S&P Global Ratings

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NHP Foundation, District of Columbia; General Obligation

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Credit Profile		
US$75.0 mil GO bnds ser 2023 dtd 08/18/2023 due 08/18/2043		
Long Term Rating	AA-/Stable	New
NHP Foundation, The ICR		
Long Term Rating	AA-/Stable	Rating Assigned

Credit Highlights

- S&P Global Ratings assigned its 'AA-' issuer credit rating (ICR) to the NHP Foundation (NHPF), D.C.
- At the same time, we assigned our 'AA-' long-term rating to NHPF's series 2023 general obligation (GO) bonds.
- 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.

In addition, the 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 an anticipated source of payment of debt service on the bonds. No reserve fund will be established for the bonds.

Series 2023 bond proceeds are expected to total $75 million when issued and will be used to finance property-level acquisition loans, predevelopment and construction loans, and immediate property-repair loans, to refinance existing property-level loans for various affordable housing development projects incorporating resident supports and services as well as energy and water efficiency or renewable energy features, to finance additional mission-aligned uses and issuance expenses, and pay costs of issuance of 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 34.3% and an extremely strong liquidity assessment due to an estimate of 3.4 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 9,100 housing units across 16 states and the District of Columbia as of fiscal year-end 2022, with nearly 2,000 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 26 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 considered 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-to-EBITDA metric at levels that we consider strong, resulting in a very strong financial risk profile assessment, 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

Table 1

NHP Foundation -- key rating factors

Factors*	Assessment descriptor	Numerical assessment
Industry risk	Very strong	2.0
Regulatory framework	Strong	3.0
Market dependencies	Very strong	2.0
Management and governance	Extremely strong	1.0
Enterprise risk profile	Very strong	1.8
Financial performance	Strong	3.0
Debt profile	Vulnerable	5.0
Liquidity	Extremely strong	1.0
Financial risk profile	Strong	3.0

*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 due to 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 financials. 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 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 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 rent levels offered by the housing provider.

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 our rated U.S. SHPs, including public housing authorities (PHAs), spanning 16 states. As of Dec. 31, 2022, NHPF had 9,190 units across 54 total properties and another 1,983 units across 14 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 (table 2 and chart 1 below). 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 savings 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 spur very high occupancy levels, with stabilized occupancy rates across its properties, consistently reported at levels above 96% in recent years. Average social rent (i.e., average rent paid by residents) is approximately 35% of weighted-average market rent in the areas in which NHPF operates, another catalyst for the extremely strong market dependency assessment and low vacancies.

Table 2

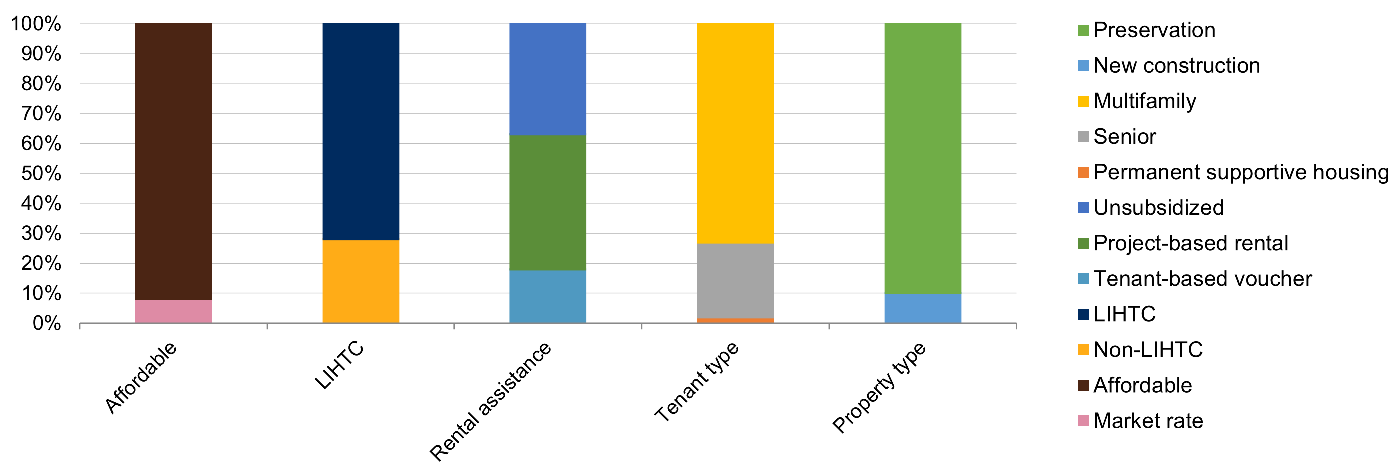
NHP Foundation -- property geographic distribution

