FitchRatings

RATING ACTION COMMENTARY

Fitch Upgrades Givens Estates' (NC) IDR to 'A-'; Outlook Stable

Wed 19 May, 2021 - 10:41 AM ET

Fitch Ratings - New York - 19 May 2021: Fitch Ratings has upgraded Givens Estates' (GE) Issuer Default Rating (IDR) to 'A-' from 'BBB+', and has revised the Rating Outlook to Stable from Positive.

GE has approximately $60 million in direct bank purchase debt outstanding that is not rated by Fitch, but is incorporated into the analysis.

SECURITY

The security of the bonds is not applicable since this is an IDR rating only.

ANALYTICAL CONCLUSION

The rating upgrade is driven by Givens Estates' continued strong independent living unit (ILU) occupancy, which has led to consistently strong leverage and profitability metrics. The community's desirable location and attractive pricing result in robust demand from prospective residents from across the State of North Carolina, which Fitch believes will continue to support strong occupancy in its ILUs, which account for roughly 81% of GE's total units.

The coronavirus pandemic was minimally disruptive to GE's operating performance, and Fitch believes recent softness in occupancy in assisted living units (ALUs) and skilled nursing facility (SNF) beds will recover as elective procedures ramp up at local hospitals and campus access restrictions ease. Fitch believes that lower census in the ALUs and SNF beds are not material, as the health center makes up only about 20% of GE's total units. In addition, stimulus funding from the federal government helped offset the rise in costs and decline in revenues related to the pandemic, resulting in stable operating performance in fiscal 2020.

Fitch believes GE has the capacity to absorb the financial and operating risk of its upcoming capital project at the higher rating, owing to the community's low debt burden and strong demand indicators. Once completed, Fitch expects the project to be accretive to the community's profitability and further reduce its operating risk by lowering its exposure to healthcare-related services.

KEY RATING DRIVERS

Revenue Defensibility: 'a'

Strong Demand in a Desirable Market

High demand for GE's services has resulted in strong historical ILU occupancy and net entrance fee cash flow. This trend persisted throughout the pandemic, and Fitch expects it to continue, as GE's desirable location in Asheville, NC is a major draw for in- and out-of-state residents, evidenced by a robust waitlist of roughly 946 prospects. GE's strong demand profile and the rapid appreciation of home prices in its market area indicate a high degree of pricing flexibility.

Operating Risk: 'a'

Strong Core Operations and Entrance Fee Cash Flows

The community's core operating metrics are strong, which Fitch expects for a type-C LPC. Profitability and capital related metrics tied to entrance fee generation are also very strong.

Capex plans comprise mostly routine spending over the remainder of 2021, with one potential expansion project in preliminary development. Management reports the project could obtain financing within a year.

Financial Profile: 'a'

Very Good Operations Drive Cash Growth

Fitch expects GE to maintain its current level of entrance fee cash flow generation based on strong, persistent demand. Cash-to-adjusted debt is already robust and anticipated to improve over time as the community continues to fill existing ILUs.

ASYMMETRIC ADDITIONAL RISK CONSIDERATIONS

There are no asymmetric risk factors affecting this rating determination.

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to positive rating action/upgrade:

--Improvement in core operations, resulting in five-year averages for net operating margin (NOM) of over 17%, operating ratio below 88%, and net operating margin adjusted (NOMA) over 32%;

--While Fitch believes this is unlikely given preliminary capital plans, cash-to-adjusted debt that improves to over 200%.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

--Decline in demand, resulting in sustained ILU occupancy below 93%;

--While Fitch believes GE has capacity to absorb its future expansion plans at the higher rating, a more significant debt offering that materially changes GE's financial profile, resulting in cash-to-adjusted debt that falls below 100% would pressure the rating.

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.

GE operates two campuses: Givens Estates (Givens) and Givens Highland Farms (GHF), which are located in Black Mountain, about 15 miles east of Asheville. The two campuses include 672 ILUs, 77 ALUs, and 144 SNF beds. In fiscal 2020, GE had approximately $61 million in total revenues.

REVENUE DEFENSIBILITY

The rating upgrade is driven by GE's consistently strong ILU occupancy, averaging 95% over the last five fiscal years. ALU and SNF bed censuses were softer in 2020, but still at sufficient five-year averages of 89% and 84%, respectively. As was the case across the LPC sector, the pandemic resulted in internal transfer restrictions and a decrease in external admissions for GE's Health Center, depressing census levels to 78% in the AL and 73% in the SNF. However, Fitch believes that occupancy should improve as these issues are resolved. ALUs and SNF beds are also not a large proportion (roughly 20%) of total units, so lower Health Center occupancy should not have a material impact on the community's performance. The resiliency of ILU occupancy levels and waiting list during the pandemic is a testament to GE's desirability.

