S&P Global Ratings

RatingsDirect®

BRIDGE Housing Corp., California; General Obligation

Primary Credit Analyst:
Aulii T Limtiaco, San Francisco + 1 (415) 371 5023; aulii.limtiaco@spglobal.com

Secondary Contact:
Ki Beom K Park, San Francisco + 1 (212) 438 8493; kib.park@spglobal.com

Table Of Contents

Credit Highlights

Outlook

Credit Opinion

Enterprise Risk Profile

Financial Risk Profile

Related Research

BRIDGE Housing Corp., California; General Obligation

Credit Profile		
Bridge Hsg ICR		
Long Term Rating	AA-/Stable	Upgraded
Bridge Hsg Taxable Bnds, Series 2020 (Sustainability Bonds)		
Long Term Rating	AA-/Stable	Upgraded

Credit Highlights

- S&P Global Ratings raised its issuer credit rating (ICR) to 'AA-' from 'A+' on BRIDGE Housing Corp. (BRIDGE), Calif., and on the corporation's debt outstanding.
- The outlook is stable.
- The rating action reflects our view of BRIDGE's improved financial performance and the corporation's debt profile, which we revised to adequate from weak, based on its proportion of debt that is considered soft.

Security

An ICR reflects the obligor's general creditworthiness and its capacity and willingness to meet financial commitments when they come due. The ICR does not apply to any specific financial obligation and does not reflect the obligation's nature and provisions, bankruptcy standing, or liquidation, statutory preferences, or legality and enforceability.

BRIDGE's bonds outstanding are backed by its general obligation, which we view as at the same level as the ICR, given that repayment benefits from revenue that we consider central to BRIDGE's purpose and covenants, which, in our view, support creditor security at the senior debt level.

Credit overview

The rating reflects 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 strong market position, low industry risk and extremely strong management and governance;
- Very strong financial risk profile supported by very strong financial performance (as measured by 42.4% adjusted EBITDA to adjusted revenue), an adequate debt profile, and extremely strong liquidity ratios (5.4x funding to cover uses); and
- Ability to generate revenue streams from in-house development and operating activities.

Environmental, social, and governance

In our opinion, BRIDGE's programs exhibit social capital opportunities reflecting its mission to strengthen communities and improve the lives of its residents, beginning with affordable housing. We think the need for affordable housing within BRIDGE's footprint, especially in California, will continue fueling demand for its programs, and this factors into our enterprise risk assessment. We believe BRIDGE's portfolio in California and Pacific Northwest may be subject to heightened environmental risk, which insurance requirements and robust liquid reserves largely mitigate. In addition, BRIDGE's diversity of citywide assets reduces the environmental risk that disruption would follow an acute event or chronic long-term climate change. Social and governance risks have neutral implications in our credit analysis.

Outlook

The stable outlook reflects our projections and expectation that 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.

Downside scenario

We could take negative rating action should our assessment of BRIDGE's financial risk profile weaken as a result of any of the following, or a combination thereof: a material decline in financial performance, deterioration in the liquidity position such that our liquidity score were lowered to strong from extremely strong, or a worsening in our view of the debt profile.

Upside scenario

We could raise our rating if BRIDGE's financial performance improved to extremely strong based on EBITDA/Adjusted operating revenue consistently exceeding 50% amid maintenance or improvement of assessments of all other key rating factors. Furthermore, we could take positive rating action if, all else equal, BRIDGE were to significantly deleverage, thereby improving our debt profile assessment to strong from adequate.

Credit Opinion

Table 1

BRIDGE Housing Corp. key rating factors

	Weighting (%)	Assessment descriptor	Numerical assessment
Industry risk	20	Very strong	2.00
Market Position	40	Very strong	2.50
Regulatory framework		Strong	3.00
Market dependencies		Very strong	2.00
Management and governance	40	Extremely strong	1.00
Enterprise risk profile		Very strong	1.80
Financial performance	33.33	Very strong	2.00
Debt profile	33.33	Adequate	4.00

Table 1

BRIDGE Housing Corp. key rating factors (cont.)

	Weighting (%)	Assessment descriptor	Numerical assessment
Liquidity	33.33	Extremely strong	1.00
Financial risk profile		Very strong	2.33

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

Enterprise Risk Profile

Industry risk: Very strong

We view industry risk for "traditional" housing providers as low (equating to an assessment of '2' or very strong) based on our "Methodology: Industry Risk" criteria, published Nov. 19, 2013, on RatingsDirect. Economic cycles can sometimes affect housing providers more than other types of social services can because real estate fluctuations can change asset valuation. Real estate markets can be overbuilt, leading to depressed occupancy rates, rentals, and property values. Despite that, residential rental markets typically pose less risk compared with other property classes (see "Key Credit Factors For the Real Estate Industry," published Feb. 26, 2018), and housing providers' focus on affordable housing typically lends further stability. Competitive risk is relatively low as a result of effective barriers to entry in many jurisdictions, minimal risk of substitution, and generally overall stable trends in growth margins.

