An S&P Global Second Party Opinion (SPO) includes S&P Global Ratings’ opinion on whether the documentation of a sustainable finance instrument, framework, or program, or a financing transaction aligns with certain third-party published sustainable finance principles. Certain SPOs may also provide our opinion on how the issuer’s most material sustainability factors are addressed by the financing. An SPO provides a point-in-time opinion, reflecting the information provided to us at the time the SPO was created and published, and is not surveilled. We assume no obligation to update or supplement the SPO to reflect any facts or circumstances that may come to our attention in the future. An SPO is not a credit rating, and does not consider credit quality or factor into our credit ratings. See Analytical Approach: Second Party Opinions.

Second Party Opinion

Caritas Corp.'s California Municipal Finance Authority Mobile Home Park Senior Revenue Bonds (Caritas Projects) Series 2023A

Aug. 24, 2023

Location: U.S. Sector: Real Estate

Alignment With Principles

✔ Aligned =  Conceptually aligned =  ✗ Not aligned =

✔ Social Bond Principles, ICMA, 2021

See Alignment Assessment for more detail.

Strengths

Caritas Corp. has a strong social license to operate in the communities it serves. For more than 25 years, Caritas has acquired, renovated, and operated over 30 affordable housing projects and has a track record of maintaining affordable rents while upkeeping its properties.

Regulatory oversight and regulation underscores compliance with social objectives. All of Caritas’ projects, including the proposed acquisition of the Chatsworth Project, are governed by various federal and state laws with specific requirements to set aside housing for low-income residents and maintain affordable rent levels for all residents.

Weaknesses

Reporting of mandatory social impact metrics is limited. As part of the regulatory agreement governing the Chatsworth Project, Caritas is required to report annually on certain social metrics. However, these reports are only made available upon request from bondholders and are not publicly available, which we do not view as best practice.

Areas to watch

The Chatsworth Project is subject to physical climate risks. The project is located in California, which is prone to extreme weather events and the physical impacts of climate change (such as wildfires, droughts, heatwaves, and floods) and earthquake risks. As part of its project appraisal, Caritas carries out environmental risk assessments of projects prior to acquisition. It has not found any environmental liabilities arising from the Chatsworth Project. Caritas is also required to maintain casualty insurance for the amount equal to the full replacement value of the property.
Issuer Sustainability Context

This section provides an analysis of the issuer’s sustainability management and the embeddedness of the financing framework within its overall strategy.

Company Description

Established in 1996, Caritas is a 501(c)(3) public benefit corporation based in Irvine, Calif. that provides and maintains affordable housing to residents in California and Oregon. Caritas partners with federal, state, and local municipalities to purchase, upgrade, and preserve affordable housing projects, focusing primarily on mobile home parks. Caritas’ specific mission is to provide affordable housing in a caring and vibrant environment. Additionally, through the Caritas Foundation, the organization operates a scholarship and reading program for residents and offers rental assistance to residents in need. Over the past 20 years, Caritas has issued over $270 million of acquisition finance bonds, and currently owns 29 mobile home parks and two apartment complexes across California and Oregon, with over 4,500 spaces that house over 15,000 residents.

Material Sustainability Factors

Access & affordability

Low housing stock and lack of affordable options can severely influence people’s livelihoods, especially vulnerable, low-income populations who may face the threat of homelessness. Access and affordability are especially important for residential tenants where rents can account for a large portion of incomes. Lack of accessibility and affordability of commercial properties can also hinder the sustainable growth of local communities.

Impact on communities

Properties, and by extension the owners, are inherently part of the communities in which they operate because they provide an essential service and can shape communities economically and socially. The residential sector is particularly meaningful to communities, where affordable housing and gentrification pressures can alter communities’ social fabric and can be challenging to remediate. Not-for-profit housing operators are not significantly exposed to consumer preferences as providers of safety-net accommodation; rather, we see more localized risks related to residents being opposed to public housing or negative externalities (high crime for example). Similarly, if a public housing association fails to keep its residents safe with proper housing standards, its reputation and relations with various stakeholders can be damaged, increasing risks around social cohesion and community unrest.

Physical climate risk

The geographically fixed nature of real estate assets exposes them to physical climate risks. While varying by location, these could include acute risks like wildfires, floods, and storms, which are becoming more frequent and severe, as well as chronic risks such as long-term changes in temperature and precipitation patterns and rising sea levels. Acute and chronic risks could damage properties or place tenant health and safety at risk, as well as require investments to manage potential effects or, in severe cases, relocation of tenants. The aggregate impact is moderate since the type, number, and magnitude of these risks varies by region, but highly exposed regions may be subject to material physical climate risk exposure. Most participants have some insurance coverage, but it could become more difficult to secure insurance for the most exposed assets in the future, absent adaptation.
Issuer And Context Analysis

With the acquisition of the Chatsworth Project, Caritas aims to address the issues of access and affordability and impact on communities, which we view as key sustainability factors for Caritas.

All of Caritas’ revenue and capital and operating expenditures are related to affordable housing projects in California and Oregon, mainly focusing on mobile home parks. Caritas aims to lessen the financial burden of its residents by investing to improve its existing mobile home parks and controlling space rents. For the last several years, residents of mobile home parks have come under pressure as private investors and corporations have purchased parks and subsequently raised space rents to unaffordable levels. Access to affordable housing is limited to many low- and moderate-income Americans and mobile home parks are one of the few housing options this population has. Therefore, the preservation of these parks plays a critical role in addressing the shortage of affordable housing. Caritas is one of a few nonprofit organizations dedicated to maintaining the stock of affordable mobile home parks in the communities it serves.

