S&P Global
Ratings

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BRIDGE Housing Corp., California; General Obligation

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Long Term Rating	A+/Stable	Affirmed

Rating Action

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

BRIDGE is a 501(c)(3) not-for-profit entity founded in 1983 and headquartered in San Francisco. It is among the largest affordable housing developers, creating high-quality dwellings for working families and seniors. It is also affiliated and under common board control with other not-for-profit corporations 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 develops, owns, and operates housing in its historical markets as well as in Los Angeles and Riverside counties; Portland, Ore.; and Seattle.

Table 1

BRIDGE Housing Corp., Calif. -- Key Rating Factors

Factors*	Assessment
Industry risk	Very Strong - 2
Regulatory framework	Strong - 3
Market dependencies	Very Strong - 2
Management and governance	Extremely Strong - 1
Enterprise risk profile	Very Strong - 1.8
Financial performance	Strong - 3
Debt profile	Weak - 5
Liquidity	Extremely strong - 1
Financial risk profile	Strong - 3

*S&P Global Ratings bases its ratings on nonprofit social-housing providers on the seven main rating factors listed in this table. S&P Global Ratings' "Methodology For Rating Public And Nonprofit Social Housing Providers," published June 1, 2021, summarizes how the seven factors are combined to derive each social-housing provider's stand-alone credit profile and ICR.

Credit overview

The rating reflects the implementation of our criteria "Methodology For Rating Public And Nonprofit Social Housing Providers," published June 1, 2021, on RatingsDirect, and our opinion 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, supported by our assessment of its very strong market dependencies and low industry risk;
- Strong financial risk profile as a result of solid financial performance (as measured by 38% adjusted EBITDA to adjusted revenue), and excellent liquidity ratios (6.4x more resource of funding to cover uses); and
- Ability to generate revenue streams from in-house development and operating activities.

Partly offsetting the above strengths, in or view, are BRIDGE's high leverage and weak debt profile compared with those of peers. However, about 69% of BRIDGE's debt is associated with soft and construction debt and we recognize the flexibility that BRIDGE has 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 the organization's EBITDA interest coverage and liquidity position.

Environmental, social, and governance

We have analyzed environmental, social, and governance risks relative to BRIDGE's industry risk, regulatory framework, market dependencies, management and governance, financial performance, and debt and liquidity profiles. BRIDGE's diversity of citywide assets reduces the environmental risk that disruption would occur from an acute event or chronic long-term climate change. We view health and safety risks related to the COVID-19 pandemic as social risks that have broadly affected the U.S. economy and its workforce. The resulting elevated unemployment and the greater likelihood of nonpayment of rent, coupled with the eviction moratorium, has challenged rental property owners generally. Despite this, the sector's largely countercyclical market dependencies benefit from extraordinary federal government support, somewhat mitigating this risk. We believe BRIDGE's portfolio in the greater San Francisco Bay Area and Pacific Northwest may be subject to heightened environmental risk, which insurance requirements and robust liquid reserves largely mitigate. We have also analyzed Bridge's governance risks and have determined they are in line with our view of the sector standard.

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 remain stable during the outlook period. Low-income housing demand remains extremely strong in BRIDGE's markets. In our opinion, BRIDGE will continue to employ an excellent strategic planning process, proactive business model, and flexibility to address affordable housing needs.

Stable Outlook

Upside scenario

We could raise the rating if BRIDGE's leveraged position were to decline significantly, thereby improving our view of its debt profile.

Downside scenario

We could lower the rating during the outlook period in the unlikely event that our view of BRIDGE's management and governance declined from very strong to adequate, or if its liquidity position deteriorated and became more volatile.

Enterprise Risk Profile

Strong regulatory framework

We think social housing providers (SHPs) benefit from strong public policy mandates and account for a significant proportion of the sector activities (compared with for-profit providers). Such policies are subject to regular changes that may introduce uncertainty into the framework. While there are no standards of governance, reporting, and disclosure, there is evidence of oversight of the sector. Some standards of reporting and disclosure exist to ensure the long-term financial and physical health and regulatory compliance of a managed portfolio. However, responsiveness and remediation to early signals of risk and stress are less effective.

There is no direct and ongoing operating support to SHPs. However, some forms of ongoing and systemic support are available, such as private and public grants to service residential programs for tenants and indirect tax incentives to build affordable housing. However, financial and operational performances are primarily down to housing providers and vary across the sector. There is no precedent of adverse negative intervention from governments or their agencies, and we expect none.

Very strong market dependencies

Approximately 35 years ago, BRIDGE began as a practical solution to the growing shortage of affordable housing in California by producing large volumes of high-quality, affordable homes. 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 opportunities in challenging markets with complex parameters.

BRIDGE is affiliated with BRIDGE Impact Capital, a community development finance institution. BRIDGE has generated less than 1% of revenue from nontraditional activities. We consider BRIDGE a low-income-focused SHP, 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.

