Fitch Ratings

Fitch Affirms Ventas at 'BBB+'; Assigns First-Time CP Rating

Fitch Ratings - New York - 18 January 2019: Fitch Ratings has affirmed the ratings of Ventas, Inc. (NYSE: VTR), including the Issuer Default Rating (IDR), at 'BBB+' and maintained the Rating Outlook at Stable. Fitch has also assigned a 'F2' short-term rating to Ventas Realty, L.P.'s commercial paper program. A full list of rating actions is provided below.

The 'BBB+' ratings and Stable Outlook reflect the issuer's diversified health care real estate portfolio, its strong and improving credit metrics and above-average access to capital in the REIT sector. Partially offsetting these strengths is the potential for higher volatility in operating cash flows through the cycle given the company's ownership of senior housing operating properties where it is exposed to the operating cash flows rather than triple-net leased properties. The ratings also consider the extent to which Ventas is willing to pursue large transactions, particularly into less favored and/or fragmented sectors where it believes it can achieve higher returns as a consolidator. Fitch believes investments in such sectors may generate higher yields but, by definition, do not benefit from the same depth of demand from lenders or buyers and thus may not provide the same degree of contingent liquidity.

RATING ACTIONS

ENTITY/DEBT	RATING		PRIOR
Ventas Canada Finance Limited			
senior unsecured	LT BBB+ Affirmed		BBB+
Ventas Realty, Limited Partnership	LT IDR BBB+ ○ Affirmed		BBB+ ○
	ST IDR F2 New Rating		
senior unsecured	LT BBB+ Affirmed		BBB+
senior unsecured	ST F2 New Rating		
Ventas, Inc.	LT IDR BBB+ ○ Affirmed		BBB+ ○
Ventas Capital Corporation			
senior unsecured	LT BBB+ Affirmed		BBB+

KEY RATING DRIVERS

Leverage Moderated; Consistent with Financial Policies: Fitch anticipates Ventas' leverage will sustain in the mid- to high-5x range through 2021, which is adequate for a 'BBB+' rated healthcare REIT and consistent with their financial policies that inform the rating. VTR largely used disposition proceeds and loan repayments to retire debt, bringing leverage to 5.4x for the TTM ending Sept. 30, 2018. Fitch expects VTR will continue to fund net acquisitions and development primarily through dispositions, assuming low-single-digit same-store growth.

Durable Operating Cash Flow Despite Headwinds: More durable cash flows as a result of portfolio diversification by property type is a key tenet of healthcare REIT ratings. This expectation has largely come to fruition with strength in the medical office building and university-based life science and innovation portfolios blunting some of the effects of headwinds in senior housing. A primary factor supporting VTR's ratings is the durability of operating cash flows with same-store net operating income (SSNOI) growth of 1.3%-2.6% in the first three quarters of 2018 despite senior housing operating performance of -3.1% to 0.7%.

Senior housing is the most oversupplied commercial real estate sector as measured by deliveries as a percentage of inventory with developers outpacing the rate at which the aging demographics have demanded it. Healthcare REITs, including VTR, have responded to tenant operators' declining capacity to meet rent through some combination of rent reductions, joint closure and/or sale of underperforming facilities and conversion of some leased properties to RIDEA where the REIT realizes the underlying property's economics. Fitch views these changes to be prudent long-term actions by REITs despite obvious negative effects of foregone rental revenue, the potential for higher RIDEA exposure and the potential influence of these actions on cost of and access to capital.

Higher Operating Exposure Increases Direct Volatility: Senior housing properties where VTR realizes the operating performance economics (i.e. RIDEA) comprised 31% of NOI and 56% of annualized revenue at Sept. 30, 2018. Fitch views the contractual and visible cash flows provided by triple-net leases more favorably than those from RIDEA assets assuming comparable property quality and cost. Fitch's ratings for VTR and other healthcare REITs with RIDEA portfolios have assumed that the through-cycle operating cash flow volatility will be comparable to multifamily. This assumption is based on both the resident length of stay /lease terms and reported operating performance for senior housing operators when public. Fitch is paying particular attention to how REITs with material senior-housing operating portfolios perform, as this is the first test of how they will perform through a cycle given they were principally triple-net leased portfolios during the last cycle.

Stable Management Team, Willing to Pivot: Ventas' management team is tenured and well-regarded within the industry. Ventas had the foresight to divest of its skilled nursing portfolio through the Care Capital Properties spin-off, ahead of the deterioration in tenant operating fundamentals that has led to the tenant bankruptcy and lease restructurings currently underway elsewhere. Fitch views Ventas' management team as a factor in its above-average access to capital.

