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S&P: Strong Management Continues To Determine Performance For U.S. Rental Housing Bonds

Overview

The demand for U.S. rental housing–across all price ranges–regained its footing in 2021 after a year of suppressed demand and general upheaval during the first year of the pandemic. The need and demand for affordable rental housing units remains a challenge across the country. The loss of low-cost rental units is making it even more difficult for moderate- and low-income households to find viable housing options. Federal funding, including aid to both renters and landlords, provided significant support, albeit not without distribution hiccups, and the eviction moratorium helped prevent widespread evictions and delinquent bills. However, inflation, increased expenses related to health and safety supplies and processes, higher labor costs and labor shortages, and supply chain interruptions have taken a toll on many U.S. rental housing bond properties. Financial results in 2021 for the 35 S&P Global Ratings' ratings on affordable age-restricted and mobile home park stand-alone rental housing bond (RHB) transactions show, on average, weaker debt service coverage (DSC) ratios compared with the previous year. In contrast, financial and operational performance, on average, for the 30 Section 8 ratings and six unenhanced affordable transactions showed improvement, as evidenced by an increase in average DSC and slight strengthening to overall occupancy rates for the portfolios, but challenges related to deferred maintenance and environmental hazards remain.

The rated universe of non-military stand-alone RHB transactions shrunk to 71 ratings as of April 2022, down from 110 a year ago. During the past year (April 2021 through April 2022), there were 39 rating withdrawals across 29 transactions, compared with 24 withdrawals across 17 transactions for the same period the previous year. In both years, some withdrawals were due to refinancing and defeasance, but many, particularly for age-restricted and Section 8 transactions, were due to poor financial and operating performance, non-payment and payment defaults, and information quality and reliability issues with management and governance to the extent that we could no longer maintain the ratings. This report provides more detail to how each property type subsector performed during the past year, and what we expect in the coming year.

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