FitchRatings

FITCH AFFIRMS PECONIC LANDING AT SOUTHOLD, INC. (NY) REVS AT 'BBB-'; OUTLOOK STABLE

Fitch Ratings-New York-04 November 2016: Fitch Ratings has affirmed the 'BBB-' rating on the following bonds issued on behalf of Peconic Landing at Southold, Inc. (Peconic):

--$20,415,000 Southold Local Development Corporation Revenue Bonds, Series 2015 (Peconic Landing at Southold, Inc. Project)

--$28,825,000 Suffolk County Economic Development Corporation revenue refunding bonds series 2010 (Peconic Landing at Southold, Inc. project)

The Rating Outlook is Stable.

SECURITY

Gross revenue pledge, mortgage interest on the land and all buildings except the ILU/Co-op units and a debt service reserve fund.

KEY RATING DRIVERS

PROJECTS RAMPING UP: Peconic finished construction on a large expansion project in April 2016. The project added 46 independent living (IL) apartments, 16 memory care units, and 16 skilled nursing beds. The new units are currently filling up, with 28 of the 46 IL units filled as of Oct. 31, 2016 and four more expected to close in November. Peconic is on schedule to pay off a $16.5 million short-term construction loan by June 30, 2017, which would eliminate a material credit concern.

SOFTER PERFORMANCE DURING CONSTRUCTION: Peconic's operating performance weakened during the construction period, with the operating ratio rising to 98.6% in 2015, after averaging 92.1% over the prior three audited years, and rising above 100% in the six month interim period. However, the softening in performance is not expected to continue as the completed projects come on line over the next year, which should add revenue from the projects coming on line over the next year.

GOOD MTI COVERAGE: Debt service coverage per the MTI covenant calculation was good at 1.9x in 2015. That calculation uses debt service of $2.1 million and does not include the debt issued in 2015 for the construction project. Maximum annual debt service (MADS) that includes the 2015 debt is $3.6 million, and Peconic covered that at 1.2x in 2015 and 1.3x in the six month 2016 interim period. Peconic will not be tested on the new MADS until the IL units reach stable occupancy, which is expected in 2017. Fitch expects the additional revenue from new units to raise Peconic's coverage closer to the 2x median once stabilization is reached.

STABLE LIQUIDITY: Unrestricted cash and investment have remained stable through the two year construction period. Peconic had $28.9 million in unrestricted cash and investments as of June 30, 2016, which equated to 423 days cash on hand and 64.1% cash to debt, both of which compare well to Fitch's 'BBB' category medians of 425 days and 57.4%.

ADDITIONAL CREDIT STRENGTHS: Peconic has limited competition in a very good service area, and benefits from a large and attractive campus, which includes a private beach, located on the North Fork of eastern Long Island. This has supported a good demand for services with IL occupancy averaging 95% over the last four audited years. The state of New York recently approved Peconic to begin to offer a Type 'C' contract. Fitch views this addition as a credit positive, increasing the pool of potential residents to whom Peconic can market.

RATING SENSITIVITIES

POST FILL UP PERFORMANCE: Peconic Landing at Southold, Inc. (Peconic) should have another soft year of performance in 2016, but performance should improve in 2017 as occupancy on the new independent living units reaches stabilization.

MEDIUM-TERM MOMENTUM: Once Peconic pays down the short-term construction loan and IL occupancy stabilizes, an improvement in Peconic's coverage to Fitch's 'BBB' median, coupled with its already solid balance sheet, could lead to positive rating pressure over the two to three year time period.

CREDIT PROFILE

Peconic is located on the North Fork of Long Island and consists of 109 single-story cottages, 187 apartments, 26 enriched housing units (assisted living units), 16 memory care units, and 60 skilled nursing beds. In 2015, Peconic had total operating revenue of $23.9 million.

Capital Project Update

Peconic completed a major repositioning and expansion project, with the first residents moving into the new IL apartments in April. Even with a small delay due to the harsh winter of 2015, the project came in largely on time and was under budget. The project added 46 IL apartments, 16 memory care units, and 16 skilled nursing beds.

As of Oct. 31, 2016, 28 of the 46 IL apartments have been occupied, with three more closings scheduled for early November; 11 of the 16 memory care units are occupied; 21 of 26 assisted living units are occupied, with three move-ins scheduled by December; and 54 of the 60 skilled nursing beds are occupied.

Peconic has a $16.5 million short-term bank construction loan, which it plans to pay off with the new IL entrance fee receipts by June 2017. Fitch notes as a positive the strong early trajectory of move-ins. In addition, the remaining stock of new IL apartments haven been reserved and there is a waitlist of eight for those apartments. The waitlist for Perconic's current stock of IL cottages and apartments at 100 prospective residents remains good as well.

Separately, Fitch notes that Peconic recently received approval from the state of New York to add a Type 'C' contract to its current Type 'A' contract offerings. Peconic has a new marketing plan in place for the contract that it plans to roll out over the next few months. Fitch views the Type 'C' contract as a credit positive, believing it will help expand the pool of potential residents, especially those interested in the cottages, which generally attract younger seniors who are better suited for the Type 'C' contract.

Debt Structure/Debt Burden

All of Peconic's long-term debt is fixed. The short-term construction loan, which is with Citizen's Bank, is floating rate. The operating covenants provided to the bank are not materially different from the covenants provided to the series 2015 bondholders. In addition, Peconic has a strong liquidity position relative to the debt it needs to pay down.

Debt metrics show Peconic's debt levels as elevated. At June 30, 2016, MADS as a percent of revenue of 14.8% and debt to net available of 9.2x were above the category medians of 12.7% and 6.3x. However, Fitch expects these figures to moderate as the debt amortizes and the projects are finished and come online, which will provide additional revenue and operating income.

Disclosure
Peconic covenants to provide to the Municipal Securities Rulemaking Board's Electronic Municipal Market Access System (EMMA) audited financial statements within 120 days after the end of each fiscal year and quarterly financials within 45 days after the end of each quarter.

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Applicable Criteria
Not-for-Profit Continuing Care Retirement Communities Rating Criteria (pub. 04 Aug 2015)
https://www.fitchratings.com/site/re/868824
Revenue-Supported Rating Criteria (pub. 16 Jun 2014)
https://www.fitchratings.com/site/re/750012