CELEBRATING TEN YEARS OF STRENGTH MATTERS

Strength Does Matter!

Introduction

The vision of STRENGTH MATTERS® is a thriving, well-capitalized, high-performing nonprofit affordable housing sector. Our mission is to be a unique information resource for nonprofit housing enterprises to improve their financial strength and gain greater access to capital.

Started ten years ago with a desire to build the strength and sustainability of the nonprofit affordable housing sector, the Strength Matters collaborative – three national networks of nonprofit owners and developers in the affordable housing field: Housing Partnership Network (HPN), NeighborWorks America (NWA) and Stewards of Affordable Housing for the Future (SAHF) – has developed and built consensus on a range of sector-wide accounting and underwriting principles as well as practices supporting transparency in financial reporting.

Today the nonprofit affordable housing member organizations of these three networks own more than 368,000 units of affordable housing compared to approximately 250,000 units ten years ago. As we've grown, so has the need for affordable housing across the country. According to the National Low Income Housing Coalition's 2017 *Out of Reach* report, only 35 affordable and available rental homes exist for every 100 extremely low-income renter households (e.g. incomes below 30% AMI) and only 55 affordable and available rental homes exist for every 100 very low-income renter households (e.g. incomes between 31% - 50% AMI).

As Strength Matters celebrates its ten year anniversary, we were interested in exploring how our members have grown, if their organizations were stronger financially, and how the information resources and programming offered by Strength Matters had supported their missions and the growth of their businesses. The intent of this survey was to take a first look at these questions with a limited sample size in the hope that it would inform future Strength Matters work.

What We Learned

Survey results for the responding organizations clearly indicate considerable growth over the last ten years and a significant strengthening of their balance sheets that was driven by revenue growth and improved operating margins. Respondents also commented that Strength Matters has "helped standardize our practices and reporting with others in the industry and raised our knowledge level across financial accounting and reporting."

Survey Results

Survey participants were asked to provide data on the size of their multifamily portfolios in 2006 and 2016 and the changes that have occurred in their financial positions and operating results between 2006 and 2016. Data was collected from audited financial statements on a consolidated basis and at the enterprise level.

Sixteen organizations[1] from across the country, with multifamily housing portfolios that ranged in size from 1,000 to 12,000 units in 2016, completed the survey. While the number of groups responding to the survey was small relative to the total number of members in the three networks (e.g. 16 respondents vs. 277 members in the three networks), these sixteen groups accounted for approximately one-quarter of all units owned by network members in 2016 (see table below).

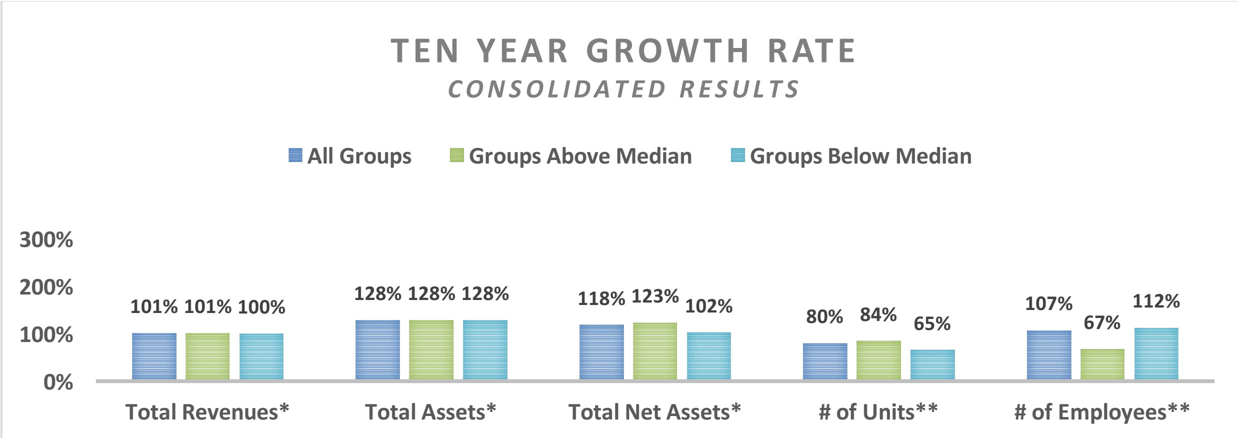
SUMMARY DATA – 16 RESPONDENTS	2006	2016
# Multifamily Units Owned/Controlled		
Total	**47,515**	**85,395**
Lowest	599	1,024
Highest	8,456	12,000
Median	2,455	4,594
# of Units Developed Over the 10 Year Period	**16,427**	
# of Units Acquired/Preserved Over the 10 Year Period	**23,267**	
Consolidated Total Revenues	**$455 million***	**$913 million**
Consolidated Total Assets	**$4.2 billion***	**$9.6 billion**
Total # of Employees	**1,994**	**3,455**

