

3 Reasons Greenspring Village, Brookhaven at Lexington Top Fitch's CCRC Ratings

September 19, 2018 by [Chuck Sudo](#)

The continuing care retirement community (CCRC) sector has been on a roll, with a strong economy bolstering seniors' ability to sell their homes and pay entrance fees. But even in an overall hot market, two nonprofit communities are standout performers, being the only CCRCs to currently hold an A+ credit rating from Fitch.

There were few surprises in Fitch Ratings' recently released report on nonprofit CCRCs. The sector remained stable: Fitch upgraded its ratings on two CCRCs, downgraded five and affirmed another 43 through June 30. At the head of the class is Greenspring Village, which is located in Springfield, Virginia and operated by Erickson Living, and Brookhaven at Lexington, in Lexington, Massachusetts.

Additionally, Fitch graded Greenspring Village's ratings outlook as positive, while Brookhaven at Lexington was awarded a stable ratings outlook.

Greenspring Village first earned an A+ rating from Fitch in 2015, Erickson Living Senior Director, Regional Finance Neal Gantert told Senior Housing News.

"An 'A' rating is a primary goal of all fully developed communities," he said.

Brookhaven first earned its A+ rating in 2014 and no longer carries any public debt as of April, Vice President and Chief Financial Officer Erin Finn said.

"The community is no longer required to maintain a Fitch rating. Brookhaven is exploring the option of obtaining a voluntary rating from Fitch in the future," she added.

The foundation for these A+ ratings is built on three factors.

Strong occupancy

Fitch relies heavily on occupancy rates in its reports. The bulk of Greenspring Village's offerings — 80% — are independent living options, and the community is 98% occupied, which is four to five percentage points above the industry average, Gantert said.

Indeed, Greenspring's occupancy may be outpacing the industry by even more than 5 percentage points. For entrance-fee CCRCs, occupancy rates were hovering around 92% in the second quarter of 2018, according to a recent Marcus & Millichap report that drew on data from the National Investment Center for Seniors Housing & Care (NIC). For rental communities, occupancy is dipping toward 89%.

Its high occupancy plays a critical role in Greenspring's financial strength, Gantert said.

Those occupancy rates help with Greenspring's bottom line. The community's operating margins have been stable for several years, at around 16%.

"Fitch loves to see that consistency and it gives them confidence that it is a stable run organization," he said.

Brookhaven's five-year average occupancy is around 96%, and the community maintains a very strong priority wait list, which is an excellent sign of continued interest and demand for its services.

"Brookhaven has very little need for advertising as most referrals are through very satisfied current residents," Finn said.

Diversity of living options

Greenspring Village is able to maintain such a high occupancy rate in large part to its operating profile, which Fitch considers the most critical factor in driving a CCRC's rating. Among other factors, the agency reviews the level of the level of direct and indirect competition within a service area, the economic and demographic characteristics of the area, residential housing market values and trends.

Erickson Living's marketing intelligence group conducts annual surveys to determine its CCRCs' place in their market, along with how much to escalate prices.

Greenspring Village is positioned in the middle of the northern Virginia/Washington, D.C. market, allowing it to capture a large demographic. The nation's capital has undertaken concerted efforts to position itself as a top city for seniors, including the Age-Friendly DC Initiative that was launched in 2012.

Greenspring Village has a range of living options for prospective residents to choose from, Executive Director Chandra Kumar told Senior Housing News. The 58-acre campus includes 1,398 independent living apartments ranging from studios to two-bedroom/two-bathroom units, along with 282 continuing care residences.

"This allows them to enter the CCRC at different price points," Kumar said.

The CCRC expects its success to continue, given the number of baby boomers on the cusp of entering a CCRC.

"That will continue to grow. They know our reputation. Our size and scale allows people greater affordability," Kumar said.

Brookhaven at Lexington's 238 apartments are a mix of one- and two-bedroom apartments, and deluxe two-bedroom units. Most of its residents come from the areas of Lexington, Cambridge and Belmont, with above-average household income and steady demand for housing, and no CCRC competition.

"The steady increase in the senior population, along with an increase in health care costs, drive demand for well run, financially stable communities," Finn said.

Liquidity

Fitch views liquidity metrics as a key rating driver. Liquidity serves as a measure of the financial cushion available to a borrower to absorb the risk of fluctuating occupancy and entrance fee cash flows, variation in payor mix and skilled nursing census, and the associated risks with undertaking capital projects.

Two liquidity metrics Greenspring hones in on are cash on hand and debt service coverage ratio. The former is a measurement of how Greenspring handles finances and how long the community would last if revenues immediately stopped.

“Currently, we have close to 900 days of cash reserves,” Greenspring Village Director of Finance Cody Burns told Senior Housing News.

This is significantly higher the 2017 median ratio of 539.8 days of cash on hand for Fitch’s investment-grade CCRC portfolio.

Greenspring Village also carries as little debt as possible, while maintaining the option to access financing when it is needed or wanted.

“We want to be active in the bond market in case we have a future need, and the market is familiar with us,” Gantert said.

Brookhaven monitors operations and financial strength against various benchmarks, with the two key benchmarks being the Fitch “A” rated category ratios and 75th percentile ratios from the Commission on Accreditation of Rehabilitation Facilities (CARF) — the top 25% of communities accredited by CARF, Finn said.

Brookhaven has been a CARF-accredited community since 1997.

The CCRC tracks these results with its finance and investment committee, as well as a programs and operations committee comprised of both residents and trustees.

“Brookhaven also works closely with a resident budget committee in an effort to be transparent and have the residents understand how programs and services are supported,” Finn said.

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