Regulatory framework: Strong

The regulatory framework and systemic support are key when assessing housing providers' enterprise risk profile because they define the environment in which these entities operate in a particular country. In our view, these factors influence the positioning of housing providers in their respective markets and have a significant bearing on their financial results. Our analysis of the regulatory framework and systemic support reflects two main considerations: our view of the public policy mandate and regulatory mechanisms, and the systemic support or negative intervention and fiscal framework.

We view social housing providers (SHPs) as benefiting from strong public policy mandates, which account for a significant portion of the sector activities (compared with for-profit providers). These policies are subject to regular changes that can 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. Financial and operational performances are reflective of the housing providers and vary across the sector. There is no precedent of adverse negative intervention from governments or their agencies, and we do not expect this to change.

Market dependencies: Very strong

The market dependencies assessment encompasses issuer-specific features that complement industrywide and systemic regulatory risk factors in shaping an entity's position in the relevant market. This factor is intended to measure a housing provider's attractiveness, and therefore the stability and sustainability of its core rental activities, by way of two main indicators: the vacancy rate, and the average rents offered by the housing provider.

We view BRIDGE's market dependencies as very strong according to our criteria and in comparison with those of peers. BRIDGE's geographic footprint focuses on the West Coast, in the greater metro regions of San Francisco, Los Angeles, San Diego, Portland, and Seattle. As of Dec. 31, 2022, BRIDGE owned and/or operated 127 properties encompassing 13,560 units.

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. BRIDGE's average social rent is about 37% of market rent in its main region of operation, and we view this as a credit strength bolstering demand and serving its social purpose. Further supporting our market position assessment, the three-year average vacancy rate across the portfolio is 4.3%, on par with the average market vacancy rate of 4.0% in BRIDGE's geographic footprint.

Management and governance: Extremely strong

The management and governance assessment is a key component of our analysis of a housing provider's enterprise risk profile. Our assessment considers the provider's overall strategy, financial policies, long-term planning, and management expertise, especially in risks. Our assessment also measures the quality of oversight and direction of the housing provider's board, executive team, and functional managers.

We view BRIDGE's management and governance as extremely strong, as is evident in the expertise and experience of its leadership team, staff, and board; the strategic planning efforts that it makes on a regular basis; and the consistency of its strategy with operational capabilities and marketplace conditions. In the final year of its five-year strategic plan, BRIDGE is set to embark on its planning efforts in the latter half.

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. Board members serve uncompensated for three-year staggered terms with no limits on terms served.

BRIDGE's 400-plus full-time staff members are led by a senior leadership team consisting of a president/CEO, executive vice presidents--including the chief financial officer, the chief investment officer, and the head of development and Southern California--and various senior vice presidents and department heads across its three main business lines, all of whom have decades of experience in the affordable housing space. The president/CEO took the helm in 2021 after the former CEO retired, and has more than 30 years in the industry. The board and senior management have a strong working relationship, and senior management works collaboratively with regional business presidents and functional leaders in creating a cohesive and well-functioning environment throughout the organization. BRIDGE also has an informal succession plan, with oversight from the board's governance committee.

BRIDGE's financial policies and risk management standards are prudent, in our view, and 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 averse to risk. Reporting on all operating segments is regularly scheduled and posted publicly, providing high transparency.

We also believe BRIDGE is extremely effective at 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.

Financial Risk Profile

Three factors, weighted equally, constitute the financial risk profile assessment: financial performance, debt profile, and liquidity. Our financial performance and debt profile assessments typically capture a five-year average of the relevant metrics for two years of historical audited data, the current-year estimate, and two years of forecasts. The current-year estimate and the forecasts are based on our assumptions and expectations of the housing provider's forward-looking financial standing based on evolving economic and institutional conditions, discussions and information provided by management, and other considerations where applicable. The five years of financial information are generally weighted equally. For this analysis, we used audited information for fiscal years 2021 and 2022 and this fiscal year through March 31, 2023, as well as estimated figures for 2023 and forecasts for 2024 and 2025. Our liquidity assessment generally considers a forward-looking 12-month horizon.

Financial performance: Very strong

The financial performance assessment measures a housing provider's profitability, which drives its ability to provide housing services, maintain housing stock, and ultimately service debt obligations. We use adjusted EBITDA as a percentage of adjusted operating revenue to derive the initial assessment of the housing provider's financial performance. Rental revenue is the base of BRIDGE's revenue strength, accounting for approximately 75% of total revenue sources in fiscal 2022, and we view this as a credit strength compared with reliance on more risky revenue streams.