State	Properties (No.)	Units (No.)
Connecticut	2	350
Washington, D.C.	10	1,520
Florida	4	908
Georgia	1	216
Illinois	4	305
Louisiana	2	493
Maryland	6	771
Massachussetts	2	418
Missouri	2	376
New Jersey	4	695
New York	5	1,035
North Carolina	2	260
Pennsylvania	1	304
South Carolina	1	80
Tennessee	1	96
Texas	6	1,280
Virginia	1	83
Total	54	9,190

As of Dec. 31, 2022

Chart 1

NHP Foundation -- housing transaction characteristics



Source: S&P Global Ratings.

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 the level of management expertise, especially in managing risks. Our assessment also measures the quality of oversight and direction of the housing provider's board, executive team, and functional managers.

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 26 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 2021 and 2022, S&P Global Ratings-adjusted projections for 2023 and forecasted figures for 2024 and 2025. Our liquidity assessment generally considers a forward-looking 12-month horizon.

Financial performance: strong

The financial performance assessment measures the profitability of a housing provider, which drives its ability to provide housing services, maintain its housing stock, and ultimately service its debt obligations. We use adjusted EBITDA as a percent of adjusted operating revenues to derive the initial assessment of the housing provider's financial performance. Rental revenues are the bulk of NHPF's revenue strength, comprising approximately 74.5% of operating revenue sources in fiscal 2022, 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 $45.9 million and EBITDA-to-adjusted operating revenues ratio as 34.3%--above the 32.6% average for all rated U.S. SHPs. In addition to being above average compared with rated peers, according to our criteria, we view a ratio between 30% and 40% as strong. 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 transactions. In conjunction with an expected 8% growth in the number of units by year-end 2024, 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: vulnerable

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. NHPF's non-sales adjusted EBITDA is the same as adjusted EBITDA for the purposes of our analysis as the organization does not generate revenue from riskier activities to remove from our adjusted EBITDA calculation.

We calculated NHPF's five-year average total debt-to-adjusted EBITDA ratio as 21.9 times and the adjusted EBITDA-to-interest coverage ratio as 1.7 times, indicating sufficient earnings to cover interest. These ratios translate to a debt score characterized as vulnerable, under our criteria, but they 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 19.1 times for 2022. NHPF consistently and strategically secures financing with soft-debt providers, with soft debt representing approximately 8.7% of total debt in fiscal 2022, while another 30.3% 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 five-year trend observed between fiscal years 2017 and 2021. In conjunction with these projections, and our forecasts for financial performance, we expect NHPF's debt position to remain at least stable in the near term.

Liquidity: extremely strong

Our liquidity analysis is intended to provide a forward-looking, comprehensive assessment of a housing provider's liquidity position. It comprises 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.

We view NHPF's liquidity to be extremely strong, as shown in table 3.

Table 3

NHP Foundation -- liquidity analysis	
Sources of liquidity ($000)	
Forecasted cash generated from continuing operations (if positive)	**12,642,125**
Cash reserves and liquid assets (adjusted to capture market value risk, where relevant)	163,400,000
Forecasted working capital inflows, if positive	
Proceeds from asset sale (when confidently predictable)	
The undrawn, available portion of committed bank facilities or bank lines that can be drawn	7,380,106
Expected ongoing cash injections from a government or group member as appropriate	
Other cash inflows (such as dividends from joint ventures)	
Total sources of liquidity	183,422,231
Uses of liquidity ($000)	
Forecasted cash generated from continuing operations (if negative)	
Forecast working capital outflows, if negative	10,834,857
Committed capital expenditures	4,000,000
Uncommitted capital expenditures	
All interest and principal payable on short- and long-term debt obligations coming due	38,815,375
Other cash outflows (such as investments in joint ventures)	
Total uses of liquidity	53,650,232
Liquidity ratio	3.42

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. In 2022, replacement reserve deposits across the portfolio averaged $861/unit, far above the requirement, and operating reserves averaged $284/unit. 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-'.

Table 4

Social housing providers: comparative statistics

Entity	ICR	Outlook	Units owned/managed	Rent to market rent (%)	3-yr avg vacancy (%)	Most recent vacancy (%)	EBITDA/op rev (%)	Debt over non-sales adj. EBITDA (x)	Non-sales adj. EBITDA over interest (x)	Liquidity ratio (x)
NHP Foundation	AA-	Stable	9,190	35.0	2.6	3.0	34.3	21.9	1.7	3.4
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