FitchRatings

RATING ACTION COMMENTARY

Fitch Affirms LifeSpire of Virginia at 'BBB'; Outlook Stable

Fri 23 Jun, 2023 - 5:46 PM ET

Fitch Ratings - New York - 23 Jun 2023: Fitch Ratings has affirmed the 'BBB' Issuer Default Rating on LifeSpire of Virginia (LifeSpire) and the 'BBB' rating on the following bonds previously issued on behalf of LifeSpire:

--$76.4 million Virginia Small Business Financing Authority residential care facilities revenue and refunding bonds, series 2021;

--$33.3 million Industrial Development Authority of Botetourt County, Virginia residential care facility revenue refunding bonds, series 2014A (The Glebe, Inc.);

--$69.1 million Economic Development Authority of the City of Newport News, Virginia residential care facilities revenue refunding bonds, series 2016;

--$47.6 million Economic Development Authority of Henrico County, Virginia residential care facility revenue and refunding bonds, series 2017C.

The Rating Outlook is Stable.

RATING ACTIONS

ENTITY / DEBT	RATING		PRIOR
LifeSpire of Virginia, LLC (VA)	LT IDR Affirmed	BBB Rating Outlook Stable	BBB Rating Outlook Stable

LifeSpire of Virginia, LLC (VA) /General Revenues/1 LT	LT	BBB Rating Outlook Stable	Affirmed	BBB Rating Outlook Stable

VIEW ADDITIONAL RATING DETAILS

The 'BBB' rating reflects the expected resilience of LifeSpire's financial profile throughout Fitch's forward-looking scenario analysis, in the context of the strength of its business profile, which has allowed it to absorb the debt associated with the acquisition of The Summit in 2021 and remain at its current rating. LifeSpire is characterized by strong revenue defensibility, as a multi-market diversified life plan community (LPC), and mid-range operating risk, with a consistent history of solid operations and history of successfully managed capital investments.

The Summit is performing in line with original forecasts and is financially accretive to LifeSpire. The independent living unit (ILU) cottage construction project at Lakewood, which was financed along with the acquisition of The Summit in 2021, is nearly complete, with all 19 units presold with 10% deposits. Beyond these projects, LifeSpire's capital needs (including at The Summit) are manageable and limited primarily to routine maintenance of its various communities and a modest ILU expansion project at The Glebe, Inc. (The Glebe), which has been curtailed from previous project plans to include only cottages, the construction of which will be fully financed from initial entrance fees. LifeSpire has no plans for additional debt at this time.

SECURITY

The bonds are joint and several obligations of each member of the obligated group (OG) and are secured by a first mortgage lien on all OG communities and a gross revenue pledge of the OG. A fully-funded, debt service reserve fund provides additional security.

KEY RATING DRIVERS

Revenue Defensibility - 'a'

Multi-Market LPC, Stable Demand and Pricing Characteristics

LifeSpire is a large and diversified senior living provider that operates five LPCs across the state of Virginia. Its ILU occupancy has been strong, averaging 94% over the last four years, growing to 95% as of March 31, 2023.

Fitch views LifeSpire's geographically diversified platform as contributing to strong revenue defensibility, as it mitigates single-site demand and pricing risk. LifeSpire's LPCs are located in five distinct primary market areas across five different counties in Virginia. Management reports little to no overlap between its respective markets including between The Summit and The Glebe (located approximately 50 miles apart), with the Blue Ridge Mountains acting as a natural geographic barrier.

Competition is limited across most of LifeSpire's markets, with the exception of Newport News, where LifeSpire competes directly with communities in Williamsburg and Virginia Beach. However, management reports that the price points and amenities of these communities vary materially from those at LifeSpire and there is very little overlap in their prospective resident bases. Demographic characteristics are mixed but generally favorable. LifeSpire has a history of regular fee increases and weighted average entrance fees are affordable relative to prevailing housing prices in each of its respective markets. LifeSpire budgeted for ILU monthly service fee increases of 8.0% across all of its communities for 2023 and has experienced no negative impact on demand.

Operating Risk - 'bbb'

Solid Core Operations, Measured Approach to Capital Plans

Fitch's 'bbb' assessment of LifeSpire's operating risk is based on its track record of adequate cost management, predominantly type-A contracts and manageable capital needs. Over half of LifeSpire's current contracts are lifecare, or type-A; however, it offers both lifecare (type-A) and fee-for-service (type-C) contracts at each of its communities. The Summit, which will represent a relatively small component of LifeSpire's overall contract mix, is a predominantly fee-for-service (type-C) contract community.

LifeSpire's net operating margin (NOM) averaged 2.8% and NOM-adjusted averaged 25.7% from 2019-2022. Its four-year average operating ratio is somewhat weaker at 105.0%, but this is not atypical for a predominantly type-A contract provider. Performance in the first three months of 2023 has been consistent with historical averages.