Partially balancing these positives is Ventas' willingness to pivot the portfolio into fragmented asset classes via large transactions (i.e. the foray into hospitals via the Ardent Health Services transactions in 2015 and 2017 and university-based life science and innovation assets via the Wexford transaction in 2016). On the margin, the transactions do not materially alter VTR's credit profile from a qualitative or quantitative perspective given offsetting elements across the transactions. Instead they demonstrate the issuer pursuing large transactions to enter or exit sub-sectors, particularly into less favored/fragmented ones where it believes it can achieve higher returns as a consolidator. While the less favored asset classes such as hospitals may generate higher yields, they do not benefit from the same depth of demand from lenders or buyers and, thus may not provide unsecured bondholders with the same contingent liquidity.

Stable Outlook: The Stable Outlook reflects Fitch's expectation that leverage will sustain in the 5.5x-6x range that the 'BBB+' rating considers. Future positive momentum will be governed by the issuer's financial policies coupled with the quality of its assets relative to the broader REIT universe and access to capital relative to the broader Corporates universe. Future negative momentum will likely be governed by unforeseen tenant credit issues or a larger than expected downturn in senior housing.

DERIVATION SUMMARY

Ventas' ratings reflect the issuer's diversified and high quality portfolio of healthcare real estate and its conservative financial policies. The ratings also reflect Ventas' above-average access to capital relative to both healthcare REITs specifically and the broader REIT universe. Ventas and Welltower, Inc. (BBB+/Stable) are the highest rated healthcare REITs due to the generally comparable aforementioned factors. Both REITs are rated above HCP, Inc. (BBB/Positive), though Fitch expects the gap in leverage and access to capital between the issuers is narrowing after HCP's asset sales and equity issuance. The three largest healthcare REITs are rated higher than smaller and/or more narrowly focused healthcare REITs such as Healthcare Realty Trust (BBB/Positive), Sabra Health Care REIT (BBB-/Negative) and Omega Healthcare Investors, Inc. (BBB-/Stable) due to relative access to capital and Sabra Health Care REIT's and Omega Healthcare Investors, Inc.'s larger exposure to skilled nursing facilities. Fitch links and synchronizes the IDRs of the parent REIT and subsidiary operating partnership due to the entities operating as a single enterprise with strong legal and operational ties

KEY ASSUMPTIONS

- VTR SSNOI growth is in the low-single-digits with the MOB and university-based life science properties offsetting some of the senior housing headwinds;
- VTR funds net investment activity with some combination of dispositions and/or equity such that leverage sustains at least below 6x;
- VTR continues to maintain stronger relative access to capital than most other healthcare REITs.

RATING SENSITIVITIES

While Fitch does not envision positive rating momentum in the near term, the following may have a positive impact on VTR's ratings and/or Outlook:

Developments That May, Individually or Collectively, Lead to Positive Rating Action
- Fitch's expectation of leverage (net debt to recurring operating EBITDA) sustaining below 4.5x;
- Fitch's expectation of fixed-charge coverage sustaining above 4x;
- Fitch's expectation of unencumbered asset coverage of unsecured debt (UA/UD), at a stressed 8.5% capitalization rate, sustaining above 4x;
- Demonstrated market-leading capital markets access across the broader REIT universe and comparable to 'A' category Corporates.

Developments That May, Individually or Collectively, Lead to Negative Rating Action
- Increased cash flow volatility through-the-cycle due to RIDEA exposure. Change in same-store net operating income may be a proxy for comparable cash flow from operations;
- Fitch's expectation of leverage (net debt to recurring operating EBITDA) sustaining above 6x;
- Fitch's expectation of fixed-charge coverage sustaining below 3x.

LIQUIDITY AND DEBT STRUCTURE

Liquidity Coverage Appropriate: Fitch estimates VTR's sources of liquidity (unrestricted cash, availability under its $3 billion revolving credit facility, and retained FCF after projected acquisitions and divestitures) to be sufficient to cover debt maturities and other committed expenditures by almost 3x through 2019. VTR maintains $2.5 billion of capacity on its unsecured revolver at Sept. 30, 2018 and has a well-laddered debt maturity schedule with no year of maturities at 10% or more of total debt until 2022.

Appropriate Contingent Liquidity: VTR's dividend policies do not have a material influence on the rating. The company neither retains significant amounts of capital with a below average payout ratio nor does it payout more than it generates. Fitch estimates that unencumbered assets cover unsecured debt by more than 2x on a stressed basis, which is above the 2x level typical of investment grade REITs. VTR's has historically maintained coverage around 2.0x, but has periodically dropped below that level.

SUMMARY OF FINANCIAL ADJUSTMENTS

Historical and projected recurring operating EBITDA is adjusted to add back non-cash stock-based compensation and include operating income from discontinued operations.

Additional information is available on www.fitchratings.com

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Applicable Criteria

Corporate Rating Criteria (pub. 23 Mar 2018) (/site/re/10023785)
Corporates Notching and Recovery Ratings Criteria (pub. 23 Mar 2018) (/site/re/10024585)
Parent and Subsidiary Rating Linkage (pub. 16 Jul 2018) (/site/re/10036366)

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