GE currently has a waitlist of roughly 946 prospective residents, secured by $1,000 deposits that are 50% refundable. Demand is mainly attributable to the community's desirable location in Asheville, NC, which is a national retirement and tourist destination. Management reports that while about 69% of residents originate from the primary market area (PMA), 14% come from other areas of NC and 17% come from outside the state.

Competition is minimal. Deerfield Episcopal Retirement Community (A/Stable) is the most direct competitor within the PMA, but it has not impacted GE's demand indicators.

Monthly and entrance fee increases have averaged between 2%-3% per year. Weighted average entrance fees are about $259,000, which are comfortably below average resident wealth levels of approximately $2 million, and are affordable relative to Asheville's home values, which have appreciated nearly 13% over the last year. Management has implemented affordable, consistent rate increases across all service lines.

OPERATING RISK

GE offers type-C entrance fee contracts. Givens and GHF offer 90% refundable, 50% refundable, and fully-amortizing fee-for-service contracts. Some current residents at GHF have 75% and 65% refundable options, but these contract types are not offered to new residents.

Feedback

GE's core operating performance and cash flow generation are on par with a strong assessment of operating risk, contributing to the rating upgrade. The community's five-year averages for operating ratio and NOM are 88.9% and 13.5%, respectively, which are in line with Fitch's expectations for a type-C LPC operating model that typically focuses on strong core operating performance. In addition, GE's five-year average NOMA is a strong 27.6%, which exceeds Fitch's expectations for a type-C community.

Although the ILU component of the campus was largely unaffected during the pandemic, GE experienced some operating disruptions in its Health Center. Management was able to effectively manage expenses and received about $2 million of CARES Act funds from the federal government, of which approximately $1.6 million was realized at year-end 2020. The combination of external funding and cost containment offset the rise in expenses and decline in revenues in the ALU and SNF, resulting in stable profitability in 2020.

Fitch believes GE's recurring capital reinvestment and expansion strategies have accrued strong financial benefit to GE, resulting in capital-related metrics aligned with a strong assessment. Over recent years, GE has deployed a series of successful capital plans to renovate and expand its campus, reflected in its very good five-year average capex-to-depreciation of roughly 203% and achieving average age of plant of 7.5 years as of 2020.

Most recently, GE completed Phase I of its Givens Highlands Farms expansion project, which added 16 new ILUs to Givens. The 16 ILUs are fully occupied and the associated temporary debt used to fund the project has been paid off. GE also completed the construction of 82 affordable housing rental units near its Asheville campus. The apartments are fully occupied and GE maintains a strong waitlist for the property.

GE is on track to complete Phases I and II of the Friendship Park expansion, which includes building 80 new ILUs. Marketing for these units was somewhat challenging during the pandemic, but presales are still robust at 91%. The new buildings are on track for completion by 4Q21 and will add approximately $22 million to the balance sheet.

Management's longer-term capital plans include rebalancing its unit mix by shrinking its Health Centers and expanding its ILUs, with a potential financing later on in 2021. While project plans are preliminary in nature, Fitch believes GE has the capacity to absorb the financial and operating risk of this planned project at the higher rating.

Feedback

Revenue-only maximum annual debt service (MADS) coverage was 2.2x as of 2020, which is in line with historical performance and a strong assessment. Fitch believes this demonstrates management's ability to direct operations efficiently and is on par with type-C operating performance. GE's debt burden is modest relative to its operating profile, with MADS representing a low 8.8% of total 2020 revenues and debt-to-net available averaged a very good 4.0x over the last five years.

FINANCIAL PROFILE

GE's unrestricted cash and investments totaled about $79 million as of fiscal 2020, representing a solid 128% of adjusted debt and very good 655 days cash on hand (DCOH). MADS coverage including entrance fees shows a strong five-year average of 3.1x, which is well in excess of its covenant requirement of 1.2x.

Fitch believes that GE will continue to benefit from strong demand due to its desirable location and reputation, and cash flow from entrance fees will continue to accrue from existing ILUs, leading to further improvement in balance sheet metrics. Fitch expects the community to sustain sufficient cash-to-adjusted debt and MADS coverage at levels on par with current performance throughout the base case scenario, which factors in Fitch's standard portfolio stress. Despite some lost returns on investments, Fitch expects GE to continue to grow its cash position and maintain robust DCOH of over roughly 723, and recover to about 175% cash-to-adjusted debt by year four of the stress case scenario.

Preliminary cost estimates for building new ILUs indicate that GE has a strong enough balance sheet, demand indicators and operating performance to absorb the contemplated expansion project. Fitch expects that, like previous expansions, GE will successfully fill the new units, accrue new cash flows and pay down leverage with new entrance fees.

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.

Feedback

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
Givens Estates (NC)	LT IDR	A- Rating Outlook Stable	Upgrade	BBB+ Rating Outlook Positive
• Givens Estates (NC) /Issuer Default Rating/1 LT	LT	A- Rating Outlook Stable	Upgrade	BBB+ Rating Outlook Positive

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

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

Givens Estates (NC)	EU Endorsed, UK Endorsed

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