We view Bridge's market dependencies as very strong. BRIDGE's average social rent is about 30% of market rent in the authority's main region of operation. Vacancies have held in recent years at about 3%, which is slightly weaker than the average market vacancy rate of more than 2%.

Extremely strong management and governance

In our opinion, the BRIDGE has extremely strong management and governance, evidenced by the expertise and experience of its leadership team, staff, and board; the strategic planning efforts it makes on a regular basis; and the consistency of its strategy with operational capabilities and marketplace conditions.

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. Management is very strong, in our view. 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 about 450 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 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.

We believe BRIDGE has strong financial policies and risk management standards that foster a solid financial culture. BRIDGE's financial policies are well established and contain sufficient oversight and prudence, in our view. Its liquidity and debt management policies, although less formal, are well prescribed and generally risk-averse. Reporting on all operating segments is regularly scheduled, providing a high degree of transparency.

Financial Risk Profile

Strong financial performance

Our assessment of BRIDGE's financial performance uses a five-year average, including fiscal years 2019 and 2020 (audited), our estimate for 2021 based on annualized year-to-date performance, and our forecast for fiscal years 2022 and 2023. We calculate a five-year average adjusted EBITDA-to-adjusted operating revenue ratio of 38.1%, which remains stronger than that of all rated U.S. peers. We also expect revenue from development fees to increase during the next few fiscal years.

Extremely strong liquidity

Our assessment of BRIDGE's extremely strong liquidity reflects high cash, cash provided by operating activities, and sufficient access to external liquidity. In our base case during the next 12 months, we estimate about $281.2 million will cover uses by more than two times. This ratio could decrease if BRIDGE's expected cash generated from continuing operations were to decline, debt payments during the next 12 months were to rise, or cash and liquid investments were to shrink.

Liquidity sources consist of:

- Forecast cash generated from continuing operations of $35.3 million,
- Cash and liquid investments of $219.5 million,
- Forecast working capital inflows of $16.4, which is adjusted for construction payables and accrued retention, and
- Committed undrawn bank facilities of $10 million.

Liquidity uses include all interest and principal payable on short- and long-term debt obligations coming due totaling approximately $43.7 million.

Each BRIDGE property has dedicated replacement and operating reserves in place for eligible routine and preventative expenditures, but this is not part of S&P Global Ratings' calculated liquidity sources given certain legal and regulatory restrictions. Most properties can sustain operations beyond six months in a stress scenario of 50% rental reduction. This ensures health and quality of assets and efficient management/control of liquidity at each property. BRIDGE also maintains strong access to external liquidity, in our opinion.

Weak debt profile

BRIDGE has a relatively high leveraged position, with a consistent five-year average debt to non-sales-adjusted EBITDA ratio of approximately 23.83x, compared with a 9.29x average for U.S. public and nonprofit social housing (primarily consisting of U.S. public housing authorities). BRIDGE's 2.37x non-sales-adjusted EBITDA interest coverage is lower than that of peers (8.74x). However, about 69% of its debt is associated with soft and construction debt. We recognize BRIDGE's soft debt as subordinated debt obligations that it will have flexibility to pay 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. In addition, all construction debt must have a known takeout 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 paydown of the construction debt as BRIDGE moves to the permanent financing sources. We believe this flexibility reduces pressure in managing liquidity use. Still, we will monitor this constraint. Historically, BRIDGE has paid debt obligations in a timely manner.

Anchor, overriding factors, caps, and holistic analysis

The anchor, determined by indicative scores, weights, and rating caps, according to our methodology, is 'a+' for the ICR and debt ratings. No overriding factors or caps were applied, and we did not apply a holistic adjustment, so the stand-alone credit profile is 'a+'.

Table 2

BRIDGE Housing Corp., Calif. -- Key Ratios Peer Comparison

Entity	ICR	Average rent to market rent (%)	Vacancy rate - entity (%)	Adj. EBITDA over adj. operating revenue (%)	Debt to on-sales adj. EBITDA (x)	Non-sales adj. EBITDA to interest (x)	Liquidity (x)
BRIDGE Housing	A+	32.0	3.0	38.1	23.8	2.4	6.4
Elm City Communities	A+	48.9	10.0	16.5	8.4	8.7	2.5
Housing Catalyst	AA-	44.0	6.5	24.2	17.7	1.5	1.8
King County Housing Authority	AA	38.8	1.5	21.4	8.4	5.9	3.6
National Community Renaissance	A+	51.9	2.6	24.2	36.5	1.5	2.3
Wisconsin Hsg Pres Corp.	AA-	57.0	3.5	34.5	13.1	2.1	7.8

Related Research

- Through The ESG Lens 2.0: A Deeper Dive Into U.S. Public Finance Credit Factors, April 28, 2020

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