STANDARD & POOR'S

RESEARCH UPDATE

Ventas Inc. Outlook Revised To Positive On Improved Financial Risk Profile

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Overview

- Real estate investments trusts operating in the healthcare sector have generally benefited from relatively steady cash flow during the current economic downturn.
- Chicago-based Ventas Inc. reduced its debt burden and lessened its near-term refinancing obligations over the past 12 months.
- We revised our outlook on Ventas to positive from stable and affirmed the 'BBB-' corporate credit rating.
- The positive outlook reflects our view that Ventas is now better positioned to absorb temporary diminution in rent if one or more of its tenants or property managers fails to fully meet their contractual obligations.

Rating Action

On March 5, 2010, Standard & Poor's Ratings Services revised its outlook on Ventas Inc. and its operating subsidiaries to positive from stable. At the same time, we affirmed our 'BBB-' corporate credit rating on the company as well as our 'BBB-' rating on approximately $1.1 billion of senior unsecured notes (see list).

Rationale

We revised our outlook to positive to reflect recent improvements in this Chicago-based healthcare REIT's financial risk profile. Specifically, Ventas has meaningfully reduced its debt burden and lessened its near-term refinancing obligations over the past 12 months. Consequently, we believe the REIT now has adequate capacity to absorb temporary diminution in rents that could result if one or more of its unrated tenants or property

managers fail to meet their contractual obligations. Although counterparty risk remains a key credit factor, the REIT's appropriately capitalized balance sheet, adequate liquidity, and solid coverage of rent at the operator level continue to support our current ratings.

Ventas is the nation's second-largest healthcare REIT and an S&P 500 constituent, with an equity market capitalization of about $7 billion. Ventas owns 244 senior housing facilities, 187 skilled nursing facilities, 40 hospitals, and 34 medical office buildings and other healthcare properties. The company derives approximately 77% of its net operating income (NOI) from triple net leases that insulate the REIT's cash flow from volatility in revenue and expenses at the tenant level. Operator cash flow before management fees covered rent by roughly 1.8x during the quarter ended Sept. 30, 2009 (the most recent available). However, Standard & Poor's does not rate some of Ventas' leading tenants, such as Kindred Healthcare and Brookdale Senior Living (which together account for 58% of NOI), and their credit quality is undetermined.

Furthermore, Ventas derives 23% of its NOI from a portfolio of medical office buildings and senior housing assets that it owns and operates directly through a taxable REIT subsidiary. Ventas is directly exposed to cash flow volatility at these properties. Sunrise Senior Living Inc. manages the senior housing properties. Sunrise is an unrated public company that is highly leveraged and currently in default under a number of its financial obligations. Although Sunrise is not a tenant and does not pay rent directly to Ventas, it is our opinion that cash flow at the assets Sunrise manages would likely decline temporarily if the company cannot fulfill its obligations under the management agreements. These agreements do contain performance-based termination rights that would allow Ventas to replace Sunrise under certain circumstances.

After repaying $478 million of net debt in 2009 (15% of the previously outstanding total), Ventas is now better positioned to absorb a temporary decrease in rent. The company repaid the debt with proceeds from a $300 million equity offering, a $200 million unsecured note sale (net proceeds $169 million), and the disposition of $154 million of real estate (at a $67 million profit). At year-end 2009, debt totaled $2.7 billion and comprised $1.6 billion of mortgages, $1.1 billion of senior unsecured notes, and just $8 million outstanding on an unsecured revolving credit facility. These obligations have an average weighted maturity of five years and an average interest rate of about 6%. Leverage was 52% on a book-value basis on Dec. 31, 2009 (down from 59% on Dec. 31, 2008), and funds from operations (FFO) covered related interest expense, capitalized interest, and regularly scheduled principal amortization by 2.9x in 2009 (up from 2.6x in 2008).

Liquidity

Liquidity is more than sufficient, in our view, to meet the REIT's near-term financial obligations. These obligations include $174 million of mortgage maturities through the end of 2010, which we expect the company to refinance with new secured debt. A $102 million 2010 unsecured note maturity was addressed by an April 2009 tender offer that also reduced 2012, 2014, and 2015 maturities by $205 million. Other financial obligations include roughly $320 million of common dividends, which FFO covered by about 1.1x. We expect maintenance of capital expenditures relating to Ventas' operating portfolio to be manageable (at around $10 million in 2010), development exposure is modest, and unconsolidated joint ventures are negligible. Liquidity sources include $107 million of unrestricted cash and nearly full availability under a $1 billion two-tiered credit facility. The facility was amended in 2009 such that $125 million of capacity matures in April 2010 and $875 million matures in 2012.

Ventas was comfortably in compliance with related covenants (as well as those governing its senior unsecured bonds) on Dec. 31, 2009.

Outlook

The positive outlook acknowledges the likelihood that would raise our rating on Ventas by one notch in the near to intermediate term if the REIT's cash flow remains relatively stable such that key leverage and coverage metrics are preserved at or near current levels. We would maintain our current rating if the company experiences moderate cash flow volatility because of modest stress at the tenant and/or property manager level. We would lower our rating by one notch if one or more of Ventas' larger tenants defaults and it appears that debt service coverage measures would approach 2.0x. However, we ascribe a lower probability to the latter scenario given currently healthy rent coverage ratios at the tenant level and our expectation for a relatively stable government reimbursement environment, at least in the near term.

Related Research

- "Corporate Ratings Criteria 2008," published April 15, 2008.
- "Top 10 Investor Questions: North American Real Estate Companies," published Jan. 25, 2010.

Ratings List

Outlook Revised To Positive; Ratings Affirmed

Ventas Inc./Ventas Capital Corp./Ventas Realty L.P.		
	To	From
Corporate credit	BBB-/Positive/—	BBB-/Stable/—
Rating Affirmed		
Ventas Inc./Ventas Capital Corp./Ventas Realty L.P.		
Senior unsecured	BBB-	

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