*Either 2006 data or data from the year in which the organization first started to consolidate its financial results.

What the Data Tells Us

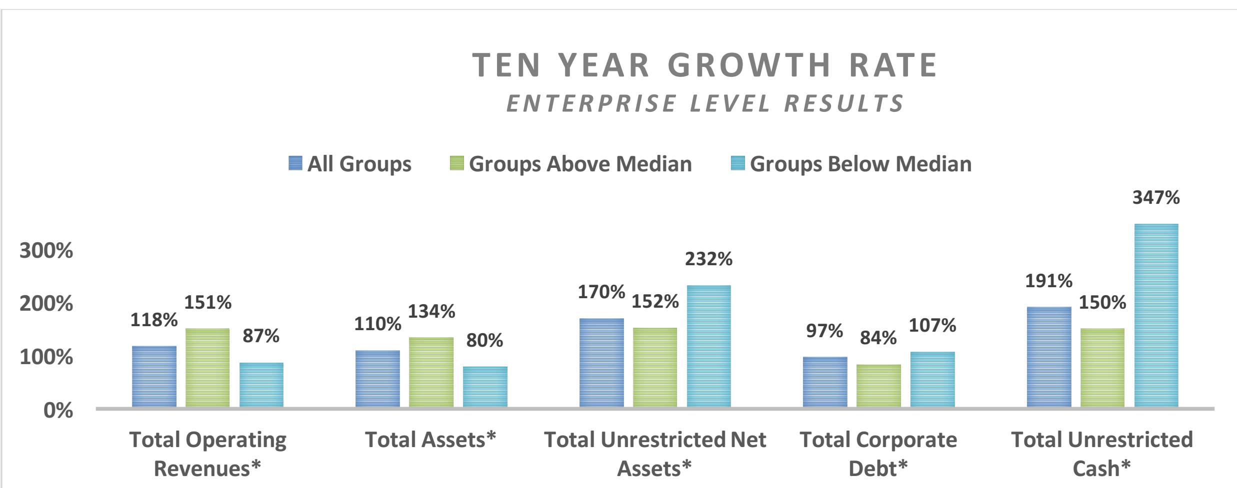
As the following charts will show, growth occurred in all categories measured at both the consolidated level and the enterprise level. While respondents submitted both consolidated and enterprise level financial results, more detailed data was collected at the enterprise level to evaluate core company strength, which is the focus of Strength Matters. Results below are presented for the total sample and then disaggregated for groups that were above and below the median for total number of units owned in 2016 (i.e. 4,594 units) to determine if there were differences in results based on the size of the organization.

[1] Responding organizations are listed at the end of this report.



