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Ratings

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Wisconsin Housing Preservation Corp.; General Obligation

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Long Term Rating	AA-/Stable	Affirmed

Credit Highlights

- S&P Global Ratings affirmed its 'AA-' issuer credit rating (ICR) on Wisconsin Housing Preservation Corp. (WHPC).
- The outlook is stable.

Credit overview

Our rating on WHPC reflects S&P Global Ratings' opinion of the corporation, including low industry risk and strong financial performance, among other factors. As WHPC is a government-related entity, we evaluate the likelihood of extraordinary support as moderate, based on the combined strong link and limited importance. This results in a stand-alone credit profile rating of 'aa-'.

The rating reflects our opinion of WHPC's:

- Very strong enterprise risk profile, supported by our assessment of very strong market dependencies and low industry risk;
- Very strong financial risk profile, characterized by strong and very strong financial performance and debt profile assessments based on average EBITDA-to-adjusted revenues and total debt-to-EBITDA ratios of 30.4% and 13.41x respectively in fiscal 2021, as well as WHPC's extremely strong liquidity assessment due to an estimate of liquidity ratio of over 4 times sources over uses during the next 12 months;
- Very strong management and governance as reflected by a highly experienced management team, including an in-house asset management division and an experienced and dedicated board of directors and advisors; and
- Detailed strategic plan that outlines WHPC's mission to grow the portfolio through new development, enhance the housing portfolio's physical condition, and improve access to social services for its residents.

Founded in 2002, WHPC's mission is to preserve and develop affordable housing for low-to-moderate income tenants throughout the state of Wisconsin. WHPC's portfolio of housing comprises over 8,500 units at 400 locations, and provides homes for about 15,000 residents.

Environmental, social, and governance

We have analyzed environmental, social, and governance (ESG) risks relative to WHPC's market position, management and governance, financial performance, and debt profile and liquidity, and have determined all are in line with our view of the sector standard. Furthermore, we view social risks as neutral in our credit analysis, due to an economic occupancy rate of 94.9% in 2021, and very low delinquency rates. WHPC's portfolio is located throughout the state and reduces the risk that operations would be disrupted by a single extreme weather event. The sector's market dependencies, which are largely countercyclical and benefit from extraordinary federal/city/state government support, somewhat mitigate these risks. We have also analyzed the corporation's governance and environmental risks and have determined they are neutral.

Outlook

The stable outlook reflects our opinion of WHPC's enterprise and financial risk profiles, based on historical and projected data that indicate performance and creditworthiness will remain in line with the rating during the two-year outlook period. We expect WHPC's available funds for operations and debt service, and ability to repay debt from EBITDA, will remain stable during the outlook period.

Downside scenario

A negative rating action could result if WHPC's adjusted EBITDA-to-adjusted operating revenues ratios materially deteriorate, or substantial disruption or turnover in senior management impact the corporation's ability to continue its normal operations. If WHPC's liquidity ratio drops below 2.5x, or if adjusted EBITDA interest coverage declines below 1.75x in the forecast period, we could also consider a negative rating action. Weakening market dependencies could also lead to negative rating action.

In addition, its business model relies heavily on the local economy, government policies, and housing programs (e.g., low-income housing tax credits). Should external events such as a change in local or federal policy, supply chain issues, or labor shortages cause significant negative effects on WHPC's ongoing or future developments, or its ability to refinance its debt obligations, we could also lower the rating.

Upside scenario

We could raise the rating if the WHPC can demonstrate consecutive years of improved and consistent adjusted EBITDA, while maintaining its strong liquidity position.

Credit Opinion

Our combined assessments of the main rating factors associated with our enterprise and financial risk profiles, as shown in table 1, result in indicative assessments of very strong for both of WHPC's profiles.

Table 1

Wisconsin Housing Preservation Corp.--Main Rating Factors

Factor	Characteristic
Industry risk	Very strong
Market position - regulatory framework	Strong
Market position - market dependencies	Very strong
Management and governance	Very strong
Enterprise risk profile	Very strong
Financial performance	Strong
Debt profile	Very strong

Table 1

Wisconsin Housing Preservation Corp.--Main Rating Factors (cont.)

Factor	Characteristic
Liquidity	Extremely strong
Financial risk profile	Very strong

Enterprise Risk Profile

Industry risk--Very strong

We view industry risk for social housing providers as low (equating to an assessment of '2,' or very strong). 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. Despite these factors, residential rental markets typically pose less risk compared with 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 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 proportion of the sector activities, compared with for-profit providers. These policies are subject to regular changes that can introduce uncertainty into the framework. 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.

WHPC's market position is very strong, in our opinion, reflecting the balance of its very strong regulatory framework and systemic support with market dependencies and management and governance. According to management and its strategic plan, the organization plans to continue adding units to its portfolio and increase the number of residents served to 20,000 from 15,000. WHPC's housing portfolio is very strong, in our view, and well-diversified in terms of geographic location within the cities and counties of Wisconsin and unit type, and support from locales.

Further contributing to our market dependencies assessment is the consistent evidence of strong demand for WHPC's units. We estimate average rent to be 56% of market rent, demonstrating the corporation's commitment to providing affordable housing. In addition, vacancy at WHPC's properties has averaged 6% in 2021, which we view as good, given the diverse locations of the housing in the portfolio.