We calculated BRIDGE's five-year average EBITDA to be approximately $103.1 million and EBITDA to adjusted operating revenueratio to be 42.4%, well above the 17.6% average for all rated U.S. SHPs, including public housing authority issuers. According to our criteria, a ratio above 40% is considered very strong, while a ratio ranging from 30% to 40% is considered strong. While BRIDGE's ratio is relatively close to the 40% mark, we see ample room for volatility in financial performance at the rating.

Debt profile: Adequate

The debt profile factor measures the housing provider's ability to cover financing costs and to repay debt from the most stable revenue flows. The initial assessment is formed by debt to non-sales-adjusted EBITDA and non-sales-adjusted EBITDA interest coverage. BRIDGE's non-sales-adjusted EBITDA is the same as adjusted EBITDA for the purposes of our analysis, as the company does not generate revenue from riskier activities that we would remove from our adjusted EBITDA calculation.

BRIDGE has a relatively high leveraged position, with five-year average debt to non-sales-adjusted EBITDA of approximately 24x and non-sales-adjusted EBITDA interest coverage that averaged 1.74x for the same period. While we would typically consider this combination of ratios to be in line with a weak debt profile, and worse compared with the 13.1x and 9.31x peer averages, respectively, the ratios are significantly reduced when adjusted to remove soft debt, which makes up about 47% of BRIDGE's total debt, on average. Soft debt is generally structured with 0% or very low interest rates, due on sale or refinancing, and most of the soft debt is resubordinated with the potential for forgiveness or extensions. Soft debt is typically provided through local, state, or federal sources. We recognize BRIDGE's soft debt as subordinated debt obligations that it will have flexibility to pay off if it can generate surplus cash. We believe this flexibility reduces the pressure in managing the organization's EBITDA interest coverage and liquidity position. 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 ground-up affordable transactions requires that all financing be locked into place for the life of the tax credits to be delivered (15 years).

After adjustment for soft debt, BRIDGE's average debt to non-sales-adjusted EBITDA declines to 12.6x and its non-sales-adjusted EBITDA interest coverage (adjusted to cover interest paid instead of interest expense) averaged 12.6x and 2.4x, respectively, with removal of soft-debt-related interest. Thus, we have adjusted our debt profile assessment to adequate from weak.

Liquidity: Extremely strong

Our liquidity analysis is intended to provide a forward-looking, comprehensive assessment of a housing provider's liquidity position. It covers internal and external liquidity and is based on a two-step approach. First, calculation of internal liquidity is quantitative and provides a measurement of available cash and expected cash inflows (sources) that will be available to cover all expected cash outflows (uses) over the next 12-month period. The second step is qualitative, and further informs the initial assessment by adjusting for various credit features, where warranted, as well as for our expectation of the housing provider's access to external funding.

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 $272 million will cover uses by more than five times. This ratio could decrease if BRIDGE's expected cash generated from continuing operations were to decline, if debt payments during the next 12 months were to rise, or if cash and liquid investments were to shrink.

Table 2

BRIDGE Housing liquidity analysis	
Sources of liquidity ($000s)	271,628
Uses of liquidity ($000s)	50,125
Liquidity ratio	5.42

Each BRIDGE property has dedicated replacement and operating reserves in place for eligible routine and preventative expenditures. While we include operating reserves as a source of liquidity, replacement reserves are 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.

Anchor ratings, overriding factors, caps, and holistic analysis

The anchor rating, determined by indicative scores, weights, and rating caps, according to our methodology, is 'aa-' for the ICR and debt rating. No overriding factors or caps were applied, and we did not apply a holistic adjustment, so the stand-alone credit profile is 'aa-' and the final ICR is equal to the stand-alone credit profile at 'AA-', as we do not consider BRIDGE a government-related entity.

Table 3

Social housing providers--Comparative statistics

	ICR	Outlook	Units owned/managed	Rent to market rent (%)	Three-year avg. vacancy (%)	Most recent vacancy (%)	EBITDA/operating revenue (%)	Debt over non-sales-adj. EBITDA (x)	Non-sales-adj. EBITDA over interest (x)	Liquidity ratio (x)
BRIDGE Housing Corp.	AA-	Stable	13,560	36.8	4.3	6.3	42.4	23.3	1.7	5.4
Mercy Housing Inc.	AA-	Stable	23,722	32.2	3.0	3.0	26.6	20.9	2.9	3.4
MIDPEN Housing Corp.	AA-	Stable	8,404	44.1	2.0	2.0	39.6	20.8	2.4	2.7
National Community Renaissance	A+	Stable	7,081	51.9	2.9	2.6	24.5	38.1	1.4	2.1
Preservation of Affordable Housing	A+	Stable	12,205	23.9	3.0	3.3	26.4	22.7	1.5	3.9
Wisconsin Housing Preservation Corp.	AA-	Stable	8,406	57.0	4.4	N/A	36.1	10.2	2.6	4.2

Related Research

Through The ESG Lens 3.0: The Intersection Of ESG Credit Factors And U.S. Public Finance Credit Factors, March 2, 2022