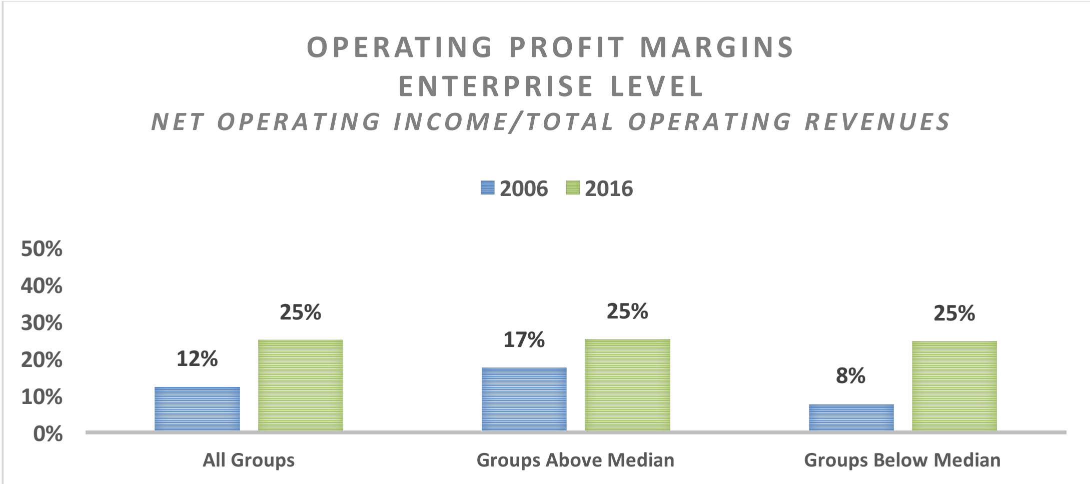
*Growth rate calculated using change in averaged results of all respondents
**Growth rate calculated using change in totals reported by all respondents

On a consolidated basis, all groups more than doubled in size. Growth rates in key financial measures (e.g. total revenues, total assets and total net assets) were similar for all groups. However, there was more variation in growth rates for # of units and # of employees between above- and below-median groups. For above-median groups, the growth rate for number of units was 84% while the growth rate for employees was only 67% suggesting there were some efficiencies of scale for larger groups. Conversely, for the below-median groups, total units increased 65% while total employees increased 112% suggesting that smaller groups were building staff capacity to manage their portfolio growth.