Caritas is committed to supporting communities by partnering with federal, state, and local governments to acquire, develop, and improve affordable housing stock. We believe Caritas has become an integral part of maintaining the social fabric of the communities in which it operates. Caritas’ nonprofit status and the regulatory oversight it has as a tax-exempt bond issuer help translate local government objectives to maintain affordable housing into more predictable operating environments for the issuer and its stated social mission. Caritas has a successful track record complying with the occupancy and affordability requirements of the affordable housing projects it owns and operates, which are consistent with its regulatory agreements and various federal and state governing laws.

Physical climate risk is a key sustainability issue for providers of affordable housing, especially those operating in California, a region prone to extreme weather events and the physical impacts of climate change. Caritas maintains casualty insurance for the amount equal to the full replacement value of the property, and flood insurance, where appropriate. Caritas conducts environmental impact assessments prior to acquisitions to help mitigate other environmental risks.
Alignment Assessment

This section provides an analysis of the framework's alignment to Social Bond principles.

Alignment With Principles

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✔ Social Bond Principles, ICMA, 2021

✔ Use of proceeds

We consider the transaction’s social project category aligned and the issuer commits to allocate the net proceeds issued under the transaction exclusively to eligible social projects. Please refer to the Analysis of Eligible Projects section for more information on our analysis of the social benefits of the expected use of proceeds.

✔ Process for project evaluation and selection

The process for project evaluation and selection of Caritas’ affordable housing projects are clearly described in the preliminary offering statement (POS) and governed by various regulatory agreements that stipulate that key requirements must be met for the issuer’s mobile home parks to qualify as affordable housing. Caritas must adhere to these requirements to maintain its tax-exempt status on the bonds. These requirements include the federally established “20-50” test, whereby at least 20% of units are set aside for low-income households. Low income is defined as incomes that do not exceed 50% of an area’s median income (AMI).

The POS includes an overview of how environmental and social risks are identified. Environmental site audits are conducted prior to the acquisition of a mobile home park, which ensures environmental risks, if any, are identified. Additionally, the regulatory agreements address the management of associated social risks, such as maintaining affordability for the mobile homeowners and specifying that property managers must have relevant experience with similar projects and have no prior violations of discrimination.

Finally, the POS identifies internal bodies responsible for project selection, which we view as a strong practice.

✔ Management of proceeds

The POS clearly details the management of proceeds of Caritas Corp.’s California Municipal Finance Authority Mobile Home Park Senior Revenue Bonds (Caritas Projects) Series 2023A bonds (series 2023A). Caritas will deposit bond proceeds in segregated accounts that are held by a designated trustee. These funds are subject to a clear set of covenants which ensure the funds are allocated to their designated purposes, which we believe limits any potential leakage of proceeds. Furthermore, the trust indenture stipulates that unallocated proceeds can only be invested in permitted investments, which include direct obligations of the U.S. and ‘AAA’-rated money market securities.

✔ Reporting

The POS includes a requirement to report annually on the allocation of proceeds until debt maturity. An independent third-party auditor will verify the allocation reporting post issuance.

As part of the regulatory agreements governing the Chatsworth Project, Caritas is required to report on certain social outcomes, including occupancy levels and income thresholds of households. We note, however, that impact reporting is only made available to bondholders upon request, which is not a best practice.

Finally, impact reporting does not include the key underlying methodologies and assumptions used to calculate quantitative performance measures nor does it disclose expected impacts of projects financed, both of which we recognize as industry best practices.
Analysis Of Eligible Projects

This section provides details of our analysis of eligible projects considered to have clear social benefits and to address or mitigate a key social issue.

Caritas expects to allocate 100% of the net proceeds from the series 2023A bonds to finance the Chatsworth Project.

The eligible assets will include assets for which Caritas has commenced operations or placed-in-service prior to the applicable social financing, unless otherwise noted in the respective financing documents.

Social project categories

Affordable Housing

Caritas will allocate the net proceeds of the 2023A bonds exclusively toward financing the Chatsworth Project, a 198-space mobile home park constructed in 1966 on 21.9 acres of land in Los Angeles. Specifically, Caritas will use the net proceeds to finance the acquisition, development, and improvement of the Chatsworth project (approximately $23 million), fund a debt service reserve fund (approximately $1.7 million), and cover transaction costs (approximately $800K). The Chatsworth Project shares similar characteristics to other affordable housing projects Caritas owns that support its mission to preserve the affordable housing stock for low- and moderate-income residents in California and Oregon. The transaction is a tax-exempt, affordable housing issuance governed by a regulatory agreement between Caritas and the California Municipal Finance Authority. The regulatory agreement stipulates certain requirements Caritas must adhere to regarding reserving spaces for low-income residents and maintaining the affordability of space rental fees.

Analytical considerations

- We believe the Chatsworth Project supports Caritas’ goals of addressing the need of affordable housing in the communities it serves. The project’s specific requirements for low-income tenant occupancy and controlled rents help to ensure that the housing remains affordable and accessible to target populations in the Los Angeles area.

- We believe utilizing AMI, a metric determined by the Secretary Treasury of California, is a best practice when defining low-income target populations. At least 20% of units at the Chatsworth Project will be set aside for low-income households, with low income being defined as incomes that do not exceed 50% of AMI. Caritas also utilizes multiple AMI brackets within its mobile home parks to avoid income segregation, a common social risk associated with affordable housing.

- The regulatory agreements address the management of associated social risks, such as maintaining affordability for mobile homeowners and specifying that property managers must have relevant experience with similar projects and no prior violations of discrimination.
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