FitchRatings

RATING ACTION COMMENTARY

Fitch Affirms Ventas, Inc.'s Ratings at 'BBB+'/'F2'; Outlook Negative

Fri 31 Mar, 2023 - 9:41 AM ET

Fitch Ratings - New York - 31 Mar 2023: Fitch Ratings has affirmed the Long-Term Issuer Default Ratings (IDRs) ratings of Ventas, Inc. (NYSE: VTR) and Ventas Realty, Limited Partnership as well as the unsecured debt ratings of Ventas Realty and Ventas Canada Finance Limited at 'BBB+'. Fitch has also affirmed Ventas Realty's Short-Term IDR at 'F2'.

The Rating Outlook has been revised to Negative from Stable. Fitch believes VTR's leverage may remain above its negative sensitivities for longer than previously expected, due in part to the company's upcoming assumption of assets and debt from Santerre Health Investors. Dispositions and equity issuances would be subject to execution risk but also necessary to decrease leverage to levels commensurate with the current ratings. Absent material deleveraging over 2023-2024, Fitch will strongly consider negative rating actions.

VTR's ratings reflect its diversified healthcare real estate portfolio that includes durable, predictable cash flows from medical office building (MOB) and life science portfolios (32% of annualized adjusted NOI). The company demonstrates conservative long-term financial policies and has above-average access to capital relative to other REITs.

KEY RATING DRIVERS

Santerre Portfolio Assumption: VTR plans to assume ownership of a portfolio of assets subject to non-recourse debt from Santerre Health Investors composed of a pool of medical office, senior housing, skilled nursing, and other healthcare assets. VTR currently receives interest income from Santerre from a mezzanine loan; however, under a new arrangement it will directly receive the NOI from the acquired properties subject to ~$1.0 billion of non-recourse senior debt. As a result, Fitch expects that deleveraging will be meaningfully delayed or will require additional equity or asset sales, which have associated execution risk.

Deleveraging Delayed: Fitch expects VTR's leverage will decline as the senior housing operating portfolio (SHOP) continues to recover from COVID pandemic impacts. The company exhibited double-digit Same Store Cash Net Operating Income (SSNOI) growth in the segment in 2022, which is expected to continue in 2023. The company did not perform as many dispositions or issue any equity in 2022 as Fitch previously anticipated, resulting in year-end leverage remaining elevated at 7.4x. Despite the projected improvement in senior housing operations and the expectation that leverage will decline, the pace of that deleveraging is less certain. Whether leverage will remain elevated above 6.0x over the intermediate term will be largely dependent on VTR's capital allocation and whether it is able to reduce debt through equity and asset sales.

Senior Housing Poised for Strong Recovery: Fitch assumes SHOP NOI margins will return to pre-pandemic levels in the intermediate term, driven by a combination of improving occupancy rates and strong rent growth. Fitch also assumes occupancy rates will return to pre-pandemic levels due to a combination of healthy demographic trends and a favorable supply backdrop. The 80+ age cohort is expected to grow at a faster rate than the overall population over the next decade.

Senior housing new starts remain depressed and significantly lower than 2017 peak levels due to rising construction costs and stricter bank-lending standards. Senior housing rent growth, both asking and in-place, has accelerated, and improving occupancy rates should help rent growth outplace inflationary cost pressures.

Durable Cashflows Within Medical Office Segment: VTR's Medical Office portfolio is primarily focused on on-campus Medical Office Buildings (MOBs; 22% of annual adjusted NOI as of Dec. 31, 2022). Fitch expects VTR's MOB portfolio will deliver durable operating cash flows and that on-campus MOBs will likely face lower lease renewal risk as they benefit from barriers to new supply. Fitch views the portfolio's proximity to hospitals and the system's affiliation with high-quality health and hospital systems as an indicator of the desirability of the real estate, as well as the high portfolio quality of VTR's MOB assets. VTR does not disclose the percentage of assets that are single-tenant versus multi-tenant.

High Growth in Life Science Segment: NOI growth in the past decade for Life Science was well-above the average for all property sectors, and Fitch assumes the sector will continue to perform well going forward though near-term headwinds for tenants' leasing appetite are increasing. The Life Science sector has multi-decade demand drivers including an aging senior population, growing global drug demand and supportive regulatory environment. Low vacancy rates in many markets should support mid-to-high single-digit annual rent growth.

