FITCH AFFIRMS VENTAS AT 'BBB+' AFTER E&Y DISMISSAL; RE-AUDIT TIMING AND RESULTS ARE KEY

Fitch Ratings-New York-11 July 2014: Fitch Ratings has affirmed the 'BBB+' Issuer Default Rating (IDR) for Ventas, Inc. (NYSE: VTR, Ventas or the company) with a Stable Outlook following the company's announcement that it dismissed Ernst & Young (E&Y) as its public accounting firm. According to a Ventas SEC filing, the dismissal is solely the result of an 'inappropriate personal relationship' between an E&Y partner and VTR's former chief accounting officer and controller, and does not relate to the fairness of the presentation of VTR's financial statements or effectiveness of its internal controls. Fitch does not expect the announcement to result in a change in the company's long-term credit profile.

E&Y has withdrawn its 2012 and 2013 VTR audit reports. In addition, the company's SEC shelf registration is now ineffective since E&Y provided consent under the previous shelf as VTR's auditor. Consequently, VTR is unable to issue public securities until its newly engaged auditor, KPMG LLP (KPMG), completes its audit of the company's 2012 and 2013 financial statements. Fitch expects that KPMG's audit of these statements will be completed well in advance of the previously announced acquisition of American Realty Capital Healthcare Trust, Inc. (NASDAQ: HCT or ARC Healthcare), at which point the company would be able to resume the issuance of public securities.

Fitch also expects the company to receive a waiver in the near term from its unsecured line of credit lenders regarding a clause in the credit agreement that requires the filing of financial statements by an independent auditor, which will enable the company to draw on the line. Additionally, under the indenture governing the Ventas bonds (but not bonds originally issued by Nationwide Health Properties, Inc.), Ventas has 90 days to comply with certain events of default, including the furnishing of financial statements audited by an independent auditor. A remedy for failure to comply with such provisions is the bondholders' right to receive additional interest of 0.25% until this event of default is cured, but it does not trigger an acceleration of repayment of the bonds.

In June 2014, Fitch affirmed VTR's 'BBB+' IDR upon the announcements that the company will acquire HCT in a stock and cash transaction valued at $2.6 billion and will acquire 29 independent living seniors housing communities located in Canada from Holiday Retirement to be managed by Atria Senior Living in a separate transaction for CAD $980 million. These transactions are expected to close in the fourth quarter of 2014 (4Q'14) and 3Q'14, respectively. Ventas could fund the Holiday Retirement transaction with its unsecured revolving credit facility following the receipt of a waiver. A portion of the consideration of the HCT merger is the issuance of Ventas common shares. Therefore, if the KPMG audit is not completed in advance of the HCT merger deadline and if VTR's shelf remains ineffective, VTR and HCT could agree to extend the VTR-HCT merger close. Under the merger agreement, the initial deadline of the merger close is Jan. 31, 2015, however, under certain conditions the close may be extended until May 31, 2015.

Fitch's expectation of liquidity coverage sustaining below 1.0x is one of several sensitivities for negative pressure on the ratings. This ratio is 0.7x pro forma for the closing of the Holiday and HCT transactions, but expected to improve to 1.7x pro forma for a long-term unsecured debt incurred prior to the closing of these transactions.

KEY RATING DRIVERS

The affirmation contemplates that the re-audit by KPMG will be completed well in advance of the HCT merger close. The 'BBB+' rating takes into account that the HCT and Holiday Retirement transactions will augment an already well-diversified healthcare real estate portfolio and that to-be-acquired seniors housing operating assets are located in areas with strong demographics. The transactions will also increase the percentage of VTR's net operating income derived from private pay sources, decrease manager/operator concentration and slightly improve fixed-charge coverage.

These strengths are offset by an expected increase in leverage and near-term weakening of liquidity prior to long-term debt incurrence. The company's strong access to capital, low adjusted funds from operations (AFFO) payout ratio and solid unencumbered asset coverage ratios mitigate liquidity risk.

Strategically Consistent Transactions Augment Diversification

As of March 31, 2014 and pro forma for the ARC Healthcare and Holiday Retirement transactions, seniors housing operating assets that utilize RIDEA (REIT Investment Diversification and Empowerment Act)-compliant structures will comprise 30% of net operating income (NOI) compared with 28% previously. Seniors housing triple net leased assets will comprise 24% of NOI compared with 26% previously. Skilled nursing facility and medical office building NOI will each make up 18% of NOI compared with 19% and 16%, respectively, in 1Q'14. Property type diversification has led to a stable stream of cash flows over the company's history and continues to contribute strong same-store NOI (SSNOI) growth, which supports operating performance through the cycle. However, the terms of the transactions suggest rich portfolio valuation (the combined unlevered capitalization rate for the ARC Healthcare and Holiday Retirement transactions is 6%), resulting in less clarity surrounding VTR's growth prospects.

