S&P Global Ratings

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National Community Renaissance of California; General Obligation

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US$0.0 mil ICR due 01/01/2099		
Long Term Rating	A+/Stable	New

Rating Action

S&P Global Ratings assigned its 'A+' long-term issuer credit rating (ICR) to the National Community Renaissance of California (NCRC). The outlook is stable.

The ratings on NCRC reflect S&P Global Ratings' stand-alone credit profile (SACP) of 'a+' on the company and our view that there is a no likelihood that the U.S. government would provide extraordinary support to NCRC in the event of financial distress.

Credit overview

Table 1

National Community Renaissance of California -- Ratings Score Snapshot	
Industry Risk	Very strong - 2
Regulatory Framework	Strong - 3
Market Dependencies	Very strong - 2
Management and Governance	Very strong - 2
Enterprise Risk Profile	Very strong - 2.20
Financial Performance	Adequate - 4
Debt Profile	Adequate - 4
Liquidity	Very strong - 2
Financial Risk Profile	Strong - 3.33

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

The ICR reflect our view of NCRC's strengths, including :

- A very strong enterprise risk profile, supported by our assessment of NCRC's very strong market position and low industry risk;
- A strong financial risk profile based on adequate debt profile and very strong liquidity position (2.4x more sources of funding to cover funding uses);
- A strong focus on low-income social housing activities which support our view that NCRC will maintain adjusted EBITDA over adjusted operating revenue at a level above 24% amid the continuing economic effects of the COVID-19 pandemic; and
- Our assessment of management and governance as very strong as evidenced by a senior team who demonstrates

strong leadership and organizational capabilities through strategic planning that has sustained the company's progressive mission to offer affordable housing for an underserved population throughout Southern California

NCRC is a 501(c)(3) not-for-profit entity founded in 1992, headquartered in Rancho Cucamonga. It has addressed housing social service and educational needs, along with a range of community development gaps essential to long-term personal and community growth. NCRC's portfolio consists of 77 properties, including one in Northern California and 76 in Southern California (7,081 units in total) and more than 4,100 in the development pipeline over the next 10 years.

As part of our issuer credit rating (ICR) on NCRC, we review its operations and initiatives of certain housing affiliates formed as general partners in low-income housing tax credit (LIHTC) developments because of the nature and significance of their relationship with NCRC.

The stable outlook reflects S&P Global Ratings' opinion of NCRC's very strong management, stabilized rental collection and various fee incomes through times of economic stress, and continued demand for its services from Southern California residents despite reported relatively lower rent collections as of June 2021 than in past years. We expect the organization will likely maintain very strong enterprise and strong financial risk profiles throughout the two-year outlook, supported by its diligent and thorough strategic planning process, proactive development model, and flexibility to address affordable housing needs.

Environmental, social, and governance factors

We have analyzed NCRC's environmental, social, and governance (ESG) risks relative to its market position, management and governance, financial performance, and debt/liquidity profile and have determined that all are in line with our view of the sector standard. Although most of Southern California is exposed to environmental risks, the company's diversity of assets in different locations reduces the risk that disruption would occur from an acute event or chronic long-term climate change. Furthermore, while the eviction moratorium put in place as a result of the COVID-19 pandemic may challenge rental property owners generally, the sector's strong market dependencies, which are largely countercyclical and increased municipals and federal funding support to individuals, somewhat mitigate these risks. We believe NCRC's management experience and internal and external liquidity insulate it from near-term volatility resulting from COVID-19. We believe governance risks for NCRC is in line with the sector standard.

Stable Outlook

Downside scenario

Although unlikely, a negative rating action could result if NCRC's adjusted EBITDA-to-adjusted operating revenues ratios materially deteriorate or substantial disruption or turnover in senior management positions occurs, impairing the company's ability to continue successful operations. If NCRC's liquidity ratio drops below 1.75x or adjusted EBITDA interest coverage declines below 1.25x in the forecast period, we could also consider a negative rating action. In addition, since its business model relies heavily on the local economy, government policies, and housing programs (e.g., LIHTCs), if the current external environment dramatically shifts due to, for example, external events such as a change in local or federal policy such that there are significant negative effects on NCRC's ongoing or future developments and leveraged positions, we could also lower the rating.

Upside scenario

We could raise the rating if the company can demonstrate consecutive years of improved adjusted EBITDA coverage, along with a sustained liquidity position. We also believe another key factor is its ability to leverage the needed resources to carry out its development plans, to continue to engage in business activities that provide it with diverse income sources, and to continue to implement operational and administrative efficiencies. These factors could result in a higher ICR.

Credit Opinion

Enterprise Risk Profile

In our view, the coronavirus pandemic poses a low-to-medium risk to the creditworthiness of NCRC, as the social housing sector is largely countercyclical and NCRC currently benefits from robust liquidity positions, including a $12 million available line of credit. However, we believe rental payments from tenants without government subsidies could weaken credit quality. Reduced revenues could increase debt burdens and shrink interest coverage.

