FitchRatings

RATING ACTION COMMENTARY

Fitch Rates Lifespace Community, Inc.'s Series 2021 Revenue Bonds 'BBB'; Outlook Stable

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Fitch Ratings - New York - 03 Aug 2021: Fitch Ratings has assigned a 'BBB' rating to the following bonds expected to be issued on behalf Lifespace Communities, Inc. (Lifespace):

--$72.950 million Iowa Finance Authority (IFA) revenue bonds, series 2021A;

--$30.0 million IFA revenue bonds, series 2021B;

--$17.515 million Palm Beach County Health Facilities Authority (PBCHFA) revenue bonds, series 2021C.

Fitch has also assigned a 'BBB' Issuer Default Rating to Lifespace and has removed from Criteria Observation and affirmed the 'BBB' rating on approximately $449.1 million of bonds previously issued through various authorities on behalf of Lifespace.

The Rating Outlook is Stable.

Proceeds from the series 2021 bonds will be used to finance remaining project costs for Lifespace's expansion and renovation projects at certain of its life plan communities (LPCs) in Florida, Illinois, Kansas, Pennsylvania and Minnesota (as described further herein); refund Lifespace's series 2010 bonds; fund 24 months of capitalized interest; and pay the costs of issuance. Bonds issued by the IFA and PBCHFA are both expected to sell via negotiation on or about August 18.

Lifespace also anticipates issuing approximately $55 million IFA revenue bonds, series 2021D (not rated by Fitch). These bonds are expected to be issued as direct placement bank debt with Bank of Montreal Harris Bank to be repaid with initial entrance fees.

SECURITY

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

There will be two changes to the Lifespace OG that will happen concurrently with the series 2021 transaction. Querencia at Barton Creek (Querencia; BBB-/Stable) will join the Lifespace OG with the issuance of the series 2021 bonds. In addition, on Aug. 1, 2021, Lifespace transitioned ownership of Deerfield Retirement Community (Deerfield) and Grand Lodge at the Preserve (Grand Lodge) to Immanuel (AA/Stable). Grand Lodge exited the Lifespace OG upon the ownership transition.

Please see Credit Profile below for further discussion of these changes to the 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, 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, that is ultimately constraining the rating at 'BBB' pending successful completion and fill-up of the campus redevelopment project.

Fitch's forward look shows the Lifespace OG's financial profile remaining consistent with historical levels through a moderate stress scenario, which reflects the stability expected in a provider of the size and geographical diversity of the Lifespace OG. 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.

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 defensiblity 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. It would ultimately be predicated upon 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 sector-specific 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. Upon the issuance of the series 2021 bonds, the OG will consist 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 new 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 will use a 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 will cease 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.

REVENUE DEFENSIBILITY

Utilization trends across the Lifespace OG have been good, with an average of approximately 89% of ILUs, 83% of ALUs, and 88% of SNF beds occupied over the last five years. Occupancy in the MSUs has averaged approximately 73% since 2018. The OG's ILU occupancy remained resilient during the coronavirus pandemic and averaged 83% through the 12-month period ended March 31, 2021.

Fitch views Lifespace's geographically diversified platform as the core strength of its revenue defensibility. Revenue generation and profitability are well balanced among the 11 OG communities, with no individual community accounting for more than 14% of 2020 gross revenue. Florida is home to the largest number of Lifespace's LPC's, with five of the OG's 11 communities located there. However, Lifespace's communities in Florida collectively accounted for under half (about 46%) of gross revenues in 2020.

There is limited overlap between Lifespace's respective markets. Competition varies by community; however, Fitch views the geographically diversified platform as mitigating single-site demand risk and supporting expectations for maintenance of a strong overall market position.

Lifespace OG's various markets generally have good economic and demographic characteristics; moreover, the pricing risk is diversified, given the number of separate communities and that no single campus' total units account for more than 12% of the system's total units. Lifespace OG has a demonstrated history of yearly monthly service fee and entrance fee increases. The weighted average entrance fee across the system totals about $371,000 and that is comfortably within the range of IL pricing across the sector.

Lifespace is just beginning its marketing of Oak Trace Phase II, with construction not expected to commence until 1Q22, and these new ILUs are only about 50% presold. However, Fitch does not believe this level of presales is any indication of an asymmetric risk against Lifespace's otherwise very strong revenue defensibility, with its geographic diversity acting as a significant operating cushion against potential pressure at any one campus.

Moreover, Lifespace only needs to reach a conservative 72% occupancy of the new ILUs in order to generate the $55 million in initial entrance fees necessary to repay the associated temporary debt, which Fitch believes is an achievable goal given Lifespace's long track record of successfully marketing and filling units across the system.

The 90 new ILUs planned at FV at Bloomington are 82% presold with 10% deposits.

OPERATING RISK

Lifespace offers predominantly type-A (lifecare) contracts, which require an upfront entrance fee and ongoing monthly service fees. Under the lifecare contract, residents pay the same monthly fees regardless of the level of care needed, which shifts the health care burden to Lifespace. Due to this health care liability risk, Fitch views type-A facilities as having higher operating risk.

