FitchRatings

RATING ACTION COMMENTARY

Fitch Affirms Lifespace Community, Inc., Upgrades Querencia at Barton Creek (TX)

Tue 21 Sep, 2021 - 12:33 PM ET

Fitch Ratings - New York - 21 Sep 2021: Fitch Ratings has affirmed the 'BBB' rating on the following bonds recently issued on behalf of Lifespace Communities, Inc. (Lifespace, collectively the series 2021 transaction):

--$73.650 million Iowa Finance Authority (IFA) revenue bonds, series 2021A;
--$30.0 million IFA revenue bonds, series 2021B;
--$16.715 million Palm Beach County Health Facilities Authority (PBCHFA) revenue bonds, series 2021C.

Fitch has also affirmed the 'BBB' rating on approximately $449.1 million of bonds previously issued through various authorities on behalf of Lifespace, and Lifespace's 'BBB' Issuer Default Rating (IDR).

Fitch has also upgraded approximately $44.7 million of series 2015 retirement facility revenue bonds issued by the Tarrant County Cultural Education Facilities Finance Corporation on behalf of Querencia at Barton Creek (Querencia) to 'BBB' from 'BBB-', and removed these bonds from Rating Watch Positive.

The Rating Outlook is Stable.

SECURITY

The bonds are secured by a pledge of unrestricted receivables of the obligated group (OG) and a mortgage interest in certain property.

There were two changes to the Lifespace OG that happened concurrently with the series 2021 transaction. Querencia joined the Lifespace OG with the issuance of the series 2021 bonds. In addition, on Aug. 1, 2021, Lifespace transitioned ownership of Deerfield Retirement Community and Grand Lodge at the Preserve to Immanuel (AA/Stable). Grand Lodge exited the Lifespace OG upon the ownership transition.

Please see the Analytical Conclusion and Credit Profile below for further discussion of these changes to the Lifespace OG.

ANALYTICAL CONCLUSION

The 'BBB' rating reflects the expected resilience of Lifespace's financial profile through Fitch's forward-looking scenario analysis, within the context of the strength of Lifespace's business profile. The profile is characterized by very strong revenue defensibility, as one of the largest and most geographically diverse not-for-profit LPC providers in the nation, and midrange operating risk, with operating and capital metrics consistent with a midrange assessment for a predominantly type-A (lifecare) provider.

Lifespace's debt burden remains high and its cash-to-adjusted debt relatively low for the rating category, which is primarily a consequence of the additional borrowings it has transacted to finance its substantial campus redevelopment plan, which has been ongoing since 2016. Despite Lifespace's significant core credit strengths and Fitch's expectations that its substantial capex will be strategically and financially accretive to the organization once the projects mature, it is Lifespace's high debt burden, as well as the execution risk, that will be associated with these projects. This is ultimately constraining the rating at 'BBB' pending successful completion and fill-up of the campus redevelopment project.

In Fitch's forward look, Lifespace OG's financial profile remains consistent with historical levels through a moderate stress scenario, which reflects the stability expected in a provider of the Lifespace OG's size and geographical diversity. The number of separate campuses is especially relevant to a type-A life contract provider in minimizing the actuarial risk of the health care liability.

The upgrade of Querencia's rating to 'BBB' aligns its rating to that of Lifespace OG, reflecting the addition of Querencia to the Lifespace OG on August 31, the closing date of the series 2021 transaction. At the closing of the series 2021 bonds, Lifespace OG issued its master indenture note, series 2021E (not rated by Fitch) to secure its obligation to make payments with respect to Querencia's series 2015 bonds and any other obligations issued under the Querencia MTI, which constitutes a guarantee of Querencia's bonds by Lifespace OG.

KEY RATING DRIVERS

Revenue Defensibility: 'aa'

Sizeable Multi-State Senior Living Provider

The Lifespace OG is among the largest and most geographically diversified senior living providers in the U.S., operating 11 LPCs in six states, with approximately 4,200 total units in service. This geographic diversity supports the Lifespace OG's very strong revenue defensibility, as it mitigates single-site demand and pricing risk and demographic and economic variation across markets.

Utilization trends have been good, with ILU occupancy averaging 88% over the three years and demonstrating resilience during the coronavirus pandemic. The Lifespace OG has a history of regular fee increases and weighted average entrance fees are generally affordable relative to prevailing housing prices in its respective markets.