NCRC's rent collections began decreasing in fiscal 2021 due primarily to tenants experiencing COVID-19-related challenges and the eviction moratorium indirectly limiting rent collections. Vacancy was 2.6% as of June 2021 with 5.1% of occupied units delinquent on rent. NCRC indicates the local counties have agreed to pay approximately $2.6 million to compensate for rent in arrears due to COVID-19. NCRC's rent was about 51.9% of market rent in the area it serves.

We assess NCRC's management and governance as very strong. A recent litigation settlement related to NCRC's board chairman has had no impact on the organization. Our assessment is supported by the experience of its leadership team and staff, as well as the periodic strategic planning efforts undertaken. We believe NCRC has measurements for each initiative, clear vision, and a strong base of community support. Its strategy has been consistent with its capabilities while considering marketplace conditions. NCRC's experienced senior leadership has a record of success in executing its plans, and monitoring and mitigating potential risks. We also believe management actively engages in cyber-risk mitigation efforts following a recent cyberattack. Its practices governing cyber security--including its ability to both protect potentially at-risk assets and data and respond to a cyberattack--align with what we typically observe among peers.

We believe NCRC's board and staff engage in a decision-making process characterized by appropriate delegation of authority. The board reviews strategic plans annually and monitors the staff's progress in achieving each goal. Board appointments and renewals are performed annually with no limitations on number of terms served. They also have a formal succession plan, administered through the board's specialized professional development program.

U.S.-based social housing providers (SHPs), like NCRC, benefit from a public-policy mandate and operate under a stable and well-established framework that makes them key providers in the sector. While there is limited standards of governance, reporting, and disclosure, there is evidence of oversight of the sector in general. Some standards of reporting and disclosure exist to ensure the long-term financial and physical health and regulatory compliance of managed portfolio.

While there are no direct and ongoing operating supports to SHPs, 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 offered to SHPs to build affordable housing. There is no precedent of adverse negative intervention from governments or their agencies, and we do not expect any during the next few years.

Financial Risk Profile

Table 2

National Community Renaissance of California -- Peer Comparison

Entity	ICR	Average rent to market rent (%)	Vacancy rate (%) - entity	Vacancy rate (%) - market participants	Adj. EBITDA over adj. operating revenue (%)	Debt over Non-sales adj. EBITDA (x)	Non-sals adj. EBITDA over interest (x)	Liquidity ratio (x)
NCRC	A+	51.9	2.9	4.0	24.2	36.5	1.5	2.3
Housing Catalyst	AA-	44.0	6.5	6.5	25.0	13.7	9.1	4.8
Philadelphia Housing Authority	AA-	36.7	6.9	1.1	28.0	2.7	62.7	2.5
Housing Authority of City of Seattle	AA	38.7	2.1	3.1	30.5	3.2	11.1	3.2

ICR--Issuer credit rating.

NCRC's operating revenue has increased over the past five years as the company successfully expanded its multiyear housing development plans around the area it serves. Following the completion of multiple projects in its pipeline that will provide both fee and cash-flow revenue, we expect an increase in net cash-flow from new developments. During the outlook period, we expect the company's financial performance will hover near 24% when measured by adjusted EBITDA-to-adjusted operating revenue.

We anticipate that NCRC will continue delivering on its development strategy resulting in an increase in total debt by approximately $62 million by 2023, further increasing an already highly-leveraged position. We anticipate that debt to non-sales adjusted EBITDA will remain consistently above 30x throughout our forecast period and interest coverage will be around 1.45x.

However, we believe its leverage position is somewhat overstated. Roughly 75% of its debt is associated with soft debt and construction loans. Soft debt is subordinate nonrecourse loans paid back from cash-flow to the extent available or net proceeds from a recapitalization or sale of the property. Debt (excluding soft debt) over adjusted non-sale EBITDA (five-year average) is lower at roughly 12.4x.

Compared to the high leveraged position, interest coverage is adequate because the required principal repayments are low given the nature of the soft debt. Annual debt payments from residual receipts are automatically deferred if the property does not produce sufficient cash flow. Construction debt has contractual and known take-outs, which are conditions that precede closing on the construction loans. We believe low annual debt service requirements and committed take-outs would reduce the pressure in managing its EBITDA interest coverage and the liquidity position.

NCRC provides completion guarantees for its own development of properties and lease-up of the projects. It has never experienced non-completion or significant completion delays; a payment under such a guarantee would result in the transfer of cash resources from NCRC from future operating cash flow under a worst-case scenario. We will monitor risk of increased indebtedness associated with its guarantees.

Our assessment of NCRCA's very strong liquidity position is based on its very high cash levels, cash provided by operating activities, an adequate amount of undrawn bank lines, and satisfactory access to the capital markets. In our base case over the next 12 months, we estimate sources of about $119.7 million will cover uses by 2.3x.

Sources of liquidity include:

- Forecasted cash generated from continuing operations of $15.2 million;
- Cash and liquid investments of $95.5 million; and
- The undrawn, available portion of committed bank facilities maturing beyond the next 12 months and which can be drawn totaling $9 million.

Uses of liquidity include:

- Expected capital expenditures of $11 million;
- Expected working capital outflows (excluding cash and liquid investments) of $17.3 million; and
- All interest and principal payable on short- and long-term debt obligations coming due of $23.6 million.

Related Research

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