NOI derived from private pay sources will increase slightly to 75% pro forma compared with 74% in 1Q'14, incrementally reducing exposure to risks related to government reimbursement. Private pay revenue sources comprise 82% of ARC Healthcare revenues while the Holiday Retirement communities to be managed by Atria Senior Living are all private pay.

Strong portfolio demographics (i.e., median household income, population and related growth for the 75+ year old cohort) for ARC Healthcare and Holiday Retirement seniors housing operating assets should support cash flow growth going forward. In addition, of the 143 ARC Healthcare assets, 78 are medical office buildings that are over 97% occupied and that are 77% on campus or health-system affiliated, compared with the Ventas MOB portfolio as of March 31, 2014, which had 91.2% occupancy and which was 96% on campus or health-system affiliated.

Manager/operator concentration will decline in the aggregate as a result of the transactions. While Atria will comprise 18% of NOI compared with 17% previously, Kindred and Sunrise will decline to 11% and 10% of NOI, respectively, pro forma compared with 12% and 11%, respectively, in 1Q'14.

Increase in Leverage

Fitch expects leverage will remain elevated for the current rating. As of March 31, 2014, pro forma for the ARC Healthcare and Holiday Retirement transactions, net debt to recurring operating EBITDA increases to 6.0x assuming a 10% cash election, up from 5.6x in 1Q'14. Leverage would be just below 6.0x assuming a cash election less than 10%. This is up slightly compared with 5.8x as of Dec. 31, 2013 and 5.7x as of Dec. 31, 2012. Leverage has been high due to the timing of recent mergers and acquisitions including the Cogdell Spencer, NHP and Atria acquisitions since 2011.

Fitch anticipates that leverage will approach the mid-5x range over the next 12 to 24 months, due to expectations of ongoing balanced access to unsecured debt and equity markets coupled with Fitch's projection of low-single digit same-store NOI growth. In a stress case not anticipated by Fitch in which operational volatility results in flat same-store NOI, leverage would sustain in the high-5x range, which would be weak for the rating.

Strong Fixed-Charge Coverage

Fitch expects continued above-average SSNOI performance across the healthcare REIT space for the remainder of 2014, partially driven by increasing exposure to RIDEA assets, which are experiencing outsized growth relative to triple-net assets, although the pace of growth is slowing. Ventas generated year-over-year same-store cash NOI growth of 3.7% in 1Q'14, including 4.1% for triple-net assets, 4.5% for seniors housing operating assets and 1.6% for medical office buildings. For full-year 2013, year-over-year same-store cash NOI grew by 5%, including 4.7% for triple-net assets, 6% for seniors housing operating assets and 3.7% for medical office buildings.

Fitch projects that the company's fixed charge coverage ratio is 4.0x in 1Q'14 pro forma assuming a 10% cash election, compared with 4.3x for the trailing 12 months ended March 31, 2014, 4.3x in 2013 and 4.4x in 2012. Fitch has assumed combined NOI contribution of $227.5 million, offset by increased capital expenditures related to seniors housing operating assets and increased interest expense related to assumed ARC Healthcare mortgage debt and long-term unsecured debt incurrence, including $300 million 1.25% senior unsecured notes and $400 million 3.75% senior unsecured notes issued in April 2014. Fixed-charge coverage is strong for the 'BBB+' rating. Fitch defines fixed-charge coverage as recurring operating EBITDA less recurring capital expenditures less straight-line rent adjustments divided by total interest incurred.

Fitch projects low single-digit SSNOI growth will result in coverage sustaining in the low-to-mid-4x range over the next 12 to 24 months, which is strong for a 'BBB+' rating. In a stress case not anticipated by Fitch in which operational volatility results in SSNOI declines, coverage would fall just below 4x, which would remain commensurate with a 'BBB+' rating.

Strong Access to Capital and Unencumbered Pool Mitigate Liquidity Risk

Liquidity coverage, defined as liquidity sources divided by uses, was strong at 1.9x for the period April 1, 2014 through Dec. 31, 2015 pro forma for the April bond offerings but declines to 0.7x pro forma for the ARC Healthcare and Holiday Retirement transactions prior to long-term unsecured debt incurrence to fund the transactions. Liquidity sources include unrestricted cash and availability under the unsecured revolving credit facility pro forma for the 2017 and 2024 notes offerings and ARC Healthcare and Holiday Retirement transactions, and projected retained cash flows from operating activities after dividends. Liquidity uses include pro rata debt maturities, projected recurring capital expenditures, and projected development expenditures.

Assuming that the company incurs long-term unsecured debt prior to the closing of the transactions, liquidity coverage would improve to 1.7x. This ratio would improve to 2.6x assuming an 80% refinance rate on 2014 - 2015 secured debt maturities.

Over the past 12 months, Ventas has been active in the unsecured bond market, unsecured term loan and common equity markets, including via an at-the-market equity offering program. In December 2013, the company entered into a new $3 billion unsecured credit facility that replaced its previous $2 billion unsecured revolving credit facility, as well as three unsecured term loans. The new unsecured credit facility is comprised of a $2 billion revolving credit facility initially priced at LIBOR plus 1%, and a $200 million four-year term loan and an $800 million five-year term loan, each initially priced at LIBOR plus 1.05%.