Operating Risk: 'bbb'

Adequate Cost Management, Ongoing Campus Redevelopment Plan

Fitch assesses the Lifespace OG's operating risk 'midrange', reflecting its track record of adequate cost management and substantial capital investment, with projects expected to enhance Lifespace's competitive positioning in its respective markets. Lifespace's capital-related metrics are somewhat weak, primarily as a consequence of the additional borrowing to finance its campus redevelopment plan, but its debt burden should begin to moderate once the projects stabilize and accrete to cash flows. Neither the exit of Grand Lodge from, nor the addition of Querencia to the OG is not expected to have a material impact on Lifespace's operating performance.

Financial Profile: 'bbb'

Financial Profile Resilient Through a Moderate Stress Scenario

At YE 2020, the Lifespace OG had proforma unrestricted cash-to-adjusted debt of about 37%, including the new money debt of the series 2021 bonds and the effect of the additions to and departures from the OG to be transacted in conjunction with the series 2021 bond issuance. Given the Lifespace OG's strong revenue defensibility and midrange operating risk assessments, and Fitch's forward-looking scenario analysis, the Lifespace OG's key leverage metrics are expected to remain consistent with the rating level through a moderate stress.

Asymmetric Additional Risk Considerations

No asymmetric risk considerations were relevant to the rating.

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to positive rating action/upgrade:

--Positive rating action is unlikely during the Rating Outlook period. Ultimately, any positive action is predicated on the successful completion of the campus redevelopment project and/or material and significant improvement in Lifespace's liquidity metrics, with maximum annual debt service (MADS) coverage over 2.0x and cash-to-debt approaching 60% or greater, which is not expected until the project matures.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

--Sustained, material erosion of cash flows that leads to compressed MADS coverage at levels approaching 1.3x or below could pressure the rating;

--Failure to successfully complete the campus redevelopment projects and to meet projected targets, or material changes to the either the scope of the projects or unexpected additional bond issuances.

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Sovereigns, Public Finance and Infrastructure issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of three notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sectorspecific best- and worst-case scenario credit ratings, visit https://www.fitchratings.com/site/re/10111579.

CREDIT PROFILE

Headquartered in Des Moines, IA, Lifespace is one of the largest LPC systems in the country, currently operating 14 LPCs in nine states. The OG consists of 11 LPCs in six states -- Abbey Delray, Abbey Delray South and Harbour's Edge in Delray Beach, FL; The Waterford, in Juno Beach, FL; Village on the Green in Longwood, FL Beacon Hill in Lombard, IL; Oak Trace in Downers Grove, IL; Claridge Court in Prairie Village, Kansas; Friendship Village of Bloomington (FV of Bloomington) in Bloomington, Minnesota; Friendship Village of South Hills in Upper St. Clair, Pennsylvania; and Querencia in Austin, TX, which Lifespace acquired as part of its affiliation with Senior Quality Lifestyles Corporation (SQLC).

The Lifespace OG had total revenues of about $262 million in 2020. Querencia has annual revenues of about $24 million. The OG currently operates 2,915 independent living units (ILUs); 282 assisted living units (ALUs); 163 memory support units (MSUs); and 808 skilled nursing facility (SNF) beds.

On Aug. 1, 2021, Lifespace transitioned ownership of Deerfield (Des Moines, IA) and Grand Lodge (Lincoln, NE) to Immanuel (Omaha, NE). Grand Lodge, which has 109 ILUs, 10 ALUs and annual revenues of about $7.0 million (approximately 3% of the current Lifespace OG's total revenues), exited the Lifespace OG upon the ownership transition. Lifespace used portion of the sale proceeds to repay all the debt associated with Grand Lodge and Deerfield and the OG's guarantee of Deerfield's series 2014 A, C, D bonds ceased following the ownership transition.

ACTIVITIES OUTSIDE THE OG

In June 2019, Lifespace completed an affiliation with SQLC and as a result became the sole member of three communities located in Texas -- Querencia; Northwest Senior Housing Corporation d/b/a Edgemere (Edgemere; CC) in Dallas; and Tarrant County Senior Living Center, Inc. d/b/a Stayton at Museum Way (the Stayton, not rated by Fitch) in Fort Worth. Querencia will join the Lifespace OG with the issuance of the series 2021 bonds. There are no immediate plans to add Edgemere or the Stayton to the OG at this time.

