



RATING ACTION COMMENTARY

Fitch Affirms Lasell Village (MA) IDR at 'A'; Outlook Stable

Tue 09 Aug, 2022 - 9:39 AM ET

Fitch Ratings - New York - 09 Aug 2022: Fitch Ratings has affirmed the Issuer Default Rating (IDR) at 'A' for Lasell Village, Inc., MA.

The Rating Outlook is Stable.

ANALYTICAL CONCLUSION

The 'A' rating reflects the expected stability of Lasell's financial profile through Fitch's forward-looking scenario analysis. Lasell is characterized by strong revenue defensibility; its unique market position as a provider of educational senior living services in a socioeconomically favorable service area which has helped support strong independent living unit (ILU) occupancy and a robust waiting list. The rating is further supported by Lasell's midrange operating risk, with adequate operating performance and Type-A contracts, balanced with an expectation of a potentially large capital project in the next several years.

While Lasell's leverage metrics are very strong for the 'A' category, Fitch views the community's relatively small, single-site nature as a qualitative constraint on the rating. Additionally, the proposed capital projects including ILU and supported living expansions and a repositioning of the skilled nursing facility (SNF) could lead to a significant debt issuance. Fitch believes Lasell maintains some debt capacity at the current rating but more clarity on the scope, timing and funding of these projects will be needed before positive rating movement would likely be considered.

KEY RATING DRIVERS

Revenue Defensibility: 'a'

Strong Demand for Unique Provider

Lasell's strong revenue defensibility reflects its history of strong demand and unique service offering. Over the last five years, ILU occupancy has averaged 93%, supported living occupancy averaged 92% and SNF occupancy has averaged 76%. Management reports that SNF census was heavily impacted by the pandemic, averaging a softer 60.8% throughout fiscal 2021 before ending fiscal 2021 at about 76% occupancy.

Lasell benefits from its unique market position as an educational provider of senior living services. The community is located on the campus of Lasell University (LU) and residents are required to complete at least 450 hours of continuing education, which Fitch believes provides Lasell with a competitive advantage. The unique product offering has helped attract residents from outside the primary service area, with around 30% of current residents coming from outside the state. Lasell also benefits from its proximity to Boston (MA) and its favorable service area with high wealth and socioeconomic indicators. Entrance fees are affordable relative to prevailing home prices and the community has a demonstrated track record of consistent annual increases to entrance fee and monthly service.

Operating Risk: 'bbb'

Solid Operating Profile, Large Potential Capital Project

Lasell is a Type-A community with a majority of residents on a 90% refundable contract.

The midrange operating risk assessment reflects Lasell's history of adequate operating performance, with an operating ratio, net operating margin (NOM), and NOM-adjusted that have averaged 90.9%, 7.5%, and 27%, respectively, over the last five fiscal years. Lasell's operating performance has deteriorated slightly in fiscal 2022 (11 months ended May 31) due to disruptions to labor and supply costs; but its operating ratio of 92% remains consistent with the midrange operating risk assessment.

Lasell's consistent operations and low debt burden have helped support very strong capital-related metrics, with a five-year average maximum annual debt service (MADS) to revenue, revenue-only MADS coverage, and debt to net available of around 6%, 4.1x, and

1.7x, respectively. The strong capital-related metrics could support a higher operating risk assessment; however, Lasell's future capital plans will likely lead to a debt issuance that could lead to a deterioration in these metrics.

The community has consistently reinvested in its facilities which has led to a low fiscal 2021 average age of plant of 8.7 years. Lasell is currently in the planning stages for a large capital project that would potentially include an ILU expansion, a supported living expansion, and a repositioning of the healthcare facility. The timing and scope of these projects has not yet been finalized but the projects would likely require a significant debt issuance. Fitch will evaluate the details of the projects once they become available.

Financial Profile: 'a'

Strong Financial Position

Lasell's strong demand, solid operations, and robust liquidity have helped support a strong financial profile. Lasell ended fiscal 2021 with a strong cash-to-adjusted debt of approximately 382% and MADS coverage of 7.1x. While these current liquidity and leverage metrics are above the typical threshold for a 'aa' financial profile assessment, a large debt issuance from the proposed capital projects would likely lead to significant deterioration in key metrics given the community's currently low debt burden, which supports the 'a' financial profile assessment.

Fitch's forward-looking scenario analysis shows Lasell maintaining key liquidity and leverage metrics that are consistent with current levels, assumed routine capex through the outlook period based on the capex budget provided by management. Given the proposed project is in the planning stage, the forward-look does not include any additional debt. Fitch will incorporate project details as they become available.

RATING SENSITIVITIES

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

--An upgrade is considered unlikely until Fitch has been able to evaluate the potential capital projects under consideration. Once Fitch has a better scope of the project and is comfortable with the execution risk involved, an upgrade would be possible if Lasell is able to fund the projects while maintaining cash to debt at or above 200%.

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

--Unexpected sustained compression of Lasell's operating performance, or financial market performance that materially alters Lasell's liquidity profile and results in significantly weaker capital-related ratios.

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>.

CREDIT PROFILE

Lasell is a type A (lifecare) continuing care retirement community located in Newton, MA, that was formed originally in 1990 and opened in 2000 as a component of LU. The community consists of 182 ILUs, nine supported living units and 38 SNFs beds. Residents are offered two lifecare contracts, the original contract that is 90% refundable, and a second contract that offers a declining balance refund over 100 months.

Lasell benefits from a close relationship with LU that includes management and financial oversight. Lasell's current Master Service Agreement with LU was entered into in June 2020, effective July 1, 2020, and expires June 30, 2025. The agreement is comprised of four separate agreements that cover management, educational services, information technology services, and security.

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.

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 ↕
Lasell Village, Inc. (MA)	LT IDR	A Rating Outlook Stable		A Rating Outlook Stable
	Affirmed			
Lasell Village, Inc. (MA) /Issuer Default Rating/1 LT	LT	A Rating Outlook Stable	Affirmed	A Rating Outlook Stable

[VIEW ADDITIONAL RATING DETAILS](#)

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APPLICABLE CRITERIA

[Public Sector, Revenue-Supported Entities Rating Criteria \(pub. 01 Sep 2021\) \(including rating assumption sensitivity\)](#)

[U.S. Public Finance Not-For-Profit Life Plan Community Rating Criteria \(pub. 05 Apr 2022\) \(including rating assumption sensitivity\)](#)

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

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EU Endorsed, UK Endorsed

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