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Ratings

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The NHP Foundation, District Of Columbia; General Obligation

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Long Term Rating	AA-/Stable	Current

Credit Highlights

- S&P Global Ratings' issuer credit rating (ICR) on The NHP Foundation (NHPF), D.C. is 'AA-'.
- The outlook is stable.

Security

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

The previously issued series 2023 bonds are unsecured general obligations of NHPF, and no specific NHPF assets or revenues other than amounts held in certain accounts established under the bond indenture are pledged for payment of debt service. Some of NHPF's assets, including those without limitation-restricted cash, are subject to legal restrictions and are not a source of payment of debt service on the bonds.

Credit overview

The rating reflects our opinion of NHPF's:

- Extremely strong management, with an experienced and dedicated board, senior staff, and executive staff, and a detailed multiyear strategic plan with measurable goals that support its mission and reflect its values;
- Very strong enterprise risk profile, supported by our assessment of very strong market dependencies and low industry risk;
- Strong financial risk profile, characterized by a strong financial performance assessment based on average EBITDA-to-adjusted revenues ratio of 38.1% and an extremely strong liquidity assessment due to an estimate of 2.4 times liquidity sources over uses during the next 12 months; and
- Focus on low-income social housing initiatives coupled with its proven community partnerships and ability to fulfill strategic priorities that, in our view, will support fiscal and operational performance in line with the rating level through economic cycles.

The NHPF is a 501(c)(3) organization in the business of creating and preserving service-enriched multifamily affordable housing. Incorporated in the District of Columbia in 1989, NHPF and its affiliated entities serve more than

8,600 housing units across 16 states and the District of Columbia as of fiscal year-end 2023, with nearly 2,300 additional units in its development pipeline. The organization adheres to a mission of preserving and creating sustainable, service-enriched multifamily housing that is both affordable to low- and moderate-income families and seniors, and beneficial to their communities. NHPF employs approximately 76 staff across eight teams, including acquisition and development, resident services, finance, asset management, construction management, and several administrative functions. The organization provides resident services through its affiliate, Operation Pathways Inc., a certified organization for resident engagement and services (CORES) offering healthy living, financial literacy, after-school, and senior-focused programs. NHPF is led by an experienced and diversified board of trustees and a senior management team with an average of more than 27 years of experience in the affordable housing and related industries.

Environmental, social, and governance

In our opinion, NHPF's programs exhibit social capital opportunities reflecting its mission to strengthen communities and improve the lives of their residents, beginning with affordable housing. We think the need for affordable housing within the organization's footprint, especially in high-cost metropolitan areas such as New York and Washington, D.C., will continue fueling demand for its programs, and this factors into our enterprise risk assessment. We believe NHPF's portfolio in the Southeast and along the Gulf of Mexico might be subject to heightened environmental risk, which insurance requirements and robust liquid reserves largely mitigate. In addition, NHPF's geographic diversity of 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 opinion that NHPF's enterprise and financial risk profiles, based on historical and projected performance, will support the rating through the two-year outlook period. Demand for affordable housing remains extremely strong in each of the markets in which NHPF operates, supporting our expectation for strong operational performance. Finally, we expect that NHPF will continue to employ strong strategic planning processes, allowing it to maximize the impact of its business model and address affordable housing needs while also remaining financially successful. In accordance with the stable outlook, we do not expect to change the rating within the two-year outlook horizon.

Downside scenario

In the course of pursuing the active growth of its portfolio, or resulting from unforeseen financial strain, should NHPF's operating margins contract to levels consistently below 30% EBITDA-to-total revenues, or if debt ratios weaken to levels that we consider highly vulnerable so that the organization is no longer well-embedded among peers, we could consider a negative rating action. Deterioration in our assessments of liquidity and market dependencies would similarly support a negative rating action.

Upside scenario

All else equal, if NHPF improves and sustains its debt ratios at levels that we consider strong, such that the organization compares well with higher-rated peers, we could raise the rating. Improvement in the organization's debt profile, together with improvement in either market dependencies or financial performance, would similarly support a positive rating action.