Most of VTR's life science properties are in five of the top six life science clusters with academic centers and commercial phase biopharma firms comprising the majority of tenants. Barriers to entry in the Life Science sector are high, given the importance of specificity for lab real estate and the clustering of real estate based on human talent, industry depth and innovation hubs.

Tenets of 'BBB+' IDR: VTR's 'BBB+' IDR is based on the expectation that its diversified healthcare asset portfolio will deliver durable EBITDA and FCF through-the-cycle, enabling the company to maintain its financial policy of leverage between 5x-6x. The 'BBB+' ratings also assume VTR has comparable access to capital with similarly rated peers and above-average capital access relative to the broader REIT universe. Constraining VTR's IDR is a large SHOP portfolio that Fitch expects will exhibit more volatility than a triple-net leased portfolio.

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' strong liquidity and above-average access to capital relative to both healthcare REITs specifically and the broader REIT universe. Ventas and Healthpeak Properties are the highest rated healthcare REITs due to the generally comparable aforementioned factors.

Healthcare Realty Trust is rated 'BBB'/Stable, with comparable portfolio quality, lower leverage currently but expected to be higher through the cycle and stronger contingent liquidity than the bigger REITs offsetting weaker relative access to capital. VTR is rated higher than smaller and/or more narrowly focused healthcare REITs such as Sabra Health Care REIT (BBB-/Stable), National Health Investors (BBB-/Stable), Omega Healthcare Investors, Inc. (BBB-/Stable), and CareTrust REIT, Inc. (BB+/Stable) due to their relative weaker access to capital and larger exposure to skilled nursing facilities, a sector that is facing significant headwinds.

Fitch rates the IDRs of the parent REIT and subsidiary operating partnership on a consolidated basis using the weak parent/strong subsidiary approach and open access and control factors based on the entities operating as a single enterprise with strong legal and operational ties.

KEY ASSUMPTIONS

--2023 revenue and NOI assumptions are in line with the company's guidance, and Fitch assumes similar YoY growth in EBITDA in 2024;

--Fitch assumes the company will repay a portion of assumed Santerre debt using equity issuance;

--Fitch assumes acquisitions and capital expenditures exceed dispositions/repayments and equity issuances in 2023 and 2024 by $300 million;

--Fitch assumes interest expense exceeds $500 million over the ratings horizon;

--These assumptions result in leverage in the mid-to-high 6x range in 2023 and 2024, declining below 6x in 2025.

RATING SENSITIVITIES

Factors that could, individually or collectively, lead to positive rating action/upgrade:

--Fitch's expectation of REIT leverage, measured as net debt/recurring operating EBITDA after net distributions to non-controlling interests, sustaining below 5.0x;

--Demonstrated market-leading capital markets access across the broader REIT universe that is comparable to 'A' category corporates;

--Fitch's expectation of REIT fixed-charge coverage (measured as recurring operating EBITDA after net distributions to non-controlling interests adjusted for straight line rents and maintenance capex relative to interest and preferred dividends) sustaining above 4.0x;

--Fitch's expectation of unencumbered asset coverage of unsecured debt (UA/UD), at a stressed 8.5% capitalization rate, sustaining above 4.0x;

--Fitch would revise the Outlook to Stable if capital allocation decisions allow the company to restore REIT leverage within 6.0x by the end of 2024.

Factors that could, individually or collectively, lead to negative rating action/downgrade:

--Capital allocation decisions that cause REIT leverage to remain above 6.0x by year-end 2024;

--Fitch's expectation of REIT fixed-charge coverage sustaining below 3.0x;

--Fitch's expectation of UA/UD sustaining below 2.0x.

BEST/WORST CASE RATING SCENARIO

International scale credit ratings of Non-Financial Corporate issuers have a best-case rating upgrade scenario (defined as the 99th percentile of rating transitions, measured in a positive direction) of three notches over a three-year rating horizon; and a worst-case rating downgrade scenario (defined as the 99th percentile of rating transitions, measured in a negative direction) of four notches over three years. The complete span of best- and worst-case scenario credit ratings for all rating categories ranges from 'AAA' to 'D'. Best- and worst-case scenario credit ratings are based on historical performance. For more information about the methodology used to determine sector-specific best- and worst-case scenario credit ratings, visit https://www.fitchratings.com/site/re/10111579.

