S&P Global Ratings

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BRIDGE Housing Corp., California; General Obligation

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Table Of Contents

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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 rating reflects our view of BRIDGE's:

- 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 profile, reflected by its ability to cover operating and maintenance (O&M) costs from rental income and its capacity to repay debt obligations from EBITDA in a timely manner and maintain strong profitability and liquidity; 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 is a leveraged organization, with a consistent debt-to-EBITDA ratio (three-year average) of approximately 22.9x, compared with a 13.4x average for U.S. public and nonprofit social housing (primarily consisting of U.S. public housing authorities [PHAs]). BRIDGE's 2.3x EBITDA interest coverage is lower compared with PHA peers (6.7x) but comparable with international social housing providers. However, about 73% 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 debt and liquidity position.

Unlike the majority of 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 preventive expenditures for any capital improvements. We believe this ensures the health and quality of assets and efficient management control on liquidity.

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

BRIDGE 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, Oregon; 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

We could raise the rating if BRIDGE can demonstrate consecutive years of improved EBITDA margins, along with an improved debt position. We also believe another key factor is the company's ability to leverage the needed resources to carry out its development plans, to continue to engage in business activities that provide it with additional income sources, and to continue to implement operational and administrative efficiencies. These factors could result in a higher stand-alone credit profile (SACP) and issuer credit rating (ICR).

Downside scenario

A negative rating action is possible during the two-year outlook period if the company's EBITDA interest coverage further weakens, coupled with any liquidity pressures tied to additional debt obligations. Since BRIDGE's business model heavily relies 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. BRIDGE's ability to maintain liquidity (its score is over 1.05x) and generate continuous development fee- and tenant-based revenues is a key factor in maintaining the 'A+' rating, in our view. Should the liquidity ratio fall below 0.50x, a higher liquidity score of '5' would result, and the ICR would be capped at 'A'.

Comparative Analysis

S&P Global Ratings rates 73 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 73 outstanding ICRs, 22 are U.S. based, and are all social housing providers and PHAs.

Table 1 details how BRIDGE compares in key measurements with the eight U.S. peers (including Newark, Howard County, Housing Catalyst, Philadelphia, ELM City Community, Snohomish County, and Wisconsin Housing Preservation Corp.). The peers are in dynamic, expanding cities with strong underlying demand 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 'A+' rated peers. It compares well with its peers in terms of stronger financial performance (EBITDA over revenue), asset quality (17 years old and a minimum vacancy of 1.9%), and relatively higher leveraged debt risk. Overall, the U.S. peers have relatively stronger liquidity profiles.

Table 1

BRIDGE Housing, CA--Comparative Analysis

	ICR	Proportion of revenues from government (%)	Annual pop. growth (%)	Average social rent as % of market rent in the main region of operation	Vacancy rate (3-yr avg) (%)	EBITDA /revenues (3-yr avg or 5-yr avg)	Debt/EBITDA(3-yr avg or 5-yr avg)	EBITDA/interest (3-yr avg or 5-yr avg)
Entity								
Bridge Housing	A+	12.70	0.80	32.00	1.80	34.40	22.9	2.3
Housing Catalyst	AA-	61.50	1.50	37.10	6.90	16.30	15.8	4.6
Wisconsin Hsg Preservation Corp	AA-	2.00	0.20	51.60	3.70	34.50	13.1	2.1
Howard Cnty Hsg Commission	A+	42.40	0.40	54.60	4.80	19.00	22.7	1.4
Philadelphia Hsg Auth	A+	84.62	0.20	28.10	6.80	13.40	6.7	20.9
ELM City Community	A+	89.30	0.00	9.20	3.70	12.50	1.0	40.6
Housing Auth of Snohomish Cnty	A+	66.20	1.70	36.00	0.90	13.80	11.6	3.5
Newark Hsg Auth	A+	76.60	0.30	20.30	3.00	4.40	(40.9)	1.3
San Francisco City Hsg Auth	A	94.70	0.60	15.00	6.00	(1.69)	(34.1)	(17.9)

Enterprise Profile

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 30 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 0.8% annually in fiscal 2018, suggests extremely strong economic fundamentals.