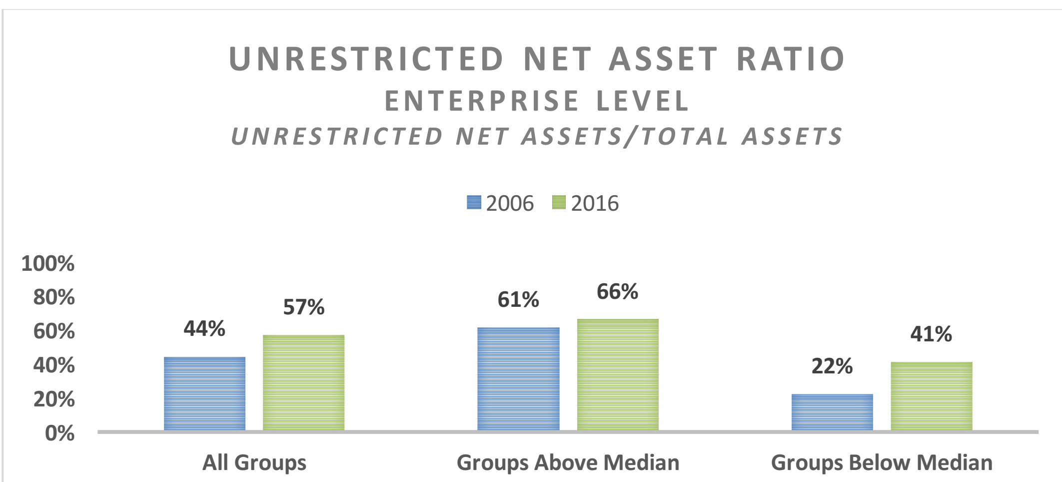


*Growth rate calculated using change in averaged results of all respondents

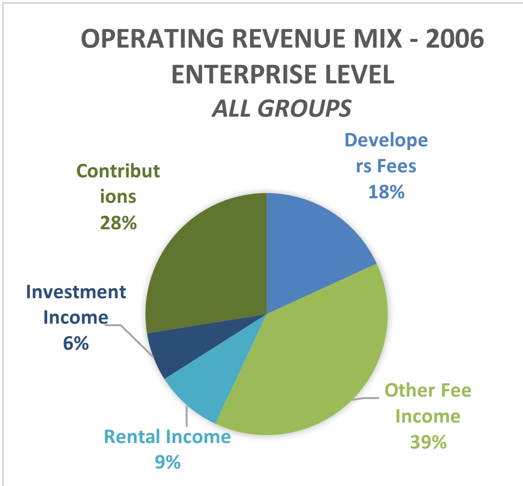
Significant growth occurred at the enterprise level as well, including impressive growth in unrestricted net assets and unrestricted cash, particularly for the below-median groups. The growth in unrestricted net assets resulted in a stronger capital base for these organizations.

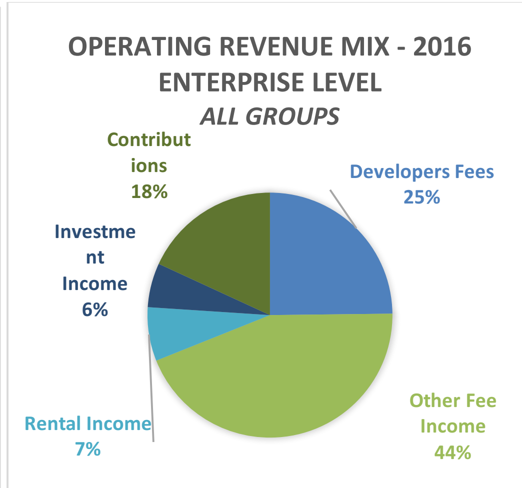


The growth in unrestricted net assets at the enterprise level was fueled by revenue growth and improved operating margins, particularly for the below-median groups. Over the ten year period, total operating revenues for all groups grew at a faster pace than operating expenses (operating revenues grew at a compound annual growth rate (CAGR) of 8.1% compared to a 6.4% CAGR for operating expenses).

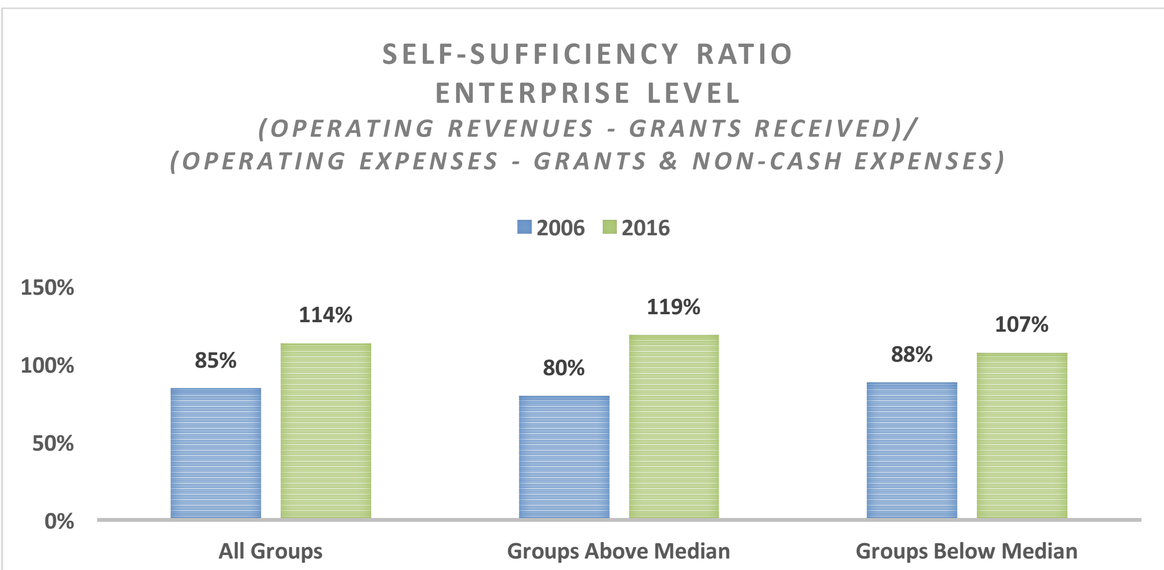


Unrestricted net assets as a percentage of total assets at the enterprise level were very strong for all groups by 2016, suggesting conservative financial management to build up internal resources for future growth and minimize the amount of corporate borrowing. The change for below-median groups was most dramatic with their unrestricted net assets growing from 22% of total assets in 2006 to 41% of total assets in 2016.



