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Fitch Ratings UCO Status Update: Rated LPCs Weathering Coronavirus Fallout Well So Far

Fitch Ratings-New York/Austin-28 June 2021: U.S. life plan communities (LPCs) are proving to be quite resilient so far against the coronavirus, though Fitch Ratings says that the sector is not out of the woods yet.

'Healthy residential real estate markets and increased market interest in life plan communities are translating into consistent demand for retirement living, ' said Fitch Director Margaret Johnson. 'Sales of independent living units have also accelerated following a slowdown in resale activity throughout 2020 due to the coronavirus and related governmental lockdown measures.'

Of the 87 LPC rating actions year-to-date (not including names placed Under Criteria Observation [UCO]), 55 (63%) were rating affirmations. Fitch has downgraded nine (10%) communities due largely to LPCs borrowing additional debt to finance expansion projects, rather than operational pressures.

In March, Fitch released revised LPC rating criteria. Following that release, Fitch placed 22 LPCs UCO. Fitch has so far resolved nine of the UCO ratings, all of which were affirmations, except for two downgrades — one driven solely by credit reasons (a large additional borrowing) and one driven by a combination of criteria and credit factors. Updated review status of UCO names is available in the special report linked above.

Rising operating costs remain the most significant pressure, especially with regulatory requirements for long-term care facilities likely to become stricter and staffing shortages being experienced across the industry. 'The debate over making the COVID-19 vaccine a condition of employment could increase staff turnover and operating expenses for life plan communities,' said Johnson. 'That said, voluntary vaccination rates among employees at Fitch-rated life plan communities are reportedly very high.'

As the sector emerges from the pandemic, Fitch expects life plan communities will continue to consolidate over the next few years. Lower-rated communities with high exposure to skilled nursing operations, undergoing expansions and that are in areas heavily affected by subsequent waves of the pandemic will be most susceptible to rating pressure.

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