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Second Party Opinion

Caritas Affordable Housing Calif. Mobile Home Park Senior Revenue Bonds Series 2024A

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Location: U.S.

Sector: Real estate

Alignment With Principles

Aligned = ✓ Conceptually aligned = ○ Not aligned = ✗

✓ Social Bond Principles, ICMA, 2023

See [Alignment Assessment](#) for more detail.

Strengths

Caritas Affordable Housing Inc. (CAH) has a strong social license to operate in the communities it serves. For more than 25 years, CAH and Caritas Corp. have acquired, renovated, and operated 31 affordable housing projects and have a track record of maintaining affordable rents while upkeeping their properties.

Regulatory oversight and regulation underscores compliance with social objectives. All of CAH's projects, including those funded by the series 2024 bonds, 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. CAH is required to report annually on certain social metrics by regulation. 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

CAH's projects are subject to physical climate risks. The projects are in California, which is prone to extreme weather events, and the physical impacts of climate change (such as wildfires, droughts, heat waves, and floods) and earthquake risks. As part of its project appraisals, CAH carries out environmental risk assessments and maintains casualty insurance for its properties. CAH has not found any environmental liabilities arising from the CAH projects. While we believe these measures help address some environmental risks, they do not mitigate the potential physical risks of CAH's properties and its residents.

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 1998, CAH is a 501(c)(3) public benefit corporation based in Irvine, Calif. Along with its sister organization, Caritas Corp., it provides and maintains affordable housing to residents in California. CAH partners with federal, state, and local municipalities to purchase, upgrade, and preserve affordable housing projects, focusing primarily on mobile home parks. CAH's specific mission is to provide affordable housing in a caring and vibrant environment. Additionally, through the CAH Foundation, the organization operates a scholarship and reading program for residents and offers rental assistance to residents in need. Over the past 20 years, CAH and Caritas Corp. have issued over \$286 million of acquisition finance bonds, and currently own 31 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 and affordability

Low housing stock and lack of affordable options can severely influence livelihoods, especially for vulnerable, low-income populations that may face the threat of homelessness. These factors 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 they operate in because they provide an essential service and can shape communities economically and socially. The residential sector is particularly vital to communities, where affordable housing and gentrification pressures can alter the social fabric of communities 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 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

The transaction's eligible project categories aim to address the impact of access and affordability on communities, which we view as key sustainability factors for CAH. In our view, physical climate risk is a relevant consideration because the issuer's assets are exposed to extreme weather risks, which could potentially impair operations directly and indirectly.

All of CAH's revenue and capital and operating expenditures are related to affordable housing projects in California, mainly focusing on mobile home parks. CAH aims to lessen the financial burden of its residents by investing in 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 purchase parks and subsequently raise 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 left for this population. Therefore, preserving these parks plays a critical role in addressing the shortage of affordable housing. CAH is one of a few nonprofit organizations dedicated to maintaining the stock of affordable mobile home parks in the communities it serves.

CAH is committed to supporting communities by partnering with federal, state, and local governments to acquire, develop, and improve affordable housing stock. We believe CAH has become an integral part of maintaining the social fabric of the communities in which it operates. CAH's 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. CAH 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 affordable housing providers, especially in California, a region prone to extreme weather events and the physical impacts of climate change. CAH maintains casualty insurance for the amount equal to the full replacement value of the property and flood insurance where appropriate. CAH also conducts environmental impact assessments prior to acquisitions. While we believe these measures address some environmental risks, they do not mitigate the potential physical risks of CAH's properties and its residents.

Alignment Assessment

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

Alignment With Principles

Aligned = ✓ Conceptually aligned = ○ Not aligned = ✗

✓ Social Bond Principles, ICMA, 2023

✓ Use of proceeds

The transaction's social project category is considered 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 CAH's affordable housing projects are clearly described in the preliminary offering statement (POS) and governed by various regulatory agreements that stipulate the key requirements for the issuer's mobile home parks to qualify as affordable housing. CAH 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 acquiring a mobile home park, which identifies environmental risks, if there are any. 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 the bonds. CAH will deposit bond proceeds in segregated accounts that are held by a designated trustee. These funds are subject to a clear set of covenants that 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 investment-grade 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 projects, CAH 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.

The issuer expects to allocated most of the proceeds to refinancing mobile home projects, with the rest financing capital projects at existing mobile home parks.

Social project categories

Affordable Housing

Proceeds of the series 2024 bonds will refund the entirety of CAH's series 2014 A and B bonds, fund the series 2024 improvement project bonds for capital improvements at existing mobile home parks, fund the series 2024 construction project bonds to finance the construction of new facilities at a mobile home park, and fund a debt reserve fund, capitalized interest, and costs of issuance.

Analytical considerations

- CAH originally used proceeds of the series 2014 A and B bonds to finance and refinance the costs of acquiring and improving certain mobile home park facilities it owned and operated in California. The original principal amounts of the series 2014 A and B bonds were \$73.8 million and \$11.3 million, respectively.
- The series 2024 improvement project refers to certain capital improvements to the series 2014 projects, including replacing asphalt. Spending on the capital improvement projects is permissible because the properties are part of CAH's affordable housing portfolio and directly contributes to the quality of living for CAH residents. The series 2024 construction project refers to a new construction within CAH's existing Estrella de Oro project in Vista, Calif. The project is estimated to have a budget of \$11 million with completion by December 2026.
- We believe the series 2014 projects, series 2024 improvement project, and series 2024 construction project support CAH's goals of addressing the need of affordable housing in the communities it serves. The projects' specific regulatory requirements for low-income tenant occupancy and controlled rents help to ensure that the housing remains affordable and accessible to target populations in the state of California.
- 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 series 2014 projects and the series 2024 construction project will be set aside for low-income households, with low income defined as incomes that do not exceed 50% of AMI. CAH also uses multiple AMI brackets within its mobile home parks to avoid income segregation, a common social risk 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.

Related Research

- [Analytical Approach: Second Party Opinions: Use Of Proceeds](#), July 27, 2023
- [FAQ: Applying Our Integrated Analytical Approach For Use-Of-Proceeds Second Party Opinions](#), July 27, 2023

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