
Fitch: Tax Reform May Curb Capital Spending for U.S. CCRCs in 2018.

Fitch Ratings-New York-06 December 2017: A stable outlook remains in place for U.S. continuing care retirement communities (CCRCs) next year though the recently enacted tax reform bills could moderately reduce what has normally been a healthy capital spending environment, according to Fitch Ratings in its 2018 outlook report.

The potential loss of tax-exempt financing from federal tax reform proposals would reduce access to capital and increase borrowing costs or CCRCs. As a result, "CCRCs would have to use taxable bank financing and other more expensive forms of capital that may have less favorable terms and conditions," said Director Paul Rizzo. "Additionally, many borrowers may opt to use equity or downsize capital projects that require higher levels of debt."

Regardless, the potential short-term hit to capital spending will not dramatically affect the sector's credit profile thanks to consistent operating profitability, high occupancy and good demand for services. CCRCs will look to remain competitive and address such service-line needs as memory care and/or unit-mix issues. The tight labor market, however, may lead to higher construction costs for some communities along with delayed starting dates for certain large-scale projects.

Also bolstering the sector's stable outlook next year is the healthy U.S. housing market. Nominal home values are steadily increasing and housing affordability remains favorable relative to historical levels. "The housing market will remain healthy in 2018, which should support ILU occupancy and net entrance fee receipts for CCRCs in the coming year," said Rizzo.

As far as challenges for 2018, CCRCs are experiencing pressure in post-acute care census and tightening employment markets that are increasing staffing costs. Post-acute care management and reimbursement modifications are changing the care for short-term rehabilitation patients in skilled nursing centers. Further, growth in healthcare employment levels is leading to harder recruitment of certain positions and expense pressures.

'Fitch 2018 Outlook: Nonprofit Continuing Care Retirement Communities' is available at www.fitchratings.com'

Contact:

Paul Rizzo
Director
+1-212-612-7875
Fitch Ratings, Inc.
33 Whitehall Street
New York, NY 10004

Media Relations: Sandro Scenga, New York, Tel: +1 212-908-0278, Email: sandro.scenga@fitchratings.com.

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