

Rating Action: Moody's affirms Ventas's Baa1 ratings; outlook revised to stable

01 Aug 2022

New York, August 01, 2022 -- Moody's Investors Service ("Moody's") has affirmed the ratings of Ventas Inc.'s subsidiaries, including the Baa1 senior unsecured ratings of Ventas Realty, Limited Partnership, Ventas Canada Finance Limited, and Nationwide Health Properties, Inc. Moody's also assigned a (P)Baa2 preferred stock shelf rating to Ventas, Inc. The ratings outlook has been revised to stable from negative. The ratings affirmation reflects Ventas's market positioning as one of the largest healthcare REITs, as well as its diversification among property types, business models and operators within the healthcare real estate market. Ventas also benefits from modest secured debt levels, a large and high quality unencumbered asset pool and good liquidity.

The stable outlook reflects the REIT's improving cash flows, as its senior housing operating portfolio (37% of 1Q22 income) continues to recover income lost through the first year of the pandemic. Senior housing demand remains strong, and we expect rising cash flow will drive further reductions in Ventas's leverage. The pace of recovery will be largely dependent on the direction of labor costs, but we expect Ventas's Net Debt/EBITDA will be back within its targeted range by year-end 2023.

The following ratings were affirmed:

Ventas Realty, Limited Partnership -- Backed senior unsecured debt at Baa1; Backed senior unsecured shelf at (P)Baa1; Backed commercial paper program at P-2

Ventas Canada Finance Limited -- Backed senior unsecured debt at Baa1

Nationwide Health Properties, Inc. -- Backed senior unsecured debt at Baa1; senior unsecured debt at Baa1

The following rating was assigned:

Ventas, Inc. -- Backed preferred stock shelf at (P)Baa2; Backed non-cumulative preferred stock shelf at (P)Baa2

Outlook Actions:

Issuers: Ventas Realty, Limited Partnership; Ventas Canada Finance Limited; Nationwide Health Properties, Inc.

Outlook, changed to stable from negative

Issuer: Ventas, Inc.

Assigned stable outlook

RATINGS RATIONALE

Ventas's Baa1 senior unsecured rating reflects its large size and diversification by property type and business model with a mix of senior housing operating assets (37% of NOI), senior housing triple-net leases (14%), medical office buildings (21%), life sciences/research and innovation properties (9%), long-term acute care/inpatient rehab facilities (8%), and acute care hospitals (7%). Additional credit strengths include Ventas's modest book leverage, low secured debt levels, strong fixed charge coverage, and a large pool of high-quality unencumbered assets that enhances financial flexibility.

Key credit challenges include Ventas's high leverage with Moody's Net Debt/EBITDA at 7.1x for 1Q22 (Last Quarter Annualized). Leverage has increased due to the steep cash flow declines experienced in the REIT's senior housing operating portfolio through the pandemic, which took a toll on occupancy and operating expenses. Ventas's diversification has mitigated senior housing declines as its other asset classes have been a source of stability and growth.

Positively, senior housing is demonstrating strong demand with occupancy steadily improving since 1Q21. The REIT has also been able to pass through historically high rental rate increases to existing residents which we expect to drive continued revenue and margin improvement. Strong rental rate increases are helping to offset the impact of persistently high labor costs, which remains a challenge tempering the pace of recovery. Low levels of new supply and positive demographic trends will support the industry's growth over the next several years.

Ventas maintains good liquidity. The REIT had \$2.2 billion of liquidity as of 1Q22 including \$2.1 billion of revolver availability and \$100 million cash. The line of credit matures in January 2025 before extension options. Upcoming maturities are manageable with \$382 million coming due in 2022 and \$740 million in 2023. Capital needs increase with \$1.7 billion of debt maturing in 2024, but Ventas has historically maintained strong access to multiple sources of public and private capital. Ventas's large and high quality unencumbered asset pool further supports financial flexibility.

The stable outlook reflects the steady improvement in Ventas's senior housing operations and our expectation that rising cash flow will lead to further leverage declines over the coming year.

FACTORS THAT COULD LEAD TO AN UPGRADE OR DOWNGRADE OF THE RATINGS

Ventas's ratings could be downgraded if Net Debt/EBITDA were expected to remain above 6.5x on a sustained basis. Persistent operating weakness within the SHOP portfolio and concerns about the REIT's growth outlook could also lead to a downgrade. Fixed charge coverage below 3.5x would also lead to ratings pressure.

A ratings upgrade is unlikely over the intermediate term but would require Net Debt to EBITDA below 5.0x and effective leverage closer to 30% on a gross asset basis. Secured debt remaining below 10% of gross assets, fixed charge coverage above 4.5x, and reduced operator/manager concentration (top two less than 20% of NOI combined) would also support a ratings upgrade.

The principal methodology used in these ratings was REITs and Other Commercial Real Estate Firms Methodology published in July 2021 and available at <https://ratings.moodys.com/api/rmc-documents/74168>. Alternatively, please see the Rating Methodologies page on <https://ratings.moodys.com> for a copy of this methodology.

Ventas, Inc. [NYSE: VTR] is a healthcare REIT with a diverse portfolio of more than 1,200 assets in the United States, Canada, and the UK consisting of seniors housing communities, medical office buildings, university-based research and innovation centers, inpatient rehab facilities and long-term acute care facilities, health systems and skilled nursing facilities.

REGULATORY DISCLOSURES

For further specification of Moody's key rating assumptions and sensitivity analysis, see the sections Methodology Assumptions and Sensitivity to Assumptions in the disclosure form. Moody's Rating Symbols and Definitions can be found on <https://ratings.moodys.com/rating-definitions>.

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