combined with robust population growth of 0.4% annually in fiscal 2019, suggests extremely strong economic fundamentals.

Strategy and management

In our opinion, the company has an extremely strong level of strategy and management, evidenced by the experience of its leadership team, staff, and board, as well as by the strategic planning efforts it makes on a regular basis. Under the organization's first strategic plan (2013-2017), BRIDGE doubled its production through broadening its geographic footprint to the entire West Coast; deepening its capacity for capital aggregation, complex transactions, and stewardship of an ever-expanding portfolio; and strengthening its commitment to holistic community development, product diversity, and resident outcomes. BRIDGE's current strategic plan was developed in 2018 through an intensive process with its Board and senior staff; the plan is a five-year road map for BRIDGE as it continues to grow as a leader, producer, operator, and owner of affordable housing in the context of holistic communities.

The plan focuses on six interrelated initiatives: Real Estate Development; Capital and Fund Development; Community Development and Resident Services & Evaluation; Internal Strengthening; Information Technology; and a new Innovation Lab, which will incubate, pilot, and launch new initiatives that address issues such as cost-containment strategies and the need for moderate-income housing. To measure progress and success, BRIDGE identified the following performance metrics to reach by the end of 2023:

- Real estate production (ground-up development and acquisitions): 9,000 units;
- Project capital raised for developments: $3.8 billion as defined by project pipeline;
- Real estate construction cost: five methods of cost reduction tested;

- Community-serving assets: 25 developed or planned;
- Preschool enrollment at Jordan Downs and Potrero: 25% growth in enrollment among original residents;
- Fund development campaign: $35 million in funds raised or committed; and
- Resident quality of life: 75% experience improved quality of life after moving into a BRIDGE property.

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 14 members of the board of directors have voting rights in all board matters.

No board members 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, Los Angeles, Orange County, San Diego, Seattle, 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. 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 the 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 in its historical markets as well as Los Angeles and Riverside counties, Portland, and Seattle.

BRIDGE has participated in the development of more than 18,000 affordable homes and approximately 12,300 apartments currently under property and/or asset management. It also created parks and wetlands, childcare 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 30,000 class participants served in 2018). BRIDGE's development plan is very active. We believe it 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.

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 98% for the past three years.

Average occupancy for the last three years is 98.1% and 18 years of average portfolio age, leading to extremely strong asset quality. We will closely monitor BRIDGE's ability to maintain these positive ratios amid further pending acquisitions, rehabilitations, and development plans.

Several governors have declared a state of emergency and issued a series of proclamations. As of today, the "Stay Home" order has been extended through the end of June and is expected to continue affecting BRIDGE's operation for several months. Given the uncertainty around the timing of this situation, the company may face challenging economic conditions that could lead to longer-term suspension of nonessential maintenance activity, and less frequent or less thorough physical inspections. Similarly, if COVID-19 prevention measures delay maintenance staff or contracted personnel in upgrading units or preparing vacant units for new tenants, economic occupancy rates could decrease and weaken the company's asset quality and operational performance. We will closely monitor BRIDGE's operational metrics and rehab status.

Financial Performance

Our assessment of financial performance uses a five-year average, including fiscal years 2018 (audit), 2019 (audited), and 2020 (the current budget), and our forecast for fiscal years 2021 and 2022. We calculate EBITDA averages 37.3% of revenue, which remains stronger than all rated U.S. peers. We also expect revenue from development fees will likely increase during the next few fiscal years.

Debt profile

BRIDGE's debt profile constrains its financial risk score and the overall rating. Its debt obligations are one of 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 22.8x debt-to-EBITDA ratio well above the U.S.-based peer averages. Similarly, its 2.1x EBITDA-to-interest ratio represents solid interest coverage on a global scale but weaker than that of U.S.-based peers.

However, about 68% of its debts are associated with soft and construction debt. We recognized its soft debt as subordinated debt obligations, which BRIDGE will have flexibility to pay down if it could generate surplus cash. In addition, 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 requires 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 pay-down of the construction debt as BRIDGE moves to the permanent financing sources. We believe this flexibility reduces pressure in managing its liquidity use. Still, we will closely monitor this constraint. Should financial performance weaken, we would expect the debt profile to increase considerably. We recognize BRIDGE's soft debt as subordinated debt obligations where it 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.

Liquidity

We expect that BRIDGE will have roughly $152 million of liquidity and that it will use $113 million of liquidity during the next 12 months, a ratio of 1.35x. This ratio could decrease if BRIDGE's expected cash generated from continuing operations were to decrease, debt payments during the next 12 months were to rise, or cash and liquid investments were to shrink.

We consider BRIDGE's construction and retention payables included as a part of S&P Global Ratings' calculated liquidity uses. BRIDGE provides construction loan repayment and completion guarantees for its own development of properties and lease-up of the projects. Although BRIDGE has never experienced non-completion or significant completion delays, a payment under such a guarantee would result in the transfer of cash resources from BRIDGE from future operating cash flow under a worst-case scenario. Given succession of the construction contract, those payable are typically funded from construction/permanent debt or LIHTC equity. If we excluded these payables, BRIDGE's liquidity ratio could improve to over 2.5x.

Each BRIDGE property has dedicated replacement and operating reserves (about $93 million--not part of S&P Global Ratings' calculated liquidity sources due to certain restrictions to meet with the partnership and other lenders' regulatory agreements) in place for eligible routine and preventative expenditures. Most properties can sustain operations beyond six months in a stress scenario of 50% rental reduction. This ensures health and quality of assets and an efficient management/control on liquidity at each property level. The company also maintains strong access to external liquidity, in our opinion.

Table 2

BRIDGE Housing Corp., CA -- Projected Liquidity Ratios

	FY 2020-2021
A: Sources of liquidity	
Forecasted cash generated from continuing operations	32,001,799
Cash and liquid investments	$ 97,414,000
Committed bank facilities	$ 23,285,951
Total sources of liquidity	$152,701,750

Table 2

BRIDGE Housing Corp., CA -- Projected Liquidity Ratios (cont.)

	FY 2020-2021
B: Uses of liquidity	
Forecasted working capital excluding cash outflows	$ 80,471,000
Interest and principal payments due on debt over the next 12 months	$ 33,059,872
Total uses of liquidity	$113,530,872
Liquidity Ratio	1.35

Financial policies

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 are BRIDGE's well-prescribed, albeit less formal, liquidity and debt management policies. We believe they have very strong financial policies, with BRIDGE exhibiting a mix of strong and adequate attributes, fostering a stable financial culture.