Management and governance--Very 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 housing 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 view WHPC's management and governance as strong, based on the experience and oversight provided by its management team. We met with several members of its senior management and leadership team in 2022, and discussed, among other topics, WHPC's history and background; property portfolio; asset management practices, financial results and projections, and future development plans.

WHPC is governed by a diverse board of directors, consisting of 10 board members and two advisors. The senior management team includes the president, general counsel, chief financial officer, vice president of development, and a chief operating officer. Senior management is further supported by a dedicated and knowledgeable staff of 33 employees in total at its Madison, Wisc. Headquarters.

Financial Risk Profile

Three factors, weighted equally, make up 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 making up 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 S&P Global Ratings' assumptions and expectations of the forward-looking financial standing of the housing provider 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 2020 and 2021, budgeted and estimated figures for 2022, and forecast figures and budget for 2023 and 2024. Our liquidity assessment generally considers a forward-looking 12-month time horizon.

Financial performance--Strong

The financial performance assessment measures the profitability of a housing provider, which generates its ability to provide housing services, maintain its housing stock, and, ultimately, service its debt obligations. We use adjusted EBITDA as a percentage of adjusted operating revenues to derive the initial assessment of the housing provider's financial performance.

We calculated WHPC's five-year EBITDA to be approximately $31.6 million and EBITDA-to-adjusted operating revenues ratio to be 36.1%, in line with similarly rated U.S. PHAs. WHPC's operating revenue declined slightly in 2021 to $75.89 million from $78.3 million in 2020, primarily due to increases in its maintenance and repair expenditures, many of which could not be performed in 2020 due to complications related to supply procurement and labor expense, among other factors.

Upon the completion of several projects in the WHPC development pipeline, including the Gardner Bakery site in Madison and University Gardens in Whitewater, we expect an increase in net cash flow during the two-year outlook period, with an average adjusted EBITDA-to-adjusted operating revenue of 38.4%.

Debt profile--Very strong

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. WHPC's non-sales adjusted EBITDA is the same as adjusted EBITDA for the purposes of our analysis, as the corporation does not generate revenue from property sales to remove from our adjusted EBITDA calculation. WHPC's five-year average total debt-to-adjusted EBITDA ratio is 10.2x, and its adjusted EBITDA interest coverage is 2.57x; both measures are strong compared with similarly rated peers.

WHPC has established successful relationships with 26 different community lenders to help the organization achieve its strategic goals. We understand the corporation plans to use a mix of private lenders and HUD-insured loans to facilitate renovations at certain properties in its portfolio. We are also aware that WHPC has approximately $50 million in loans and notes that will require refinancing over the next two calendar years to December 2024.

Liquidity--Extremely strong

Our liquidity analysis is intended to provide a forward-looking, comprehensive assessment of a housing provider's liquidity position. It includes 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 it 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 WHPC's liquidity to be extremely strong. In our base case, during the next 12 months, we estimate about $109.6 million will cover uses by more than 4x. This ratio could decrease if WHPC's expected cash generated from continuing operations were to decline, if cash and liquid investments on hand decrease significantly, or if debt payments during the next 12 months were to rise significantly. Liquidity sources consist of forecast cash generated from continuing operations of $17.3 million and cash and liquid investments of $92.3 million.

Liquidity uses include all interest and principal payable on short- and long-term debt obligations coming due, totaling approximately $23.1 million, and $3.2 million of forecast working capital outflow (excluding cash and liquid assets). Every property owned by WHPC also has dedicated replacement and operating reserves in place for capital repair and replacements.

Table 2

Wisconsin Housing Preservation Corp.--Peer Comparison

Entity	ICR	Outlook	Type	No. of units owned/managed	Rent to market rent (%)	Three-year average vacancy rate (%)	Management and governance score	EBITDA/ operating revenue (%)	Debt over non-sales adjusted EBITDA (x)	Non-sales adjusted EBITDA over interest (x)	Liquidity ratio (x)
Housing Authority of City of Seattle	AA	Stable	PHA	8549	37.3	2.1	1	27.4	5.2	16.3	2.8
King County Housing Authority	AA	Stable	PHA	12025	38.8	1.5	1	22.2	11	4.5	3.9
San Diego Hsg Comm	AA	Negative	PHA	2553	42.7	1.5	1	12.2	6.2	8.9	5.4
Vancouver Hsg Auth	AA	Stable	PHA	3008	44	2.3	1	20.8	15.3	2.5	2.3
Denver Housing Authority	AA-	Stable	PHA	5499	34.7	2.1	1	15.9	19	3.8	3.9
Housing Catalyst	AA-	Stable	PHA	1021	44	6.5	2	24.7	13.7	9.1	4.8
Los Angeles County Dev Auth	AA-	Stable	PHA	3229	19.1	1.3	2	10.1	0.2	35	7
Philadelphia Housing Authority	AA-	Stable	PHA	12835	36.7	6.9	2	28	2.7	62.7	2.5
Wisconsin Hsg Pres Corp	AA-	Stable	SHP	8406	57	4.4	2	36.1	10.23	2.57	4.16
Bridge Hsg	A+	Stable	SHP	11977	32	3	1	38.1	23.8	2.4	6.4
National Community Renaissance	A+	Stable	SHP	7081	51.9	2.9	2	24.5	38.1	1.4	2.1
Preservation of Affordable Hsg	A+	Stable	SHP	12205	23.9	3	1	26.4	23.9	1.3	3.9

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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