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 itself 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, and 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 13 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, 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.

It works in 85 communities in Northern and Southern California and has participated in the development of over 14,000 affordable homes, including 11,693 it owns and 8,707 it property/asset manages. 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 17 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.

Financial Profile

BRIDGE's financial performance is considered strong and 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 U.S. PHAs. However, strong profitability is offset by relatively high debt obligations. BRIDGE's ratio of liquidity sources to uses has improved and is considered strong.

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 $58 million for the past three years. The three-year average of EBITDA to revenue (34%) has outperformed most traditional U.S. PHAs.

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. We believe this projected income growth, coupled with anticipated cost controls, should strengthen the corporation's financial ratios.

Debt profile: High debt profile among U.S. peers

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 22.9x debt-to-EBITDA ratio well above the U.S.-based peer averages. Similarly, its 2.3x EBITDA-to-interest ratio (actual average of the past three years) represents solid interest coverage on a global scale but weaker than that of U.S.-based peers.

However, about 73% 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 asset quality and financial performance weaken, we would expect the debt profile to increase considerably.

Liquidity: Average yet improving liquidity profile for a highly leveraged entity

We expect BRIDGE to have $95 million in liquidity sources in the next 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 $73 million. 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.

Given the current liquidity sources and cash-flow operations, we expect the organization might achieve a 1.3x 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 strong liquidity profile. Should the liquidity ratio fall below 0.50x we would cap the ICR at 'A-'.

Table 2

BRIDGE, CA--Projected Liquidity Ratios

	2018	**2019**
A: Sources of liquidity		
Forecasted cash generated from continuing operations	30,210,000	30,210,000

Table 2

BRIDGE, CA--Projected Liquidity Ratios (cont.)		
	2018	**2019**
Cash and liquid investments	$65,032,000	$65,032,000
Forecasted working capital inflows		
land sale		
Total sources of liquidity	$95,242,000	$95,242,000
B: Uses of liquidity		
Forecasted cash generated from continuing operations		
Forecasted working capital excluding cash outflows	$44,938,000	$44,938,000
Expected capital expenditure over the next 12 months		
Interest and principal payments due on debt over the next 12 months	31,058,033	28,058,381
Total uses of liquidity	$75,996,033	$72,996,381
Liquidity Ratio	1.25	1.30

Financial policies: 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 are 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 3

BRIDGE, CA--Financial Statistics			
	Fiscal year end		
	2015	**2016**	**2017**
Key Measurement			
EBITDA ($)	53,090,867	57,406,887	64,169,459
Debt ($) including soft debt	1,175,346,073	1,270,471,092	1,485,475,530
Soft debt($)	482,561,819	530,568,932	638,346,800
Debt service ($)	27,420,203	30,223,846	30,223,846
Government support percentage (%)	15.0	13.1	12.7
Voids, vacancy (%) of revenues	1.6	1.8	2.0
Arrears (% of revenues)	1.6	1.9	2.0
Average social rent ($) - Anunal	10,723.1	10,848.6	11,587.6
Market rent in the main region of operation ($)	27,365	38,520	38,520
Average social rent as a percentage of market rent in the main region of operation	39.2	28.2	30.1

Table 3

BRIDGE, CA--Financial Statistics (cont.)			
	Fiscal year end		
	2015	2016	2017
Average market dwelling price ($)	682,844	711,524	741,408
Average national dwelling price ($)	360,600	372,500	384,900
Average dwelling price as (%) of national average	189.4	191.0	192.6
EBITDA / revenues (%)	33.4	33.7	35.1
Debt / EBITDA (x)	22.1	22.1	23.1
EBITDA interest coverage (x)	2.4	2.1	2.4
Cash from operation ($)	12,841,000	20,192,000	30,210,000
Cash and liquidity ($)	61,847,000	85,826,000	65,032,000
Pop growth (%)	1.00	0.90	0.80