Although the Stayton is not part of the OG, as part of its debt restructuring, Lifespace entered into a $6 million liquidity support agreement (LSA), with $3 million funded with the trustee currently from non-OG cash and $3 million to be possibly called upon at a later date. The additional $3 million would likely come from the OG if called.

In July 2021, Lifespace acquired Newcastle Place, an LPC in Mequon, WI. The acquisition was financed with a $60 million taxable bank loan, $8 million of subordinated bonds and approximately $8 million of cash equity all funded by the Lifespace OG. Newcastle Place is not part of the Lifespace OG; however, as part of the financing, the OG also committed to a $5 million LSA, which is unfunded at this time. Costs of issuance were about $1.1 million and this amount was funded by the home office, not the OG.

Lifespace continues to explore additional acquisitions, but Fitch expects these will be financed outside of the OG and thus will not affect Lifespace OG's 'BBB' rating.

For more information on Lifespace OG, please see Fitch's report dated Aug. 3, 2021 at www.fitchratings.com.

Sources of Information

In addition to the sources of information identified in Fitch's applicable criteria specified below, this action was informed by information from Lumesis.

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG CONSIDERATIONS

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg

RATING ACTIONS

ENTITY/DEBT	RATING	PRIOR

ENTITY/DEBT	RATING			PRIOR
Lifespace Communities (IA)	LT IDR	BBB Rating Outlook Stable	Affirmed	BBB Rating Outlook Stable
• Lifespace Communities (IA) /General Revenues/1 LT	LT	BBB Rating Outlook Stable	Affirmed	BBB Rating Outlook Stable

VIEW ADDITIONAL RATING DETAILS

FITCH RATINGS ANALYSTS

Margaret Johnson, CFA
Director
Primary Rating Analyst
+1 212 908 0545
margaret.johnson@fitchratings.com
Fitch Ratings, Inc.
Hearst Tower 300 W. 57th Street New York, NY 10019

Rebecca Greive
Associate Director
Secondary Rating Analyst
+1 312 205 3399
rebecca.greive@fitchratings.com

Kevin Holloran
Senior Director
Committee Chairperson
+1 512 813 5700
kevin.holloran@fitchratings.com

MEDIA CONTACTS

Sandro Scenga
New York

+1 212 908 0278
sandro.scenga@thefitchgroup.com

Additional information is available on www.fitchratings.com

PARTICIPATION STATUS

The rated entity (and/or its agents) or, in the case of structured finance, one or more of the transaction parties participated in the rating process except that the following issuer(s), if any, did not participate in the rating process, or provide additional information, beyond the issuer's available public disclosure.

APPLICABLE CRITERIA

U.S. Public Finance Not-For-Profit Life Plan Community Rating Criteria (pub. 02 Mar 2021) (including rating assumption sensitivity)

Public Sector, Revenue-Supported Entities Rating Criteria (pub. 01 Sep 2021) (including rating assumption sensitivity)

APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Portfolio Analysis Model (PAM), v1.3.2 (1)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

Iowa Finance Authority (IA)	EU Endorsed, UK Endorsed

DISCLAIMER

ALL FITCH CREDIT RATINGS ARE SUBJECT TO CERTAIN LIMITATIONS AND DISCLAIMERS. PLEASE READ THESE LIMITATIONS AND DISCLAIMERS BY FOLLOWING THIS LINK: HTTPS://WWW.FITCHRATINGS.COM/UNDERSTANDINGCREDITRATINGS.

READ LESS

SOLICITATION STATUS

The ratings above were solicited and assigned or maintained by Fitch at the request of the rated entity/issuer or a related third party. Any exceptions follow below.

ENDORSEMENT POLICY

Fitch’s international credit ratings produced outside the EU or the UK, as the case may be, are endorsed for use by regulated entities within the EU or the UK, respectively, for regulatory purposes, pursuant to the terms of the EU CRA Regulation or the UK Credit Rating Agencies (Amendment etc.) (EU Exit) Regulations 2019, as the case may be. Fitch’s approach to endorsement in the EU and the UK can be found on Fitch’s Regulatory Affairs page on Fitch’s website. The endorsement status of international credit ratings is provided within the entity summary page for each rated entity and in the transaction detail pages for structured finance transactions on the Fitch website. These disclosures are updated on a daily basis.

US Public Finance Healthcare and Pharma North America United States