Fitch calculates that the company's dividends and distributions represented 77.5% of normalized funds from operations (FFO) adjusted for capital expenditures and straight-line rent in 1Q'14, which indicates good retained liquidity generated from operating cash flow. In addition, Ventas has good contingent liquidity with unencumbered assets (annualized unencumbered NOI divided by a stressed 8.5% capitalization rate) covering net unsecured debt by 2.1x as of March 31, 2014 pro forma, compared with 2.3x previously.

Parent-Subsidiary Linkage

Based on Fitch's criteria report, 'Corporate Rating Methodology Including Short-Term Ratings and Parent and Subsidiary Linkage,' dated May 28, 2014, the Ventas merger with NHP in July 2011 resulted in a parent-subsidiary relationship whereby NHP is a wholly owned subsidiary of Ventas, Inc. Prior to the merger, NHP previously had stronger standalone credit metrics including lower leverage and higher fixed-charge coverage. Given the stronger subsidiary credit profile, combined with strong legal and operating ties (e.g. common management and a centralized treasury), the IDRs of Ventas and NHP are linked and are expected to remain the same going forward. The IDRs are based on the financial metrics and credit profile of the consolidated entity.

Stable Outlook

The Stable Outlook reflects Fitch's base case that fixed-charge coverage will sustain around 4x which is strong for a 'BBB+' rated healthcare REIT, offset by leverage sustaining around 5.5x, which is weak for a 'BBB+' rated healthcare REIT. The company currently has sufficient liquidity to fund the Holiday Retirement transaction. Fitch anticipates that KPMG will complete its re-audit well in advance of the HCT merger and that the company's shelf registration will become effective prior to the closing of the HCT merger to improve liquidity.

RATING SENSITIVITIES

The following factors may result in positive momentum on the ratings and/or Outlook:

--Fitch's expectation of fixed-charge coverage sustaining above 4.0x (pro forma fixed-charge coverage is 4.0x);
--Fitch's expectation of leverage sustaining below 4.0x (pro forma leverage is 6.0x);
--Fitch's expectation of unencumbered asset coverage of unsecured debt (UA/UD) at a stressed 8.5% capitalization rate sustaining above 4.0x (this ratio is 2.1x pro forma).

The following factors may result in negative momentum on the ratings and/or Outlook:

--A prolonged re-audit process (Fitch anticipates that the re-audit will be completed well in advance of the closing of the HCT merger);
--A restatement of financial statements stemming from the re-audit or discovery by KPMG of ineffective internal controls;
--Fitch's expectation of liquidity coverage sustaining below 1.0x (this ratio is 0.7x pro forma but expected to improve to 1.7x pro forma for a long-term unsecured debt incurred prior to the closing of the ARC Healthcare and Holiday Retirement transactions);
--Fitch's expectation of fixed-charge coverage sustaining below 3.0x;
--Fitch's expectation of leverage sustaining above 5.5x;
--Fitch's expectation of UA/UD sustaining below 3.0x.

Fitch has affirmed the ratings as follows:

Ventas, Inc.
--Issuer Default Rating (IDR) at 'BBB+';
--$2 billion unsecured revolving credit facility at 'BBB+';
--$1 billion senior unsecured term loans at 'BBB+';
--$5.9 billion senior unsecured notes at 'BBB+'.

Nationwide Health Properties, LLC (NHP)
--IDR at 'BBB+';

--$234.4 million senior unsecured notes at 'BBB+'.

The Rating Outlook is Stable.

Contact:

Primary Analyst
Sean Pattap
Senior Director
+1-212-908-0642
Fitch Ratings, Inc.
33 Whitehall Street
New York, NY 10004

Secondary Analyst
Steven Marks
Managing Director
+1-212-908-9161

Committee Chairperson
Rolando Larrondo
Senior Director
+1-212-908-9189

Media Relations: Sandro Scenga, New York, Tel: +1 212-908-0278, Email: sandro.scenga@fitchratings.com.

Additional information is available at 'www.fitchratings.com'.

Applicable Criteria and Related Research:
-- 'Corporate Rating Methodology Including Short-Term Ratings and Parent and Subsidiary Linkage' (May 28, 2014);
--'Rating U.S. Equity REITs and REOCs: Sector Credit Factors,' (Feb. 26, 2014);
--'Recovery Ratings and Notching Criteria for Equity REITs' (Nov. 19, 2013).

Applicable Criteria and Related Research:
Corporate Rating Methodology - Including Short-Term Ratings and Parent and Subsidiary Linkage
http://www.fitchratings.com/creditdesk/reports/report_frame.cfm?rpt_id=749393
Rating U.S. Equity REITs and REOCs (Sector Credit Factors)
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