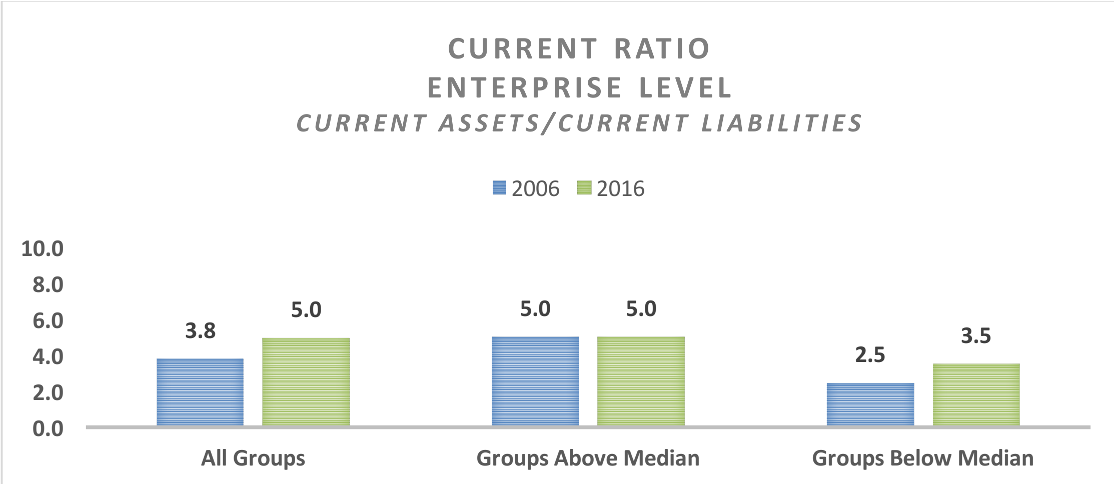


The mix of revenues at the enterprise level changed over the ten year period. By 2016 there was less reliance on contributions to fund operations. While contributions had been 28% of total operating revenues in 2006, this source of revenue only represented 18% of total operating revenues in 2016. Growth in developer fees and other fee income[2] remained the two primary components of earned revenues (57% in 2006 and 69% in 2016).

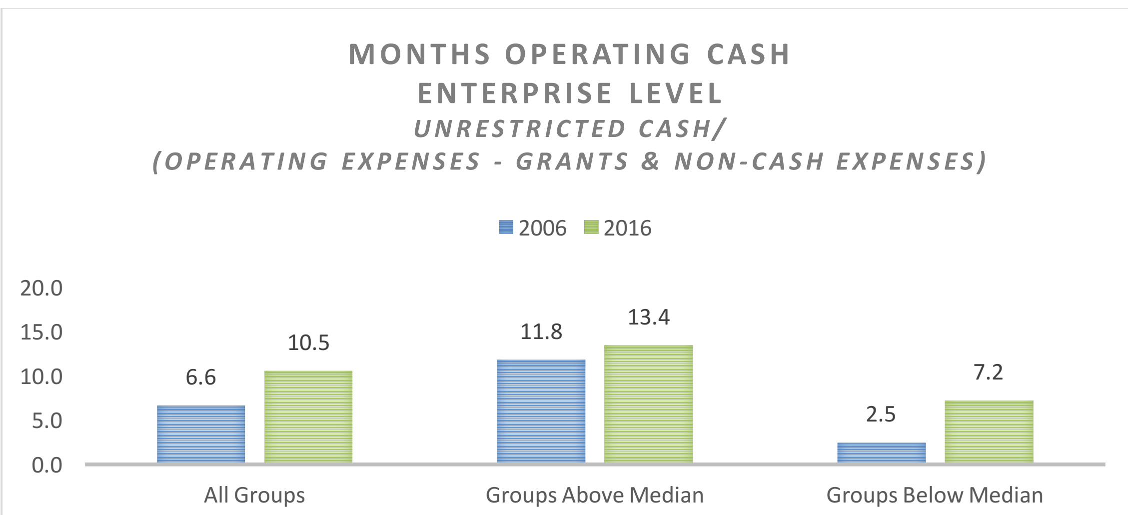


Higher levels of earned income resulted in improved self-sufficiency rates, particularly for below-median groups, demonstrating more resilient sources of revenue.

