FITCH AFFIRMS VENTAS, INC. AT 'BBB+'; OUTLOOK STABLE

Fitch Ratings-New York-04 April 2018: Fitch Ratings has affirmed the ratings of Ventas, Inc. (VTR) at 'BBB+', including the Issuer Default Rating (IDR). The Rating Outlook remains Stable.

The 'BBB+' rating and Stable Outlook reflect VTR's diverse portfolio of healthcare properties, demonstrated and consistent access to multiple sources of capital, adequate liquidity, and deep management team. The ratings and Stable Outlook also reflect Fitch's expectation that leverage will sustain in the 5.5x-6x range, depending on the sizing and timing of investment activity, toward the higher-end of the 4.5x-6x that VTR's ratings assume.

KEY RATING DRIVERS

Moderating Leverage: Fitch anticipates Ventas' leverage will sustain in the 5.5x to 6x range for the foreseeable future, an improvement from our previous expectation of around 6x. VTR has stated that it plans to principally use dispositions and capital recycling to reduce leverage to 5.5x as exemplified by the 2017 sale of the Kindred skilled nursing assets. VTR also expects to receive $1.5 billion in disposition proceeds in 2018, of which $850 million will be in the form of loan repayments.

Durable Operating Cash Flow Despite Senior Housing Headwinds: Fitch expects senior housing headwinds will persist through the rating horizon as supply growth has outpaced the expected demand growth provided by the large and aging Baby Boomer cohort. Senior housing properties where VTR realizes the operating performance economics (per the REIT Investment Diversification and Empowerment Act or RIDEA) comprised 29% of net operating income (NOI) and 53% of annualized revenue at Dec. 31, 2017. 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, albeit with lower operating margins. This assumption is based on both the resident lease length and reported operating performance for publicly traded and previously publicly traded senior housing operators. VTR's RIDEA portfolio grew by 1.3% in 2017, down from 2.3% in 2016. VTR has guided for RIDEA same-store NOI (SSNOI) to decline by 1%-4% in 2018 reflecting the continued supply pressures and the impact of the flu this season.

A primary factor supporting VTR's ratings is the durability of operating cash flows. For example, VTR's 2018 guidance assumes total SSNOI growth of 0.5%-2% despite the expectation that the RIDEA portfolio declines in 2018. 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 aboveaverage 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 life science buildings 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, which would remain appropriate for VTR's 'BBB+' rating.

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/Stable), which Fitch expects will operate with leverage around 6x and is re-establishing its relative access to the capital markets after the spin-off of HCR ManorCare's real estate. The three largest healthcare REITs are rated higher than their smaller and/or more narrowly focused peers such as Healthcare Realty Trust (BBB/Positive), Sabra Health Care REIT (BBB-/Stable) 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. Fitch links and synchronizes the IDRs of the parent REIT and subsidiary operating partnerships due to the entities operating as a single enterprise with strong legal and operational ties.

KEY ASSUMPTIONS

Fitch's Key Assumptions Within Our Rating Case for the Issuer
--Flat to low single digit SSNOI growth coupled with net dispositions in 2018, acquisitions matching dispositions thereafter and some development deliveries result in approximately $3.4 billion of revenues per year and operating EBITDA of $1.8 billion - $1.9 billion;
--VTR funds any investments that exceed disposition proceeds such that leverage sustains at least below 6x;
--VTR's stronger relative access to capital remains unchanged.

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 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 heightened RIDEA exposure and/or a material increase in RIDEA exposure;
--Fitch's expectation of leverage sustaining above 6x;
--Fitch's expectation of fixed-charge coverage sustaining below 3x;
--Fitch's expectation of liquidity coverage sustaining below 1x.

LIQUIDITY

Key drivers of VTR's ratings are its ample and improving liquidity and Fitch's view that the REIT maintains above average access to capital. Fitch expects VTR will operate with $1.3 billion of liquidity in excess of uses through 2019 before incorporating the $1.5 billion of disposition and loan repayment proceeds that the issuer has guided towards. VTR's sources of liquidity include its $3 billion senior unsecured revolving credit facility due 2021 and extendable until 2022, up from $2 billion under the previous facility, readily available cash, retained cash flow from operations after dividends and its $400 million secured revolving credit facility for construction expenditures.

VTR's liquidity position is further supported by the contingent liquidity provided by the unencumbered pool. Fitch estimates the assets cover unsecured debt by 2.1x assuming a stressed 8.5% cap rate. This coverage is up from the high-1x range since late 2014, reflective of the issuer's reduction in leverage but down from above 3x coming out of the Global Financial Crisis when Ventas was operating with less leverage.

FULL LIST OF RATING ACTIONS

Fitch has affirmed VTR's ratings as follows:

Ventas, Inc.
--IDR at 'BBB+', Outlook Stable.

Ventas Realty, L.P. and Ventas Capital Corp.
--Unsecured revolving credit facility at 'BBB+';
--Senior unsecured term loans at 'BBB+';
--Senior unsecured guaranteed notes at 'BBB+';

Ventas Canada Finance Limited
--Senior unsecured guaranteed notes at 'BBB+';

Fitch has assigned the following rating:
Ventas Realty, L.P.
--IDR 'BBB+', Outlook Stable.

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Summary of Financial Statement Adjustments - Financial statement adjustments that depart materially from those contained in the published financial statements of the relevant rated entity are disclosed below:

--Historical and projected recurring operating EBITDA is adjusted to add back non-cash stock based compensation and include operating income from discontinued operations.
--Fitch has adjusted the historical and projected net debt by assuming the issuer requires $25 million of cash for working capital purposes which is otherwise unavailable to repay debt.

Additional information is available on www.fitchratings.com. For regulatory purposes in various jurisdictions, the supervisory analyst named above is deemed to be the primary analyst for this issuer; the principal analyst is deemed to be the secondary.

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Additional information is available on www.fitchratings.com

Applicable Criteria
Corporate Rating Criteria (pub. 23 Mar 2018)
https://www.fitchratings.com/site/re/10023785
Corporates Notching and Recovery Ratings Criteria (pub. 23 Mar 2018)
https://www.fitchratings.com/site/re/10024585
Parent and Subsidiary Rating Linkage (pub. 15 Feb 2018)
https://www.fitchratings.com/site/re/10019836