S&P Global Ratings

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Research Update:

BRIDGE Housing Corp., CA's $150 Million Taxable Bonds, Series 2025 (Social Bonds) Rated 'AA-'

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Overview

- S&P Global Ratings assigned its 'AA-' rating to BRIDGE Housing Corp., Calif.'s $150 million taxable bonds, series 2025 (Social Bonds).
- At the same time, S&P Global Ratings affirmed its 'AA-' issuer credit rating (ICR) on BRIDGE, and its 'AA-' long-term rating on BRIDGE's outstanding debt.
- The outlook is stable.

Rationale

Security

The series 2025 taxable social bonds will be used to fund projects, projects in pre-development, and acquisitions; finance other lawful corporate purposes in line with BRIDGE's mission' and pay for the cost of issuance of the bonds. The series 2025 bonds are an unsecured general obligation of BRIDGE, and we rate the bonds equivalent to our ICR on BRIDGE.

An ICR reflects an 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 remaining 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 highlights

BRIDGE has adopted a steady growth strategy with the expectation of adding 5,100 units by 2027, and this issuance coincides with the goals of its current strategic plan. Given this strategy, BRIDGE's debt burden has increased; however, we believe any additional cost pressures will be largely offset by the increased cash flows related to the portfolio's expansion, and a robust liquidity position. Additionally, we believe BRIDGE's highly experienced management team will oversee the implementation of this strategy and provide stability to the corporation's robust financial performance. 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 strong financial performance (as measured by an average 36.4% adjusted EBITDA to adjusted revenue), a strong debt profile, and extremely strong liquidity ratios (7.5x funding to cover uses); and
- Ability to generate revenue streams from in-house development and operating activities.

BRIDGE Housing is a California nonprofit public benefit corporation that develops high-quality affordable housing for working families and seniors in the West Coast's least affordable markets. Initially founded in 1983 in California's San Francisco Bay Area, the organization has expanded significantly, and provides affordable housing options across the West Coast of the contiguous U.S., with properties in California, Oregon, and Washington. As of December 31, 2024 the organization maintains 133 properties with over 31,000 residents and assets totaling about $4.4 billion.

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 the 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 our 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, a 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 consistently improved with EBITDA/adjusted operating revenue consistently exceeding 40% and if it maintained vacancy at current or better levels than market-rate vacancies. Furthermore, we could take a positive rating action if, all else equal, BRIDGE's debt profile were to moderate over time.

Credit Opinion

Enterprise risk profile

We view industry risk for affordable housing providers, such as BRIDGE, to be low. Economic cycles can sometimes affect housing providers more 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 than other property classes, and housing providers' focus on affordable housing typically lends further stability. Competitive risk is fairly low due to effective barriers to entry in many jurisdictions, minimal risk of substitution, and overall stable trends in growth margins.

We evaluate BRIDGE's regulatory framework and systemic support as strong. 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.

We evaluate 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; Sacramento; Portland, Ore.; and Seattle. As of Dec. 31, 2024, BRIDGE owned and/or operated 133 properties encompassing 14,313 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 39.5% 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 economic vacancy rate across the portfolio is 5.7%, lower than the average market vacancy rate of 6.5% in BRIDGE's geographic footprint.

We assess 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. 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 current strategic plan runs from 2024-2027. Key goals of the plan include: 1) The creation of 5,100 affordable housing units; 2) Improved economic opportunity, housing stability, and satisfaction among residents; and 3) Increased operational efficiency and financial health through stronger property and asset management. We believe that the overarching strategy is consistent with the organization's capabilities and that BRIDGE's financial policies are well established and contain sufficient oversight and prudence. Its liquidity and debt management policies 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.

BRIDGE's 500-plus full-time staff members are led by a senior leadership team consisting of a President/CEO, COO/CFO, Chief Real Estate officer, Chief Investment Officer, 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 leaders 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.

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. Our liquidity assessment generally considers a forward-looking 12-month horizon.

We consider BRIDGE's financial performance to be strong, based on an EBITDA to adjusted operating revenues ratio of 36.4%, well above the average for all rated U.S. SHPs, including public housing authority issuers. For this analysis, we used audited information for fiscal years 2023 and 2024 and unaudited fiscal 2025 results through March 31, 2025, as well as estimated figures for 2025 and forecasts for 2026 and 2027. 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% threshold, we see ample room for volatility in financial performance at the rating. Rental revenue is the base of BRIDGE's revenue strength, accounting for approximately 76% of total revenue sources in fiscal 2024, and we view this as a credit strength compared with reliance on more risky revenue streams.

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 BRIDGE does not generate revenue from riskier activities that we would remove from our adjusted EBITDA calculation.

We view BRIDGE as having a relatively high leveraged position, with five-year average debt to non-sales-adjusted EBITDA of approximately 26.8x and non-sales-adjusted EBITDA interest coverage that averaged 1.9x for the same period. While we would typically consider this combination of ratios to be in line with an adequate debt profile, and worse compared with the 12.0x and 10.1x peer averages, respectively, the ratios are significantly reduced when adjusted to remove soft debt, which makes up about 44% of BRIDGE's total debt on average over the last five audited years. Soft debt is generally structured with 0% or very low interest rates and is 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 14.9x Thus, we have adjusted our debt profile assessment to strong from adequate.

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 $337 million will cover uses by about 7.5x. If BRIDGE's expected cash generated from continuing operations were to decline materially and if debt payments during the next 12 months were to rise materially, or if cash and liquid investments were to shrink, we could consider an alternative assessment.

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, overriding factors, caps, and holistic analysis

The anchor, 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.

BRIDGE Housing Corp., California--key rating factors

Factors*	Weighting (%)	Assessment descriptor	Numerical assessment
Industry risk	20	Very strong	2
Market position	40	Very strong	2.5
Regulatory framework		Strong	3
Market dependencies		Very strong	2
Management and governance	40	Extremely strong	1
Enterprise risk profile		Very strong	1.8
Financial performance	33.33	Strong	3
Debt profile	33.33	Strong	3
Liquidity	33.33	Extremely strong	1
Financial risk profile		Very strong	2.33

*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, summarizes how the factors are combined to derive each social-housing provider's stand-alone credit profile and ICR.

Ratings List	
New Issue Ratings	
US$150.000 mil taxable bnds ser 2025 (social bonds) due 06/29/2035	
Long Term Rating	AA-/Stable
Ratings Affirmed	
Housing	
Bridge Hsg, CA General Obligation	AA-/Stable

The ratings appearing below the new issues represent an aggregation of debt issues (ASID) associated with related maturities. The maturities similarly reflect our opinion about the creditworthiness of the U.S. Public Finance obligor's legal pledge for payment of the financial obligation. Nevertheless, these maturities may have different credit ratings than the rating presented next to the ASID depending on whether or not additional legal pledge(s) support the specific maturity's payment obligation, such as credit enhancement, as a result of defeasance, or other factors.