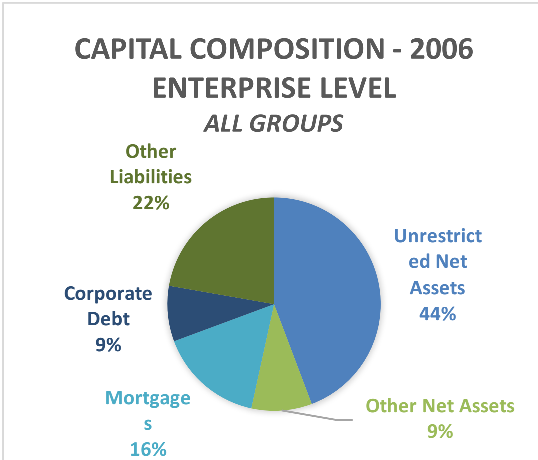
[2] The components of other fee income varied by respondent. Examples of revenues included in this category were asset management and property management fees, government contracts, fees for resident services, and deferred developer fees.

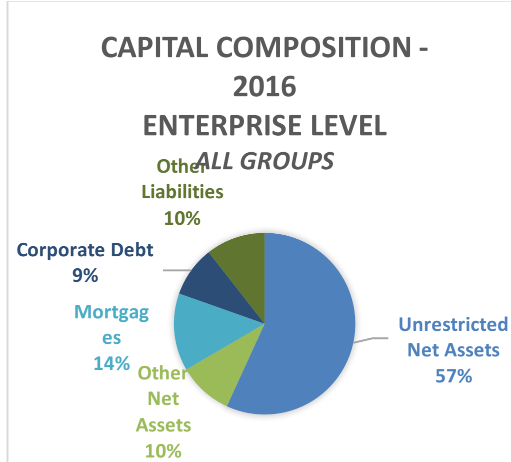


Liquidity also improved, which is reflected in stronger current ratios for all groups, and in particular below-median groups. Contributing to this positive trend was the growth in unrestricted cash at the enterprise level, which ranged from 150% for above-median groups to 347% for below-median groups.

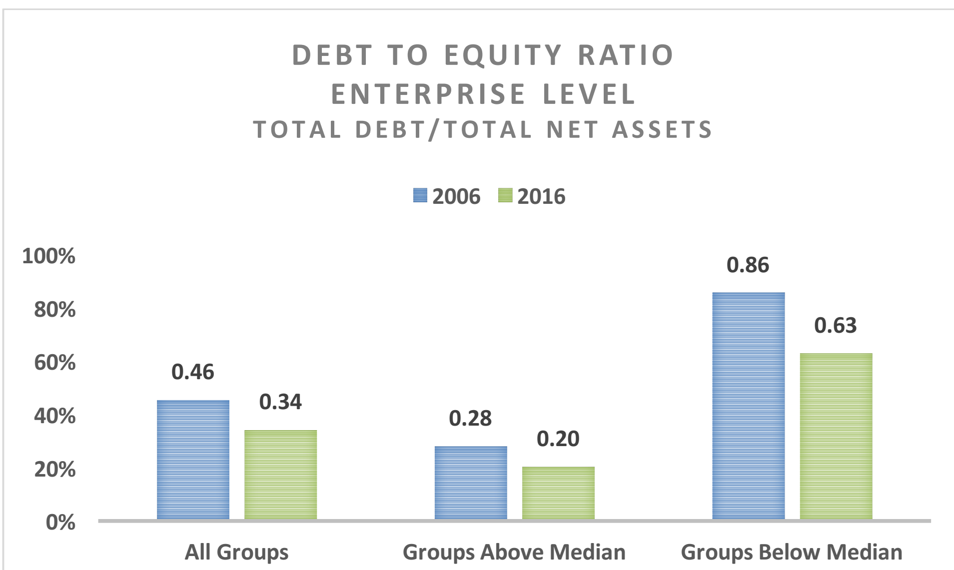


An additional benefit from the build-up of unrestricted cash was larger cash reserves to provide an operating cushion. This is reflected in the improvement of the Months Operating Cash ratio, particularly for the below-median groups.