LifeSpire has revised its capital plans in response to economic volatility and the escalation of construction and borrowing costs. Previous plans to add a 75-apartment ILU expansion at The Glebe have been curtailed to encompass only ILU cottages, which represent far less execution risk as the units are not constructed until they are reserved and construction costs are 100% funded with entrance fees received.

LifeSpire targets a unit mix of an 80%/20% split between ILUs and healthcare beds at each community, and the organization's most recent projects have been focused on achieving that target. To that end, LifeSpire used $15.3 million of series 2021 bond proceeds to construct additional ILU cottages at Lakewood and The Culpeper (Culpeper) and is cash funding (approximately $6.3 million) a remodeling of its memory support unit (MSU) at Lakewood, which will reduce the overall size of its skilled nursing facility (SNF) to 48 beds from 96. LifeSpire is also working with Clifton Larsen Allen on a plan to add a modest number of hybrid ILUs to Lakewood and Newport News Baptist Retirement Community, Inc. (The Chesapeake). All of these projects were contemplated in forecasts at the time of the series 2021 plan of finance.

LifeSpire's capital-related metrics moderately improved with the addition of The Summit and indicate adequate ability to absorb its capital needs within the context of its current operations, which are not overly reliant on turnover entrance fees for timely debt service payment. LifeSpire's revenue-only maximum annual debt service (MADS) coverage averaged 0.5x and debt-to-net available averaged 7.4x from 2019-2022. Following the addition of The Summit and as LifeSpire's recent capital projects have accrued to top line revenues, its MADS as a percent of revenue has improved to 15.6% in 2022 from 20.2% in 2019.

Financial Profile - 'bbb'

Expected Stability in Financial Profile

Given LifeSpire's strong revenue defensibility and midrange operating risk assessments and Fitch's expectation that The Summit acquisition will continue to be accretive to operations, Fitch expects LifeSpire to be able to maintain a financial profile that is consistent with a 'bbb' financial profile over the next five years, factoring in a period of operating volatility assumed in Fitch's stress case scenario.

As of YE 2022, LifeSpire had unrestricted cash of approximately $107.9 million. This represented 45.7% of adjusted debt (including about $15.5 million of short-term debt associated with the Lakewood and Culpeper projects, which is expected to be repaid with initial entrance fees). LifeSpire did not absorb any debt as part of The Summit acquisition beyond the series 2021 financing. LifeSpire's MADS (permanent debt only) coverage was a strong 1.9x in 2022. LifeSpire had 405 days cash on hand as of YE 2022, which is neutral to the assessment of its financial profile.

Fitch expects LifeSpire will see improvement in its base case scenario, which is Fitch's best estimate of its performance under expected economic and operating conditions over the next five years. As expected, LifeSpire's leverage metrics remain weak in years one and two of Fitch's stress case scenario, which factors in a period of economic and financial stress, but recover sharply beginning in year three as LifeSpire recognizes the financial benefit from its capital investments and repays associated short-term debt.

Asymmetric Additional Risk Considerations

No asymmetric risk considerations are relevant to the rating.

RATING SENSITIVITIES

Factors that Could, Individually or Collectively, Lead to Negative Rating Action/Downgrade

--Substantial deterioration in operating performance or unexpected additional debt issuance, especially if it results in expectations for cash-to-adjusted debt to be sustained at levels below 40% or MADS coverage to be sustained at levels below 1.2x.

Factors that Could, Individually or Collectively, Lead to Positive Rating Action/Upgrade

--Balance sheet accretion such that cash-to-adjusted debt levels are expected to improve and be sustained at levels approaching 70%.

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.

PROFILE

Virginia Baptist Homes (VBH), d/b/a LifeSpire of Virginia (LifeSpire), is the sole corporate member of six affiliates. Fitch's analysis is based on the LifeSpire Obligated Group (OG), which comprises LifeSpire's five LPCs: The Chesapeake in Newport News, VA, The Glebe in

Botetourt, VA, Lakewood in Richmond, VA, Culpeper in Culpeper, VA and The Summit in Lynchburg, VA. Together, the LPCs comprise a total of 890 ILUs, 245 assisted living units (ALUs), 82 MSUs and 227 SNF beds. The LifeSpire OG had total revenues of $112.1 million in 2022 (fiscal year-end Dec. 31).

Other non-obligated affiliates include Lakewood at Home, an "LPC without walls", Senior Living Partners of Virginia, LLC, a joint venture home health service provider, and Affirmation Pathways, a home health agency in Richmond. The VBH Foundation provides fundraising support for LifeSpire but is not a member of the OG.

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.

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APPLICABLE CRITERIA

U.S. Public Finance Not-For-Profit Life Plan Community Rating Criteria (pub. 05 Apr 2023) (including rating assumption sensitivity)

Public Sector, Revenue-Supported Entities Rating Criteria (pub. 27 Apr 2023) (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), v2.0.0 (1)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

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Virginia Small Business Financing Authority (VA)	EU Endorsed, UK Endorsed

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