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Fitch: Real Estate, Demographics Support U.S. LPCs' Steadily Improving Trajectory

Fitch Ratings-New York-14 January 2025: Related Content: Fitch Revises Sector Outlook for U.S. Life Plan Communities to Neutral for 2025

Baby boomers approaching retirement age coupled with a more favorable housing market will serve as tailwinds for U.S. life plan communities (LPCs) in 2025, according to Fitch Ratings analysts during a webinar they hosted yesterday.

Many LPCs did the hard work of right-sizing their staffing component during the worst of the pandemic. As a result, an upswing in positive Outlook revisions for select LPCs beginning late last year led Fitch to revise its sector outlook to neutral from deteriorating. Staffing remains LPCs' most formidable headwind, although key labor cost indicators are improving. Also, unlike NFP hospitals, Senior Director Margaret Johnson said that LPCs have been better able to retain existing staff and minimize use of agency assistance while taking health beds out of service as needed with more ease.

Going forward, demographics will be more favorable for LPCs. "Baby boomers, or what has been called the 'silver tsunami' generation, are now at retirement age and will need to sell their home in order to gain entrance into a life plan community, which serves as a positive both for LPCs and for the housing market as a whole," said Johnson. Another ancillary benefit of a stabilizing housing market is improving construction costs that have made the environment for LPCs expansion projects more favorable, a plus for expansions financed pre-pandemic that are now filled and starting to mature.

The sector is without its areas of weakness, chief among them skilled nursing facilities (SNFs). Already closely tethered to government reimbursement programs like Medicaid, 'a heightening of regulations such as minimum staffing ratios would add to increased operating costs and exacerbate headwinds for those LPCs with a high exposure to SNF operations,' said Johnson.

A replay of the webinar is available at www.fitchratings.com along with Fitch's 2025 outlook report.

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