Over the last ten years, there has been a significant strengthening of the respondents' capital structures at the enterprise level as total net assets grew to 67% of total assets by FYE 2016 compared to 53% at FYE 2006. Total debt (including corporate debt and mortgages on wholly-owned properties) remained a relatively small portion of overall capital composition (25% at FYE 2006 and 23% at FYE 2016) suggesting a conservative approach to capital utilization.



The improvement in net assets at the enterprise level, and declining debt as a percentage of total assets, during a time of growth in total assets resulted in declining leverage positions for the respondents, most notably for the below median groups.

The Road Ahead

The survey data reveals strong performance for our industry over the past ten years, despite the adverse impact of the recession. We know those years were full of challenges – but by every measure - unit growth, net asset growth, liquidity, profit margin and leverage ratios, our sample organizations have grown and financial ratios have improved. We see high margins, low leverage and good liquidity in the reporting group.

Although not an apples-to-apples comparison, it is interesting to note that the S&P 500 quarterly profit margin hovered at 10.8%[3] in 2006 and in 2016 with dips to 3% range during the recession. For the same period, this sample of our industry had operating margins that registered at 12% on average in 2006 and 25% in 2016. Long term debt to equity ratios of the S&P 500 registered at .86 at year end 2016, while our sample was at .34. Liquidity ratios for our sample, averaged 3.8 in 2006 and averaged 5.0 at year end 2016 versus an S&P liquidity ratio of 1.1 in Q4 2016.

The genesis of Strength Matters was inspired by the MacArthur Foundation's Window of Opportunity program for the preservation of affordable housing. Through this program, the foundation offered flexible, patient, and low-cost capital to a group of nonprofit housing developers[4] at the enterprise level believing that this type of capital would help to support the long term sustainability of these organizations. The results of this survey support that premise. Providing nonprofit affordable housing organizations with capital at the enterprise level, in addition to traditional project-level financing, is a model that Strength Matters subscribes to and hopes to see from more lenders and investors in the future.

As we look to the future, what kinds of questions arise from this data? Are we using our balance sheets effectively? What is the right level of liquidity? Are we taking enough risk in the service of our missions? The challenge ahead lies in finding the answers to these questions as we continue to expand our reach and remain a well-capitalized and high-performing nonprofit affordable housing sector.

[3] Source of all quoted S&P 500 ratios is from Yardeni Research, Inc.
[4] Two of the organizations that participated in this survey were recipients of program-related investments through the Window of Opportunity program.

Acknowledgements

Strength Matters would like to thank the following organizations and individuals that contributed to the survey and the content of this paper.

RESPONDENTS

BRIDGE Housing Corporation	San Francisco, CA
Capitol Hill Housing	Seattle, WA
CommonBond Communities	Minneapolis, MN
DHIC, Inc.	Raleigh, NC
Eden Housing, Inc.	Haywood, CA
Foundation Communities, Inc.	Austin, TX
Jamboree Housing Corporation	Irvine, CA
MidPen Housing Corporation	Foster City, CA
Montgomery Housing Partnership, Inc.	Silver Spring, MD
Mutual Housing California	Sacramento, CA
Nevada H.A.N.D., Inc.	Las Vegas, NV
The NHP Foundation	New York, NY
Preservation of Affordable Housing, Inc.	Boston, MA
Self-Help Enterprises	Visalia, CA
Tenderloin Neighborhood Development Corporation	San Francisco, CA
Wesley Housing Development Corporation	Alexandria, VA

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