Credit Opinion

The NHP Foundation, D.C.--Key rating factors

Factors*	Assessment descriptor	Numerical 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	Adequate	4
Liquidity	Extremely strong	1
Financial risk profile	Strong	2.7

*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.

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. Economic cycles can sometimes affect housing providers more than other types of social services 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, on RatingsDirect), and housing providers' focus on affordable housing typically lends further stability. Competitive risk is fairly low, in our view, due to effective barriers to entry in many jurisdictions, minimal risk of substitution, and generally overall stable trends in growth margins.

Regulatory framework: strong

We view social housing providers (SHPs) as benefitting from strong public policy mandates, which account for a significant portion of the sector activities (compared with that of 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 will change.

Market dependencies: very strong

We view NHPF's market dependencies to be very strong both according to our criteria and when compared with those of peers. NHPF's geographic footprint is diverse compared with other U.S. SHPs that we rate, including public housing authorities (PHAs), spanning 16 states. As of Dec. 31, 2023, NHPF had 8,646 units across 50 total properties and another 2,285 units across 25 total properties in the development pipeline. In our view, this volume of units and large geographic footprint reduce exposure to operating volatility, which we view as a credit strength. Similarly, NHPF's transactions are well-diversified in terms of subsidy and investor type, resident demographic, and new construction and preservation units. There is a substantial focus on social impact, as evidenced by the fact that approximately 80% of NHPF's households reported an annual income at or below 60% of area median income (AMI). Furthermore, NHPF prioritizes environmental sustainability across its portfolio and in future developments. The organization has partnered with multiple third-party entities since 2013 to implement energy efficiency and water-saving initiatives, resulting in both positive environmental impact and cost savings.

NHPF's presence in high-cost markets, combined with high standards for its developments and service offerings, help maintain very high occupancy levels, with stabilized occupancy rates across its properties consistently reported at levels above 96% in recent years, which we consider to be on par with the national average. Average social rent is approximately 36% of weighted-average market rent in the areas in which NHPF operates, translating to a very strong market dependency assessment.

Management and governance: extremely strong

We believe NHPF benefits from extremely strong management expertise and experience. The organization is governed by a 12-member board of trustees consisting of diverse and experienced individuals dedicated and committed to its mission and values. Trustees are nominated by NHPF's Nominating and Governance Committee and are then elected by a majority of trustees. Following an initial term of one year, trustees serve three-year terms. NHPF's senior management team consists of nine officers, leveraging an average of approximately 27 years of experience in affordable housing. The board and senior officers benefit from a strong working relationship, and senior management works collaboratively with vice presidents and project leaders to foster an integrated and well-functioning environment throughout the organization.

NHPF is guided by a formal five-year strategic plan, which is approved by the board of trustees and outlines specific and quantifiable operational goals. Objectives and initiatives are classified under four main themes: community impact, environmental and financial sustainability, growth, and culture. Each initiative has specific details as to "what, why, and how" it will be achieved, and key performance indicators are tracked and reported quarterly. Accordingly, we regard the organization's strategic planning process as very strong. We also believe NHPF's strategy is consistent with the organization's capabilities, while also taking marketplace conditions into account. The organization focuses on development, asset management, and resident services provided through its affiliate Operation Pathways Inc., while relying on third parties for property management of its respective projects. The organization leverages its considerable expertise and breadth in these respective areas to ensure project feasibility while coordinating a seamless process across various groups. Immense growth in the organization's asset base and projects over the past five years, including a successful navigation of the pandemic, also speak to an ability to navigate difficult marketplace conditions.

NHPF maintains a suite of policies and procedures for the range of operations and departments within the organization. Its underwriting standards and process set the criteria for and guide management in evaluating acquisition and development opportunities. These underwriting criteria set financing standards and financial return guidelines and prescribe specific oversight processes. More broadly, management maintains a set of formalized policies regarding the annual budget, financial reporting, financial review, and insurance. Finally, NHPF's many detailed risk-management policies address market, credit, liquidity, operational, cyber security, succession, regulatory, reputational, property-level, and climate change risks.