Lifespace's refundability options include fully amortizing (non-refundable) and 50%, 75% and 90% refundable contracts.

The Lifespace OG has a demonstrated track record of adequate cost management, with five-year average operating ratio of 96.5%, net operating margin (NOM) of 4.5% and NOM-adjusted of 17.3% all consistent with a 'midrange' assessment of its operating risk. Given their size relative to the overall Lifespace OG, it is not anticipated that the exit of Grand Lodge from and addition of Querencia to the Lifespace OG will materially affect its operating performance.

The series 2021 bonds represent the final tranche of expected debt that Lifespace will use to finance its multi-campus redevelopment project, which has been ongoing since 2016, resulting in capex that has averaged about 224% of depreciation over the last five years. Lifespace's average age of plant is a low 9.6 years, indicating that it is adequately investing in its physical plant to remain competitive and meet current market demand for amenities and services.

Campus redevelopment plans include adding assisted living and memory support services at five communities, in addition to enhancing common areas and adding ILUs at certain communities. Total identified projects through 2023 equal approximately $441.5 million, which has been approved by the Board. When complete, the projects will add 258 ILUs, 122 ALUs and 140 memory support units, while decreasing SNF's by 35 units, due to repositioning toward private rooms. The projects are expected to stabilize between 2021 and 2024. Management expects to use initial entrance fees to redeem temporary project debt.

Approximately $106.8 million of the proceeds from the series 2021 bonds are expected to be used to finance the Phase II expansion at Oak Trace, which includes the construction of 145 ILUs, a new clubhouse and renovated commons. Construction is anticipated to commence in 1Q22.

Remaining bond proceeds will be used to complete construction of a health center at FV at Bloomington and other miscellaneous capital projects across the system. Construction of the new ILUs at FV at Bloomington, financed through prior bond issuances, is expected to be substantially complete by July 30.

Fitch anticipates that successful execution of the projects will materially benefit Lifespace's credit profile. The addition of the new ILUs is expected to be accretive to its top line revenues and cash flows and the addition to ALUs and MSUs will allow Lifespace to remain competitive given current market demand for these services.

Lifespace's capital-related metrics are somewhat weak, which is a consequence of the additional borrowings it has transacted to finance its substantial capital plan. Pro forma MADS of $35.1 million represented an average of 13.8% of revenues in 2018-2020 and revenue-only MADS coverage has averaged 0.5x since 2016. Lifespace OG's pro forma debt-to-net available was a very high 14.8x in 2020; however, this figure should moderate once the projects fully stabilize and begin to accrete to cash flows.

FINANCIAL PROFILE

Given Lifespace OG's strong revenue defensibility and midrange operating risk assessments and Fitch's forward-looking scenario analysis, Fitch expects key leverage metrics to remain consistent with the current financial profile throughout the current economic and business cycle. As of YE 2020, the Lifespace OG had unrestricted cash and investments of approximately $201.8 million, representing about 37.0% of total proforma adjusted debt. Lifespace OG has no debt equivalents and had 331 days cash on hand (DCOH) as of YE 2020.

Fitch's baseline scenario, which is a reasonable forward look of financial performance over the next five years, given current economic expectations, shows the Lifespace OG maintaining operational and financial metrics that are largely consistent with the current rating and with historical levels of performance. The scenario analysis also incorporates the expected trajectory of Lifespace's campus redevelopment plan, including the series 2021 borrowings, related capex and expected repayment of temporary debt with initial entrance fees.

As part of the forward look, Fitch assumes an economic stress (to reflect financial market volatility), which is specific to Lifespace's asset allocation. Despite the stress, the Lifespace OG's cash-to-adjusted debt levels recover to levels consistent with Fitch's expectations. MADS coverage improves significantly even during the stress, factoring in expectations for successful project completion and fill. However, successful completion and fill of the project and repayment of the temporary debt will need to be evident before Fitch would consider positive rating action. DCOH remains above 200 days through the stress scenario, which is neutral to the rating.

ASYMMETRIC ADDITIONAL RISK CONSIDERATIONS

No asymmetric risk considerations are relevant to the rating. Fitch believes that Lifespace has adequate liquidity to cover its obligations outside of the OG (the Stayton and Newcastle Place LSA's).

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
Lifespace Communities (IA)	LT IDR	BBB Rating Outlook Stable	New Rating	
• Lifespace Communities (IA) /General Revenues/1 LT	LT	BBB Rating Outlook Stable	Affirmed	BBB Rating Outlook Stable

VIEW ADDITIONAL RATING DETAILS

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APPLICABLE CRITERIA

Public Sector, Revenue-Supported Entities Rating Criteria (pub. 23 Feb 2021) (including rating assumption sensitivity)

U.S. Public Finance Not-For-Profit Life Plan Community Rating Criteria (pub. 02 Mar 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

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Endorsement Policy

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Iowa Finance Authority (IA)	EU Endorsed, UK Endorsed

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