LIQUIDITY AND DEBT STRUCTURE

Liquidity Shortfall: VTR's sources of liquidity include unrestricted cash, availability under the revolving credit facilities, and retained cash flow from operations. Fitch believes these sources are adequate to cover the company's uses (debt maturities including a portion of JV debt, all committed and remaining development expenditures, and maintenance capex) by ~0.8x through 2024. This includes an anticipated additional $1.0 billion of assumed non-recourse near-term debt from Santerre. We expect the company would be able to refinance near-term debt given its historical ability to access capital markets, but near-term liquidity is a risk.

Overall, VTR has a well-staggered debt maturity profile. It maintained approximately $2.7 billion capacity on its $2.75 billion revolving credit facility due 2025, with extension option to 2026, as of Dec. 31, 2022.

Below-Average Contingent Liquidity: Fitch estimates that VTR's unencumbered assets would cover net unsecured debt (UA/UD) by 1.8x assuming an 8.5% stressed cap rate as of Dec. 31, 2022. Investment grade REITs rated by Fitch typically have UA/UD ratios around 2.0x, indicating VTR has slightly below-average amounts of unencumbered assets relative to unsecured borrowings.

The financeability of the underlying real estate is a core tenet of investment-grade REIT ratings. SH, MOBs and life science properties generally benefit from strong access to contingent liquidity sources, including a multitude of durable mortgage capital sources as well as more pro-cyclical bank mortgage and CMBS market.

ISSUER PROFILE

Ventas, Inc. is a diversified real estate investment trust (REIT) that owns senior housing properties (48% of annualized NOI at 4Q22, consists of SHOP and triple-net), medical office buildings and life science properties (32%) and other healthcare real estate investments including IRFs, LTACs, SNFs, international hospitals, health systems and loans (20%).

REFERENCES FOR SUBSTANTIALLY MATERIAL SOURCE CITED AS KEY DRIVER OF RATING

The principal sources of information used in the analysis are described in the Applicable Criteria.

ESG CONSIDERATIONS

Ventas, Inc. has an ESG Relevance Score of '4' for Exposure to Social Impacts as an owner, operator and provider of real estate to U.S. healthcare operators affected by social and political pressures to play its part in containing healthcare costs, which has a negative impact on the credit profile, and is relevant to the ratings in conjunction with other factors.

Unless otherwise disclosed in this section, the highest level of ESG credit relevance is a score of '3'. This means ESG issues are credit-neutral or have only a minimal credit impact on the entity, either due to their nature or the way in which they are being managed by the entity. For more information on Fitch's ESG Relevance Scores, visit www.fitchratings.com/esg.

RATING ACTIONS

ENTITY / DEBT	RATING			PRIOR
Ventas Canada Finance Limited				
senior unsecured	LT	BBB+	Affirmed	BBB+
Ventas, Inc.	LT IDR	BBB+ Rating Outlook Negative	Affirmed	BBB+ Rating Outlook Stable
Ventas Realty, Limited Partnership	LT IDR	BBB+ Rating Outlook Negative	Affirmed	BBB+ Rating Outlook Stable
	ST IDR	F2	Affirmed	F2
senior unsecured	LT	BBB+	Affirmed	BBB+
senior unsecured	ST	F2	Affirmed	F2

VIEW ADDITIONAL RATING DETAILS

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APPLICABLE CRITERIA

Corporates Recovery Ratings and Instrument Ratings Criteria (pub. 09 Apr 2021) (including rating assumption sensitivity)

Parent and Subsidiary Linkage Rating Criteria (pub. 01 Dec 2021)

Sector Navigators: Addendum to the Corporate Rating Criteria (pub. 28 Oct 2022)

Corporate Rating Criteria (pub. 28 Oct 2022) (including rating assumption sensitivity)

APPLICABLE MODELS

Numbers in parentheses accompanying applicable model(s) contain hyperlinks to criteria providing description of model(s).

Corporate Monitoring & Forecasting Model (COMFORT Model), v8.1.0 (1)

ADDITIONAL DISCLOSURES

Dodd-Frank Rating Information Disclosure Form

Solicitation Status

Endorsement Policy

ENDORSEMENT STATUS

Ventas Canada Finance Limited	EU Endorsed, UK Endorsed
Ventas Realty, Limited Partnership	EU Endorsed, UK Endorsed
Ventas, Inc.	EU Endorsed, UK Endorsed

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