Financial Risk Profile

Three factors, weighted equally, comprise 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 comprising two years of historical audited data, the current-year estimate, and two years of forecasts. For this analysis, we used audited information for fiscal years 2022 and 2023, S&P Global Ratings-adjusted budget projections for 2024 and forecasted figures for 2025 and 2026. As part of our analysis, we moved $25.7 million in accrued interest revenue below the line in 2022 due to its one-time nature. Our liquidity assessment generally considers a forward-looking 12-month horizon.

Financial performance: strong

We regard NHPF's financial performance as strong. Rental revenues and tenant-assistance payments make up the bulk of the organization's revenue strength, comprising approximately 77% of operating revenue sources in fiscal 2023, which we view as a credit strength compared with a revenue base reliant on more risky revenue streams. We calculated NHPF's five-year average EBITDA as approximately $46.5 million in 2023, and the EBITDA-to-operating revenues ratio as 34.3%. This translated to a five-year average of 38.1%, considered strong under criteria. Management anticipates that EBITDA will strengthen in the near term while operating margins remain stable due to the active development and growth in the organization's asset portfolio. In conjunction with an expected 30% growth in the number of units over 2024 levels by year-end 2026, and a corresponding strengthening of rental revenues, we similarly expect that EBITDA and operating margins will remain strong at levels in excess of 30% in the near term and forecast period.

Debt profile: adequate

We regard NHPF's debt profile as adequate. We calculated a five-year average total debt-to-EBITDA ratio as 19.2 times and the EBITDA-to-interest coverage ratio as 1.3 times, indicating sufficient earnings to cover debt service and interest. These ratios are inclusive of debt and interest attributable to both soft debt and construction debt. If soft debt--meaning debt for which there is generally no requirement for repayment and is deferred or forgiven--is removed to only consider hard debt (debt with typical repayment schedule and requirements) and construction debt, debt-to-EBITDA is marginally lower at 17.2 times for the five-year period used in our analysis. NHPF consistently and strategically secures financing with soft-debt providers, with soft debt representing approximately 11% of total debt in fiscal 2023, while another 27% of the total represented construction debt. Soft debt is generally structured with 0% or very low interest rates due on sale or refinancing, and most is subordinated with the potential for forgiveness or extensions--providing significant flexibility to the organization and increasing surplus cash over time. NHPF management projects growth in its overall debt position in the near term as the organization actively finances development within its transactions but expects growth in operating cash flow will produce additional strengthening of debt ratios, continuing a six-year trend generally observed between fiscal years 2017 and 2022. In conjunction with these projections, and our forecasts for financial performance, we expect NHPF's debt position will remain at least stable in the near term.

Liquidity: extremely strong

We view NHPF's liquidity to be extremely strong. In our base case, during the next 12 months we estimate that sources of liquidity totaling at least $273.2 million will cover uses by 2.4 times. Liquidity sources consist of cash and liquid investments of $175.2 million, proceeds from asset sales totaling $25.8 million, and available liquidity from prior social bond issuances of approximately $72.2 million. Liquidity uses include S&P Global Ratings-calculated use of cash from operations totaling $15.0 million, working capital outflows projected to equal $15.1 million, committed capital expenditures totaling $26.3 million, and all interest and principal payable on debt obligations coming due from internal liquidity, totaling approximately $55.6 million.

At the property level, NHPF's underwriting criteria address liquidity uses for capital needs by requiring replacement reserve deposits that equal or exceed $250/unit per year and operating reserves that vary by property. On an overall basis, NHPF also maintains working capital reserves equal to at least three months' operating expenses. According to information provided by and discussions with management, we view NHPF's access to external liquidity to be satisfactory. The organization has access to several committed bank facilities from approximately 10 lenders for predevelopment, acquisition, and liquidity needs. NHPF also has strong relationships with various community development finance institutions, state agencies, nonprofits, and other investors that also provide access to liquidity.

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. No overriding factors or caps were applied, and we did not apply a holistic adjustment, so the stand-alone credit profile is 'aa-'.

Related Research

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

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